MANAGEMENT BOARD REPORT
ON OPERATIONS OF
THE POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CAPITAL GROUP
FOR THE YEAR 2006

INTRODUCTION

I. CHARACTERISTICS AND CHANGES IN STRUCTURE OF THE POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA CAPITAL GROUP IN THE COURSE OF 2006

As at 31 December 2006, Polski Koncern Naftowy ORLEN S.A. („Parent Company", "the Company", "PKN ORLEN S.A.") possessed directly or indirectly shares in the following companies, which it controls, controls jointly or in which it has significant influence:

- 114 subsidiaries;
- 4 jointly controlled companies;
- 22 associate companies.

As compared to the data recorded as at the end of 2005, the number of subsidiaries, jointly controlled entities, as well as associate companies of the Capital Group has decreased from 157 to 140.

The PKN ORLEN S.A. Capital Group ("Capital Group") consists of the following companies, i.e. directly related companies, divided in accordance with the following set of criteria:

1.1 MOST IMPORTANT COMPANIES IN TERMS OF SALES REVENUES AND EQUITY:

- AB Mazeikiu Nafta ("Mazeikiu Rafinery"), including its own capital group
- Unipetrol a.s. with its registered office in Prague, including its own capital group;
- Anwil S.A. with its registered office in Włocławek, including its own capital group;
- Rafineria Trzebinia S.A. with its registered office in Trzebinia, including its own capital group;
- Rafineria Nafty Jedlicze S.A. with its registered office in Jedlicze, including its own capital group;
- ORLEN-Oil Sp. z o.o. with its registered office in Kraków, including its own capital group;
- Basell Orlen Polyolefins Sp. z o.o. with its registered office in Płock, including its own capital group;
- ORLEN Asfalt Sp. z o.o. with its registered office in Płock;
- Inowrocławskie Kopalnie Soli "Solino" S.A. with its registered office in Inowrocław;

1.2 OTHER COMPANIES

1.2.1 Companies trading in liquid fuels:

- ORLEN Deutschland AG with its registered office in Elmshorn;
- ORLEN Gaz Sp. z o.o. with its registered office in Płock, including its own Capital Group;
- ORLEN Morena Sp. z o.o. with its registered office in Gdańsk;
- ORLEN PetroCentrum Sp. z o.o. with its registered office in Płock;
- ORLEN PetroProfit Sp. z o.o. with its registered office in Niemce /neighboring with Lublin, including its own Capital Group;
- ORLEN PetroTank Sp. z o.o. with its registered office in Widełka /neighbouring with Kolbuszowa;
- ORLEN PetroZachód Sp. z o.o. with its registered office in Poznań;

- Petrolot Sp. z o.o. with its registered office in Warsaw;
- Ship-Service S.A. with its registered office in Warsaw, including its own Capital Group.

1.2.2 Maintenance companies:

- ORLEN Automatyka Sp. z o.o. with its registered office in Płock;
- ORLEN Wir Sp. z o.o. with its registered office in Płock.

1.2.3 Shipping companies:

- ORLEN KolTrans Sp. z o.o. with its registered office in Płock;
- ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. with its registered office in Kędzierzyn-Koźle;
- ORLEN Transport Kraków Sp. z o.o. with its registered office in Kraków;
- ORLEN Transport Nowa Sól Sp. z o.o. with its registered office in Nowa Sól;
- ORLEN Transport Olsztyn Sp. z o.o. with its registered office in Olsztyn;
- ORLEN Transport Płock Sp. z o.o. with its registered office in Płock;
- ORLEN Transport Słupsk Sp. z o.o. with its registered office in Słupsk;
- ORLEN Transport Szczecin Sp. z o.o. with its registered office in Szczecin.

1.2.4 Other companies:

- Petrotel Sp. z o.o. with its registered office in Płock;
- ORLEN Projekt S.A. with its registered office in Płock;
- ORLEN Medica Sp. z o.o. with its registered office in Płock, including its own Capital Group;
- ORLEN Laboratorium Sp. z o.o. with its registered office in Płock;
- ORLEN Powiernik Sp. z o.o. with its registered office in Płock;
- ORLEN Budonaft Sp. z o.o. with its registered office in Kraków;
- ORLEN Eko Sp. z o.o. with its registered office in Płock;
- ORLEN Administracja Sp. z o.o. with its registered office in Płock;
- ORLEN Księgowość Sp. z o.o. with its registered office in Płock;
- ORLEN Prewencja Sp. z o.o. with its registered office in Płock;
- ORLEN Upstream Sp. z o.o. with its registered office in Warsaw;
- Etylobenzen Płock Sp. z o.o. with its registered office in Płock;
- Płocki Park Przemysłowo-Technologiczny S.A. with its registered office in Płock;
- Orlen Holding Malta Limited with its registered office in Silema, Malta;
- Orlen Insurance Ltd with its registered office in Silema, Malta.

1.3 CHANGES IN THE CAPITAL GROUP IN 2006

The structure of the PKN ORLEN S.A. Capital Group in terms of entities subject to consolidation and with respect to significant stakes of shares and investments held in related companies and other entities has been outlined in notes 2, 9 and 10 to the consolidated financial statements for the year 2006.

Major changes in structural and capital relations within the PKN ORLEN S.A. Capital Group in 2006 and as at the preparation date of this report, refer to the following events with the entities listed below:

- on 2 January 2006, the acquisition by ORLEN Centrum Serwisowe Sp. z o.o. with its registered office in Opole (the bidder) of the following businesses (the target companies) was registered:

  - Serwis Mazowsze Sp. z o.o. with its registered office in Warsaw;

  - Serwis Nowa Wieś Wielka Sp. z o.o. with its registered office in Nowa Wieś Wielka,

  by way of transfer of all assets of the target companies to ORLEN Centrum Serwisowe Sp. z o.o. (combination by way of acquisition).

  In connection with the aforementioned, the articles of association of ORLEN Centrum Serwisowe Sp. z o.o. were amended as regards the increase of the company's share capital, consisting in the increase of the company's share capital from PLN 6,759 thousand to PLN 6,818 thousand, i.e. by the amount of PLN 59 thousand. The shares in the increased share capital of the nominal value of PLN 50 each were subscribed to by the current shareholders of the target companies.

  As a result of the above increase of the share capital of ORLEN Centrum Serwisowe Sp. z o.o., PKN ORLEN S.A. participation of 96.65 % decreased to 95.82%.

  With the registration of the said combination of businesses of ORLEN Centrum Serwisowe Sp. z o.o. with Serwis Mazowsze Sp. z o.o. and Serwis Nowa Wieś Wielka Sp. z o.o., the target companies were stricken off the register.

- On 16 February 2006 an increase of the share capital of ORLEN Powiernik Sp. z o.o. from PLN 25 thousand to PLN 50 thousand was registered. The shares in the increased share capital were subscribed to by the sole shareholder, i.e. PKN ORLEN S.A.

- The Guaranteed Sale Agreement for the sale of 165,924 shares in AWSA Holland II B.V., i.e. a company incorporated under the laws of the Netherlands, to the benefit of Kulczyk Holding was signed on 27 February 2006. The shares being disposed of by PKN ORLEN represent 9.218% of the share capital of AWSA Holland II B.V. In consideration for the stake of shares in AWSA Holland II B.V., Kulczyk Holding has paid an amount of PLN 73,007 thousand by wire transfer to the bank account of PKN ORLEN. On 7 June 2006, PKN and Kulczyk Holding have executed the Agreement on the Disposal of Shares, by virtue of which the ownership to 165,924 shares in AWSA Holland II B.V., i.e. the company incorporated under the laws of the Netherlands, to the benefit of Kulczyk Holding. The transaction was completed due to the fulfilment of the condition precedent (with binding effects) set forth in the Sale Agreement concluded on 27 February 2006 between PKN ORLEN and Kulczyk Holding in the form of the Guaranteed Sale Agreement in execution of the obligations resulting from the Additional Agreement, concluded on 14 November 2002. The shares sold by PKN ORLEN represent 9.218% of the share capital of AWSA Holland II B.V. Consequently, after the completion of the transaction, PKN ORLEN does not hold any shares in AWSA Holland II B.V.

- On 23 February 2006 an increase of the share capital of Płocki Park Przemysłowo – Technologiczny S.A. (PPPT) by the amount of PLN 7,231 thousand from PLN 8,230 thousand to the amount of PLN 15,461 was registered; the increase was carried out through a private issue of 723,043 registered shares preferred as to their voting rights, giving right to 2 votes per one share of C issue, intended for the existing promoter shareholder, i.e. PKN

ORLEN S.A. On 16 March 2006, an increase of the share capital of PPPT from PLN 15,461 thousand to PLN 25,461 thousand was registered. The increase was carried out through a private issue of 1,000,000 D series registered shares preferred with respect to voting rights, giving right to 2 votes cast per one share of a par value of PLN 10 each, intended in equal parts of 500,000 shares for the existing promoter shareholders of the company, i.e. the City of Płock and PKN ORLEN S.A. each..

On 31 August 2006 another increase in the share capital from the amount of PLN 25,461 thousand to the amount of PLN 50,461 thousand was registered. The increase was carried out through an issue of 2,500 thousand registered shares preferred as to the voting rights, giving right to 2 votes cast per 1 share, of a par value of PLN 10 each, intended in equal parts of 1,250 thousand shares for the promoter shareholders, i.e. the City of Płock and PKN ORLEN each. All of the newly issued shares were subscribed for in cash. As a result of the increase in the share capital, PPPT has the following capital structure:

- the City of Płock, as the promoter shareholder, holds 25,230 thousand shares constituting 50% of the share capital;
- PKN ORLEN, as the promoter shareholder, holds 25,230 thousand shares constituting 50% of the share capital.

- On 16 March 2006, the District Court in Warsaw has registered a company under the registered name of ORLEN Administracja Sp. z o.o. with its registered office in Płock. All of the 3,000 shares representing 100% of the share capital in the above-mentioned company were subscribed for by PKN ORLEN S.A. The shares subscribed to were paid for by PKN ORLEN S.A. in cash, i.e. PLN 1,500 thousand.
- On 20 March 2006 PKN ORLEN S.A. has acquired from BGW Sp. z o.o. with its registered office in Poznań a stake of 8,549 shares in ORLEN PetroZachód Sp. z o.o. against the payment of PLN 21,012 thousand with a reservation that a potential price correction to increase the purchase price cannot exceed PLN 3,000 thousand. The price adjustment is conditioned upon the fulfilment of condition precedent, as set forth in the Agreement. The shares acquired represent a share of 48.17% in the share capital of ORLEN PetroZachód Sp. z o.o. Consequently, PKN ORLEN S.A. has become the sole shareholder in ORLEN PetroZachód Sp. z o.o.
- On 21 March 2006, a transfer of 13,449 shares in SAMRELAKS Mąchocice Sp. z o.o. with its registered office in Mąchocice Kapitulne, constituting 100% of its share capital for the total amount of PLN 4,000 thousand was carried out. The book value of the shares recognized in PKN ORLEN S.A. books as at 31 December 2005 amounted to PLN 2,505 thousand.
- ORLEN Upstream Sp. z o.o. with its registered office in Warsaw was registered with the District Court for the capital city of Warsaw on 26 April 2006. PKN ORLEN S.A. has subscribed to 100 shares in the newly created company, which represented 100% of the share capital, of the nominal value of PLN 500 each share, giving right to 100% votes cast at the shareholders' meeting. The shares subscribed to in that way were paid for by PKN ORLEN S.A. in cash in the amount of PLN 50 thousand. The main business activities of ORLEN Upstream Sp. z o.o. include oil mining, gas mining, as well as geological activity, and prospecting and researching oil and gas.
- On 2 June 2006, the merger of ORLEN Transport Kraków Sp. z o.o. (the „bidder") with the subsidiary, i.e. RafTrans Sp. z o.o. (the „target company") was registered. It was carried out by way of transfer of all RafTrans Sp. z o.o. assets to the benefit of ORLEN Transport Kraków Sp. z o.o. (combination by way of acquisition). Due

to the fact that ORLEN Transport Kraków Sp. z o.o. has held 100% of shares in RafTrans Sp. z o.o., the said combination took place without an increase of the Bidder's share capital;

- On 25 July 2006, a transfer of 173,830 ordinary shares in Zakład Budowy Aparatury S.A. ("ZBA") with its registered office in Płock was carried out. The nominal value of shares amounts to PLN 100 each, representing 96.57% of the share capital of ZBA S.A. and 96.57% of votes cast at ZBA S.A. shareholders' meeting. The transaction was carried out against a total price of PLN 15,888 thousand i.e. PLN 91.40 per single share, where:

  - a number of 52,149 shares were transferred to the benefit of PETRO Remont Sp. z o.o. against the payment of PLN 4,766 thousand;

  - a number of 52,149 shares to the benefit of PETRO Mechanika Sp. z o.o. against the payment of PLN 4,766 thousand;

  - a number of 52,149 shares to the benefit of PETRO EnergoRem Sp. z o.o. against the payment of PLN 4,766 thousand;

  - a number of 17,383 shares to the benefit of PETRO Eltech Sp. z o.o. against the payment of PLN 1,589 thousand.

  As a result of the transaction, PKN ORLEN S.A. does not hold any shares in ZBA S.A.

- On 9 August 2006, the District Court for the capital city of Warsaw has registered a company under the business name ORLEN Prewencja Sp. z o.o. with its registered office in Płock. PKN ORLEN S.A. has subscribed to 3,000 shares constituting 100% of the share capital of ORLEN Prewencja Sp. z o.o., of the nominal value of PLN 500 each share, representing 100% of votes cast at the shareholders meeting. The shares subscribed to were paid for by PKN ORLEN S.A. in cash in the amount of PLN 1,500 thousand. The object of activity of ORLEN Prewencja Sp. z o.o. includes activities consisting in providing security and proper sanitation conditions at work place, fire protection, protection of people and environment protection.

- On 22 August 2006, a company under the business name ORLEN Księgowość Sp. z o.o. with its registered office in Płock was registered. PKN ORLEN S.A. has subscribed to 5,000 shares in the newly created company representing 100% of the share capital of the nominal value of PLN 500 each share, constituting 100% of votes cast at the shareholders meeting. The shares subscribed to were paid for by PKN ORLEN S.A. in cash in the amount of PLN 2,500 thousand.

- On 13 September 2006 ORLEN GAZ has acquired a stake of 15,000 shares in ORLEN PetroGaz Wrocław, representing 48.39% of the share capital of ORLEN PetroGaz Wrocław, of nominal value of PLN 100 per each share, constituting 48.39% of votes cast at the shareholders meeting. The shares subscribed to were paid for by ORLEN GAZ in cash in the amount of PLN 930 thousand.

- On 19 September 2006, the District Court for the capital city of Warsaw registered the increase in the share capital of ORLEN Eko Sp. z o.o. through an issue of 40,000 new, equal and undivided shares of PLN 500 each, of the total value of PLN 20,000 thousand. After the registration of the increase, the share capital of ORLEN Eko Sp. z o.o. amounts to PLN 22,000 thousand. All of the newly issued shares were subscribed for in cash by PKN ORLEN S.A. in the amount of PLN 20,000 thousand.

- On 16 October 2006, PKN ORLEN S.A. with Firma Chemiczna "DWORY" S.A. have drawn up articles of association of ETYLOBENZEN Płock Sp. z o.o. The share capital of ETYLOBENZEN Płock Sp. z o.o. amounts to PLN 12,000 thousand and is divided into 1,200 equal and undivided shares of PLN 10,000 each. PKN ORLEN

S.A. subscribed to 612 shares in ETYLOBENZEN Płock Sp. z o.o. for a total amount of PLN 6,120 thousand, representing 51% of the share capital and giving right to 51% votes cast at the company's Shareholders Meeting. Shares acquired by PKN ORLEN S.A. were paid for in cash in the amount of PLN 5,850 thousand and covered by in-kind contribution in the amount of PLN 270 thousand.

- On 27 October 2006, ANWIL S.A. and Unipetrol a.s. concluded an agreement on the purchase of 1,500 ordinary bearer shares of A series and 6,090,941 ordinary bearer shares of B series in Spolana a.s. The acquisition was carried out by virtue of a share purchse agreement executed on 27 October 2006 by and between ANWIL and a subsidiary of PKN ORLEN S.A., i.e. Unipetrol a.s. The acquired shares constitute 81.78% of the share capital of Spolana a.s., of the nominal value of CZK 11,600 each share of A series and of CZK 116 each share of B series and give right to 81.78% votes cast at the General Meeting of Shareholders of Spolana a.s. The total price for the acquired shares amounted to CZK 640,382,956 and was paid for in cash by ANWIL from its own resources.

- Registering in the Registrar of Companies Malta Financial Services Authority of the following entities:
  - ORLEN Holding Malta Limited with its registered office in Silema, Malta as of 13 November 2006;
  - ORLEN Insurance Ltd with its registered office in Silema, Malta as of 16 November 2006.

  PKN ORLEN S.A. subscribed to shares in the above companies in the following manner:
  - 201 shares in ORLEN Holding Malta Limited of a nominal value of USD 25 thousand representing 99.5% of all Orlen Holding Malta Limited shares. 1 share in Orlen Holding Malta Limited of a nominal value of USD 25 thousand was subscribed to by Unipetrol a.s. The shares were subscribed for by PKN ORLEN S.A. in cash in the amount of USD 5,025 thousand.
  - 1 share in Orlen Insurance Ltd of the nominal value of USD 1. The remaining 4,999,999 shares of a nominal value of 1 USD per each share were subscribed to by Orlen Holding Malta Limited. The share was subscribed for by PKN ORLEN S.A. in cash in the amount of USD 1, whereas Orlen Holding Malta Limited covered the shares subscribed to in cash in the amount of USD 4,999,999.

  The value of shares purchased by PKN ORLEN S.A. in Orlen Holding Malta Limited amounts to USD 5,025 thousand, whereas the value of shares purchased by PKN ORLEN S.A. in Orlen Insurance Ltd amounts to USD 1 in the books of PKN ORLEN S.A.,

  Main objectives of the companies' activity include as follows:
  - Orlen Holding Malta Limited, *inter alia*, investment activities and holding shares in other entities, companies, joint-ventures, consortia and syndicates;
  - Orlen Insurance Ltd, *inter alia*, conducting insurance activity within property insurance of the PKN ORLEN S.A. Capital Group.

- On 27 November 2006, an agreement for the transfer by Spolana a.s. of shares in NeraPharm with its registered office in Neratovice to the benefit of Cayman Chemical Company with its registered office in Michigan, USA was executed. The shares being object of the transaction represent 100% of the share capital of NeraPharm and give right to 100% votes cast at the shareholders' meeting of NeraPharm, and the total nominal value of the said shares amounts to CZK 200,000. The book value of the transferred shares of CZK 200,000 was recorded in the books of Spolana a.s. as at 27 November 2006.

- On 15 December 2006, the acquisition by PKN ORLEN S.A. of 596,834,352 shares in AB Mazeikiu Nafta from Yukos International UK B.V. with its registered office in the Netherlands and from the Government of the Republic of Lithuania was settled. The nominal value of a single share in Mazeiku Nafta amounts to LTL 1. Shares in Mazeiku held by PKN ORLEN S.A. represent 84.36% of the share capital of AB Mazeiku Nafta and give right to 596,834,352 votes cast at the General Meeting of Shareholders, which represents 84.36% of the total votes cast at the General Meeting of Shareholders. The price for the shares in Mazeiku purchased from Yukos International amounted to USD 1,492,000,000, whereas an amount of USD 851,828,900.31 was paid for the shares purchased from the Government of the Republic of Lithuania. The value of shares in Mazeiku acquired by PKN ORLEN S.A. was recognized in PKN ORLEN S.A. books at cost i.e. in the purchase price, including costs of transaction. The subscribtion for the shares in AB Mazeikiu Nafta in response to the mandatory tender offer announced by PKN ORLEN S.A. was completed on 15 January 2007. Minority shareholders offered for the subscription a number of 35,879,247 shares in Mazeikiu Nafta, representing 5.06% of the share capital of Mazeikiu Nafta. As at 15 January 2007, PKN ORLEN S.A. held a 84.20% stake in the share capital of Mazeikiu Nafta. The said share diminished form 84.36% to 84.20% due to an increase of the share capital of Mazeikiu Nafta registered on 28 December 2006. Once the share purchase transaction under the mandatory tender offer is settled, the Parent Company will hold a share of 89.26% In the share capital of Mazeikiu Nafta.

- On 30 January 2007, Unipetrol a.s. (the seller) and Firma Chemiczna Dwory S.A. (the buyer) executed an agreement on the purchase of 6,236,000 ordinary bearer shares in Kaucuk a.s. The purchased shares represent 100% of the share capital of Kaucuk of a nominal value of CZK 1,000 each, and give right to 100% of votes cats at the General Meeting of Shareholders of Kaucuk. The price agreed for the shares in question amounted to EUR 195,000 thousand and will be paid for in cash by Dwory. The value of shares in Kaucuk a.s. acquired by Dwory amounted to CZK 5,460,000 thousand in Unipetrol's books as at 31 December 2006. Kaucuk is a chemical company, and produces, *inter alia*: styrene-butadiene, polybutadiene rubber, polystyrene materials and synthetic rubber.
- On 5 March 2007, an increase of the share capital of Płocki Park Przemysłowo-Technologiczny S.A. (PPP-T) by the amount of PLN 2,978.7 thousand from PLN 50,460.9 thousand to the amount of PLN 53,439.5 thousand was registered. The increase of PPP-T share capital was carried out through an issue of 297,868 new shares of F Series of a nominal value of PLN 10, each. F series shares are registered and preferred as to their voting rights, giving right to two votes per one share, intended for subscription in equal amounts for the existing shareholders, i.e. 148,934 shares for PKN ORLEN S.A. and 148,934 shares for the City of Płock. As a result of the increase in the share capital, PPP-T has the following capital structure:
  - the City of Płock holds a share of PLN 26,719.8 thousand constituting 50% of the share capital;
  - PKN ORLEN holds a share of PLN 26,719.8 thousand, constituting 50% of the share capital.

1.4 PROJECTED DIRECTIONS OF DEVELOPMENT AND POLICY OF THE CAPITAL GROUP

Under the “PKN ORLEN S.A. Investment Policy” which sets forth the strategic directions of development of the Capital Group companies, the objective of the Parent Company is to own a strong Capital Group which contributes to the core business of PKN ORLEN S.A. in the area of processing, distribution, logistics and sale of refining products.
With respect to the Capital Group, the said policy of the Parent Company was implemented in 2006 through:
1. Implementation, as of 1 January 2006, of the segment management;

2. Strengthening of the position in the core business companies and control over their activity through the segment management facility;
3. Restructuring of the strategic assets and their consolidation aiming at continuous building of the value of the Group companies;
4. Disinvesting of non-core assets;
5. Capital investments in the core business companies which provide perspectives of market growth above its average value and stimulate the increase of the Parent Company economic value.

The main goal of segment management consist in increasing the efficiency of the Capital Group management and taking advantage of the opportunities provided by the scale of activities and synergies with respect to costs and revenues within the the Parent Company and companies belonging to the ORLEN Capital Group.

In connection with the above, the following actions were undertaken in 2006:

- changes in the composition of the Supervisory Boards in the Capital Group companies, based on unified criteria of appointment of Supervisory Board members, consisting in the introduction to the Supervisory Boards of representatives from business segments or support function, financial units and Office of the Capital Group;
- registration of amendments to the articles of association and bylaws of the selected Capital Group companies aiming at standardizing corporate documents within the Capital Group;
- teams of Supervisory Board experts were appointed within the companies;
- in order to introduce a uniform policy within particular areas of management of the Parent Company and the Capital Group, the following procedures have been introduced at selected companies:
  - purchase procedure;
  - the Company's image creation process;
  - marketing policy procedures;
  - cash management procedures;
  - procedures for securing operational risks;
  - procedures of granting trade credit and debt enforcement procedures;
  - guidelines for evaluating the activities of transportation companies within the area of domestic road transportation;
  - guidelines for introducing technical standards of truck fleet;
  - rules and regulations with respect to activities to be carried out at the companies from the Capital Group in connection with proceedings of prosecution services;
  - rules and regulations with respect to the performance of information obligations of the Parent Company by its subsidiaries;
  - regulations on classification of areas threated with explosion;
  - recruitment and selection procedures;
  - employees' adaptation procedure.

The following directions of development aiming at increasing the effectiveness of the operations were promoted in relation to the companies belonging to the Capital Group:

Strategic companies (core business)

Unipetrol Capital Group

The development strategy of the Unipetrol Capital Group is based on improving the efficiency of the following three areas of operation:

- Refinery sector:
  - Further intensification of the crude oil throughput at all production units, provided the effectiveness and reliability of the installations;
  - Intensification of the production of Diesel oil with sulphur content lower then 10 ppm, (norm according to the quality requirements of fuels which will become effective in 2009);
  - Optimisation of the available production capacities at all units and maximising synergy effects.
- Petrochemical sector:
  - Gradual increase in the efficiency of Olefins installation and poliethylene and polypropylene installations in order to satisfy higher demand for those products in Central and Eastern Europe ;
  - Construction of a new butadiene installation in Kralupy;
  - Implementation of the best practices in the area of production in order to assure the highest quality and product competitiveness.
- Retail sales sector:
  - Full implementation of the new retail sales strategy in order to increase the market share;
  - Complete rebranding of the fuel stations into two segments: standard and premium;
  - Optimisation of fuel stations' operation;
  - Development of the network of fuel stations throught construction of new outlets in attractive locations and acquisitions of the existing stations form competitors.

Rafineria Trzebinia S.A.

- In connection with the amendment by the Ministry of Finance of tax regulations relating to the amount of excise tax relief for the biocomponent used, Rafineria Trzebinia S.A. has withdrawn form the production of *ON Bio* biofuel and suspended investment program works.
- Rafineria Trzebinia S.A. in the PKN ORLEN Capital Group produces biocomponents, which is obligatory from 2008 onwards and resulted from the National Target Ratio.

Rafineria Nafty Jedlicze S.A.

- Outsourcing the service of heating oil desulphurization at the used oil regeneration installation, i.e. hydrorefining of the raw material from Płock;
- Improvement of the used oil collection system;
- Negotiation of a discount for domestic crude oil that would make the implementation of „development" option possible.

ORLEN Oil Sp. z o.o.

The concept taking into consideration the directions of structural changes within the PKN ORLEN S.A. Capital Group which provide for the concentration of oil assets of the Capital Group within ORLEN Oil Sp. z o.o. constitutes an important factor for the development of ORLEN Oil Sp. a o.o., in particular:

- Carrying out economic activity in the leased independently organized part of the enterprise of Rafineria Nafty Jedlicze S.A., i.e. Oil and Lubricant Production Unit, in addition to the two already owned production centers in Płock and Trzebinia;
- Continuation of consolidation processes of oil companies should also take into account the Czech production assets,

Fuel companies (Regional Market Operators, the "RMO")

Main assumptions of the strategy relating to the operation of RMOs within the Parent Company, provide for the following:

- Concentrating activities of the Companies within the wholesale of fuels and removing all retail sales from their structures;
- There are no plans to merge or dispose of the RMO companies;
- RMO companies are fully controlled by the Parent Company. In March 2006, PKN ORLEN bought out minority stakes of shares in ORLEN PetroZachód Sp. z o.o. At present, the Parent Company holds 100% of the shares in all of five RMO companies;
- In 2006, the transfer of fuel stations owned by the companies to the retail sales network owned by the Parent Company was completed;
- Changes include also a "personal union" of the entities, consisting in the appointment of one joint Management Board and joint Supervisory Board to govern all RMO companies ,
- Restructuring of non-core business assets in order to increase the effectiveness of the core business segment.

ORLEN Deutschland AG

It is planned to keep the company within the PKN ORLEN Capital Group. The restructuring plan adopted in 2006 was carried out through the following activities:

- Obtaining corporate approvals for purchasing 58 fuel stations located in the northern part of Germany from Deutsche BP AG;
- Closing 24 outlets which have been suffering loss;
- Undertaking initiatives within the company's restructuring plan as a result of which savings of EUR 6.7 million per year were achieved;
- Maintenance of the volume target in 2006 with a smaller amount of outlets than in 2005, despite a decreasing fuel market in Germany;
- Improvement of the operating cost structure calculated in eurocents per liter of fuel sold (C/L) by 0.29 C/L.
- Reaching EBIT in the amount of EUR 7.1 mln in 2006;
- Significant improvement of the Shareholders' Value Added (SVA) and creditworthiness as at the end of 2006.

Anwil S.A.

- The target area of operations includes PVC and plastics production;
- Modern production line for VC and PVC as well as a recent installation for nitro-chalk and other installations of the production line (ammonia, nitric acid, ammonium nitrate) place the company among the world leaders in the chemical sector
- In January 2006, the modernized Chlorine and Sodium Wax Production Plant was made available for use. It produces chlorine and sodium wax based on the most recent technology of membrane electrolysis which will

significantly increase the production capacity of chlorine (up to 195 thousand tonnes per year) and sodium wax (up to 217 thousand tonnes per year).

IKS Solino S.A.

- IKS Solino S.A. uses exploited areas in salt mines as unconventional storage sites for the Parent Company crude oil and fuels;
- Third stage of construction of the Underground Warehouse for Crude Oil and Fuels in Góra („UWCOF") was continued in 2006. In accordance with the assumptions made, a warehousing capacity of nearly 5 million tonnes m^3 was obtained. The UWCOF is composed of seven warehoising caverns for crude oil and three caverns for warehousing fuels.

Basell ORLEN Polyolefins Sp. z o.o. ("BOP")

- In the fourth quarter of 2005, BOP opened two polipropylene and poliethylene production units. These are rated among the most innovative polyolefin production plants in the world.
- At present, the yearly production capacity of the plants amounts to 400 thousand tonnes produced in Spheripol technology and 320 thousand tonnes of high-density polyethylene based on Hostalen technology. Together with the production capacity of the installation for the production of low-density poliethylene, the annual BOP production yelds approx. 820 thousand tonnes of polyolefins.

Non-strategic companies (non core business)

Transportation companies

- In 2007, the consolidation of the following six road transportation companies is planned within the Capital Group:
  - ORLEN Transport Kędzierzyn Koźle Sp. z o.o.,
  - ORLEN Transport Nowa Sól Sp. z o.o.,
  - ORLEN Transport Słupsk Sp. z o.o.,
  - ORLEN Transport Olsztyn Sp. z o.o.,
  - ORLEN Transport Szczecin Sp. z o.o.,
  - ORLEN Transport Płock Sp. z o.o.

  The consolidation of the companies will be carried out by way of transfer of all assets of the combined companies into a new transportation joint-stock company. Leaving transportation activity within the PKN ORLEN Capital Group will ensure the security of deliveries to the stations owned by the Parent Company. The consolidation is expected to improve the cost efficiency, increase the shipping potential, use the scale effect and optimise the itineraries.

Maintenance companies

The maintenance companies will remain within the PKN ORLEN Capital Group due to their strong link with the core business of the Parent Company and the important role they play in the maintenance of technical capacities of key machinery.

Disinvestment Processes

Under the disinvestment process planned for the years 2007 to 2009, the shares in the following companies are intended for disposal:

- Petrotel Sp. z o.o.
- ORLEN Budonaft Sp. z o.o.
- Motell Sp. z o.o.
- Petromor Sp. z o.o.
- Chemiepetrol GmbH
- NOM Sp. z o.o.
- ORLEN Centrum Serwisowe Sp. z o.o.

II. CHANGES IN ORGANISATION AND MANAGEMENT OF THE PARENT COMPANY AND PKN ORLEN S.A. GROUP COMPANIES

The Organizational Rules and Regulations of the Parent Company approved by the Management Board on 22 December 2005 had entered into force on 1 January 2006. Under the new Regulations, the duties of particular Members of the Management Board have been assigned in the following manner:

- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Chief Investment Officer;
- Vice-President of the Management Board, Cost Management;
- Vice-President of the Management Board, Upstream and Crude Procurement;
- Vice-President of the Management Board, Chief Sales Officer;
- Member of the Management Board, Chief Financial Officer;
- Member of the Management Board, Organization and Capital Group.

Duties of the Deputy Executive Officer for Operational Activities covered the areas of production, maintenance of technical operations, production development, and technology and property investment.

As of 1 January 2006, a team of 11 Executive Directors was appointed. The newly appointed Directors have accepted liability for the results, coordination of segments or supportive functions, as well as synergy implementation within the Parent Company. Moreover, Executive Directors within particular organizational units were assigned particular companies from the Capital Group, in accordance with the expert supervision over a given area within the Parent Company.

Executive Directors carry out their duties within their organizational units. The Chief Executive Director is responsible for the realization of tasks which require the coordination of several organizational units within the Parent Company. The Chief Executive Director accomplishes tasks in cooperation with other Executive Directors. The duties of Executive Directors consist in achieving targets through a decision-making process concerning the strategy to be adopted, plans to be made and day-to-day operations, including the implementation of uniform standards and procedures within the whole Parent Company. In addition, the Directors recommend the representatives of the Parent Company to sit in supervisory bodies of the companies belonging to the Capital Group in accordance with the assignment of those companies to particular Executive Directors. They also influence the staffing of key positions with the Group’s companies. In order to improve the system of segment management, the following committees were formed: Budget Committee, Capital Expenditure Committee, Margin Optimization Committee, Capital Investment Committee, Marketing Committee, MBO Committee (Management by Objectives), Financial Risk Committee and Operational Risk Committee. The committees listed above are to develop opinions to support the decision-making process with respect to issues requiring the agreed approach to the management of particular areas of business of the Parent Company and coordinating, monitoring and evaluation of major operational processes.

Additionally, the position of an Expert was introduced under the implementation process of segment management. The Experts, i.e. Executive Directors responsible for segments, were appointed to the Supervisory Boards of particular companies allocated within given segments.

As of 1 January 2006, ORLEN Administracja Sp. z o.o. in organization has taken over certain duties previously preformed by the Administrative Unit, Business Equipment Unit in Płock and 12 Regional Administrative Units.

As at 1 July 2006, the restructuring of the following services was carried out: prevention services were transferred to the newly established ORLEN Prewencja Sp. z o.o.; financial services were transferred to the newly established ORLEN Księgowość Sp. z o.o. and Forwarding Department with the logistic services was transferred to the existing ORLEN KolTrans Sp. z o.o.

As of the beginning of July the Unit of Non-Fuel Products and Category Management underwent restructuring. A new structure was implemented within that Unit, aimed at centralization of following functions: administration of merchandise ordering, merchandising and management of store sales and services.

The new Organizational Rules and Regulations of the Parent Company entered into force on 24 October 2006. Under the new Regulations, the duties of particular Members of the Management Board have been assigned in the following manner:

- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Chief Capital Investment Officer;
- Vice-President of the Management Board, Cost Management;
- Vice-President of the Management Board, Upstream and Crude Procurement;
- Vice-President of the Management Board, Audit and Regulations;
- Vice-President of the Management Board, Sales;
- Member of the Management Board, Chief Financial Officer;
- Member of the Management Board, Organization and Capital Group.

As of 1 November 2006, the wholesale unit was restructured and consequently eleven Regional Wholesale Offices were replaced by five new Wholesale Departments located in Płock, Poznań, Trzebinia, Lublin and Gdańsk. The implementation of the above-mentioned changes aimed at:

- establishment of a uniform policy within the structures of wholesale trade in the whole PKN ORLEN S.A Capital Group which will assure cohesion of trade activities between Wholesale Regions and Regional Market Operators through market segmentation aiming at reducing internal competition;
- increased goodwill and better market positioning of the Parent Company through the creation of a modern market-oriented wholesale management structure;
- reaching customers in a more effective manner, providing a more competitive offer of PKN ORLEN S.A. Capital Group;
- increase of market share;
- more efficient management of the distribution channels.

Furthermore, by the end of 2006, activities aiming at preparing the restructuring of financial services planned for 2007 were undertaken.

Moreover, changes to the composition of the Management Board of PKN ORLEN S.A were made in the course of 2006. At the meeting held on 21 December 2005, the Supervisory Board of PKN ORLEN S.A. appointed Cezary Stanisław Filipowicz to the position of the Vice-President of the Management Board of PKN ORLEN S.A., effective 2 January 2006. On 31 March 2006, the Supervisory Board dismissed Dariusz Witkowski from the position of the Member of the Management Board of PKN ORLEN S.A., effective 31 March 2006. Simultaneously, Krzysztof Szwedowski was appointed to the position of the Member of the Management Board. In addition, at the meeting held on 18 January 2007, the Supervisory Board of the Parent Company dismissed Igor Chalupec from the position of the President of the Management Board and appointed Piotr Kownacki, previously holding the position of the Vice-President of the Management Board of the Parent Company in charge of Audit and Regulations from 23 October

2006. At the subsequent meeting held on 15 March 2007, the Supervisory Board dismissed Jan Maciejewicz from the position of the Vice-President of the Management Board in charge of Cost Management and Cezary Smorszczewski from the position of the Vice-President of the Management Board for Capital Investments. At the same meeting, Krystian Pater was appointed to the position of a Member of the Management Board of the Parent Company.

In 2006, the companies belonging to the Capital Group have launched the implementation of rules and procedures of segment management.

In 2006, the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted the new Organisational Rules and Regulations of the company together with an organisational structure permitting necessary adaptive alterations in connection with a significant change of the operating conditions after 1 January 2006, i.e. after the Oil and Lubricants production unit was leased to ORLEN Oil Sp. z o. o., together with the support function. The above-mentioned changes covered all management levels at the company. The changes introduced related in particular, to:

- imposing more tasks on the Members of the Company’s Management Board with respect to day-to-day operational management within particular areas of business, previously supervised by operation directors, including elimination of the said directorial positions;
- elimination of the positions of production and organisational unit chiefs and replacement of those positions with a position of unit manager, with a simultanious combination of some task-dedicated teams;
- introduction of the flexible employment level principle within particular task-dedicated team, depending on tasks executed at a given time by a given team. Unit manager can, in agreement with the unit director, transfer an employee from one team to another.

Moreover, unified regulations within the core business were undertaken in 2006 within the segment management system being implemented within the PKN ORLEN Capital Group, referred to as purchase procedures within the companies from the PKN ORLEN Capital Group, implementation of marketing policy, developing the company’s image, cash management, hedging of operational risk and granting trade credits and debt collection procedure.

In 2006, ORLEN Oil Sp. z o.o. started leasing of an Oil and Lubricants production unit from Rafineria Nafty Jedlicze S.A. and tookover the employees of that unit and some of the employees from support function, on the basis of Article 23’ of the Labour Code. Conseqyently, the structure of a new Production Unit in Jedlicze were set up as well as local offices of several supportive units.

Moreover, managing patterns at ORLEN Deutschland AG underwent changes in 2006. In particular, in some operational departments, the organisational structure became more horisontal and therefore, the decision-making processes within the relative departments became more efficient. In addition, 17 interdepartamental project teams responsible for the realisation of specific projects and reporting the progress directly to the member of the management board in charge of the company’s restructuring process, were formed.

In 2006, the changes to the basic management rules within the fuel companies of the PKN ORLEN Capiatal Group were continued. Two new joint members were appointed to each of five fuel companies. The new members are to coordinate the activity of the companies within all core business areas, standardise the rules of operation, implement standardised control procedures and develop and supervise restructuring schemes. Moreover, at each fuel company, one member of the management board was appointed and made responsible for the ongoing operations of each given company.

The remaining companies from the Capital Group did not undergo any important changes within the management and organisational procedures.

III. CURRENT AND PROJECTED FINANCIAL STANDING OF THE CAPITAL GROUP

3.1 DESCRIPTION OF SIGNIFICANT RISK FACTORS

The most important risk factors having an impact on the performance of the PKN ORLEN Capital Group included as follows:

- **Fluctuations in crude oil and refinery products prices and margins**

Fluctuations in crude oil prices and considerable fluctuations in finished goods prices on world markets cause significant variations in margins generated by the Company. In the second and third quarter of 2006, crude margins on quotations increased, as compared to the first quarter of 2006 as a consequence of information about risks pertaining to supplies. Both the Iranian issues – relating to the uranium enrichment program – and the Nigerian issues, i.e. disruptions in the crude oil production, had the greatest impact on the prices of crude in 2006. Quotations of Brent DTD fell in the fourth quarter, which was mainly due to the unusually warm winter which caused a significant fall in demand for oil products. In 2006, the average quotations price of Brent barrel increased in comparison with the prices in 2005 by 19.4% to the level of USD 65.15/bbl. In the course of 2006 there was an increase in gasoline margin on quotations (crack) by 11.2% to the level of USD 140.72/tonne and on Jet A-1 fuel by 2.3% to the level of USD 159.66/tonne. However, a decrease was recorded for margins on quotations of diesel oil, i.e. decrease by 9.7% to the level of USD 123.33/tonne and on Ekoterm: a decrease of margins by 4.2% to the level of USD 97.58/tonne. A significant improvement was recorded in case of margins on the ethylene and propylene, which have increased in comparison with the figures recorded in 2005 by 17.2% and 15.1% respectively, to the level of USD 594.70/ tonne and USD 547.80/ tonne, respectively. A decrease on refined products margins was also recorded from the level of USD 5.11/ bbl in 2005 to USD 3.70 /bbl in 2006 (according to an analysis carried out by PVM).

- **Fluctuations of foreign exchange rates**

Exchange rate fluctuations have significant impact on the sales revenues (by means of adjusting prices at the Company on the basis of import parity), costs of crude oil and other raw materials, and financial costs related to debt denominated in foreign currencies. As a result of the above-mentioned tendencies, the fluctuations of PLN exchange rate to other currencies have a significant impact on the result generated by the Capital Group.

- **Economic growth and unemployment ratio**

Year 2006 brought a dynamic economic growth of the GDP up to the level of 5.8%, as compared to 3.5% in 2005. National demand remained the main growth engine for the GDP, which increased by 5.8% in 2006, in comparison to 2.4% growth in 2005. High economic growth resulted also from a more than 20% increase on exports and 16.7% increase on investments. The improvement of main economic indices was favourable to the economic revival and improvement of competitiveness of Polish companies. The maintenance of a dynamic growth of GDP had a positive impact on the creation of new job positions. The unemployment ratio fell from the level of 17.6% in 2005 to the level of 14.9% in 2006 (year to year). The level of unemployment ratio in Poland is conditioned by the progress of the restructuring processes, increase of work productivity and legal solutions governing the job market. In the Czech Republic, Lithuania and Germany the GDP amounted in 2006 to 6.0, 7.5 and 2.7 percent, retrospectively and in 2005 6.1, 7.6 and 0.9, retrospectively. Improved situation on the job market and favourable macroeconomic tendencies have a significant impact on the level of sales of the Capital Group's products.

- **Inflation**

In the end of 2006, GUS (Central Statistical Office) recorded an increase in the level of inflation from 0.7% to 1.4% as at the end of 2006 (year to year). However, the annual average inflation rate decreased from 2.1% to the level of 1.0%. In the Czech Republic, Lithuania and Germany the annual average inflation amounted to 2.1%, 1.8% and 3.3%, retrospectively, while in the previous year 1.6%, 1.9% and 2.7%, retrospectively.

- **Interest rates**

Stable inflation rate recorded in 2006 permitted the reduction of reference interest rates twice in the course of 2006. As at the end of 2006, pawn loan interest rates have reached the level of 5.50%, whereas rediscount of bills amounted to 4.25% (6.00% and 4.75% respectively at the end of 2005). WIBOR 3M rate has decreased from 5.23% in 2005 to 4.21% as at the end of 2006. The level of interest rates directly affects the cost of debt.

- **Mandatory reserves**

The Act on the Amendment of State Reserves and Mandatory Reserves has entered into force as of 12 May 2006 (Journal of Laws No. 266, item 2240). The Act regulates the issues related to the Poland's accession to the European Union. At present, reserves are established on the basis production, intra-Community acquisitions and import less intra-Community supplies and export made by an entrepreneur in the previous year. From 1999 on, the required level of mandatory reserves has been increasing by 7 days on a yearly basis, so as to reach the number of 76 days by the end of 2008. Moreover, the Material Reserves Agency is to maintain state reserves of liquid fuels in the amount equal to 14-day consumption of fuels in a given year. The Parent Company establishes and maintains mandatory reserves of fuels, semi-products and crude oil.

In March 2007, the President has signed a new Act on reserves of crude oil, oil products and natural gas and on rules of conduct in situations where the state fuel safety is at risk and disruptions on oil markets occur, which introduces additional elements that are part of the International Energy Agency, including:

- unavailable stocks, i.e. increase of the mandatory emergency reserves by 10%, which generates additional cost of financing increased volume of stock;
- change of the base serving for calculation of the mandatory emergency reserves from the internal consumption within the Republic of Poland index to the rate of net imports of oil – there is a risk that the Parent Company will have to additionally increase its stocks of crude oil in comparison with the reserves that resulted from the previous regulations;
- maintenance of emergency reserves of LPG - this regulation was previously not binding in Poland, and now it constitutes an additional burden to the Parent Company.

In consideration of the recommendations arising from the new Act, an increase of reserves' maintenance costs should be expected, in particular as regards the stock financing costs. Cost of logistics, i.e. warehousing, transportation and reloading should remain unaffected.

Positive aspects of the new Act provide for the principle of equality as regards all undertakings operating on the oil market. Previously, entities starting their activity were granted a privilege which allowed them to maintain emergency reserves of 7 days throughout the first year, whereas other companies had to maintain reserves in accordance with the schedule, i.e. by few tens days more.

- **Domestic fuel consumption**

The total domestic consumption of fuels in 2006 estimated on the basis of data provided by Nafta Polska S.A. and Agencja Rynku Energii S.A., including gasoline, Diesel oil ("DO") and light heating oil ("LHO") reached 14,508 thousand tonnes, which represents an increase by approximately 8% in relation to figure recorded in 2005.

Gasoline consumption remained at the high level recorded in 2005, which results mainly from a dynamic economic growth and an important number of imported vehicles, i.e. comparable with last year's figures. Moreover, LPG market became weaker and grew only by 4% which positively influenced the domestic consumption of gasoline. Despite this fact, Polska continues to be the world leader in the number of gas stations with LPG modules. Fuel analysts claim that the activities aiming at regulating the LPG market will cause this market to curb, or even reverse the upward trend of the LPG consumption.

The consumption of Diesel oil in 2006 was higher by 24% compared to figures recorded in 2005. Dynamic growth of this market is mainly caused by the decrease in the consumption of the light heating oil, which is illegally used for traction purposes and constitutes a substitute of DO. Other important growth factors as regards DO consumption included a nearly 6% increase of GDP, introduction, as of 2006, of the reimbursement of excise tax for farmers calculated on Diesel oil used for agricultural machinery, and a tendency to change the structure of vehicle fleets for vehicles powered with compression-ignition engines.

Consumption of the light heating oil decreased by 23 % compared to 2005. An important drop in the consumption of LHO in 2006 was caused by, among others, uncertainty present on the market, in connection with the publication of a bill, which finally failed to be adapted, which provided for equaling excise tax rates for LHO with the excise tax rate for DO. Consequently, some consumers withdrew from investments consisting in replacing the existing heating installations for those using LHO. The drop in the LHO consumption was also caused by its limited use for powering motor vehicles, which was due to strict controls of fuel quality at gasoline stations and introduction of excise tax reimbursement calculated on fuels used for agriculture purposes, starting from 2006. The decrease in the use of LHO for heating purposes resulted from an exceptionally warm fourth quarter of the year.

Due to the fact that it was necessary to increase the volume of the emergency reserves in 2006 by entities carrying out business activity at the Polish fuel market, a part of the registered fuel consumption was allocated for reserves and not consumed by the market.

- **Import of fuels**

In accordance with the estimates provided by Nafta Polska S.A., the total import of fuels to Poland in the first 9 months of 2006 has increased by 361 thousand tonnes (i.e. by 11%) as compared to 2005. In accordance with preliminary estimates, the total import of gasoline decreased by 25% and reached the level of 449 thousand tonnes and represented approx. only 12% of total fuel import. According to Agencja Rynku Energii S.A., the highest gasoline import in 2006 originated from Germany (approx. 50%), Slovakia (approx. 37%) and Czech Republic (approx. 8%). In accordance with preliminary data, an approximate volume of 2,828 tonnes of diesel oil were imported to Poland in 2006, i.e. 20% more than in the previous year. Import of diesel oil in 2006 constituted nearly 76% of the overall volume of fuel import (approx. 70% in 2005). The majority of diesel oil was imported from Germany (38%, compared to 31% in 2005), Byelorussia (25%, compared to 26% in 2005), Slovakia (13%, compared to 13% in 2005) and Lithuania (11%, compared to 13% in 2005). A significant increase of the diesel oil import was mainly due to a major increase of consumption and consequently, insufficient domestic supply of DO.

In accordance with preliminary estimates, the total import of light heating oil in 2006 amounted to 457 thousand tonnes compared to 419 thousand tonnes a year earlier, which gives an increase of approx. 9%. In 2006, the majority of light heating oil was imported from Lithuania (60%, compared to 23% in 2005) and Germany (40% of the total LHO import, compared to 32% in 2005).

- **Amendments to the binding legal regulations**

In realization of its proecological policy, the Parent Company gradually increases the contents of biocomponents in the fuels produced and simultaneously continues to adhere to the highest international quality standards for fuels introduced into the market. The new Act on biocomponents and liquid biofuels from September 2006 puts an obligation on fuel producers to introduce an annually growing number of biocomponents in accordance with the *National Target Ratio*. The obligation to introduce greater numbers of biocomponents has an impact on the components of the production and logistics chain due to the fact that additional capital expenditures are to be borne for building biocomponents dispensing facilities at pipelines extremities and at warehousing bases.

Moreover, in accordance with the provisions of the Act, entities which introduce liquid fuels to the market on at least 10 gasoline stations owned by the said entity, 10 own-brand stations or partner stations are obliged to place detailed information on the availability of liquid biofuels at the said stations. It will be difficult to implement the provisions of the Act in a situation where biofuels are sold within a distribution network consisting of several hundreds of gasoline stations. Under the provisions of the Act on biocomponents and liquid biofuels, there is a significant risk relating to the fines imposed on fuel producers for non-complying with the National Target Ratio starting from January 2008. If an entity fails to fulfill the National Target Ratio as set for the number of biocomponents added to liquid fuels and biofuels, the amount of fine may even reach PLN 862 million, in case of a total negligence of the National Target Ratio in 2010 in the amount of 5.75%. Fluctuations of prices of biocomponents in situations of natural disasters, such as drought, constitute another threat.

Effective implementation of the Act on liquid biofuels and biocomponents is possible only if tax regulations are amended at the same time, namely, the Act on excise tax and secondary decrees to the latter. However, on 1 January 2007 the decree of the Minster of Finance dated 22 December 2006 on amending the decree on the exemption from the excise tax entered into force resulting in the fall in profitability of esters' production and decrease in profitability of the Polish biofuel market, in general. Application of a lower rate of excise tax exemption for adding biocomponents to liquid fuels and biofuels resulted in a situation where the production of biocomponents, including in particular esters, does not yield any profits. The limitations put on the level of tax exemption caused stagnation of biofuel market, (i.e. methyl esters), which can result in failure to fulfill the National Target Ratio by the national fuel producers as regards the use of biocomponents in subsequent years. This situation may cause payment of substantial fines starting 2008 and a potential increase in prices of liquid fuels, which will be particularly burden the end-users, i.e. the consumers.

It is a top priority in the future for the Council of Ministers to adopt long-lasting programs on excise tax exemption for adding biocomponents to liquid fuels and liquid biofuels and stating the level of the said exemptions. Tax reliefs should be determined at such a level which will make the prices of liquid fuels with biocomponent additives competitive with prices of liquid fuels without biocomponent additives. Future introduction of an order to use biocomponents or liquid biofuels in Poland, with a simultaneous decrease of the excise tax reliefs may cause sudden increase of prices of ethanol and esters, as well as disruptions in the agricultural sector.

- **Acquisition of AB Mazeikiu Nafta (the "Mazeiku Refinery")**

Year 2006 was marked by the completion of AB Mazeikiu Nafta acquisition process and takeover of the crude oil supplies of the unit. Mazeiku Refinery was supplied through the Druzhba (Friendship) pipeline. As a result of the the breakdown at the pipeline in the end of July, the supply system to Mazeiku Refinery was considerably disturbed. It became indispensable to launch deliveries through Butynga harbour. At present, the demand of Mazeiku Refinery for crude oil is covered entirely by sea deliveries. The takeover of supplies to Mazeiku Refinery from January 2007 constitutes another stage towards the centralization of deliveries to refineries controlled by the Parent Company. The main objective to be achieved in that respect is ensuring security and stability of supplies.

As a result of suspension of pipeline crude oil deliveries to Mazeiku Refinery, the Logistics Office of the Parent Company has engaged in activities aiming at developing and optimal use of alternative delivery manners and crude oil warehousing, which will allow for a significant improvement of the security with respect to supply chain of raw materials to Mazeiku Refinery, and will encourage the reduction of operational costs of deliveries. Additionally, high rail transportation costs, i.e. costs of transportation by the Lithuanian Railways and lease of rail tank cars, in conjunction with the lack of alternative or cheaper distribution manners of Mazeiku Refinery refined products to the reloading ports, call for a necessity to intensify the activities within the concept of construction of pipeline connection with Klaipeda harbor. Pipeline connection with Klaipeda could bring significant reduction of logistics-connected charges in addition to an improved security of shipping conditions. The scope of works undertaken was enlarged by the concept of launching the Company's rail transportation services in order to further reduce the costs incurred, including the renegotiation of the present rates within the remaining itineraries and activities aiming at securing the interest of Mazeiku at Klaipeda harbor.

- **Regulatory Risk**

The Parent Company has formed the Regulatory Risk Department within its organisational structure. The Department is to actively participate in legislative processes both on national and European Union level, evaluate the effects of the regulations on the Parent Company, outline the standpoint to be adopted by the Parent Company and propose actions to be undertaken. At present, the Regulatory Risk Department has been working on the Map of Legal Risks at the Parent Company.

The Company issued opinions with respect to the folowing bills:

- Act on use of emission units granted, reduction of emission and certified emission reduction, management of absorbtion units, estblishing levels of emission, national stocktaking, development of prognosis of emission and on trading in the rights to atmospheric emissions of greenhouse gasses and other substances (the legislative procedures are pending)
- REACH system (regulation by the EU Council and EU Parliament - in force since 18 December 2006)
- Act on biocomponents and liquid biofuels, including the secondary regulations. The Act is in force since September 2006.
- Act on reserves of crude oil, refinery products and natural gas, rules of conduct in situations where the country's fuel security is at risk and on execution of international obligations in situation of disturbed deliveries and crisis on crude oil market. The Act is in force since September 2006.
- Regulation by the Ministry of Finance on the excise tax. The regulation is in force since 1 January 2007.
- Introduction of excise tax on heating oil in the same level as engin fuel (the regulation did not come into force).

- Introduction of limitations on SO2, NOx and dust emission under the National Emission Reduction Plan as of 1 January 2008 (legislative process pending).
- Act amending the Energy Law Act, Act amending Environmental Protection Law Act and Compliance Evaluation System Act.

Risk relating to the amendment or introduction of new legal regulations is being monitored by the Regulatory Risk Department. As at the day of preparation of this report, the risk was not apprised, however, new regulations, in particular with respect to the emission, biofuels and excise tax, may have a significant impact on the operations of the Capital Group.

- **Risk related to the transfer of certain assets and liabilities in connection with the acquisition of shares in Unipetrol**

In 2003-2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhilips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.

In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.

Agrofert Holding a.s. agreed that PKN ORLEN S.A. disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

On 25 January 2006 PKN ORLEN received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500 with interests. The court proceeding in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress.

On 20 February 2006 the Management Board of PKN ORLEN has decided to withdraw (in the understanding of Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s. and Synthesia a.s. (formerly: ALIACHEM a.s.) shares.

On 9 May 2006 the Company's attorney received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a second law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute, similarly to the first one commenced by Agrofert Holding a.s., amounts to EUR 77,266,500 with interests. The arbitration proceedings initiated by this law suit are currently in progress.

On 5 July 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a third law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute amounts to CZK 409,102,494 (approximately EUR 14 million) plus interests.

The arbitration proceedings initiated by this law suit are currently in progress.

On 13 December 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a fourth law suit issued by the company Agrofert Holding a.s., seated in Prague, regarding the payment of compensation of loss related to unfair competition, illegal violation of reputation of Agrofert Holding a.s.
The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interests. The amount claimed by Agrofert Holding a.s. is currently analyzed by the Parent Company's legal advisors, and the arbitration proceedings are at the initial stage i.e. organizational matters are being conducted.

As at the date of preparation of these financial statements, the parties are conducting mediations aimed at amicable settlement of the dispute in respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V. The Management Board of the Company hopes that, as a consequence of series of mediation meetings, the Parent Company and ConocoPhillips will soon finalize the mediation process with favorable outcome to both parties.

The consolidated financial statements include a provision for covering a potential negative financial result related to the realization of the said agreements.

The main risk factors with selected entities from the Capital Group include:

- **Rafineria Trzebinia S.A.**

– In accordance with the adapted strategy, Rafineria Trzebinia S.A. has been continuing in 2006 its activity in a new segment of production, i.e. biofuels. Rafineria Trzebinia S.A. is at present the only entity in Poland which produces methyl esters of higher fatty acids of the highest quality standards and holds the most extensive practical experience in the domain of biofuels. In 2005, Rafineria Trzebinia S.A. launched and continued in 2006 an extensive development of biodiesel market. Biofuels segment constitutes a developed market in Western-Europe countries, whereas in Poland, it is at its early stage of development. Under the strategy and policy adopted by the European Union, a rapid development of the biofuel market and alternative fuels, originating from renewable sources of energy, should take place in Poland in the years to come. However, the entry into force of the regulation by the Minister of Finance dated 22 December 2006 amending the regulation on the excise duty relief , which entered into force as of 1 January 2007 caused a significant decrease in profitability of the production and sales of biofuels within the Polish market. On 2 January 2007, the Management Board of the comapny made a decision on a temporary discontinuation, as of 2 January 2007, of the production and sales of ON BIO biofuel with 20% content of FAME esters until new provisions justifying the relaunching of the production of that biofuel enter into force. Despite the fact that the goods produced by Rafineria Trzebinia S.A. gained recognition among its numerous business partners due to its high quality and attractive price, and was succesfully marketed in Poland for nearly two years, and its quality being certified with, *inter alia*, "Teraz Polska" certification mark, further production and sales of ON BIO became impossible due to an unexpected amendment of the binding tax regulations. Consequently, the Management Board of Rafineria Trzebinia S.A. made a decision of suspending works over the investment program aiming at a significantly improving the existing production capacities. The announced amendment of fiscal provisions resulted in indispensable renegotiations of concluded agreements for delivery of raw materials for the production of biodiesel fuel with respect to prices and volumes, in connection with an expected reduction of biocomponent production at the biodiesel installation. From the opening of the biofuel market, the Act on biocomponents and biofuels imposed on Rafineria Trzebinia S.A. the obligation to enter into contracts for the delivery of rape oil with a term of at least 5 years, and therefore, there is a potential risk of increased liquidated damages payable to the benefit of certains supliers. However, considering the economic and business dependence of Rafineria Trzebinia S.A., rape oil suppliers and farmers, the management of Rafineria Trzebinia S.A. is of the opinion that negotiations and conclusions will result in signing of agreements or amicable terminanting of the existing agreements, and consequently, avoiding the risk.

- With discontinued production of biofuels, Rafineria Trzebinia S.A. lost over 50% of its revenues from sales and a potential to generate profits. The deterioration of the financial standing of Rafineria Trzebinia S.A. gave rise to claims to establishing additional security on its assets, submitted by the banks which granted loans to the benefit of the company. A condition precedent to the establishment of security was the execution by Rafineria Trzebinia S.A. an agreement with the Parent Company and with Pekao SA and BPH SA banks. The Parent Company actively engaged in activities aiming at improving financial standing of Rafineria Trzebinia S.A. On 5 March 2007, an agreement between Rafineria Trzebinia S.A., PKN ORLEN S.A., Bank Pekao S.A. and BPH S.A. on restructuring of the debt owed to the Banks and the Parent Company by Rafinerii Trzebinia SA. was signed in Warsaw.
- In October 2004, the Customs Office in Cracow has instituted tax proceedings for determining the amount of tax liability under the excise duty for the period from May to September 2004. As a result of the above-mentioned proceedings, in April 2005, the Director of the Customs Office in Cracow has issued a decision which sets forth the value of the tax liability in the amount of approx. PLN 60 million, increased to the amount of approx. PLN 100 million by virtue of the decision issued by the Head of the Customs Office in Cracow, issued in July 2005. In August 2005, the Management Board of Rafineria Trzebinia S.A. filed an application for staying the enforcement of the decision until the case is adjudicated by an apeal court. On 30 December 2005, the Director of the Cracow Customs Chamber issued a decision upholding the decisions of the first instance. On 3 February 2006, Rafineria Trzebinia S.A. filed an appeal against the above-mentioned decision by the Director of the Customs Office in Cracow, including an application for staying the enforcement of the decision with the Voivodeship Administrative Court in Cracow. On 14 Febuary 2006, the Director of the Customs Office in Cracow issued a decision on staying the enforcement of the appealed decision until the appeal is adjudiicated by the Voivodeship Administrative Court. The issue of the company's liabilities in connection with excise duty tax is still pending before the Voivodeship Administrative Court and the outcome of the dispute is unknown. On 19 March 2007 Rafineria Trzebinia S.A. received a notification from the Tax Chamber in Kraków in respect of a compulsory entry made in the mortgage register by the District Court in Chrzanów for the benefit of State Treasury. The mortgage register entry regarded both real estate owned and used under perpetual usufruct by Rafineria Trzebinia. The real estates pledge for the excise tax liability for the period May-September 2004 as determined by the decisions issued by the Head of the Customs Office in Kraków. Based on opinions of reputable tax advisors in relation to the pending case on the excise duty tax imposed on technological oil, the Management Board is highly persuaded the case can by won on the basis of evidence and argumentation presented by the company.
- Upon the authorization by the General Inspector of Tax Control dated 18 January 2005, the Tax Control Office in Kraków has been verifying the accuracy of the declared taxable base and correctness of calculations and payments in respect of the tax on goods and services and excise duty in the years 2002 and 2003. On 30 November 2006, a report from the control activities for the period in question was delivered to the company. The Proxy of the company filed on 14 December 2006 reservations to the report received, where it raised a procedural fault with respect to the tax control and the report itself. On 28 December 2006, the Director of the Tax

Control presented the Proxy with a written reply to the issues mentioned in the objections raised. The closing of the control procedures was extended until 29 June 2007. On 12 May 2006, the company obtained a decision issued by the Director of the Tax Control Office in Cracov on insttituting verification procedures with respect to the accuracy of calculations and payments of tax on goods and services and excise duty for the period from 1 January 2004 to 30 April 2004. On 15 January 2007, the Proxy of the company received a report from the above verification procedures. On 29 January 2007, the Proxy of the company submitted objections and comments to the received report, where he raised, *inter alia*, the lack of legal basis for carryng out the verification procedures for the period in question, due to the decision issued on 17 September 2004 by the Head of the Customs Office in Cracow on discountinuing of the legal proceedings on the determination of the amount of the company's tax liability from excise duty for January, February and March of 2004 for irrelevance. Moreover, the proxy of the company referred to the fact that the report did not contian any legal opinion with respect to the issue being the object of verification procedure. Until the day of signing of the financial statements, the reply of tax organs was not known. The date of termination of the verification procedures was extended until 29 June 2007. As at the day of preparation of the present report, the final outcome of the above verification procedures, as well as a potential impact of the procedures, if extended over other periods, is not known.

- On 26 February 2007, the Head of Małopolski Tax Office in Kraków decided on instituting tax proceedings for determining the amount of tax on goods and services due from the company for March 2005. The above tax procedures refer to the verification of intercommunity deliveries of goods and merchandise.
- On 22 October 2006, the Proxy of the company received a decision issued by the Head of Małopolski Tax Office on instituting *ex officio* of tax proceedings for determining the amount of tax on goods and services due from the company for months of January, February and April to August 2005. The verification procedures will end on 30 April 2007.
- On 10 January 2007, the Proxy to the company received a decision by the Head of the Customs Office in Cracow instituting *ex officio* tax proceedings for determining tax liability under excise duty for the period of November to December 2004. As at the preparation of the financial statements the outcome and impact of the above-mentioned verification procedures on the companys financial statements are not known.

- **Ship Service S.A.**

- On 19 May 2006, a ban on using within the Baltic waters of heavy residual fuels containing more then 1.49% of sulpur was introduced (MARPOL convention). The domestic market does not offer such fuels, and therefore the company engaged in importing Russian low-sulpur fuels under spot transaction.
- Due to a significant decrease in the domestic supply of high-sulpur residual fuels, from May 2006 the company was forced to start importing high-sulpur residual fuels which comply with see vessel requirements.
- Additional assortment of residual fuels resulted in insufficient warehousing capacities at Polish harbours. Moreover, from December 2006, the Ship Service S.A. could no more use the 4.5 thousand m^3 tank at the warehousing base of the Parent Company in Świnoujście. Consequently, Ship-Service S.A. temporarily adapted the mergchandise transportation logistics to its warehousing capacities on barges and other vesels. This situation reduced the volume of purchases and sales, and significantly influenced the sources and amount of financing of the company's activity, as well as the logistics of deliveries and warehousing.

- **ORLEN Gaz Sp. z o.o.**

Tax policies aiming at introducing the similar rate of excise tax for the heating oil and LPG, and a gradual increase of the excise tax for liquid gas constitutes an important factor hindering the development and the level of sales of liquid gas in Poland. Moreover, dishonest practices adopted by small distribution companies consisting in avoiding the payment of the excise tax, VAT and income tax by introducing into trading unconventional unrecorded gas, which leads to worsening of operational profitability of big companies dealing in gas.

- **ORLEN Asfalt Sp. z o.o.**

- The prolonged bad whether conditions until mid-April 2006 hindered the full realization of sales on asphalt. The factual demand for asphalt was recorded in the last decade of April.
- The launching of Biturox installation in Gdańsk caused an increased competitiveness on the market of road asphalts on the domestic market, in particular before and after the top season. Moreover, the overproduction on the neighboring European Union markets may cause the increase of imports.
- Consolidation of the roadwork companies with higher requirements and particularly interested in the decrease of margins on asphalts.
- Stagnation on the market of industrial asphalts.

- **Anwil S.A.**

- Strong price competition of PVC producers from China (mainly on the Turkish market) results from faint possibilities of placing the goods on Asian markets. Moreover, an increased activity on the domestic market caused by the introduction of Borsodchem and INEOS to the Polish market. Strong competition on European markets forces foreign companies to expand to external markets;
- Aggressive pricing policy adapted by Borsodchem in the area of NaOH at the German Czech and Slovak markets.
- PLN currency appreciation with regards to EUR and USD – unfavourable conditions for exporters and entities which preliminarily quote theirs prices in a foreign currency – strong PLN increases the advantages and competitiveness of imports.
- Sky-high prices of copper have caused the increase of raw material costs of cable manufacturers and put limitations on the purchase of PVC from granulate manufacturers. Additionally, a further restructuring and concentration of the cable sector in Europe, i.e. one of the most important customers of soft PVC, results in limited purchases;
- Increasing prices of natural gas and crude oil have a significant impact on the increase of prices of key materials used for the production of nitrogenous fertilizers and polymers.
- High level of imports of polivinyl chloride to the Polish market proves that our PVC market is growing, which is a positive fact, however on the other side, it shows increased activity of the competition at our basic market. Companies from Germany and Hungary are the main front runners.
- Emergence on the Polish market of small foreign companies producing granualted PVC (through distributor representation). Strong competition on European markets forces companies to enter foreign markets.
- Capital reinforcement of Zachem, competitor of Anwil S.A. as a result of capital takeover by Ciech. At present, Ciech holds its own producer of granulated PVC and it is not interested in distributing granulates offered by Anwil S.A.

- **Rafineria Nafty Jedlicze S.A.**

- Decreased demand for heating oil have caused by the amendment to the tax regulations in the end of 2005 (amendment of ratios and scope of application of the excise tax) has forced the indispensable amendments in the production and distribution structure of heating oils and resulted in the fall of the level of profitability in this group of products.
- Decreased volume of recycled oil for regeneration is maintained due to a strong competition on the market of used oil recovery and regeneration services and used oil collection market which had a negative impact on the use of production capacities within the regeneration process.
- Failure-related shutdown of the Hydrorefining Installation in the period from September to October 2006 caused by a local fire which resulted in measurable costs of unused production capacities and lost profits from sales of products from this installation. The above loss was partially compensated through a maximum use of the installation and increased sales in the period from November to December 2006.

- **IKS SOLINO S.A.**

- Depleted resources of the currently used salt resources impose the necessity of searching new sources within the next few years to come and transferring the mining activity to another location. The related outlays, including investment outlays, exceed current possibilities of the company.
- High expenditures in connection with searching of the currently exploited sources necessitate significant outlays for geological and geophysical surveys.

- **ORLEN Budonaft Sp. z o.o.**

Lost financial liquidity in the first half of 2006 put significant limitations on the activity of ORLEN Budonaft Sp. Z o.o. As a consequence of the current restructuring process of the company and owing to a loan granted by the Parent Company, the profitability and liquidity of the company are being restored. Moreover, the restructuring process of the company will be supported by the Company's Restructuring Program drawn up by a consulting company set for realisation in the second half of 2006 roku and in subsequent years.

Risk factors important for the operation of the PKN ORLEN S.A. Capital Group have been also referred to in Note 35 to the consolidated financial statements for the year 2006.

3.2 PRODUCTION

Crude oil processed in 2006 within the companies belonging to the PKN ORLEN Capital Group amounted to 18,023 thousand tonnes and was by 17.2% higher in comparison with 2005. Such a significant growth dynamics was due to recognition in 2006 of the crude processed by Unipetrol a.s., i.e. 4,280 thousand tonnes (in 2005, only the crude processed in the period frm June December 2005 was recognised).
The level of crude oil processing by the Parent Company itself amounted to 13,612 thousand tonnes and was by 8.3% higher in comparison with 2005. In 2006, the yield from white products (gasoline, fuel and diesel fractions and liquid gas) at the Parent Company amounted to 78.1%, i.e. it dropped by 1.74 percentage points below the level recorded in the respective period in 2005. Main factors responsible for the decrease in the yield from refined products were the

planned rest of soft asphalt Hydrodesulphurization installation in the brake of April and May 2006 and a significantly higher processing of crude oil.

The most important events in 2006 within the refinery production at the Parent Company included, as follows:

1. Throughput of a record amount of crude oil at the level of 13,612 thousand tonnes, i.e. 8,3% above the figures recorded in 2005. Processing such an amount was possible due to loading down of all installations. The increased processing resulted directly from market demand and production capacities of Olefin II Installation.
2. Launching of a new Cracking Gasoline Desulphurization Installation in June 2006. The installation will allow producing a full range of low-sulpur gasoline, in accordance with the EU requirements on the quality of fuels, which will become binding after 2009. The capacity of the new production unit amounts to 145 tonnes of desulphurized gasoline per hour. The selected technology allows carrying out desulphurization process with a minimum reduction of gasoline octane numbers.
3. Completion in May 2006 of the first stage of modernization of Diesel Oil Hydrodesulphurization VI Installation. The second stage of works was completed in October 2006. The aim of the modernization was to prepare the said installation for a more thorough desulphurization of loadings for the production of Diesel oil with the sulpur contents of less then 10 mg/kg. The contract for the modernization, including technological project and supply of equipment was executed the licensor of the installation, i.e. ABB Lumus.
4. Execution in August 2006 of an agreement with Technip Italy for a technical project, delivery of equipment and materials for the Diesel Oil Hydrodesulphurization VII Installation of a designed production capacity of 2.2 million tonnes of Diesel oil. The urge to build the installation results from the regulations on the quality of fuels which will enter into force in 2009. The said regulation imposes a requirement of delivering Diesel oil with the sulpur contents lower then 10 ppm, provided an increased level of crude oil processing.
5. Execution in October 2006 of an agreement with Technip for the execution of a new Hydrogen Installation of a production capacity of 5 T H2/h (technical project, license and delivery of apparatus). The new Hydrogen Installation will produce hydrogen for the purposes of desulphurization of Diesel oil fractions from Diesel Oil Hydrodesulphurization VII and Diesel oil fraction stabilization facility from the Asphalt Hydrodesulphurization Installation in accordance with the EU requirements UE on the quality of finished fuels. The installation is planned for opening in the first quarter of 2009.
6. Starting the construction of the Diesel oil fraction stabilization facility from Asphalt Hydrodesulphurization Installation which is designed to denitrate, desulphurize and remove resin, and improving the potential of using the fraction for Ekoterm light heating oil. The facility is planned for opening in the end of 2007.
7. Exchange and extension of the analytical equipment for Gasoline Blending in order to optimize the gasoline composition process and assure an appropriate quality of gasoline.
8. Decision on the Modernization and intensification of Alkylation (HF) Installation. Production capacities after the modernization will reach 280 thousand T/ year. The modernization is aimed at reducing environmental risks connected with the AHF technological process by diminishing the level of HF acid within the installation up to a required minimum amount, i.e. 55 tonnes and to improve of technical safety and quality of alkylate, which will make the gasoline composition process more flexible.

Important events within the petrochemical production include:

1. Modernization works at Olefin II Installation and Aromatics Extraction Unit carried out in 2005 resulted in a significant increase of petrochemical production;

2. Making a decision on the construction of Paraxylene (PX) and terephthalatic acid (PTA) installations in order to make use of the reserve of gasoline resulting from an increased level of crude oil processing after 2009 (approx. 15 million tonnes). The centre is planned for opening in the first quarter of 2009. In April 2006, a contract with Mitsubishi Chemical Engineering Corporation was signed for the license and base project for a production technology of terephthalatic acid. The construction o the installation will commence within the Zakłady Azotowe Anwil S.A. in autumn 2007. The installation with production capacity of 600 thousand T/ year is planned for opening in the fourth quarter of 2010.

3.3 INFORMATION CONCERNING BASIC PRODUCTS AND SERVICES, SALES MARKETS AND SUPPLY SOURCES FOR COMPANIES FROM THE CAPITAL GROUP

Information concerning basic products and services, as well as sales markets and supply sources for the Capital Group companies are presented in the Additional Information section of this report

3.4 INDEBTEDNESS STRUCTURE AND FINANCIAL RESOURCES MANAGEMENT

As at 31 December 2006, the level of long-term and short-term loans, borrowings and debt securities issued within the PKN ORLEN Capital Group amounted to PLN 10,456 thousand and was higher by PLN 5,939 thousand then the level of indebtedness recorded at the end of 2005. As at 31 December 2006, the Parent Company recorded an increase in the financial indebtedness by PLN 5,231 thousand compared to the figure recorded as at 31 December 2005.

(in PLN thousand)	Indebtedness		Cash and Cash Equivalents		Net Debt	
	2006	2005	2006	2005	2006	2005
Credit facilities extended by banks	9,893,499	3,956,721				
Loans	2,885	13,065				
Debt securities by kind	592,721	547,011				
According to maturity:						
Long-term	6,211,193	3,405,978				
Short-term	4,277,912	1,110,819	2,358,744	1,231,741		
Total	**10,489,105**	**4,516,797**	**2,358,744**	**1,231,741**	**8,130,361**	**3,285,056**

As at 31 December 2006, net financial indebtedness within the Capital Group has increased by PLN 4,832,427 thousand to the level of PLN 8,130,361 thousand in comparison with the level recorded at the end of the year 2005. The increase in net financial indebtedness has had an impact on the financial debt to equity ratio (loans, borrowings and debt securities less cash less short-term investments to net equity) which has risen from the level of 17.0% as at 31 December 2005 to the level of 37.7% as at 31 December 2006.

The high borrowing power of the Parent Company and the Capital Group which provides it with a possibility of drawing additional external resources in an inexpensive and relatively quick way, has a positive impact on its financial security. The Capital Group is a party to loans and credit facilities granted in foreign currencies and in Polish zloty, mainly subject to a variable interest rate. In accordance with the loan agreements signed with banking institutions, as at 31 December 2006, the Capital Group held undrawn credit and loans granted at a variable interest rate in the amount of PLN 5,066,919 thousand, compared to PLN 3,896,154 thousand as at and 31 December 2005.

The Company is a party to 11 credit loan facility agreements, 9 of which are of short-term type and 2 are long-term credit facilities. The Company is a party to a long-term multicurrency credit facility agreement in the amount of EUR 1 billion, granted by a consortium of Polish and foreign banks, executed in December 2005. The term of the agreement is 5 years from its execution with an option of extension by two yearly periods. Part of funds granted under this credit facility was allocated in 2006 for the repayment of a long-term two-currency credit facility granted by a consortium of banks on the basis of an agreement dating from 2003 and another part was allocated for the acquisition of shares in AB Mazeikiu Nafta. The remaining part of the credit facility will be allocated for financing the Company's ongoing operations.

In November 2006, the Parent Company executed two credit facility agreements in view of the acquisition of AB Mazeikiu Nafta. The financing in the form of two credit facility agreements of a total value of EUR 1.6 billion was granted by a consortium of eight Polish and foreign banks. The financing of the Mazeiku acquisition has been the largest financing program in the history of the Company ever, and also the biggest lump-sum financing transaction ever carried out for the benefit of a Polish entity. It consists of a five-year revolving credit facility, with an option of extension by two one-year periods, i.e. an open-end credit available on demand that can be used repeatedly, in the amount of EUR 800 million and a 12-month bridging loan, granted for a period until the launching of the planned emission of eurobonds, in the amount of EUR 800 million. The funds obtained from the above credit facilities, together with the Company's own resources and undrawn lines of credit assured a sufficient amount for the Company to acquire shares in the Lithuanian AB Mazeikiu Nafta

After the balance sheet date a portion of the obtained pool of funds was allocated for financing the acquisition of shares offered by minority shareholders in response to the mandatory tender offer Publisher by the Parent Company. The consortium which granted the financing to the Company for the acquisition of the Lithuanian refinery is composed of the following entities: ABN AMRO Bank, Bank Handlowy w Warszawie, The Bank of Tokyo-Mitsubishi, BNP Paribas, ING Bank/ ING Bank Śląski, KBC BANK/Kredyt Bank, Polish branch of Société Générale and UniCredit Group. At prezent, the Parent Company cooperates with the banks being party to the bridging loan facility and prepares the issue of eurobonds at the open market. Funds to be obtained from the issue of eurobonds will be allocated for the repayment of the consortium bridging loan.

Efficient management of cash flow between its bank accounts is of high importance for the Company. Form February 2001, a cash pooling system has been introduced within the Capital Group. As at 31 December 2006, the Company was using cash-pooling systems for Polish zloty at three banks (in addition to the Company, 28 companies from the Capital Group are covered by cash pooling system in PLN) and foreign currency cash-pooling system at one bank (in addition to the Company, two companies from the Capital Group are covered by the foreign currency system). The whole Capital Group obtains measurable financial benefits while optimizing its financial costs and day-to-day liquidity. Activities aiming at covering by the system those companies from the Capital Group in which the Company has a dominating position are currently in progress.

In its day-to-day operations, the Company uses comprehensive services of highly credible banks, with a considerable equity capital and strong market position, which have gained extensive expertise in cash management on the Polish and foreign markets. This approach has made it possible for the Company to reduce costs of banking services and improve the structure of banking services, and finally, to cover the companies from the Capital Group by a uniform

banking Service system and centralized cash management system. Further activities aiming at further integration and improved conditions of banking services for all companies from the Capital Group have been undertaken.
Available cash, secured sources of financing and high borrowing power secure all short-term financial needs in connection with the capital and property investments.

The Company aims to further optimize the financing within the whole PKN ORLEN Capital Group through the introduction of segment management system, consisting of:

- cash management, liquidity planning and securing;
- obtaining financing, issuing guarantees and opening letters of credit;
- trade credit and debt enforcement management;
- financial risk management;
- insurance of transaction risk.

A detailed information on the indebtedness structure and maturity dates of loans and debt securities are set forth in Note no. 19 to the consolidated financial statements for the year 2006.

In the course of 2006, the companies of the Capital Group drew and were granted the following significant loans in terms of their value (balance as at 31 December 2006 of more then PLN 4 million):

- **Anwil capital group**

– preferential loan agreement in connection with protection of the environment granted by BOŚ S.A. in the amount of PLN 63,000 thousand; outstanding amount: PLN 44,536 thousand; the last installment to be repaid in March 2011;
– loan agreement granted by NFOŚiGW in the amount of PLN 6,000 thousand; outstanding amount: PLN 2,770 thousand; the last installment to be repaid in December 2010;
– multi-currency loan agreement extended by Bank Handlowy S.A. in the amount of PLN 40,000 thousand; outstanding amount: PLN 23,506 thousand; the last installment to be repaid in December 2007;
– loan agreement extended by BPH S.A. in the amount of PLN 20,000 thousand; undrawn as at 31 December 2006;
– loan agreement extended by Citibank a.s. in the amount of PLN 25,771 thousand; outstanding amount: PLN 2,786 thousand; the last installment to be repaid in February 2007;
– loan agreement extended by HVB Bank Czech Republic a.s. in the amount of PLN 25,771 thousand; the loan was repaid;
– overdraft at Citibank a.s. in the amount of PLN 6,965 thousand, outstanding amount of PLN 2,953 thousand;
– loan agreement extended by HVB Bank Czech Republic a.s. in the amount of PLN 6,965 thousand; outstanding amount of PLN 4,804 thousand; the last installment to be repaid in February 2007;
– loan granted by Unipetrol a.s. in the amount of PLN 111,440 thousand, outstanding amount of PLN 83,594 thousand; the last installment to be paid in February 2007;
– total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 6,736 thousand; the outstanding amount of PLN 4,308 thousand.

- **Rafineria Nafty Jedlicze capital group**

– loan in Bank PEKAO S.A. in the amount of PLN 10,000 thousand; outstanding amount of PLN 10,000 thousand to be repaid in August 2009;

- loan in ING Bank Śląski S.A. in the amount of PLN 11,000 thousand; outstanding amount of PLN 10,929 thousand to be repaid in November 2009;
- loan in Bank PEKAO S.A. in the amount of PLN 30,000 thousand; outstanding amount of PLN 29,643 thousand to be repaid in August 2009;
- loan in BRE Bank S.A. in the amount of PLN 5,000 thousand; outstanding amount of PLN 4,936 thousand to be repaid in December 2008;
- loan in BPH S.A. in the amount of PLN 20,000 thousand; outstanding amount of PLN 19,867 thousand to be repaid in November 2007;
- total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 2,343 thousand; the outstanding amount of PLN 1,040 thousand.

- **Unipetrol capital group**

- loan in Česká spořitelna, a.s. in the total amount of CZK 3,176,406, outstanding amount CZK 2,545,653 thousand to be repaid in the years 2007-2011;
- loan in Živnostenská banka, a.s. in the total amount of CZK 467,415 thousand, outstanding amount of CZK 364,807 thousand to be repaid in in the years 2007-2010;
- loan in ING Bank N.V., organizační složka in the amount of CZK 467,415 thousand, outstanding amount of CZK 363,675 thousand to be repaid in in the years 2007-2010;
- loan in Kreditanstalt für Wiederaufbau in the total amount of CZK 985,310 thousand, outstanding amount CZK 683,725 thousand to be repaid in in January 2007;
- loan granted by PKN ORLEN S.A. in the total amount of CZK 434,769 thousand, outstanding amount CZK 269,462 thousand to be repaid in the years 2007-2009;
- loan in CITIBANK N.A. in the total amount of CZK 807,078 thousand; outstanding amount CZK 443,809 thousand; maturity date – February 2007;
- loan in ČSOB, a.s. in the total amount of CZK 500,000 thousand, outstanding amount of CZK 383,338 thousand to be repaid in in the years 2007-2011;
- loan in Commerzbank AG in the amount of CZK 2,020,110 thousand, outstanding amount CZK 55,100 thousand to be repaid in the period January - September 2007;
- loan in Raiffeisenbank a.s. in the total amount of CZK 532,020 thousand, outstanding amount CZK 2,020 thousand to be repaid in September 2007;
- loan in HVB Bank Czech Republic a.s. in the total amount of CZK 110,000 thousand; outstanding balance CZK 100,000 thousand; maturity date – June 2007;
- loan in BANCO SABADELL ATLANTICO in the amount of CZK 53,890 thousand, outstanding amount PLN 24,153 thousand; maturity date: March 2007,
- loan in ING Bank N. V. of the total amount of CZK 450,000 thousand;
- loan in Citibank a.s. in the amount of CZK 950,000 thousand; the facility was undrawn as at 31 December 2006;
- loan in Komerční banka a.s., in the amount of CZK 800,000 thousand; the facility was undrawn as at 31 December 2006;
- loan in HSBC BANK a.s. in the amount of CZK 750,000 thousand; the facility was undrawn as at 31 December 2006;

- loan in CALYON S.A. in the amount of CZK 400,000 thousand; the facility was undrawn as at 31 December 2006;
- loan in ABN AMRO Bank N.V. in the amount of CZK 400,000 thousand; the facility was undrawn as at 31 December 2006;
- loan in Česká spořitelna, a.s. in the amount of CZK 340,000 thousand; the facility was undrawn as at 31 December 2006;
- total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to CZK 250,110 thousand, including overdraft in the amount of CZK 127,708 thousand; the amount of loans to be repaid amounts to CZK 193,484 thousand.

- **AB Mazeikiu Nafta**

- government loan in the amount of USD 326,220 thousand; outstanding balance of USD 303,542 thousand with the repayment of the last installment in 2013;
- loan in AB BANKAS HANSABANKAS in the amount of USD 13,158 thousand; outstanding balance of USD 13,159 thousand to be repaid in 2009;
- loan in „VILNIAUS BANKAS" & „VEREINS-UND WESTBANK" AG VILNIAUS SKYRIUS in the amount of USD 150,000 thousand; outstanding balance of USD 150,000 thousand to be repaid in 2013;
- loan in AB Bankas SONORAS in the amount of USD 2,737 thousand; outstanding balance of USD 2,737 thousand to be repaid in 2011;
- total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 798 thousand, the outstanding amount of PLN 798 thousand

- **Rafineria Trzebinia S.A.**

- investment loan in PEKAO S.A. in the amount of PLN 30,000 thousand, outstanding amount: PLN 25,000 thousand to be repaid in October 2007;
- working capital credit facility in PEKAO S.A. in the amount of PLN 20,000 thousand, outstanding amount: PLN 10,010 thousand to be repaid in April 2007;
- working capital credit facility in BPH PBK S.A. in the amount of PLN 33,719 thousand, outstanding amount: PLN 28,585 thousand to be repaid in May 2007;
- working capital credit facility in CITIBANK Handlowy S.A. in the amount of PLN 19,000 thousand, outstanding amount: PLN 30 thousand to be repaid in November 2007;
- working capital credit facility in PEKAO S.A., in the amount of PLN 20,000 thousand, the credit was repaid;
- working capital credit facility in BPH S.A. Oświęcim in the amount of PLN 7,000 thousand, outstanding amount: PLN 6,895 thousand to be repaid in May 2007;
- working capital credit facility in PKO BP S.A. Kraków in the amount of PLN 9,000 thousand, the credit was repaid;
- working capital credit facility in PKO BP S.A. Kraków in the amount of PLN 4,452 thousand, the credit was repaid;
- working capital credit facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 4,000 thousand, the credit was repaid;
- total indebtedness resulting from other interest-bearing loans and borrowings (of the value below PLN 4 million each) amounts to PLN 6,400 thousand, the outstanding amount of PLN 4,277 thousand.

- **Inowrocławskie Kopalnie Soli „Solino" S.A.**

– investment loan facility in PEKAO S.A. in the amount of PLN 175,906 thousand, outstanding amount: PLN 115,925 thousand; repayment in three installments with the final repayment date set for June 2017.

- **ORLEN Oil Sp. z o.o.**

– working capital credit facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 20,000 thousand with the repayment date in November 2007.

- **ORLEN Gaz Sp. z o.o.**

– working capital credit facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 5,500 thousand with the repayment date in January 2007.

– working capital credit facility in BPH S.A. in the amount of PLN 4,400 thousand with the repayment date in May 2007.

- **Basell ORLEN Polyolefins Sp. z o.o.**

– Investment loan facility granted by a consortium of ten banks in the amount of PLN 969,309 thousand, outstanding amount PLN 969,309 thousand with the last repayment date set for December 2011,

- **ORLEN Petrotank Sp. z o.o.**

– working capital credit facility in Bank Handlowy in Warszawie S.A. in the amount of PLN 18,000 thousand, outstanding amount: PLN 14,592 thousand to be repaid in June 2007;

– bank loan facility in BPH S.A. Busko Zdrój in the amount of PLN 31,395 thousand, outstanding amount: PLN 1,102 thousand to be repaid in January 2007;

– bank loan facility in BPH S.A. Busko Zdrój in the amount of PLN 12,472 thousand, outstanding amount: PLN 75 thousand to be repaid in January 2007;

– bank loan facility in BPH S.A. Busko Zdrój in the amount of PLN 10,000 thousand, outstanding amount: PLN 745 thousand to be repaid in June 2007.

- **ORLEN Petrozachód Sp. z o.o.**

– working capital credit facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 5,000 thousand to be repaid in December 2007

- **ORLEN Petrocentrum Sp. z o.o.**

– working capital credit facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 10,000 thousand to be repaid in October 2007.

- **Petrotel Sp. z o.o.**

– working capital credit facility in BGŻ S.A. in the amount of PLN 6,000 thousand, outstanding amount of PLN 1,500 thousand to be repaid in equal quarterly installments in 2007;

– total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 11,700 thousand, the outstanding amount of PLN 9,645 thousand.

- **ORLEN KolTrans Sp. z o.o.**

- investment loan facility granted by PKO BP S.A. in the amount of PLN 4,776 thousand, outstanding amount PLN 3,548 thousand; maturity dates: PLN 1,364 thousand in December 2007 and PLN 2,184 thousand in September 2009;
- investment loan facility granted by PKO BP S.A. in the amount of PLN 9,185 thousand, outstanding amount PLN 3,090 thousand; maturity dates: PLN 1,420 thousand in September 2011 and PLN 1,670 thousand in September 2011;
- total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 7,094 thousand, the outstanding amount of PLN 2,744 thousand.

- **ORLEN Asfalt Sp. z o.o.**

- kr working capital credit facility in PEKAO S.A. in the amount of PLN 10,000, undrawn as at 31 December 2006;
- working capital credit facility in CITI Bank in the amount of PLN 29,000, undrawn as at 31 December 2006.

- **Ship Service S.A.**

- bank loan facility in the amount of PLN 8,000 thousand granted by PEKAO S.A., outstanding amount: PLN 7,480 thousand; lump sum repayment in 2008;
- bank loan facility in the amount of USD 4,000 thousand granted by PEKAO S.A., outstanding amount: PLN 8,596 thousand; lump sum repayment in August 2007;
- loan facility in the amount of USD 1,450 thousand granted by BRE Bank S.A., outstanding amount: PLN 4,069 thousand; lump sum repayment in November 2008;
- loan facility in the amount of USD 3,500 thousand, outstanding amount: PLN 7,225 thousand; maturity date of the last installment in September 2007;
- total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 3,500 thousand and USD 400 thousand, the outstanding amount of PLN 2,345 thousand.

- **Petrolot Sp. z o.o.**

- overdraft facility granted by BRE S.A. in the amount of PLN 10,000 thousand, drawn in the amount of PLN 8,425 thousand;
- overdraft facility granted by Bank Handlowy w Warszawie S.A. in the amount of PLN 5,000 thousand, drawn in the amount of PLN 1,698 thousand;
- overdraft facility granted by BPH S.A. in the amount of PLN 15,000 thousand, drawn in the amount of PLN 12,944 thousand;
- investment loan facility granted by ING Bank Śląski S.A. in the amount of PLN 11,200 thousand, drawn in the amount of PLN 4,335 thousand; maturity date on 30 December 2009;
- investment loan facility granted by FORTIS Bank S.A. in the amount of PLN 3,600 thousand, drawn in the amount of PLN 3,239 thousand; maturity date on 31 December 2011;
- overdraft facility granted by PEKAO S.A. in the amount of PLN 15,000 thousand, drawn in the amount of PLN 13.666 thousand.

- **ORLEN Deutschland AG**

– loan facility in Hamburg Landesbank for the total amount of EUR 11,583 thousand, outstanding amount of EUR 4,331.3 thousand to be repaid in the years 2007-2011;
– loan facility in Vereinsbank Hamburg for the total amount of EUR 7,025 thousand, outstanding amount EUR 2,896 thousand to be repaid in 2012;
– loan facility in Sparkasse Elmshorn for the total amount of EUR 5,627 thousand, outstanding amount of EUR 603 thousand to be repaid in the years 2007-2010;
– loan facility in Volksbank Elmshorn for the total amount of EUR 2,710 thousand, outstanding amount of EUR 582 thousand to be repaid in the years 2007-2010;
– loan facility in HVB-Saisonfinanzierung for the total amount of EUR 40,000 thousand, outstanding amount of EUR 40,000 thousand to be repaid in 2007.
– total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to EUR 712 thousand, outstanding amount of EUR 349.

3.4.1 Loans, sureties and guarantees granted to employees and companies within the Capital Group

The total value of contingent liabilities as at the end of 2006 has increased by PLN 1,406,075 to the amount of PLN 2,508,677 thousand, in comparison with the figures recorded as at the end of 2005. The total value of sureties and guarantees granted as at the end of 2006 has increased by PLN 1,276,720 to the amount of PLN 1,358,760 thousand due to the guarantee in the amount of PLN 1,283,452 that the Parent Company was to deliver to the benefit of the Lithuanian bank SEB and towards the payment for the shares purchased from minority shareholders as a result of the mandatory tender offer with respect to the acquisition of AB Mazeiku Nafta. The shares acquired under MTO were paid by the Parent Company from the previously engaged credit lines and the guarantee was released on 29 January 2007. The amount of guarantees issued by the PKN ORLEN Group to the benefit of legal persons in 2006 as a security for the performance of the liabilities by the PKN ORLEN Group has risen by PLN 18,030 thousand to the level of PLN 62,560 thousand. Other guarantees and sureties have risen insignificantly.

Other contingent liabilities amounted to PLN 1,149,917 thousand (an increase of 129,355 thousand) as at the end of 2006 and resulted mainly from the establishment of a guarantee towards the payment of excise tax which covers the tax due from harmonized excise goods in transport between contingent tax warehouses ("excise tax under suspended procedure") in the amount of PLN 94,305 thousand.

A detailed list of guarantees granted and other contingent liabilities is enclosed in note no. 35 to the consolidated financial statements.

As at 31 December 2006, the Parent Company did not grant any loans to the members of the managing and supervisory bodies or their relatives.

In 2006, other companies of the PKN ORLEN Capital Group have granted the following loans, sureties and guarantees:

- **Rafineria Trzebinia S.A.**

As at 31 December 2006, Rafineria Trzebinia S.A. has granted the following guarantees and sureties:

– PEKAO – surety in respect of overdraft facility granted to Naftowax Sp. z o.o., PLN 14,000 thousand, expiry date: May 2008,

- PEKAO Kraków – surety in respect of overdraft facility granted to Naftowax Sp. z o.o., PLN 13,500 thousand, expiry date: March 2009,
- BPH Chrzanów – surety in respect of overdraft facility granted to Naftowax Sp. z o.o., PLN 8,000 thousand, the liability expired,
- PEKAO Kraków – surety in respect of overdraft facility granted to Euronaft Trzebinia Sp. z o.o., PLN 5,250 thousand, expiry date: April 2009,
- BH Warszawa– surety in respect of overdraft facility granted to Euronaft Trzebinia Sp. z o.o., PLN 4,800 thousand; expiry date: July 2007,
- PEKAO Kraków – surety in respect of working capital credit facility granted to Euronaft Trzebinia Sp. z o.o., PLN 4,000 thousand; expiry date: May 2010,
- Guarantee towards the payment of the excise tax in the amount of PLN 12,769 thousand, maturity date: return of confirmed ADT (Administrative Accompanying Document);
- blank bills of exchange issued to PZU in the amount of PLN 25,000 thousand; expiry date in July 2007.

- **ORLEN Asfalt Sp. z o.o.**

- bill of exchange in the amount of PLN 5,700 thousand payable to the benefit of Customs Office in Pruszków for securing the movement of excise goods. The bill of exchange declaration sets forth the validity of the security until February 2007.

- **Mazeikiu Nafta Capital Group**

- guarantee to secure the payment to the benefit of Foster Wheeler Italiana in the amount of PLN 6,563 thousand with validity expiring in December 2007.

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

- blank bill of exchange in the amount of PLN 19,505 thousand payable to the benefit of NFOŚiGW. The bill of exchange declaration sets forth the validity of the security until June 2013.

- **Rafineria Nafty Jedlicze S.A.**

- security for the payment of excise duty in the amount of PLN 8,858 thousand;
- transfer of ownership as security in the amount of PLN 21.403 thousand;
- collateral on current assets in the amount of PLN 61.583 thousand.

- **ANWIL S.A.**

- blank bill of exchange in the amount of PLN 9,000 thousand payable to the benefit of BOŚ S.A., TUiR Warta S.A., and PZU S.A.

- **ORLEN Oil Sp. z o.o.**

- endorsed bill of exchange issued to Bank Przemysłowo-Handlowy in exchange for a guarantee securing excise duty liabilities on tax consignment warehouses under excise tax obligation in the amount of PLN 40,000 thousand with an expiry date in October 2007.

- **Basell ORLEN Polyolefins Sp. z o.o.**
  - joint and several liability of the investor (BOP) and the contractor (VOS) towards subcontractor, i.e. Przedsiębiorstwo Produkcyjno-Handlowe Albud, to the amount of PLN 4,748 thousand.

- **Płocki Park Przemysłowo-Technologiczny S.A.**
  - liability resulting from payable to Płock City Hall for cut trees in the amount of PLN 6,682 thousand.

- **Unipetrol a.s.**
  - excise duty security in teh amount of CZK 30,000 thousand with expiry date in December 2007.

- **Ship Service S.A.**
  - guarantee for securying the payment of excise tax issued to the benefit of the Tax Office and Customs Chamber in the amount of PLN 5,850 thousand.
  - lines of credit in the amount of PLN 15,097 thousand.

3.4.2 Issue of bonds

In November 2006, the Parent Company executed the agreement on the bond issue program for the amount of maximum indebtedness of PLN 2 billion with the following banks: Bank BPH, Polska Kasa Opieki, BRE Bank, ING Bank Śląski, PKO Bank Polski and Polish branch of Societe Generale. Under the above-mentioned agreement, the Company will issue unsecured bearer's bonds. The offer will be directed to institutional investors and will not be offered to public. The information on the intention to issue bonds will not be notified to the publics. The banks will choose those entities from among the investors that they are familiar with and to whom they will present the offer. The offer may be presented to a maximum of 99 investors. Under the program, deferred interest bonds (zero-coupon bonds) and interest-bearing bonds (with a coupon) will be issued. The deferred interest bonds will be issued with a discount for a term of 7 days to 1 year. Fixed interest rate or floating interest rate will be calculated on the interest-bearing bonds with a maturity period from 1 to 7 years. The program is a multicurrency issue program, i.e. the issues may be denominated in the following four currencies: Polish zloty, euro, US dollar and Czech corona, which will allow for issues to be directed to foreign companies from the PKN ORLEN Capital Group.

Funds obtained under the issue can by allocated by the Company for any business-related purpose, both ongoing operations and investing activities. Under the program, the Company is allowed to divide the issue into blocks and additionally determine dates on which they will be released. It gives an opportunity to manage the funds with which the Company intends to finance its ongoing operations. The issues made under the program make it possible to finance working capital at an attractive cost, diversify the sources of the Company's financing, and optimize liquidity management in companies belonging to the PKN ORLEN Capital Group.

After the balance sheet date, in February 2007, the Company has issued 5-year bonds in the amount of PLN 750 million.

In 2006, only the companies from Unipetrol Capital Group, (i.e. Spolana and Paramo) benefited from the bond issue program from among the PKN ORLEN Capital Group. The resulting indebtedness amounted to PLN 592,721, as at the end of 2006.

3.4.3 Financial instruments

Financial results of the companies belonging to the Capital Group may fluctuate due to changes of various market factors, in particular, product quotations, exchange rates and interest rates. The Parent Company manages the risk to which it is exposed, limits the fluctuation of future cash flow and controls potential economic loss resulting from changes of market factors. The policy and strategy of using derivatives is determined and monitored by the Management Board.

In January 2006, the Management Board of the Parent Company has approved the revised market risk management policy and set forth fixed parameters for the level of necessary hedging, its time span and financial instruments used. The policy adopted by the Parent Company provides for a hedging up to 50% of exposure to foreign currency rates fluctuations. Cross-currency interest rate swap and foreign currency forward contracts were the instruments most commonly used for the implementation of the said policy.

The sources of foreign exchange risk to which the Parent Company is exposed include: raw material purchase transactions, sale of refined and petrochemical products, property and capital investments index-linked to foreign currencies or denominated in other currencies then the functional currency of the Parent Company, as well as credits and loans drawn and cash held in foreign currencies.

In 2006, the portfolio of the Parent Company included cross currency interest rate swap (EUR/ PLN) instruments securing revenues from the sale of petrochemical products concluded in 2003, and thus the Company has significantly limited the fluctuations of the revenues from the sale of the above-mentioned group of products. The above-mentioned transactions were settled in 2006.

In accordance with the revised market risk management policy, the Parent Company has engaged in a systematic hedging of the net operational exposure in EUR and USD in 2006. The exposition referred to above are hedged by forward foreign currency contracts. In the event of the instruments contracted and settled within the same quarter the hedge accounting was not applied. However, hedge accounting was used in relation to the remaining group of instruments.

In September 2006, the Management Board of the Parent Company approved the revised policy on the interest rate risk management. The revised policy sets forth IaR parameters (Interest at Risk) and fixed-to-floating rate basis as tools for managing interest rate risk. Hedging of interest rate risk is based on the identification of cash flows exposed to interest rate fluctuations, resulting from the Company's current map of exposure to risk.

Hedging transactions are referred to in the financial statement on the side of financial assets or financial liabilities at fair value. As at 31 December 2006, fair value amounted to PLN 28.7 million, whereas the effective portion of the hedging is recorded at hedging reserve, and the non-effective portion of the hedging in the profit and loss account. Flows resulting from the settlement of instruments hedging net operational risk exposure EUR/PLN and USD/PLN in 2006 amounted to PLN 126.6 million.

In May and June 2006 PKN ORLEN S.A. concluded with connection with Yukos International UK B.V. and the Lithuanian Government the agreement on the acquisition of shares in the company AB Mazeikiu Nafta. As in majority the transaction was financed with credit facilities denominated in euro, since August 2006, the Company has been concluding forward contracts for the sale of EUR and purchase of USD necessary for the settlement of the transaction. In December the Company purchased arranged USD for PLN. Currency forward contracts were used to minimize the currency risk related to the above-mentioned transactions. Part of the instruments was extended in October with the positive result of PLN 52.8 million. Due to a decrease of USD exchange rate in November and December, the final settlement of the instruments resulted in a loss in the amount of PLN 156.9 million. Hedge accounting rules were not applied with respect to the above-mentioned group of instruments.

The executed hedging transactions are aimed at stabilizing financial results and minimizing market risks to which the

Company is exposed, and therefore do not bear the characteristics of speculative transactions and are not entered into with a view of making profit. The Parent Company values derivates at fair value with the use of financial instrument valuation models using the generally available data from active markets.

Risk management process is carried out based on implemented procedures and operation of the Risk Committee which monitors the Parent Company's exposure to risk, as well as the contents of the portfolio of hedge transactions.

The risk management process was carriied out also by Chemopetrol and Basell. Detaild list of transactions is disclosed in Note no. 27b to the consolidated financial statements for 2006.

3.5 INCOME STATEMENT

3.5.1 Revenues

In 2006, the PKN ORLEN S.A. Capital Group has generated total revenues (excluding excise tax) in the amount of PLN 52,867,189 thousand, which is by 28.4% more than in 2005. The increase of the value of sales within the Capital Group resulted from favorable macroeconomic conditions, including the increase of margins from quotations of gasoline, diesel oil and light heating oil, and including the companies from Unipetrol Capital Group in the consolidation; the latter have generated in 2006 by PLN 5,681,688 thousand (77.1%) more revenues from sale then in 2005. The share of the Parent Company in total revenues from sales of the Capital Group increased by 8.1 p.p. and reached the level of 63.4%. in 2006.

3.5.2 EBIT

Gross profit on sales of the PKN ORLEN Capital Group in 2006 amounted to PLN 6,995,459 thousand and was by 1.6% lower then profit on sales generated in 2005. Such dynamics of growth of the result was negatively affected by the result generated by the Parent Company, i.e. gross profit on sales was lower by 22.2% then in 2005. At the same time, higher gross profit on sales at Unipetrol a.s. (increase by PLN 633,547 thousand), Basell Orlen Polyolefins Sp. z o.o. (by PLN 126,794 thousand), Anwil S.A. (by PLN 92,310 thousand), ORLEN Deutschland AG (by PLN 61,764 thousand) and Rafineria Trzebinia S.A. (increase by 49,720 thousand) had a positive impact on the Group's result. In 2006, the biggest share in gross profit on sales, including sales to the related parties, apart from the Parent Company, was recorded by the following companies: Unipetrol a.s. Group (17.6%), Anwil S.A. (5.4%), ORLEN Deutschland AG (5.1%), and Basell Orlen Polyolefins Sp. z o.o. (2.4%). In 2006, the Parent Company achieved a 11.4% increase in the total volume of sales, as compared to the previous year, whereas total sales of the whole Capital Group increased by 20.4%.

In 2006, other operating profit dropped by PLN 1,717,335 thousand and other operating expenses increased by PLN 130,614 thousand. As regards the operating profit, it is due to the fact that the consolidated financial statements of the PKN ORLEN S.A. Capital Group for the first half of 2005 included the excess of the fair value of acquired net assets over the acquisition price in the amount of PLN 1,893,688 thousand. The increase of other operating expenses in 2006 was due to the valuation of Kaucuk at fair value in the amount of PLN 230.448 thousand, in connection with classifying Kaucuk as asset held for sale. Additionally, allowances for assets increased the value of other operating expenses by PLN 485.519 thousand compared to PLN 180.389 thousand in 2005. As a consequence of the above, the profit from operations (EBIT) in 2006 amounted to PLN 2,576,607 thousand as compared to PLN 4,947,620 thousand profit on operations recorded in 2005 (once the one-off event was removed, i.e. the excess of the fair value of acquired net assets over the acquisition price in the amount of PLN 1,893,688 thousand – PLN 3,053,932 thousand).

3.5.3 Net financial revenues and expenses

In 2006, loss on financial activity amounted to PLN 67,961 thousand, compared to profit of PLN 188,833 thousand generated by the Capital Group in 2005. Financial income in 2006 amounted to PLN 602,877 thousand, i.e. by 66,151 thousand less as compared with the corresponding period of 2005. The main factor that has influenced the decrease of the financial income was the unrealized discount calculated on the acquired liabilities of companies from Unipetrol a.s. Capital Group, which amounted to PLN 8,755 thousand, i.e. by 236,941 thousand less then in 2005. At the same time, the Capital Group recorded in 2006 an increase in financial expenses by PLN 190,643 thousand, compared to 2005, which was mainly due to the settlement of the hedging transaction in connection with the acquisition of shares in Mazeikiu Capital Group. The resulting amount recognized in financial expenses amounted to PLN 162,323 thousand.

3.5.4 Profit before tax, income tax expense and net result

On account of results generated in particular areas of operation, the PKN ORLEN S.A. Capital Group has generated profit before tax of PLN 2,729,347 thousand in 2006 (a decrease by 48.9% in comparison with 2005, but by 20.8% after removing the one-off event connected with the acquisition of Unipetrol a.s. in 2005).

In 2006, the Capital Group has generated net profit in the amount of PLN 2,060,198 thousand, which was lower by 55.6% compared with the result in of previous year, whereas net profit attributable to equity holders of the parent amounted to PLN 1,985,966 thousand..

3.6 BALANCE SHEET

As at 31 December 2006, total assets of the PKN ORLEN S.A. Capital Group amounted to PLN 45,419,084 thousand and increased by PLN 12,014,773 thousand, i.e. by 36.0%, in comparison to the figures recorded as at 31 December 2005. The above increase was due to the acquisition of Mazeikiu Group. Non-current assets increased in comparison with figures presented as at 31 December 2005 by PLN 6,775,266 thousand, i.e. by 32.4% and reached the amount of PLN 27,660,798 thousand, mainly due to an increase of property, plant and equipment by PLN 6,668,927 thousand as compared to 31 December 2005. The value of current assets as at the end of 2006 has increased to PLN 17,758,286 thousand from PLN 12,518,779 thousand as at 31 December 2005. The increase of current assets was caused mainly by the increase of inventories, trade and other receivables, as well as increase of cash and cash equivalents by PLN 1,285,619 thousand, PLN 1,516,034 thousand and PLN 1,224,517 thousand, respectively. The above-mentioned increases among others resulted from the Mazeikiu shares purchase. Additionally, the level of inventories was shaped by the following factors: greater amount of crude oil held in stock, greater quantities of finished goods and particularly, the increase of price per unit of crude oil and finished goods. The increase of the trade and other receivables results from the increase of finished goods prices and increased volume of sales. Working capital has decreased in 2006, compared with the end of 2005 (current assets – short-term liabilities) from PLN 3,981,310 thousand to PLN 2,879,908 thousand.

Total equity as at the end of 2006 amounted to PLN 21,582,563 thousand and increased by PLN 2,269,574 thousand (by 11.8%) in comparison with the figures recorded at the end of 2005, mainly as a result of increase of retained earnings by PLN 2,049,914 thousand and foreign exchange differences on subsidiaries from consolidation by PLN 178,017 thousand. Long-term liabilities amounted to PLN 8,958,143 thousand and have increased by PLN

3,404,290 thousand in relation to the end of 2005, mainly due to the increase of the value of interest-bearing loans and borrowings by the amount of PLN 2,805,215 thousand and deferred tax liabilities by PLN 745,602 thousand. Simultaneously, the level of long-term provisions has decreased by PLN 142,799 thousand, including the land reclamation provisions by PLN 141,207 thousand. The level of short-term liabilities has increased from PLN 8,537,469 thousand as at 31 December 2005 to the level of PLN 14,878,378 thousand as at 31 December 2006. As regards short-term liabilities, a significant increase of trade and other liabilities and accrued expenses was recorded, i.e. by PLN 1,537,345 thousand due to, among others, the increase of crude oil prices, however the most significant increase was due to the rise by PLN 3,167,093 thousand of interest bearing loans and borrowings. In addition, increase in liabilities due to other short-term financial liabilities by PLN 1,311,416 was recorded. Total indebtedness of the Group (credit facilities, loans and debt securities) reached the level of PLN 10,489,105 thousand as at 31 December 2006, which means an increase by PLN 5,972,308 thousand in comparison with the level of indebtedness as at the end of 2005.

3.7 CASH FLOW STATEMENT

3.7.1 Operating activities

In 2006, net cash flow from operating activities amounted to PLN 3,693,189 thousand and was higher by PLN 29,300 thousand, i.e. by 0.8%, than analogous cash flow recorded in 2005.

The most important factors which have influenced the level of cash flows from operating activities in 2006 included the following:

- net profit increasing the level of cash by PLN 2,060,198 thousand;
- depreciation and amortization at the level of PLN 2,108,127 thousand compared to PLN 1,779,944 thousand in 2005;
- increase in inventories by PLN 312,738 thousand compared to an increase by PLN 1,805,325 thousand in 2005;
- increase in trade and other liabilities and accrued expenses by PLN 657,719 thousand, compared to an increase of the same by PLN 1,335,831 thousand in 2005;
- increase in receivables by PLN 837,741 thousand compared to an increase by PLN 357,935 thousand in 2005;
- increase of other adjustments in 2006 by PLN 323,863 thousand, and decrease of that item in the previous year by (-) 2,196,107 thousand in connection with excluding from 2005 the excess of fair value of the net identifiable assets, liabilities and contingent liabilities over cost of Unipetrol a.s. in the amount of PLN (-) 1,893,688 thousand.

3.7.2 Investing activities

Net cash flow from investing activities in 2006 amounted to PLN (-) 6,746,198 thousand, i.e. by PLN 4,243,022 thousand more than in 2005. The level of cash flows from investing activities in 2006 was shaped by investment outlays connected with the acquisition of shares in Mazeiku in the amount of PLN 5,729,186 thousand, whereas in 2005 the expenditure for long-term financial investments amounted to PLN 1,582,169 thousand and referred to the acquisition of Unipetrol a.s. Capital Group. Acquisition of property, plant and equipment and intangible assets against the payment of PLN 1,924,642 thousand (compared to PLN 2,026,495 thousand in 2005) represented the second highest expenditure within the investing activities. The above net cash flow from investing activities was partially balanced by cash from the sale of short-term securities (PLN 436,882 thousand) and from interest and dividends received (PLN 538,215 thousand).

3.7.3 Financing activities

In 2006, the net cash flow from financing activities amounted to PLN 4,277,568 thousand, whereas in 2005 the same amounted to PLN (-) 764,433 thousand. This positive result from financing activities in 2006 was produced by cash inflow from long and short-term borrowings and loans in the amount of PLN 9,604,293 thousand. Simultaneously, the value of repaid loans and borrowings increased by PLN 2,828,073 thousand.

The above cash flows have resulted in the increase in cash and cash equivalents recorded as at 31 December 2006 in comparison with the cash and cash equivalents held as at the end of 2005 by PLN 1,224,517 thousand to the level of PLN 2,351,320 thousand.

3.8 EMPLOYMENT

The average employment within the PKN ORLEN S.A. Capital Group, (the Parent Company with consolidated subsidiaries and jointly-controlled entities) in 2006 amounted to 25,538 persons employed on the basis of employment contracts, compared to 21,175 persons employed in 2005. As at 31 December 2006, the employment within the Capital Group totaled to 24,113 employees, which means an increase by 3,308 employees, compared with the level recorded as at 31 December 2005.

3.9 BUSINESS SEGMENTS

3.9.1 Refining segment

Refining segment (in PLN thousand)	2006	2005	Change %
Sales to external customers	40,066,040	33,520,927	19.5
Transactions with other segments	12,664,027	8,243,623	53.6
Settlement of hedging transactions	21,100	-	-
Total sales revenues	52,751,167	41,764,550	26.3
Segment result	2,053,516	3,777,035	-45.6
EBITDA*	2,979,344	4,623,563	-35.6
Total costs incurred to acquire segment property, plant and equipment and intangible assets	1,165,156	995,443	17.0
Share of the segment in the results of the Capital Group	65.7%	67.7%	-3.0
Share of the segment in EBITDA of the Capital Group	56.9%	62.8%	-9.4
Return on sales	3.9%	9.0%	-56.7
Segment result/ segment assets employed	7.1%	22.4%	-68.3
Segment result/ segment equity engaged**	9.6%	33.0%	-70.9
Debt ratio (debts /assets)	25.3%	32.3%	-21.7
Asset turnover ratio	1.8	2.5	-28.0
CAPEX/EBITDA	39.1%	21.5%	81.9

*) segment results increased by depreciation
**) segment assets – segment liabilities

In 2006, the refining segment achieved sales revenues of PLN 52,751,167 thousand, which meant an increase by 26.3% in comparison with 2005. Sales to external customers increased by 19.5%, while the transactions with other segments increased by 53.6%.

Increase in sales revenues of the segment resulted mainly from positive trends of fuel price quotations and dynamic growth of the volume of sales in retail and wholesale transactions reaching 14.4% with a domestic fuel (gasoline, diesel oil and Ekoterm) consumption increase of 8.3%. In 2006, the highest increase in sales revenues was recorded on Diesel oil, i.e. an increase by 1,642 thousand tonnes (by 31.4%) which represents an increase of PLN 3,584,105 thousand and Eurosuper 95 gasoline, i.e. an increase by 343 thousand tonnes (9.5%) which represents an increase of PLN 1,841,375 thousand. The sales of asphalt and liquid gas have also increased in 2006 by 168 thousand tonnes (21.3%), i.e. in the amount of PLN 370,245 thousand, and by 59 thousand tonnes (16.1%), i.e. in the amount of PLN 218,394 thousand, respectively. Volume and value of Ekoterm sales have dropped by 14.3% in 2006 as compared to figures dating from 2005, i.e. 265 thousand tonnes against PLN 184,257 thousand. Sales revenues have increased as a result of activities directed at increasing sales and due to the fact of including the companies from the Unipetrol a.s. Group in the consolidation, which have generated the revenues recognized in this segment amounting to PLN 7,279, 982 thousand in 12 months of 2006 (compared with PLN 4,323,501 thousand in 7 months of 2005). In addition, growing domestic consumption of Diesel oil has influenced the growth in sales dynamics of that product.

In 2006, operating cost of this segment has increased by 30.9% due to a high level of crude oil prices (an increase by 19.4%).

In the Parent Company, the increase of the segment revenues was also due to higher (by 11%) revenues from retail sales in 2006 as compared to 2005. The main growth factor has been the network of CODO (Company owned, dealer operated) fuel stations. The sales to CODO stations have seen, for the first time since 2004, positive dynamics and reached an outstanding growth of 15%. Such a high level of sales was due to a full implementation of an ambitious investment program (including the introduction to the network of 48 new stations and total refurbishment of 76 stations) and increased effectiveness of the existing stations. In comparable conditions, related to sales analysis of the same products on the determined number of gasoline stations after elimination of investment activities, the sales on CODO stations grew by nearly 10%. Margin on the retail sales of fuels in 2006 amounted to PLN 1,095.4 million and was by PLN 160.9 million higher than the margin realized in 2005. Fuel margin have risen mainly owing to the sales of Diesel oil. Margin on the sales of non-fuel products and services increased in 2006 by 17.0% as compared to the prior year and reached the level of PLN 297 million. The growth of non-fuel margin in 2006 in comparison to figures recorded in 2005 resulted from the implementation of activities outlined in the retail sale strategy launched in 2005, which focuses on the optimization of merchandise categories within the existing trade conditions and selection of the range of products in accordance with the needs and expectations of clients. Active sales at fuel stations and implementation of an ambitious plan concerning the development of food corners and construction of car-wash sites are also of importance.

Drop in the URAL/Brent differential by 5.8% to the level of 3.91 USD/bbl has had a negative impact on the segment result. It caused a decrease in the profit from operations of the Parent Company by PLN 155 million (theoretical combined impact of differential and USD/PLN exchange rate). In addition, a decrease in margins on Diesel oil and Ekoterm have had a negative impact on the result of the segment and accounted for a decrease of EBIT of the Parent Company by PLN 85 million.

As a result of the aforementioned factors, the segment result for 2006 amounted to PLN 2,053,516 thousand, whereas in 2005 the result of the segment amounted to PLN 3,023,894 thousand (after eliminating the one-off event related with the acquisition of shares in Unipetrol a.s. in the amount of PLN 753,141 thousand). The Parent Company, Orlen Oil Sp. z o.o., Orlen Asfalt Sp. z o.o. and ORLEN Deutschland AG have had the most significant impact on the result of the segment as the said entities have jointly generated a total of PLN 2,191,234 thousand in 2006, as opposed to PLN 2,854,988 thousand in 2005. In 2006, the share of the segment in the results of the Capital Group dropped in 2006 to the level of 65.7%. from the level of 67.7% share achieved in 2005.

In 2006, the realization of OPTIMA program achieved savings for this segment in the amount of PLN 105.3. The cost incurred to acquire segment property, plant and equipment and intangible assets has risen by PLN 169,713 thousand in comparison with 2005.

3.9.2 Petrochemical segment

Petrochemical segment (in PLN thousand)	2006	2005	Change%
Sales to external customers	9,354,088	5,003,059	87.0
Transactions with other segments	4,383,203	2,084,567	110.3
Settlement of hedging transactions	106,678	103,740	2.8
Total sales revenues	13,843,969	7,191,366	92.5
Segment result	841,795	1,643,430	-48.8
EBITDA*	1,599,342	2,130,290	-24.9
Total costs incurred to acquire segment property, plant and equipment and intangible assets	320,223	386,544	-17.2
Share of the segment in the results of the Capital Group	26.9%	29.5%	-8.8
Share of the segment in EBITDA of the Capital Group	30.6%	29.0%	5.5
Return on sales	6.1%	22.9%	-73.4
Segment result/ segment assets employed	10.3%	17.3%	-40.5
Segment result/ segment equity engaged**	11.5%	19.0%	-39.5
Debt ratio (debts /assets)	10.3%	8.8%	17.0
Asset turnover ratio	1.7	0.8	112.5
CAPEX/EBITDA	20.0%	18.1%	10.5

*) segment results increased by depreciation
**) segment assets – segment liabilities

From 2006, the previously presented chemical segment was divided into two areas of operation: petrochemical and chemical. The activity of PKN ORLEN S.A., Etylobenzen Sp. z o.o., Chemopetrol a.s., Kaucuk a.s. and Unipetrol Trade a.s., petrochemical activities of ORLEN PetroZachód sp. z o.o. and Basell Orlen Polyolefins sp. z o.o. were accounted for the newly separated petrochemical segment.

In 2006, the petrochemical segment has generated sales revenues in the amount of PLN 13,843,969 thousand, which means an increase by 92.5% in comparison to 2005. Sales to external customers increased by 87.0%, while the value of transactions with other segments increased by 110.3%. Volume of sales of petrochemical products in 2006 increased by 58.0%, as compared to the previous year and amounted to PLN 3,037,317 tonnes. An increase of the volume of sale of main petrochemical products was recorded, including polyethylene by 103.7%, polypropylene by 97.6%, ethylene by 95.0% and propylene by 54.2%, resulting from the increased production capacities of Olefins II installation.

The increase of the value and volume of sales results from, *inter alia*, including in the consolidation the companies from the Czech Unipetrol a.s. Capital Group, which produced in 12 months of 2006 revenues on sales within this segment in the amount of PLN 5,184,263 thousand, compared to PLN 2,985,605 thousand in 7 months of 2005.

In 2006, the segment result amounted to PLN 841,795 thousand, whereas in 2005 it has reached the level of PLN 709,318 thousand (after elimination of the excess of the fair value of acquired net assets over cost amounting to PLN 934,112 thousand). The above segment result is mostly due to the Parent Company, Basell Orlen Polyolefins sp. z o.o., and companies from the Unipetrol a.s Group, which have generated in 2006 a total profit on operations of PLN 847,320 thousand. Significant result on operations of this segment is a consequence of increased volume of sales and continuation of positive economic situation on the market of petrochemical products. However, the result of Unipetrol Group as well as the entire segment was adversely influenced by revaluation to fair value less liabilities and costs to sell of Kaucuk a.s. in the amount of PLN (-)230 million.

The implementation of OPTIMA Program produced in 2006 savings for this segment in the amount of PLN 1.2 million.

The decrease of cost incurred in connection with the acquisition of segment property, plant, equipment and intangible assets by 66,321 thousand in 2006 resulted from investment activities for Olefin II and Basell Orlen Polyolefins Sp. z o.o. in 2005.

3.9.3 Chemical segment

Chemical segment (in PLN thousand)	2006	2005	Change %
Sales to external customers	2,381,069	1,747,013	36.3
Transactions with other segments	84,764	138,424	-38.8
Total sales revenues	2,465,833	1,885,437	30.8
Segment result	223,970	285,633	-21.6
EBITDA*	407,105	481,908	-15.5
Total costs incurred to acquire segment property, plant and equipment and intangible assets	174,338	294,766	-40.9
Share of the segment in the results of the Capital Group	7.2%	5.1%	41.2
Share of the segment in EBITDA of the Capital Group	7.8%	6.6%	18.2
Return on sales	9.1%	15.1%	-39.7
Segment result/ segment assets employed	9.1%	12.2%	-25.4
Segment result/ segment equity engaged**	10.9%	14.7%	-25.9
Debt ratio (debts /assets)	16.5%	17.3%	-4.6
Asset turnover ratio	1.0	0.8	25.0
CAPEX/EBITDA	42.8%	61.2%	-30.1

*) segment results increased by depreciation
**) segment assets – segment liabilities

From 2006, the previously presented chemical segment was divided into two areas of operation: petrochemical and chemical. The activity of Zakłady Azotowe Anwil S.A., Spolana a.s. and ORLEN PetroProfit Sp. z o.o. were accounted for the newly separated petrochemical segment. In the fourth quarter of 2006, an agreement for the purchase of shares in Spolana a.s. by Zakłady Azotowe Anwil S.A. from Unipetrol a.s. representing 81.8% of the share capital of Spolana a.s. The total purchase price amounted to approx. PLN 88 million and was paid for in cash by ANWIL from its own resources.

In 2006, the chemical segment has reached higher revenues from sales by the amount of PLN 580,396 thousand, which means an increase of 30.8% in comparison with the 12 months of 2005. An increase in the volume of sales of main petrochemical products was recorded, including polyvinyl chloride (PVC) by 33.1%, soda lye by 88.3%

and PVC granulate by 30.7%. Year 2006 was marked with good economic trends on the market of nitrate fertilizers due to the transfer of funds for farmers originating from, *inter alia*, draught loans. By the end of 2006, a potential increase in prices of natural gas (i.e. principal raw material used for the production of fertilizers) from January 2007 which will shape the price of nitric products had a significant impact on sales of fertilizers (building up of stock). Continuation of a relatively high demand for polyvinyl chloride and granulates resulted from good economic situation on the market of investment goods and construction and favorable atmospheric conditions for carrying out construction works (prolonged construction season). Additionally, increased export sales of granualtes to the Ukraine, Russia and Belarus are conditioned by a growing demand within those markets and continuous deficit of PVC at the Russian market. Positive sales trends as regards the above products have had positive impact on the result of Anwil S.A. – its profit on operations increased in 2006 by PLN 88 million to the level of PLN 239 million as compared with figures recorded in 2005. Unipetrol a.s. incurred loss from operations within chemical segment in the amount of PLN 18 million, compared to PLN (-) 25 million in 2006.

Due to the factors referred to above, the segment result in 2006 amounted to PLN 223,970 thousand, whereas in 2005 it reached the level of 148,878 thousand (after the one-off event relating to the acquisition of Unipetrol a.s. in the amount of PLN 136,755 thousand was eliminated). In 2006, a decrease in outlays for property, plant, equipment and intangible assets of PLN 120,428 thousand was recorded in comparison with figures from 2005. The implementation of OPTIMA Program produced savings of PLN 53.1 million for this segment in 2006.

3.9.4 Other operations

Other operations (in PLN thousand)	2006	2005	Change %
Sales to external customers	938,214	813,528	15.3
Transactions with other segments	1,059,936	876,569	20.9
Total sales revenues	1,998,150	1,690,097	18.2
Segment result	7,943	152,576	-94.8
EBITDA*	220,462	369,212	-40.3
Total costs incurred to acquire segment property, plant and equipment and intangible assets	218,363	158,726	37.6
Share of the segment in the results of the Capital Group	0.3%	2.7%	-88.9
Share of the segment in EBITDA of the Capital Group	4.2%	5.0%	-16.0
Return on sales	0.4%	9.0%	-95.6
Segment result/ segment assets employed	0.2%	4.1%	-95.1
Segment result/ segment equity engaged**	0.2%	5.8%	-96.6
Debt ratio (debts /assets)	17.2%	29.1%	-40.9
Asset turnover ratio	0.4	0.5	20.0
CAPEX/EBITDA	99.0%	43.0%	130.2

*) segment results increased by depreciation
**) segment assets – segment liabilities

In 2006, profit on other operations amounted to PLN 7,943 thousand, in comparison with loss from operations in the amount of PLN (-) 97,137 thousand reached in 2005 (after elimination of the excess of the fair value of acquired net assets over cost in the amount of PLN 249,713 thousand). PKN ORLEN S.A. recorded the highest increase in profit on other operations, i.e. its profit raised by PLN 165,562 thousand in 2006 in comparison with the figures recorded in 2005. Selected area of activity of Unipetrol Group accounted for in this segment, generated a loss of PLN 72,666 thousand in 2006.

The realization of OPTIMA Program produced savings for this segment in the amount of PLN 60.1 million in 2006.

In 2006, an increase by PLN 59,637 thousand of cost incurred to acquire segment property, plant, equipment and intangible assets was recorded in comparison with figures dating from 2005.

3.10 PUBLICATION OF FINANCIAL RESULT FORECAST

The PKN ORLEN S.A. Capital Group did not publish any forecasts of financial result concerning 2006.

IV. MAJOR ACHIEVEMENTS IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT OF THE CAPITAL GROUP

In 2006, the Parent Company carried out a number of studies relating to the development of new product technologies, improvement of the quality of products manufactured, and reduction of production impact on environment. The Parent Company does not carry out any R&D activities on its own; those are subcontracted to external institutions, such as research centers and institutes, universities and polytechnics, and business entities carrying out R&D activity.

The most important studies and developments at the Parent Company within the scope of R&D in 2006 include as follows:

- „Development of a technology for the production of heavy heating oil with low sulpur content in consideration of the new technological conditions of PKN ORLEN S.A." performed by the Institute of Petroleum Processing in Kraków.
- "Examination of microbiological purity of light heating oil and Diesel oil kept in tanks within Płock refinery and within the distribution system of PKN ORLEN S.A." carried out by the Institute of Petroleum Processing in Kraków.
- "Modification of the Unit for Treating and Neutralizing of Used Lye and suggesting other possible measures and solutions for recycling the product of used lye". Study performed by The Institute of Chemistry at the Warsaw University of Technology in Płock.
- "Comparative study of four types of diesel oil with respect to emission of harmful fume compounds, fuel consumption and characteristic parameters of engine operation" carried out by the Automotive Research and Development Center "BOSMAL" Bielsko – Biała.
- "Evaluation of selected features of Diesel oil containing 5% (V/V) FAME, methyl esters of fatty acids, produced in PKN ORLEN S.A." performed by the Institute of Petroleum Processing in Kraków.
- "Comprehensive analysis of REBCO crude oil" carried out by the Institute of Petroleum Processing in Kraków.
- "Increasing the reserve of Ekodiesel oil and/ or Ekoterm heating oil by changing the manner of recycling of post-pyrolysis oil fraction," carried out by the R&D Centre for Refinery Industry in Płock.
- "Modification of 1-E-10 air capacitor at Hydrocracking installation in order to protect it against freezing of condensate water in the pipes" carried out by the Warsaw University of Technology; Civil Engineering, Mechanics and Petrochemistry Faculty; Civil Engineering Institute.
- "Development of a system protecting the soil against penetration of oil products and detecting leakage in warehousing tanks with single bottom and without leak-proof foundations" carried out by the Warsaw Institute Technology, Faculty of Materials Science and Engineering in Warsaw.
- „Evaluation of the risk concerning the presence of pyrophoric substances in PKN ORLEN S.A., including an inventory of required preventive measures" carried out by The Main School of Fire Science in Warsaw.

Strategic Capital Group companies have undertaken the following actions with respect to research and technological development:

- **Rafineria Trzebinia S.A.**

– Operational analysis of fuels containing ester components, including methyl esters;
– Evaluation of the production technology and application of biofuels produced by Rafineria Trzebinia S.A. within a pilot supervised program
– Potential uses of distilled glycerin

In cooperation with ORLEN OIL Sp. z o.o., as the licensee, licence agreements were executed with respect to :

– production of cyliner oil;
– production of oil for four-stroke mowing machines;
– production of compressor oil;
– production of low solidification oil for machines;
– production of oil, in particular for lubricating chainsaws

Licence agreement was executed with ORLEN Asfalt Sp. z o. for using the technology for the production of an agent for the maintenence of chasis of motor cars.
In 2006, a product named ON BIO 10 was granted an awarded at the IV International Show of Local Commuters Transport *Transexpo* in Kielce.

- **Rafineria Nafty Jedlicze S.A.**

– completion of research on the improvement of characteristics of base oil obtained from used oil in the DOP – HOP process; the research has led to the development of a technological solution allowing obtaing group I base oil through a new system of catalyst;
– introduction into use within Rafineria Nafty Jedlicze S.A. of new improvers, as used within the PKN ORLEN Capital Group;
– continuation of activities aiming at the modernisation of the facility for empting used oil, which will make their segregation possible; the above is of significant importance for the quality of hydroraffinate and permits changes to the management of the worst quality waste oils;
– preparing an analysis of a potential use of various feedstock formulations at the instalation for the production of solvents.

- **Anwil capital group**

Under the performed R&D studies the following activities were undertaken:

– the modernized Chlorine and Sodium Wax Production Plant was delivered, it manufactures goods under the state of the art technology of membrane electrolysis. The realization of this investment will produce the following effects:
    - the highest world-level of product quality;

- increasing the production capacity of chlorine up to 195 thousand tonnes/ year;
- increasing the production capacity of Sodium Wax up to 217 thousand tonnes/ year;
- improvement of work safety standards;
- application of the best available techniques compliant with EU Directives in the scope of production;
- elimination of asbestos from the production (under the EU Directive - until 2010);
- significant savings on the use of the most expensive raw materials in the process of chlorine production, including electric energy and heating.

– completion of the construction of CANWIL warehouse (nitro-chalk) and delivery of the warehouse for tests. The warehouse is adapted to store unpacked, loose fertilizers of a total capacity of 25 thousand tonnes. The warehouse has been in regular use from January 2007 after all official delivery-acceptance documents are obtained.

– opening in December of the production line for three-ply polyethylene sheeting purchased from a German company Windmöller and Hölscher. Up until present, the line has been operation without disturbance at its full capacity of 250 kg/h. The above investment brought the following effects:

- better strenght, i.e. owing to an excellent thickness tolerance, it is possible to diminish the thickness of the sheeting by 10 μm;
- commercial, i.e. - zainteresowanie użyciem folii trójwarstwowej wykazuje Basell Orlen Polyolefins has shown interest in using a three-ply sheeting (a sample sheeting was send to Germany for tests);
- cost-effective, i.e. savings o 7% achieved on the raw material through diminished thickness and potential further decrease of production cost by approx. 17% through the adaptation of the Saltpetre Packing Unit for this king of bags);
- in the nearest future, it is expected that a U/N certificated will be granted by COBRO, which will premit the production of foil sleeve for packing caustic soda.

- **ORLEN Oil Sp. z o.o.**

The following actions were performed with regard to research and development:

– continuation of research within the group of oils for automobile industry in order to introduce to the sales offer a group of products that satisfy the newest quality norms *ACEA 2004* and requirements of leading motorcar producers, in connection with the introduction of restricted limits on the emission of exhaust gas *Euro4*;
– introduction into trading of the following new products: Platinum MaxEnergy Euro4 5W/30, Platinum Synthetic V 5W/40, Platinum Synthetic F 5W/30. For two types of engine oils to be used for lubricating heavy Diesel engines from Platinum Ultor group, i.e. Platinum Ultor Extreme 10W/40 and Platinum Ultor Plus 15W/40 the compliance with the newest ACEA E7-04 specifications was confirmed, and therefore the said oils can be used with certain types of engines fulfilling the requirements of Euro4 standards.;
– extending the company's agriculture offer by special dedicated oils for the customers from that area, i.e. hydraulic oils and gear oils for agricultural machines and equipment;
– enhancing the quality class of Platinum Gas Synthetic 5W/40 engine oil from API SL to API SM;
– introduction into the offer of AdBlue agent, used in vehicles with SCR systems;
– standardizing and harmonizing the range of improvements for the production of lubricating oil (with no approvals on the side of the manufacturers);

- introduction of the following products within the industrial products group: synthetic concentrates for metal machining, high-oil content concentrate for metal machining, antiadhesion lubricant, machine oil, heating oil, slack wax D and oil for aluminium cold rolling.
- the offer of car-care cosmetics and chemicals was enlarged by new products from Platinum Impact group

- **Inowrocławski Kopalnie Soli „SOLINO" S.A.**

- assuring long-term strategy of the company for warehousing and production of industrial brine – the analyses carried out in the past years proved it necessary to develop investment process aiming at taking up a new salt deposit, constructing lye unit and at the same time, a warehouse dedicated for stocking reactive gases (ethylene, prophylene), liquid hydrocarbons in a form of finished goods or semi-products, natural gas or liquified gases (LPG);
- geological surveying of Mogilno I feedstock for planning location of other exploitation holes – in accordance with current market analyses with respect to the brine demand and evaluation of production capacities of Mogilno Mine, in order to maintain the current level of brine production it will be necessary to bore out 10 to 15 new holes and extend the infrastructure of the surface mine by leaching plant in the perspective of 15-16 years.

- **ORLEN Projekt S.A.**

Quality Management System under ISO 9001 and NATO specified in AQAP 2110 was updated and the relevant certificates were issued for those systems by BVQI and NATO within the undertaken research and development activities.

- **ORLEN Laboratorium Sp. z o.o.**

A new commercial brand named "BAQ" was developed within the engaged research and development activities. At present, further activities are being carried out in order to introduce the new brand for the purposes of fuel quality monitoring.

V. DESCRIPTION OF FACTORS CRUCIAL FOR THE DEVELOPMENT OF THE CAPITAL GROUP

The most important factors that have conditioned the development of the PKN ORLEN S.A. Capital Group in the course of 2006 include:

- **Revised development strategy of PKN ORLEN S.A.**

In January 2006, the Parent Company has revised the strategy for the years 2006 - 2009 which maintains the objective of activities aiming at improving the efficiency, however, with a special emphasis on the enhancement of the core business on domestic markets and monitoring of development opportunities on new markets, including the area of mergers and acquisitions in the following years.
The most important assumptions of the revised development strategy of PKN ORLEN S.A. include as follows:

1. Financial goals to be reached in 2009, provided the level of macro-economic conditions recorded in 2004:

• EBITDA	PLN 10 billion
• annual average CAPEX rate in the amount of	PLN 3.4 billion
• ROACE ratio forecast at a minimum level of	18.5%
• financial gearing at the approx. level of	30-40%

2. Establishment, in April 2006, of ORLEN Upstream Sp. z o.o., whose main activities are analysis of acquisition possibilities of crude oil reserves. As a result, it will be possible for the Company to mark a significant increase of the market value and improve its advantageous market position. The strategy of mining segment development has been divided into two stages: 1st stage until 2009 and the 2nd stage until 2015. The required capital expenditures have been estimated at an annual amount of USD 130 million in the period from 2007 to 2009, and an annual amount of USD 438 million in the subsequent five-year period.

3. The rate of dividend to be paid is conditioned on the engagement in mergers and acquisitions and maintenance of the most advantageous capital structure characterized with the indebtedness on the level not exceeding ratios debts net/EBITA of 1.5 – 2.0 and debts net/Equity of 30%. The implementation of this guideline is planned for the year 2007, in order to cover the dividend to be paid for 2006. The objective of the Parent Company is to pay to the benefit of the shareholders a dividend at a level not lower then 50% of the volume of free cash flow to equity (FCFE). However, in a situation of considerable acquisitions, the Company will rather strive to return to safe levels of indebtedness, which according to FCFE approach, may result in a limited payment of dividend. On the other hand, in the event of sale of Polkomtel S.A., provided there will be no other long-term liabilities, the Parent Company plans to create a special Dividend Fund for higher dividend payments in the future.

- **Acquisition of Mazeiku Refinery**

The takeover of Mazeiku Refinery has strengthened and diversified the position of the Parent Company in Central and Eastern Europe, especially on the Polish, Czech and German markets and permitted the expansion over new markets such as: Lithuania, Latvia and Estonia. The enlarged PKN ORLEN Capital Group became a leader in the Central Europe as regards the volume of crude oil throughput, exceeding capital groups OMV and MOL in that respect. It has also become a leader for the number of possessed gasoline stations - 2,732 gasoline stations. The primary objective to be pursued in the nearest future is the restoration of production capacities at the Lithuanian refinery and assuring uninterrupted supplies of the raw material. After the breakdown of the Druzhba (Friendship) pipeline in July and fire at Mazeiku in October 2006, the two above-mentioned issues constitute top priority for an efficient operation of the Lithuanian company. Full integration of the two companies constitutes a complex process, to be spread over a period of two – three years.

- **Development of Retail Sales**

In March 2005, the Parent Company has announced "Retail Sales Development Plan for Poland 2005-2009" which assumes at least 30% share in the Polish fuel market. The Development Plan is founded on the basis of three key elements:

- strengthening of the market position in Poland;
- increasing operational effectiveness and
- establishing an efficient organization.

In 2006, the downward trend in sale of fuels at ORLEN–owned stations got reversed which is confirmed in a 15 percent increase in volume of sales in comparison with figure recorded in 2005. The market position is gradually being strengthened due to the development of the stations' network. By the end of 2006, the network consisted of 176 BLISKA economy stations and 726 ORLEN premium stations (CODO stations and DOFO stations). Moreover, good results in retail sales were possible thanks to the implementation of the new strategy within FLOTA programme, where an offer Twój Lokalny Rabat (Your Local Discount) was introduced and two new products for the Truck Fleet segment were tried: Twoja Lokalna Stacja (*Your Local Station)* and Złoty Szlak (*Golden Trail*). The implementation of CRT (Commercial Road Transport) is under process. The above-mentioned activities have already produced effects in 2006, i.e. 40% increase in the volume generated under FLOTA program. In 2006, new solutions were developer under the non-fuel offer. At present, a new formula for category-management is being prepared, new shop visualization developed and new offer of bistro bars planned. In 2006, the Company carried out several image-oriented advertising campaigns and marketing actions supportive of the realization of the sales target.

In 2006, the competitiveness of the gasoline stations' network owned by the Parent Company has significantly risen. It is confirmed by a high ratio of sales dynamics, as regards fuels and non-fuel products, and a significantly higher then dynamics of general sales and sales per individual station then recorded at competitive stations. The increase of effectiveness was possible thanks to the continuous construction and modernization of stations in accordance with offer segmentation, conclusion of 193 franchise contracts and purchase of the takeover process of 59 gasoline stations from RMO (Regional Market Operations). In 2006, pilot implementation of an application for optimizing sales forecast and retail price management took place. Owing to many changes aiming at improving the effectiveness of VITAY program consisting in the introduction of a new formula for premium points calculation, a significant decrease of costs was recorded.

In 2006, the area of non-fuel goods and services management was reorganized. Concentration of the merchandise purchase order process administration and ensuring a central function of an expert support with respect to merchandising and category management resulted with the improvement in activities and in the effectiveness of the decision-making process made at the level of shop. It was possible to build up an effective organization owing to the completion of the centralization process with respect to managerial areas and functions, reduction of employment and implementation of the „Segment Management" approach for optimizing the cooperation within the Capital Group. At present, efforts are made in order to speed up the processes and making the procedures with the Parent Company simpler.

The most important activities still to be undertaken in order to achieve the targets referred to in the 2006-2009 strategy include as follows:

- introduction of the new shop and bistro-bar concept;
- implementation of management by category system;
- implementation of new product offers and prices for fleet customers;
- polarization of fuel prices at ORLEN and BLISKA stations;
- further investments within the area of stations;
- further growth of the number of franchise stations;
- further increase in profitability of CODO stations;
- further development of VITAY program (introduction of the new strategy);
- implementation of the Retail Sale platform;
- optimization of the segment management.

Under the strategy plan, the Parent Company intends to hold about 900 stations in premium standard (ORLEN) and approx. 1000 stations run under Bliska Brand by the end of 2009. Both brands are also offered to private gas stations under franchise agreements.

- **Restructuring of wholesale trade and sales**

In August 2006, the Parent Company has launched restructuring process with respect to wholesale trade structures. The aim of the process was to increase sales results and to create a coherent policy in wholesale trade structures within the whole PKN ORLEN Capital Group. Development of a modern, market-oriented wholesale management structure will increase the market value and improve market positioning of the Parent Company. Therefore, it was necessary to destroy the old and build a new wholesale trade structure and restructure the Company's sales teams. Consequently, changes were introduced to Non-fuel Products and Category Management Office, Retail Sale Investment Office, Fleet Card Unit and Team for the Cooperation with Franchise Stations and Patron Stations. Within the first Office, three Regional Offices got closed and their functions were transferred to Płock. The change aimed at concentrating the function of commodities purchase administration, centralization of merchandising, and shop sales and services management and shortening of the decision-making process.

Changes introduced within the sales area in 2006 covered also reorganization of the Marketing Office. It resulted from the necessity of adapting the organization of the Marketing Office to the realization of tasks for retail and wholesale areas and to oversee the marketing policy within the companies belonging to the Capital Group. The objective was to centralize the planning function and management accounting, as well as analyses for the whole Sales Department,

including the consolidation of analytical data, managerial information, key effectiveness ratio, and centralization of reporting functions for state entities.
Within the Purchase Department, an internal reorganization took place of the Support Team for Accounting Processes and General Purchase Office. In case of the Support Team for Accounting Processes the aim was to eradicate the functions which were not related with the invoicing process and thus, avoiding a risk that tasks be doubled with other organizational entities. In case of the General Purchase Office, the aim of the reorganization was to shift the support function to ORLEN Administracja Sp. z o.o.

From the beginning of November 2006, after several months of preparatory works, the operation of five new ORLEN Wholesale Trade Offices were launched. The headquarters of the new wholesale centers are in Płock, Poznań, Trzebinia, Lublin and Gdańsk. The reduction of the number of regions from 11 to 5 made the management more efficient and reduced the operation costs. It has also made commercial activities between the regions and RMOs more coherent, through concurrent location of both commercial structures within new regions.

The implemented structure reacts more efficiently to the market needs, facilitates new customer-soliciting process and improves the standard of services offered. New structures will allow for more efficient competing with other fuel producers. "West" Region will compete with German refineries, "North" with the refinery in Gdańsk, "East" with Byelorussian refineries and South with the Slovak Slovnaft. In the Central Region, considering the location of our refinery and excellent logistics, i.e. warehousing bases, the Parent Company will hold the most competitive position. Moreover, five macro regions present a better opportunity for cooperation with five Regional Market Operators. Clear task and competence allocation will allow for a better use of the commercial potential within a given region, eliminate internal competition and improve the flow of information between the two centers.

- **SAP Oil&Gas central operational system**

A central operational system SAP Oil&Gas is a special solution dedicated for fuel industry. It extends the possibilities of SAP R/3 system that has been operating at the Parent Company from 1996. The new system covers both the existing users of SAP system and employees using the forwarding and recording systems. Using an industry-dedicated solution within logistics allows a better use of stock or sealing the logistic chain. Moreover, it gives a possibility to integrate forwarding systems at bases with the central system and provides detailed data on the performance of logistics and sales. The new version introduced a significant improvement into the operation of the fuel wholesale sales process. Moreover, SAP Oil&Gas supports sales and optimizes telesales processes. At the same time, the project will allow a better control over excise duty securities and made price-management processes more flexible. The implementation of the full system functionality of SAP Oil&Gas system will assure automatic calculation of excise duty tax on the basis of product material movements and entries of excise duty documents recorded in accounting books, as well as in the excise duty register. The new application operates within processes specific for the branch of industry, i.e. computation between measurement units for fuel and non-fuel products, parallel register of operations in different units, e.g. mass and volume, excise duty tax calculation, tracking documents and reports. Preparation and implementation of new functionality developments is carried out at the following two stages: a major part of applications was launched at the beginning of 2007 and the remaining parts are to be launched in the first half of 2007. The implementation of SAP Oil&Gas becomes a part of organizational adjustments carried out at the Parent

Company and harmonizes with other IT projects being implemented at the Company, i.e. comprehensive margin optimization.

- **Implementation of segment management**

On 18 November 2005, the Management Board of the PKN ORLEN S.A. has approved the New Organizational Rules and Regulations, which authorize the implementation of segment management system as of 1 January 2006. It is a model organization structure of a Capital Group composed of many entities that assures an appropriate coordination of both business area and support function within very large structures.

Segment management covers such areas as:

- exercising coherent strategy and investment coordination within the Parent Company;
- harmonized planning and controlling;
- integrated operational management, including maintaining harmonized standards within the whole Parent Company and obtaining synergy by setting of coherent goals and effectiveness parameters (Key performance Indicators);
- coordination of support function, i.e. purchases, logistics, finance management, PR and marketing policy, HR management systems and organization.

Under the adopted model of segment management, the following six business segments were determined: Refinery, Oils, Wholesale Trade, Retail Trade, Petrochemical and Chemical with assigned companies from the PKN ORLEN Capital Group. The above-mentioned segments are supervised within the Parent Company by specific Executive Director, directly subordinate to a Member of the Management Board.

Moreover, areas of support activities were determined. The latter support the areas of the Company's operating activity.

In 2006, works aiming at incorporating companies belonging to the Unipetrol Capital Group to the segment management as of the beginning of 2007 have been intensified. At the same time, in accordance with the assumptions of another big foreign investment of the Parent Company, i.e. the acquisition of AB Mazeikiu Nafta in 2006, the integration process with the Lithuanian company has already been carried out in line the segment management model.

- **OPTIMA operating costs reduction program**

OPTIMA, the program for improving the effectiveness of operating costs and optimization of investment outlays replaced the previous Complex Operating Cost-Cutting Program (the "COCCP) that had been operating in years 2004-2005. In comparison to the COCCP, OPTIMA is to embrace more operating areas in PKN ORLEN S.A. and it was also introduced in particular companies of the Capital Group.

Within 12 months of 2006, OPTIMA generated PLN 299 million savings within the area of operating costs. It constitutes 120% of the target for 2006, which was set at the level of PLN 250 million. The surplus achieved over the targeted savings, i.e. PLN 49 million, was generated on account of production, logistics and subsidiaries flows, where the effects obtained proved to be higher then the goals set. In the second main area of application of OPTIMA program, i.e. optimization of investment outlays, PLN 211 million savings were achieved, including PLN 20 million savings on the reduction of investment purchases, provided the yearly target of PLN 210 million, i.e. 100% realization of the yearly target. The results obtained refer mainly to the investments planned and in progress at the Parent Company, although investments carried out within the Capital Group were also covered by the optimization process.
Analysis of the results obtained from particular projects carried out under OPTIMA program shows the following areas where savings were achieved: subsidiaries, retail sales, production and purchases. PLN 86 million savings were achieved in subsidiaries flow, PLN 80 million in retail sales, PLN 46 million in production and PLN 70 million in purchases (PLN 50 million on operating costs and PLN 20 on investment outlays).

- **BONUS project**

In April 2005, BONUS project was launched. Its main objective was to reduce considerably the costs related to external purchases and to improve the whole purchase process. Within the duration of the project, a completely new purchase order procedure was introduced. It describes the process from the moment a demand is registered, through the selection of a supplier, conclusion of a contract and to the placing of an order and realization of delivery. Simultaneously, more then ten purchase functions previously divided between various organizational units were centralized. An appreciative value of savings in the amount of PLN 210 million was recorded under the project in purchase area within the PKN ORLEN Capital Group. All ideas and prospectives were approved by a special team, composed of representatives from the finance area and Cost Management Unit of the Parent Company. Due to the fact that the results of this project operation flow within OPTMIA program, it is necessary to closely supervise and monitor the resulting savings originating from BONUS project. BONUS project reported to OPTIMA within the Purchases flow for 2006 savings in the amount of:

- PLN 50 million on operating costs;
- PLN 20 million on investment outlays.

- **Integration with Unipetrol**

The developments connected with the Partnership Program, which resulted in a mutual transfer of knowledge, were continued in 2006. As a result of teamwork, specific projects were implemented both within Czech companies and in the Production Unit in Płock. Owing to the Partnership Program, the intended target of all assumed savings was achieved. In 2006, business and Management segmentation project based on the “New Corporate Governance” was approved. It made the simplification of the Management model, unification of the Parent Company and Unipetrol structures and standardization of processes, as well as harmonization of business flows possible. The establishment of the Shared Service Centre allowed for standardizing business processes in connection with the provision of bookkeeping services, payroll calculations, IT support and purchases for the benefit of companies belonging to the Unipetrol Capital Group. In October 2006, a strategy for the years 2006 to 2009 for Benzina retail sales network was announced and Benzina Plus premium brand was introduced. Achieving total harmonization will be based on the segment Management, which was introduced on 1 January 2007.

- **Logistics development plan for the years 2006 -2009**

In May 2006, the Management Board has presented and the Supervisory Board has accepted the *Logistics Development Plan for the years 2006–2009*. The document complies with the general strategy adopted by the Company, in particular, with the retail sale and wholesale strategy. The superior objective of the logistics relies on the operational handling of fuel sales and optimization of costs of product delivery to the Capital Group's clients, given the fact that the Company goes international (Unipetrol, Orlen Deutschland and other capital investments abroad).

The most important elements of the *Logistics development plan for the years 2006-2009*, include:

- strengthening of the market advantage in the wholesale and retail sale through the development and modernization of the logistic infrastructure and significant improvement of productivity and "tightness" of the logistic system;
- in rail transport – development of forwarding system organized by the Parent Company in order to achieve the share of 40% in the total of rail transport as at 2009;
- restructuring of transportation companies in order to improve the efficiency of road transportation of fuels and allowing the Parent Company to influence an efficient operation of this market through its own companies;
- increasing the possibility of warehousing of crude oil and fuels at salt mine cavities for the purposes of the Parent Company and making the reserves available to external operators in order to generate additional revenues; carrying out analysis of the functionality and usefulness of the enlargement of the cavities for warehousing other products;
- further investments in pipelines for transporting product, in particular, the pipeline connecting Ostrów Wielkopolski with Wrocław.

In August 2006, the "Model of Transportation Companies from the PKN ORLEN S.A. Capital Group" was approved. Under the adopted restructuring model, seven companies will undergo consolidation and one transportation company will be established by the end of 2007 to operate within the whole PKN ORLEN S.A. Capital Group.

The advantages of the adopted solution include:

- maintenance of rates at the present level;
- great potential to lower the costs as a result of minimization of duplicative activities;
- possibility to maintain current level of deliveries' security and standard of services;
- simplified organizational structure.

- **Investment program at the Parent Company**

The development plan for the Rafinery of the Parent Company for years 2005-2010 provides for the implementation of the following investments of key importance for the development:

- complex Paraxylene and PTA;
- complex Hydrodesulphurization VII (HON VII) together with Hydrogen Installation;
- ethylbenzene installation;
- modernization and intensification of Butadiene Installation;
- modernization and intensification of Alkylation (HF) installation

and a number of minor projects connected with adjusting the Plant's infrastructure to new legal and ecological regulations and requirements.

The most important new investments and projects continued in 2006 include:

- Construction of Hydrodesulphurization VII (HON VII) installation together with the adjacent infrastructure. The aim of the investment is to produce in the Parent Company entire Diesel oil with sulpur contents less then 10 ppm.
- Construction of Hydrogen II Installation with production capacities of 5 tonnes/ h, i.e. 40,000 tonnes/ year together with infrastructure. The aim of the investment is to increase the production of hydrogen for the needs of hydrodesulphurization.
- Modernization and intensification of Alkylation (HF) Installation. The aim of the investment is to increase alkylate production capacities from 150 thousand tonnes/ year to 280 thousand tonnes/ year, reduce environmental risks connected with the AHF technological process by diminishing the level of HF acid within the installation up to a required minimal amount, i.e. 55 tonnes and to improve of technical safety and quality of alkylate, which will make the gasoline composition process more flexible.
- Construction of PX (paraxylene) installation with a nominal capacity of 400 thousand tonnes/ year together with the infrastructure. The aim of the investment is to produce 400 thousand tonnes/ year of paraxylene (PX) for a further processing into 600 thousand tonnes/ year of terephthalatic acid (PTA) as a base raw material for the production of polyesters.
- Construction of terephthalatic acid (PTA) installation with production capacity of 600 thousand tonnes/ year together with infrastructure. The aim of the project is to produce PTA which is used as a raw material for the production of polyethylene terephthalate (PET).
- Construction of Installation for Diesel Oil Hydrorefining from HOG installation. The investment aims at improving stability of oil fraction from HOG installation in order to assure such a quality of the oil that it could be always used as an efficient component of Ekoterm Plus light heating oil.
- Construction of 17 A, B, C and 18 A and B warehouse tanks for the Composition Unit. The objective of the investment is to increase gasoline storage capacities by 28,000 m^3 in order to increase the production capacities by approx. 270 thousand tonnes/ year, i.e. by approx. 10% of gasoline and adapting the warehousing facilities to the technical requirements resulting from the regulation by the Minister of Economy dated 20 December 2002, as well as increasing hygiene and fire protection and environmental safety;
- Modernization of warehousing bases in Świnoujście, Bolesławiec, Kraków Olszanica and Żurawica.

The most important investments put into service in 2006 include:

- Desulphurization of Cracked Gasoline. The investment ensures an optimal use of vacuum distillate.
- Construction of tanks no. 43 A, B, C and D within the Composition Unit: adjustment to the volume of production and growing range of oil.
- Adapting HON VI Installation to the production of Diesel oil with sulpur contents below 10 ppm: enhanced desulphurization of heavy diesel oil fractions down to the sulpur contents below the level of 10 ppm by way of exchanging catalytic agents, adding new equipment and tools to the installation and modifications to the existing equipment.
- Exchange and expansion of analytical equipment for Gasoline Blending: gasoline composition process was optimized in order to obtain new quality of gasoline.
- Improvement of C8+ aromatics production at the Parent Company: securing continuous production of Orthoxylene.

- Exchange of ethylene oxide shipment pipeline: a risk of potential industrial accident as a result of leakage of ethylene oxide to the atmosphere and the related threats for human beings and environment was minimized.
- Modernization of warehousing bases in Szczecin, Lublin, Gutkowo, Nowa Sól, Sokółka and Gdańsk.

- **Loyalty programs at the Parent Company**

VITAY program is a loyalty scheme aimed at individual customers shopping at ORLEN gas stations on a regular basis. As at 31 December 2006, *VITAY* program had a group of 6.3 million participants, with 1683 gasoline stations covered by the program, including 1,429 ORLEN–owned, 96 dealer-operated stations and 158 franchise stations. In 2006, a number of approx. 477 thousand *VITAY* loyalty cards were issued, as compared to over 648 thousand in 2005, whereas the average daily sales amounted to over 5 million litres per day. *Super VITAY* is a program supporting the loyalty of the existing Parent Company's network users that obtain the biggest number of points within *VITAY* program. *Super VITAY* gives customers a possibility of enjoying further benefit and carry the prestige of holding a golden, bearer's card. As at the end of 2006, nearly 105 thousand customers held the above cards.
FLOTA Program is designed for institutional customers operating their own means of transport. The most numerous participants of the program include: forwarding companies, production and trading companies, banks, offices of central and local administration and foreign branch offices. In 2006, a number of approx. 130 thousand FLOTA cards were issued, and the share of sales with FLOTA cards in the total sales of fuels within the network of ORLEN brand stations increased in 2006 to 11.6%, as compared to 10.4% in 2005. Fleet fuel cards allow cardholder to proceed with cashless purchase transactions of fuels and other goods and services at gasoline stations belonging to the Parent Company. Under FLOTA program, two new services were introduced, i.e. "Złoty Szlak" (*Golden Trail*) and "Twoja Lokalna Stacja" (*Your Local Station*). Both services are addressed to companies from transportation and industrial sector holding large fleets which have specific requirements as regards fuel purchase and which refuel a minimum amount of 1,000 litres per month. The systems offer a simple, friendly and profitable system of refueling, as well as basic vehicles road service/ assistance. In March 2006, a new product was introduced. It is directed to the small and medium fleet segment and referred to as "Twój Lokalny Rabat" (*Your Local Discount*). It is a form of cash transaction concluded at the Parent Company brand stations owing to which clients obtain a discount and one invoice per month. As at the end of 2006, over 17 thousand agreements were concluded. This product is designed for institutional clients whose monthly fuel demand equals to at least 500 litres.
At present, fleet cards are accepted at nearly 1,700 gasoline stations of ORLEN and BLISKA network which means that fleet transactions are carried out in every part of Poland.

In September 2004, the Parent Company and DKV EURO SERVICE GmbH + Co introduced a new fuel card into the European market. DKV/ORLEN card is the first fuel card in Europe which combines a microchip technology of the FLOTA card with magnetic card of DKV network. Therefore, it represents means of payment for the drivers and cost control and settlement tools for companies. DKV/ORLEN card is dedicated for institutional client, such as forwarding companies, trade and production companies. In 2006, there were 375 cards issued and they are recognized at 20,000 stations and at 6,000 vehicle service points in Europe.

- **Restructuring activities carried out within the Parent Company**

On 20 September 2005, the Management Board of the Parent Company adopted a strategy of activities relating to the 2006 restructuring process. The execution of a new restructuring agreement with trade unions constituted a significant element of the above-mentioned strategy. The above agreement was to replace the former agreement regulating the situation of employees in case of undertaking restructuring activities and participation of trade unions in restructuring process of the Parent Company, dated 23 December 2002. The new restructuring agreement was aimed at improving consulting procedures with trade unions, eliminating doubts as to the interpretation of the previous agreement and establishing the list of employees' benefits under the restructuring program. The most recent field of regulations improves the implementation of particular processes and allows giving a more precise estimate of employee-related expenses with respect to the planned initiatives.

On 27 March 2006, after three-month negotiations, the agreement on the principles of cooperation between social partners in the restructuring processes to be carried out within the Parent Company, and on employees' rights regarding these processes was finally reached.

The formation of Accounting Services' Centre, i.e. ORLEN Księgowość Sp. z o.o., was commenced under the restructuring activities in 2006. The project consists in creating a modern Shared Service Centre for the Parent Company and the Capital Group in the area of accounting-related services through the transfer of transactions into one shares centre. The objective of this project is to standardize all above processes at the Capital Group level with the use of the newest technologies and achieve cost savings.

The formation process of ORLEN Księgowość Sp. z o.o. was divided into several stages, where the first was accomplished on 1 July 2006. At that date, payroll-related services and functions of bookkeeping services previously carried out within the Parent Company, as regards the companies belonging to the Capital Group, were transferred to ORLEN Księgowość Sp. z o.o.. As of 1 September 2006, the stock-taking process was also integrated with the newly established entity. Within the next two years, the company will take over the servicing of other processes.

Restructuring activities in 2006 were also carried out within the areas of Prevention Office, Rail Expedition Office and additionally, within Environmental Analyses' Office, Logistics Support Team from Purchase Department and Non-Fuel Department and Category Management. The restructuring covered also sales structures, i.e. restructuring of the regional network within wholesale trade area and organizational changes within retail sales.

Under the above-mentioned restructuring process, the following three types of activities were undertaken:

- Transfer of employees from the Parent Company to the existing or newly-created entities from the Capital Group in connection with reduction of employment and proposals of adequately formed packages of benefits, i.e. voluntary leave program, training program, job-activation program.
- Reduction of employment at the Parent Company combined with an offer of adequate benefit packages.
- Relocation of employees with a simultaneous proposal of an adequate benefit package, i.e. relocation package.

- **Management by Objectives (MBO)**

On 31 December 2006, the Management by Objectives (the "MBO") system has been operating for 18 months. The program is intended for key employees of the Parent Company and the Capital Group. It represents one of the most popular and proven business Management systems. Companies with different business profile ranging from service and trade to consulting and production ones use this system. Its popularity stems from the fact that it allows to allocate tasks to managers in a very clear manner, and to link the said tasks to be achieved by the said managers with remuneration system by valuating each single task. The system is allocated to a given position and not to an individual person. It is to support the realization of strategy consisting in the increase of the value of goodwill of the Capital Group. The system provides basis for employees' evaluation and remuneration based on the realization of the goals adopted within the said strategy and to reinforce the feeling of responsibility for the result generated by the Company.

On 5 December 2006, the Management Board of the Parent Company has approved amendments to the MBO Rules and Regulations aiming at defining the solutions used in 2005 and 2006. The new Rules and Regulations became binding in January 2007.

Mini MBO was also introduced in 2006, i.e. bonus paid on a quarterly basis for targets achieved at trade positions within the area of competence of the Executive Director for Retail Sales – Poland. A similar bonus system was implemented within the Wholesale Trade and IT.

New groups of positions were covered by MBO in 2006. The yearly system covered a total of 355 persons. The quarterly system within retail sales covered 149 persons and 82 persons within wholesale, whereas in IT, 93 employees.

The settlement of MBO bonuses in relation to employees covered by the MBO system in 2005 was carried out in July 2006. Financial results for the year 2005 are backed not only by thriving economy but also by exceptional engagement of managers in achieving targets. The realization of the joint target (SVA) amounted to PLN 908 million, as compared to the target value of PLN 649 million. This signifies that the level of achievement was higher then expected.

In August 2006, an IT system for supporting MBO from the creation of target sets (the "Target List") to the payment of the bonus was implemented. The newly-created application improves the whole process, allows eliminating errors made in the course of creation of Target Lists, harmonizes the nomenclature, and assures day-to-day monitoring of target realization assigned to particular employees on Target Lists.

- **HR management strategy**

The personnel Management strategy pursued in 2006 by the Human Resources Department resulted from the Parent Company strategy adopted for the years 2005 to 2009 and encompassed the following goals:

- Developing transparent principles of corporate governance i.e. clear recruitment, evaluation, promotion and remuneration procedures.
- Rational selection of qualified staff which can assure the realization of strategic goals, including expansion abroad.
- Development of appropriate communication within the Parent Company and the Capital Group, evaluation of resources and their development.
- Integration of the capital group in Poland and abroad, common HR policy.
- Further implementation of motivation system linked with achieved results (MBO).
- Personnel restructuring.

The undertakings of the HR Department concentrated not only on recruiting and training employees but also on their development; they were offered to participate in the following projects: Competence Development Program, Feedback 360 or career path planning.

- **Competence Development Program (the "CDP")**

In 2006, the employee evaluation process was carried out for the first time from the establishment of the Parent Company. The CDP constitutes an evaluation and professional competence development process, where the competence is based on the values promoted by the Parent Company. The program aims at developing professional competence of employees working at the Parent Company in such a manner that they possessed knowledge and skills that will allow them to perform the tasks assigned, in accordance with the highest quality standards.

Implementation of the Competence Development Program made it possible to create a map of competence which stand for the Parent Company's resources, define competence deficits and general training requirements and plan career paths.

In 2006, both persons holding specialist positions and middle and high level managers took part in competence evaluation program under CDP. Key corporate executives, i.e. Members of the Management Board, Executive Directors and Office Directors, have participated in the evaluation and competence development process based on 360˚ Feedback.

- **Feedback 360˚**

The aim of the project carried out by the HR Department in 2006 was to develop key managerial competence which influence the quality and effectiveness of strategic business goals pursued by the Parent Company. Feedback 360˚ was addressed to the highest corporate executives at the Parent Company, however, in addition to the managers, also peers, superiors and subordinates of he evaluated managers were engaged in the evaluation process due to specificity of the project. An approximate number of 400 employees of the Parent Company took part in the program.

Feedback 360˚ allowed for identifying strong and weak sides of evaluated employees, defining developmental goals and giving an estimate of managers' unused potential. Project implementation gives an easy access to information on competence of employees, raises self-consciousness of project participants, increases the level of personnel identification with the Company and enhances of motivation for an even more effective work.

- **Talent Mangement**

In 2006, the concept of substitute personnel of the Parent Company was continued within the Talent Management project. The aim of the project is to select and educate future middle-level managers. The participants of the project are tested in the direction of professional potential on the basis of which individual career paths are developed and the participants are offered a possibility to take part in a number of specially drawn up development-oriented projects, i.e. *Business Academy* or to participate in training projects based on strategic games. Development of an up-to-date career path management system connected with the fulfillment of business needs can serve as an example of practical implementation of the HR policy principles and making use of the results obtained in potential evaluations.

- **Implementation of the strategy within the area of mergers and acquisitions**

In 2006, acquisition undertakings of the Parent Company were mainly focused on the completion of the acquisition process of Mazeikiu refinery. The acquisition of the above shares resulted from the provisions made in the Parent Company strategy, in particular, as regards the regional expansion and investments in entities belonging to the crude oil processing sector. After the fulfillment of condition precedent, including the obtaining of necessary antimonopoly approvals and permits, on 15 December 2006, the Parent Company acquired 84.36% share in the share capital of the

Lithuanian company. Under the Lithuanian law, the Parent Company was obliged to make a takeover bid for the remaining shares addressed to minority shareholders. Acting together with the Lithuanian Government, the Parent Company has launched the procedure of mandatory share buyout from the minority shareholders, with the exception of shares held by the Lithuanian Government. Subscriptions under the mandatory share buyout will be accepted until 21 May 2007.

On 10 March 2006, the Parent Company accepted the offer for the sale of 980,486 shares in Polkomtel S.A. made by TDC Mobile International A/S. The execution of the agreement has been suspended due to an action pending with the International Arbitration Court at the Federal Chamber of Commerce in Vienna, instituted by Vodafone Americas Inc, a shareholder of Polkomtel S.A. and pledge established on the shares by the Regional Court in Warsaw. At the time of execution of the agreement on the acceptance of the offer, Polish shareholders of Polkomtel S.A. and TDC Mobile International A/S also undertook to cast vote on the subject of dividend payment at an agreed level for particular years. In fulfillment of the above undertaking, the Parent Company received in 2006 a dividend amounting to PLN 461.3 million gross.

In 2006, analyses of acquisition projects in upstream sector were continued. On 26 April 2006, ORLEN Upstream Sp. z o.o. was registered, an entity created with the objective of carrying out acquisition projects within upstream area. Disinvestment process in non-core business assets constituted an important component of capital strategy adopted by the Parent Company. Under the disinvestment strategy, the following entities were sold in 2006: SAMRELAKS Mąchocice Sp. z o.o., Zakład Budowy Aparatury S.A. and AWSA Holland II B.V.

- **Integration with Mazeikiu Refinery**

Mazeikiu Refinery has been operating since 1980 and it is one of the biggest companies in Lithuania and one of the biggest employers, i.e. employs a total of more then 4 thousand persons. Mazeikiu Refinery owns the only crude oil refinery in the Baltic states and therefore it holds a dominating position on the Lithuanian, Latvian and Estonian markets. The Mazeikiu refinery was designed for a maximum processing volume of nearly 15 million tonnes a year. However, in the begining of the 90s, the oldest DRW installation was stopped which lowered the processing capacity to the level of 8 million tonnes. At present, after optimization of the unit was carried out and "narrow gages" eliminated, the refinery operates at a stable capacity level of approx. 10 million tonnes a year. The refinery is known to be producing good quality, low percentage yeld from heavy products within the whole production pool. Russian crude oil constitutes the main raw material base that had been mostly delivered through Druzhba (Friendship) pipeline. After the breakdown at the pipeline in July 2006, the refinery has been using sea deliveries of raw material through its own harbor terminal in Butynga. In January 2007, Value Adding Program was launched. A similar integration program withn the Czech Unipetrol resulted in better effects then anticipated. Teams of top specialists from among both companies are to manage the integration process and indentify potential benefits and synergy, and subsequently, plan the related activities and implement specific initiatives. The goal of the Value Adding Program has a specific financial dimension measurable with ROACE, i.e. return on average capital employed, set at the level of 18.5%. The objective of the integration program is to place Mazeikiu Refinery on the path of gradual increase of goodwill and development, and to outline the direction of business for the upcoming 5 years. The managers from Mazeikiu Refinery and the Parent Company engaged in adding value will be divided into 18 teams, each of which will be developing projects and presenting the best ideas for revision and approval. The activity of the teams will be coordinated by the Design Office and Supervision Committee.

- **Situation on the German fuel market**

Intensive competition on the liquid fuels market that continued in 2006 as well as current trends in margins was still significantly impacting results of Orlen Deutschland AG. With an effect from January 2006, higher margins on the German liquid fuels market led to an increase in the profitability of retail sales of liquid fuels.

ORLEN Deutschland AG will realize its development through the following actions:

- 'Fit for growth' program;
- extension of the gas station network through acquisition, building and rebuilding of the existing gas stations;
- increase of the turnover as a result of target-oriented marketing strategy;
- optimization of costs and organizational structures of the company through realization of budgetary targets set for 2007;
- consequential restructuring policy and disinvesting activities oriented at closing out of unprofitable gas stations in 2007 and continued replacement of station dealers in accordance with ratios measuring their performance.

General economic situation in Germany, fluctuations in crude oil and fuel prices and strong compatition on the fuel market which influences the level of margines have a significant influence on the development of ORLEN Deutschland AG.

- **New development strategy for Unipetrol stations**

On 25 October 2006, the stategy for Benzina retail network for the years 2006 to 2009 was announced. The biggest fuel station network in the Czech Republic has introduced a premium brand, i.e Benzina Plus. The first Benzina Plus station was opened by the D1 highway near Prague. By the end of 2009, Benzina will open 102 premium outlets in teh Czech Republic. As a result of the above, the most demanding drivers will be attracted by a wide range of high-class services. Benzina Plus stations will help Benzina to strenghten its market position and to increase market share. The new strategy for Benzina development constitutes an important step towards restoring Benzina to its due position on the Czech market. Benzina will be associated with modernity, rich fuel and non-fuel offer, kind customer service and high quality. Restructuring program for Benzina results from joint efforts by the Parent Company, Unipetrol and Benzina. Up until present day, Benzina was viewed as an expensive brand with low lever of services. It held first place considering the number of stations but only third place, considering the share in the fuel market (9.9 %) preceeded by OMV and Shell. Benzina sales have been gradually falling since 2001. The reasons for negative growth are probably due to disadvantageous locations, unclear marketing image of the network and low level of services offered as compared to the pricing. The new strategy for Benzina retail network makes a division into two segments addressed to two different client target groups. Premium brand Benzina Plus outlets will be offering the highest standards of services addressed to consummers requiring high quality and broad product range. Young drivers and professional drivers constitute the target group for Benzina Plus network. Those stations will be located by highways and main communication tracts. In addition to Diesel oil, Natural 91 and Natural 95 gasoline, Benzina Plus network will be offering high quality Verva 100 gasoline and Verva Diesel oil. Important changes will be introduced at premium brand stations with respect to catering services. Based on location and size of a given outlet, *BISTRO minute*, where warm dishes and fresh sandwiches will be served or *SNACK minute*, offering hot dogs, or restaurants operating in cooperation with specialised catering professionals will be run. Shops adjoining to the Benzina Plus outlets will be enlarged to the surface area of minimum 75 sq. metres. New, 24-hous fuel stations will be offering a wide range of services, such as car-wash facilities, vacuum-cleaning, mobile phone-card charging or lottery coupons.

Benzina brand stations will be addressed to drivers seeking good quality for reasonable price with a rather limited service offer. Fuel offer will be enlarged by, among others, BioDiesel. The shops will be modernised and their exterior and interior standardised. The strategy of introducing new Benzina Plus brand network will be implemented at three stages. The aim of the first stage is to improve (by the end of 2006) the results of fuel stations within the existing infrastructure and assuring financial stability and enhancing organisational structure. At the second stage, to be carried out in the course of 2007, Benzina will complete the transformation process of 75 existing stations into premium brand outlets. By the end of 2009, 102 Benzina Plus will be opened. In the years 2008 to 2009, the improvements will cover the remaining areas of the network by giving it the standard defined for the second segment of Benzina brand. The company intends also to construct new outlets, in the number of five stations per year. In addition to a new brand name, Benzina Plus stations will also gain a new image. Traditionally associated colours, i.e. red and white, will be replaced with three colours: red, silver and navy blue. The appearance of the driveway, pylons, as well as the logo and its typography will be changed. Only selected outlets will be modernised, in particular within areas of the highest traffic. The network of the new Benzina Plus brand will expand very quickly. It is planned that every year in the nearest future four new stations under this brand will be constructed. Apart from developing the premium network, it is planned to redesign and modernise by the end of 2009 all other stations. Image modifications will also cover the group of “yellow” and “blue” stations owned by Kaucuk and Paramo. The said outlets will by sold or their exterior and interior will be adapted to the standardised red Benzina stations appearance by the end of 2007.

- **Activity of the Basell Orlen Polyolefins Sp. z o.o. Capital Group (“BOP”)**

Year 2006 was the first full year of operation of the newly opened installations owned by the Basel Orlen Polyolefins Group, i.e.:

- for the production of polyproppylene, with production capacity of 400 thousand T/ year, operating based on Spheripol technology;
- for the production of high-density poliethylene (HDPE), with production capacity of 320 thousand T/ year, operating based on Hostalen technology;

Both installations are equipped with modern logistics infrastructure used for warehousing, packaging and shipping finished goods with lorries or rail. The first full year of operation of new assets was promissing and succesfull. The installations were opened for normal operation with high average load directly after completing capacity testing. In addition, sales and logistics handled efficiently the increased volume of production. Owing to the fact that full production capacities were reached by Hostalen installation and contractual limitations with respect to the volume of deliveries of ethylene were encountered, the Management Board of BOP has taken a decision on a partial shutdown of poliethylene installation, starting from 1 January 2007. One of the production lines (no. 41) will be maintained in standby mode for a quick launching in case the raw material becomes available, whereas the second production line (no. 42) will be shut for good. Employees working at LDPE1 were transferred onto other positions within the production or logistics area of BOP. Present macroeconomic situation and potential increase of petrochemical products market within the next coming years are promissing. A modern production base, attractve prices of raw materials, cooperation with one of the biggest entities operating in this industry in the world and favourable geographical location portend well for the future of BOP as regards its result and cash flow. BOP will continue its activities aiming at optimising the use of the market, production, and distribution base held. In particular, the following actions are planned:

- increasing the market share in Poland, as regards the new products offered by the Bassel Orlen Polyolefins capital group , i.e. high-density poliethylene and copolymers;
- optimising product distribution network, i.e. diminishing costs and gradual increase of product warehousing capacities;
- introduction of new types of polymers for production.

- **Development program of ANWIL S.A.**

Future ownership policy of ANWIL S.A. as regards the subsidiaries and associate companies will consist in continuing the presently carried out shareholding policy resulting from corporate governance rules of the Parent Company. Investments undertaken in the last couple of years have significantly improved the competitiveness of ANWIL S.A. The development program of ANWIL S.A. assumes continuation of investment policy connected with protection of the environment and improvement of cost-efficiency and competitiveness of ANWIL S.A.:

- launching of the modernized chlorine installation in the beginning of 2006 has been generating substantial savings on electric and heating energy, and improved quality of NaOH (sodium hydroxide) produced. Consequently, the production efficiency of all installations was significantly increased and competitiveness of the product offered improved;
- production was launched at the ammonia production line A in the fourth quarter of 2006 which will result in improving the capacity of the production line and reduction of production costs;
- purchase of a production line for manufacturing of three-layer PE foil means changes to the PE packaging production technology and reducing material- consumption and better quality of packaging;
- synergy effects, in particular in the area of PVC and chloride alkyl, resulting from the planned acquisition of a majority stake in the Czech company, Spolana a.s.

At present, the company holds a modern production line of VC and PVC of 300 thousand T/year capacity, and technical and economic indicators obtained from those installations are nearly at the level of indicators showed by world leaders. There is a further potential to increase production capacities of the existing PVC installation withouth the necessity to increase the number of base apparatus. In the fertilizers' section, ANWIL S.A. holds a modern nitro-chalk installation and other production linie installations (ammonia, nitrous acid, ammonium nitrate) which, after the refurbishment, reveal inticators at the level of good European installations. ANWIL S.A. and Spolana a.s. posses a joint production capacity potential of sodium hydroxide of about 340 thousand tonnes (pure component) and PVC at the level of 420 thousand tonnes. Moreover, ANWIL S.A. intends to invest on the Ukrainian market by setting up a joint venture production company with a unkrainian partner. The future production unit will produce dry mixtures and ultimately, PVC granulates.

The undertaken works and investments will assure safe operation of ANWIL S.A. in the future periods. Obtained financial surplus will be entirely sufficient for financing the ongoing operations and realisation of investing plans of developmental or refurbishment nature. In the course of 2007, ANWIL S.A. will continue to use the existing financing in the form of current bank account overdraft and preferrential loans and credit facilities to be allocated for pro-environmental investments.

- **Development program of Rafineria Nafty Jedlicze S.A.**

- Launched investment "Construction of installation for production of solvents",

- Organizing, in cooperation with ORLEN Oil Sp. z o.o., a system of used oil collection from the most important customers of ORLEN brand lube oils. Such a system will provide prerequisites for intensification of used oil collection, reduction of recovery process and finally, improved quality of the supplied waste raw material;
- Increased use of regeneration capacities by increasing the volume of regenerated used oils and further increase of the volume of desulphurization services;
- Construction of an installation for the production of methyl esters, i.e. biocomponents used for the production of biodiesel;
- Modernization of crude oil processing in view of potential processing of domestic raw material, which will provide the company with its own raw material for the production of solvents..

- **ORLEN Oil Sp z o.o.**

A conception where the directions of organizational changes within the PKN ORLEN Capital Group assume concentration of the Group's oil assets within ORLEN Oil Sp. z o.o., constitutes a important aspect of ORLEN Oil Sp. z o.o. development, in particular:

- continuation of operations in the Oils and Lubricants Production Unit leased from Rafineria Nafty Jedlicze as an organized part of the enterprise, in addition to the two owned production plants in Płock and Trzebinia;
- consolidation of oil business within ORLEN Oil Sp. z o.o. should be continued in consideration of Czech assets, whenever possible and justified;

The most important external factors having impact on future financial results of ORLEN Oil Sp. z o.o. cover the following events:

- increased competition on the domestic market of lubricants,
- discriminating nature of Polish tax law regulations with respect to export and intercommunity trading in products of ORLEN Oil Sp. z o.o., which result in worsening of the company's competitive position towards market players in other EU countries;
- increased prices of petroleum products;
- lease of oil and lubricants production unit from Rafineria Nafty Jedlicze S.A. as of 1 January 2006.

- **Integration of PKN ORLEN S.A. and Unipetrol, a.s.**

- **Partnership Program**

  The implementation of the Partnership Program was continued throughout 2006. The Program was initiated in 2005 in order to improve operating activities of subsidiaries from the Unipetrol a.s.' Capital group. The program is being carried out in conjunction with active participation of the Parent Company's specialists. It embraces knowledge and know-how transfer between both entities. The Program covers all key Unipetrol a.s.' subsidiaries.

- **Disinvestment projects and restructuring of the group**

  In 2006, Unipetrol a.s. was engaged in three main disinvestment processes. Two processes have been completed. In October 2006, a transaction on the transfer of shares Spolana a.s. was executed. Firma Chemiczna Dwory S.A. has signed with Unipetrol, a.s. a share purchase agreement with respect to Kaučuk, a.s in January 2007. The funds obtained from the sale of shares in Spolana, a.s. and Kaučuk, a.s. will be allocated for the development of the business activity and debt restructuring of Unipetrol a.s. In 2006, the assets of Benzina Trade a.s. were brought to Benzina a.s.. Moreover, in January 2006, a stake of 100% shares in Paramo Trysk a.s. was disposed of by Paramo a.s to the benefit of Benzina a.s. In June 2006, BUT s.r.o. owned by Chemopetrol a.s. was sold to TELLMER s.r.o.

- **Optimizing legal structures and corporate governance at Unipetrol and introduction of the segment management model.**

  In June 2006, the effects of works on “Improving corporate supervision within the Unipetrol Group” were approved by the Parent Company and Unipetrol a.s. Management Boards. The said effects define a new vision of operation of Corporate Governance within the Unipetrol Group. Key changes include, as follows:

  1. Simplifying corporate supervision by enhancing the role of the Management Board and Supervisory Board at Unipetrol a.s. and centralization of operations of the Unipetrol Group.
  2. Standardizing of business processes through the creation of the Shared Service Centre for the Unipetrol Group and creation of new or enforcement of the existing, centrally managed functions for the Unipetrol Group, including internal audit, margin optimizing within the group, security and controlling.
  3. Unification of structures of the Parent Company and Unipetrol a.s. by separating production activity from commercial activity (introduction of the best operational and commercial practices) and integrating with business segments of PKN ORLEN S.A. through personal unions between operational members of management boards of the companies belonging to the Unipetrol Group and executive directors of the Parent Company within the key areas.

  The above-mentioned changes will further support the introduction of segment management and give rise to a deeper integration of business processes, which will subsequently lead to increasing the shareholders value added of both capital groups.

- **IKS SOLINO S.A.**

- Increase of interest in storage services within in salt cavities of liquid hydrocarbons and their derivatives as well as reactive gases. In this respect both the civilization development forecasts relating to creating of strategic and commercial reserves, as well as development trends allow for an optimistic assessment of the current situation and development potentials;
- Non-organic chemistry sector development, in particular soda industry, and the related increase in demand for brine. The situation of that sector is stabilized. There are no predictions of any significant changes in the production technology or any others that would spoil the demand on the brine for the coming few years. The said demand remains at a stable level with a slight upwards trend. In 2006, the Company has continued supplying the following major customers: Janikowskie Zakłady Sodowe JANIKOSODA S.A., Inowrocławskie Zakłady Chemiczne SODA MĄTWY S.A., ANWIL S.A. Włocławek and ZACHEM S.A. Bydgoszcz. The supplies of brine in 2006 remained at a similar level to the level recorded in 2005;
- The demand for salt on foreign markets. IKS Solino S.A. has increased export of salt. The export sales were realized through trading companies operating on the markets in particular countries. The company has continued selling goods (mainly salt tablets and briquettes) to Germany, Belgium, France, The Great Britain, Norway, The

Netherlands, Hungary, the Czech Republic, Slovakia and Lithuania. Sales of salt tablets and briquettes to Italy have commenced.

- **ORLEN Gaz Sp. z o.o.**

- Consolidation of LPG market manifesting itself through the transfer of the demand towards network outlets and stations offering other fuels to the detriment of individual private LPG modules;
- Reduced growth rate of LPG market due to the saturation of market of LPG-powered vehicles, increase in excise duty and growing number of new cars, where gas installations are more and more expensive and precise;
- Growing tendency of gas sales for heating needs resulting from increasing popularity of gas stored in tanks and general economy situation (new complexes);
- Gradually decreasing sales of gas sold in cylinders;
- Continually significant market share of what we call twighlight zone owing to a total lack of control over the operation of small tax consignment warehouses which counterfeit registers regarding liquid gas distribution and lack of control over the quality of gas at LPG stations;
- Publication of a regulation by the Ministry of Finances on control procedures within tax consignment warehouses and more efficient prosecution instituted by administrative bodies within the twighlight zone concerning LPG and cylinder segment.

Introducing changes to the strategy under which the activities listed below are undertaken constitute the most significant internal factor outlining new development perspectives for ORLEN Gaz Sp. z o.o.:

- Construction of 3 border terminals, i.e. Sokółka, Żurawica and Szczecin, in order to decrease the costs of purchase of gas and diversification of supply sources, and provision of reloading services to external customers;
- Construction of a cavity of 150 thousand tonnes capacity (2 tanks: 100 thousand tonnes and 50 thousand tonnes) in order to store liquid gas, negotiations over the price of gas and increasing the security of deliveries;
- Modernization of fuel distribution plant in Płock and in Nowa Brzeźnica;
- Reducing purchasing costs of gas and diversification of the supply sources; provision of reloading services to external customers;
- Significant increase of the market share (up to 25%) within a period of 3-4 years;
- Diminishing susceptibility to seasonal price fluctuations;
- Creating of an existent energy security with respect to LPG.

- **ORLEN Asfalt Sp z o.o.**

The domestic demand for road asphalts in the years 2007 to 2013 is estimated at the level of 1.5 – 2.0 million tonnes per year and it is closely related to the highway and freeway construction program and adaptation of the quality of road infrastructure to the EU standards. The above-mentioned quantities are comparable with realistic production capacities of the national refineries, considering the seasonal nature of the production. The demand for modified asphalts grows proportionally which will make an effective use of the new installation in Płock possible. In connection with the increase of prices and demand on the market of construction materials, it is anticipated that the volume and profitability of sales to the benefit of clients buying industrial asphalts will grow. The continued commercial policy will in the future focus on increasing the profitability of sales through “flattening of the discount structure” and increasing the share of the most profitable final customers up to 20% of the value of income. Moreover, appointing within the structure employees responsible for logistic will increase effectiveness of transport and better satisfaction of clients' needs.

VI. DECLARATION OF THE MANAGEMENT BOARD ON THE APPLICATION OF CORPORATE GOVERNANCE

The Parent Company has adopted all principles recommended by Giełda Papierów Wartościowych w Warszawie S.A. (hereinafter the "Warsaw Stock Exchange") excluding the rule no. 20, which refers to independent members of supervisory boards. The declaration on adhering to the principles of corporate governance was approved by the General Meeting of the Parent Company held on 29 June 2005. Under the decision of the General Meeting and pursuant to § 27 (currently §29) of the Rules and Regulations governing the operation of the Warsaw Stock Exchange and the Resolution passed by the Council of the Stock Exchange on adopting the principles of corporate governance which are binding for joint stock companies admitted to trading at stock exchange and issuing shares, convertible bonds or senior bonds – on 30 June 2005, the Management Board of the Parent Company has made a declaration on applying the corporate governance principles.

An updated declaration on the Parent Company adherence to the principles of corporate governance was made public in a regulatory announcement no. 43/2006 on 28 June 2006. In accordance with the announcements published in the declaration dated 30 June 2005 on the Company's adherence to the principles of corporate governance, the following amendments were introduced:

- in the Articles of Association governing the Parent Company – unified text adopted on 7 October 2005 by virtue of resolution passed by the Supervisory Board of the Parent Company;
- in the Rules and Regulations of the General Meeting of the Parent Company, adopted on 29 June 2005 by the resolution of the Ordinary Meeting of Shareholders of the Parent Company;
- in the Rules and Regulations of the Parent Company Management Board, adopted on 7 October 2005 by the resolution of the Parent Company Supervisory Board;
- in the Rules and Regulations of the Supervisory Board of the Parent Company, adopted on 7 October 2005 by the resolution of the Parent Company Supervisory Board.

As a result of the above-mentioned amendments, the Company's notes to each particular principle of corporate governance were revised and updated. The Parent Company declares it has been adhering to the principles of corporate governance, with the exception of the principle no. 20, to which it does not adhere. The Management Board of the Parent Company made a recommendation to the Company's General Meeting on 29 June 2005 to adopt the entire set of principles of the corporate governance, however, the principle no. 20 did not meet with the approval of the Company's Shareholders.

The Management Board of the Parent Company sustains its standpoint, as expressed in the declaration dated 28 June 2006.

An updated declaration on the Parent Company adherence to the principles of corporate governance, as adopted by the Warsaw Stock Exchange, will be published by the Company on or before 1 June 2007, after the said document is approved by the forthcoming General Meeting of the Parent Company

ADDITIONAL INFORMATION

INFORMATION ON SIGNIFICANT AGREEMENTS

In 2006, PKN ORLEN S.A. entered into a number of significant agreements, as listed herein below:

1. On 4 January 2006, PKN ORLEN S.A. executed two agreements on the sale of gasoline and diesel oil to Orlen PetroCentrum in 2006. The estimated value of the transactions amounts to:
   - approximately PLN 1,934,000 thousand, as regards the first agreement;
   - approximately PLN 376,000 thousand, as regards the second agreement;

   The total value of both transactions amounts to approximately PLN 2,310,000 thousand.
2. On 4 January 2006, PKN ORLEN S.A. concluded an annual contract with Shell Polska Sp. z o.o. The object of the contract was the sale of gasoline and diesel oil to Shell Polska Sp. z o.o. in 2006. The estimated value of the transaction amounted to approximately PLN 2,831,000 thousand.
3. On 4 January 2006, PKN ORLEN S.A. concluded an annual contract with BP Polska Sp. z o.o. The object of the contract was the sale of gasoline and diesel oil to BP Polska Sp. z o.o. in 2006. The estimated value of the transaction amounts to approximately PLN 3,951,000 thousand.
4. On 27 February 2006, PKN ORLEN S.A. concluded with Kulczyk Holding S.A. (hereinafter “Kulczyk Holding”) the Final Agreement for the Sale of 165,924 shares in a company incorporated under the laws of the Netherlands, namely AWSA Holland II B.V. to the benefit of Kulczyk Holding. The Guaranteed Sale Agreement was concluded as a result of exercise of the put option by PKN ORLEN S.A., in accordance with the Supplementary Agreement dated 14 November 2002. The shares sold by PKN ORLEN S.A. constitute 9.218% of the share capital of AWSA Holland II B.V. In consideration for the stake of shares in AWSA Holland II B.V., Kulczyk Holding has paid an amount of PLN 73,007 thousand by wire transfer to the bank account of PKN ORLEN. The ownership of shares in AWSA Holland II B.V. sold by PKN ORLEN S.A. to the benefit of Kulczyk Holding was transferred through the execution of the Share Disposal Agreement which took place after the fulfillment of the condition precedent set forth in the Guaranteed Sale Agreement, in particular after the shareholders’ meeting of AWSA Holland II B.V. granted its consent for the said transaction by the date of 28 July 2006, at the latest.

   Under the Supplementary Agreement dated 14 November 2002, concluded between PKN ORLEN and Kulczyk Holding, in the event PKN ORLEN S.A. disposed of the shares in AWSA Holland II B.V., Kulczyk Holding was obliged to obtain all necessary permits and consents and assume all liabilities of PKN ORLEN S.A. that PKN ORLEN S.A. has contracted or took over as the shareholder of AWSA Holland S.A. II B.V.
   On 7 June 2006, PKN ORLEN and Kulczyk Holding S.A. concluded the Share Disposal Agreement, by virtue of which the ownership to 165,924 shares in AWSA Holland II B.V., a company incorporated under the laws of the Netherlands, was transferred by PKN ORLEN to the benefit of Kulczyk Holding. The transaction resulted from the fulfillment of the condition precedent (with binding effects) set forth in the Sale Agreement concluded on 27 February 2006 between PKN ORLEN and Kulczyk Holding in the form of the Guaranteed Sale Agreement in execution of the obligations resulting from the Supplementary Agreement, concluded on 14 November 2002. The shares sold by PKN ORLEN represent 9.218% of the share capital of AWSA Holland II B.V. Consequently, after the completion of the transaction, PKN ORLEN does not hold any shares in AWSA Holland II B.V.
5. On 10 March 2006, PKN ORLEN S.A., KGHM Polska Miedź S.A., PSE S.A. and Węglokoks S.A. (the “Buyers”) and TDC Mobile International A/S (the “Seller”) concluded the “Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A.”. The above transaction was preceded by the execution of the “Shareholders’ Agreement on the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and engaging in joint activities in order to dispose of all shares held in Polkomtel S.A." by KGHM Polska Miedź S.A., PKN ORLEN, PSE S.A. and Węglokoks S.A., as the shareholders of Polkomtel S.A. As a result of the so called *Change of the Ownership Title* with respect to TDC Mobile International A/S, the remaining shareholders of Polkomtel S.A. including Vodafone Americas Inc., have obtained, in accordance with §12.14 of the Articles of Association governing Polkomtel S.A., the right to acquire a total of 4,019,780 shares in Polkomtel S.A. being held by TDC Mobile International A/S, in a proportion equal to the percentage of shares held by each of the shareholders of Polkomtel S.A., excluding the shares held by TDC Mobile International A/S. The offer to buy was directed by TDC Mobile International A/S to the remaining shareholders of Polkomtel S.A. on 8 February 2006. The Agreement was concluded in execution of the right vested in KGHM Polska Miedź S.A., PKN ORLEN, PSE S.A. and Węglokoks S.A. to purchase shares covered by the offer of TDC Mobile International A/S. The said offer resulted in a dispute between Vodafone Americas Inc. and TDC Mobile International A/S. In connection with the above-mentioned dispute, a security, referred to herein below was set on 24 February 2006. Under the Agreement, PKN ORLEN could acquire a number of 980,486 shares in Polkomtel S.A., representing approx. 4.78% of Polkomtel S.A. share capital, against the maximum price of EUR 214.04 per share (an equivalent of

PLN 832.72, in accordance with the exchange rate published by the NBP on 10 March 2006; table 50/A/NBP/2006), i.e. the maximum total price of EUR 209,863.2 thousand (an equivalent of PLN 816,472.9 thousand). In the event of the share purchase by KGHM Polska Miedź S.A., PKN ORLEN, PSE S.A. and Węglokoks S.A. by virtue of the Agreement, the said entities would jointly hold, including the shares they have already held, over 75% of the total number of the shares of Polkomtel S.A. After the settlement of the transaction, PKN ORLEN would hold a 24.4% share in the share capital of Polkomtel S.A.

6. On 20 March 2006, PKN ORLEN S.A. signed an agreement with BGW Sp. z o.o. with its registered office in Poznań. The agreement regarded transfer of 8,549 shares in ORLEN PetroZachód Sp. z o.o. against the total amount of PLN 21,012 thousand with the reservation that the purchase price may be increased by the amount not exceeding PLN 3,000 thousand. The price adjustment is conditional with regard to provisions of the agreement. The acquired shares represent 48.17% of the share capital of ORLEN PetroZachód Sp. z o.o. As a result of the above transaction, PKN ORLEN S.A. is a sole shareholder in ORLEN PetroZachód Sp. z o.o.

7. On 21 March 2006, an agreement on transfer of 13,449 shares in Samrelaks Mąchocice Sp. z o.o. with its registered office in Mąchocice Kapitulne representing 100% of its share capital for the price of PLN 4,000 thousand. The carrying value of shares as at 31 December 2005 amounted to PLN 2,505 thousand.

8. On 27 April 2006, PKN ORLEN S.A. signed an agreement with Mitsubishi Chemical Corporation, with its registered office in Tokyo, Japan. Under the said agreement, PKN ORLEN will supply Mitsubishi Chemical Corporation with up to 150 thousand tonnes of terephlatic acid per year with a possibility of changing the volume of deliveries by +/- 10 per cent in the period from 1 July 2010 to 31 December 2014. The total value of the object of the Agreement for the entire period of its duration is estimated at approx. PLN 2,800 million. The Agreement enters into force as of its date of concluding. PKN ORLEN shall have the right to a single postponement of a delivery term by no more than 9 months. After the lapse of 5 years from the date of the first delivery, the parties shall have the right to extend the term of the Agreement. The term of payment for each delivery shall be 14 days from the receipt of an invoice; the deliveries shall be invoiced on a monthly basis. In the event of failure to perform the commitments to deliver or accept PTA (purified terephthalic acid) resulting from the fault resting with one of the parties, the Agreement provides for the payment of contractual penalties in the amount of unit margin multiplied by the non-accepted or non-delivered volume of the product in a given calendar year.

9. On 26 May 2006, PKN ORLEN S.A. and Yukos International UK B.V., a limited liability company, ("Yukos") with its registered office in the Netherlands, concluded an agreement on the sale of shares with respect to the acquisition by PKN ORLEN S.A. of a stake of shares representing 53.7% in the share capital of AB Mazeikiu Nafta (a public limited company with its registered office in Lithuania). On 18 May 2006, PKN ORLEN S.A. signed the Agreement and it delivered the Agreement to the other party for signing. The Agreement with Yukos was signed by Yukos International on 26 May 2006 after the bankruptcy court in New York has overturned an interim injunction previously barring Yukos International from selling the shares in Mazeikiu. Moreover, on 19 May 2006, PKN ORLEN S.A. signed and delivered to the Government of the Republic of Lithuania the following documents: (a) Share Purchase Agreement (hereinafter the "Agreement with the Lithuanian Government") on the acquisition by PKN ORLEN S.A. from the Lithuanian Government of an additional stake of shares representing 30.7% of Mazeikiu share capital and (b) Put Option Agreement with respect to 10.0% of Mazeikiu shares which shall remain the property of the Lithuanian Government after the sale of 30.7% stake to the benefit of PKN ORLEN S.A. The Agreement with the Lithuanian Government and the Put Option Agreement were signed by the Lithuanian Government after obtaining the approval of the Lithuanian Parliament for executing the transaction with PKN ORLEN S.A. After the purchase of shares from Yukos International, PKN ORLEN S.A. was to announce, within 30 days from the said purchase of Mazeikiu shares from Yukos International, a public call for the remaining Mazeikiu shares. The price of a single share in the statutory public call shall be at least equal to the maximum price paid by PKN ORLEN S.A. in exchange for Mazeikiu shares within the period of 12 months preceding the announcement of the public call.
   On 9 June 2006, the Government of Lithuania signed the documents referred to herein below, in connection with the transfer of shares held by the Lithuanian Government in AB Mazeikiu Nafta to the benefit of PKN ORLEN S.A.: i.e. (a) Share Purchase Agreement (b) Put Option Agreement, (c) Shareholders' Agreement and (d) Agreement on the termination and release form obligations. The Lithuanian Government signed the said Documents on 1 June 2006, after the approval of the Lithuanian Parliament for the execution of the transaction between the Lithuanian Government and PKN ORLEN S.A.

10. On 31 May 2006, PKN ORLEN S.A. concluded an agreement with SK EUROCHEM Sp. z o.o. with its registered office in Włocławek, Poland. Under the Agreement, PKN ORLEN S.A. will supply SK EUROCHEM Sp. z o.o. in the period from 1 July 2010 to 31 December 2014 with 25 to 50 thousand tonnes of terephlatic acid in the course of the first year of the Agreement duration, and 100 to 120 thousand tonnes of terephthalic acid annually throughout the following years of the Agreement duration. The total value of the object of the Agreement throughout its duration is estimated at approx. PLN 2,100 million. The Agreement has entered into force as of its

date of concluding. The day of commencement of deliveries/ acceptance was set for 1 July 2010. PKN ORLEN S.A. shall have the right to a single postponement of commencement of deliveries by a maximum period of 9 months. After the lapse of 5 years from the date of the first delivery, the parties may agree on the extension of the period of the Agreement.

11. On 25 July 2006, 173,830 shares held by PKN ORLEN in Zakład Budowy Aparatury S.A. ("ZBA S.A.") with a nominal value of PLN 100 per share representing 96.57% of the share capital of ZBA S.A. and standing for 96.57% of total voting rights were sold for the total amount of PLN 15,888 thousand (equal to PLN 91.40 per share) to the following parties:

    - PETRO Remont Sp. z o.o. purchased 52,149 shares for the total amount of PLN 4,766 thousand,
    - PETRO Mechanika Sp. z o.o. purchased 52,149 shares for the total amount of PLN 4,766 thousand,
    - PETRO EnergoRem Sp. z o.o. purchased 52,149 shares for the total amount of PLN 4,766 thousand,
    - PETRO Eltech Sp. z o.o. purchased 17,383 shares for the total amount of PLN 1,589 thousand,

    After the completion of the transaction, PKN ORLEN does not hold any shares in ZBA S.A.

12. On 27 November 2006, an Agreement on the Bond Issue Program was signed. The parties to the Agreement are: PKN ORLEN S.A. as the Issuer, BANK BPH S.A. as the Issue Agent, Payment Agent, Documentation Agent, Program Partner and Dealer, whereas BANK POLSKA KASA OPIEKI S.A., BRE BANK S.A., ING BANK ŚLĄSKI S.A., PKO BANK POLSKI S.A., SOCIETE GENERALE S.A. ODDZIAŁ W POLSCE, as Agents, Program Partners and Dealers.
    Under the Program, the bonds may be repeatedly issued to a bearer in a dematerialized form, in accordance with the Act on Bonds dated 29 June 1995. Bond issue will be based on Article 9 section 3 of the Act on Bonds and shall have the nature of non-public issues.
    Within the scope of the Program, PKN ORLEN S.A. may issue zero-coupon bonds bearing no interest, which are however discounted and bear maturity period from at least seven days to a maximum of three hundred sixty five days, in addition to variable-interest coupon bonds and fixed-interest coupon bonds with a maturity date varying from one year to seven years. The maximum indebtedness of the Issuer under the Program is set at the level of PLN 2,000,000 thousand or its equivalent in other currencies. The aforementioned amount represents the maximum total value of non-redeemed issued bonds at each moment of the Program duration, whereas the said amount does not include the interest payable.
    The Bonds issued under the Program may be made in four currencies, i.e. Polish zloty (PLN), Euro (EUR), US dollars (USD) and Czech koruna (CZK).
    The issue price may be equal to the par value of a Bond or the par value diminished by a discount. The issue price shall be determined before the issue of Bonds in question.
    In the case of zero-coupon Bonds redeemed at discount, the discount shall be paid once, i.e. on the date of redemption. The discount shall depend on conditions dominating the monetary market and shall be determined before the issue of the Bonds. It shall be calculated on the par value for the period running from the day of issue until the day preceding the redemption of Bonds, inclusive of that day.
    In case of coupon-bonds, the interest due for the interest-bearing period shall be calculated on the par value of Bonds in accordance with the basis determined in terms and conditions of the issue of a given series of Bonds, bearing fixed or variable interest rate and payable on dates set in the terms and conditions of the issue.
    The payment of benefits payable on Bonds shall be made to the benefit of persons entered into the records maintained by the depositary or a relevant sub-depositary on the day specified in the terms and conditions of an issue of a given series of Bonds as the day for determining the rights to benefits from the Bonds.

13. On 29 November 2006, PKN ORLEN S.A. signed two credit facility agreements of a total value of EUR 1.6 billion for financing the transaction of acquisition of the Lithuanian company, i.e. AB Mazeikiu Nafta. The object of one of the agreements is a five-year revolving credit facility amounting to EUR 800 million, whereas the object of the second Agreement is a EUR 800 million Bridge Loan Facility with a maturity date of 12 months.
    Therefore, including its own resources and available credit lines, PKN ORLEN will have sufficient resources for purchasing the shares in AB Mazeikiu Nafta, being object of the agreements executed with the Government of the Republic of Lithuania and Yukos International B.V. The agreement for the Revolving Credit Facility was signed by PKN ORLEN S.A. with a consortium of eight Polish and foreign banks, including: ABN AMRO Bank N.V., Bank Handlowy w Warszawie S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, ING Bank N.V. / ING Bank Śląski S.A., KBC BANK NV /Kredyt Bank S.A., Société Générale SA Oddział w Polsce and UniCredit Group.
    The agreement for the Bridge Loan Facility was executed by PKN ORLEN S.A. with a consortium of six Polish and foreign banks, including: ABN AMRO Bank N.V., Bank Handlowy w Warszawie S.A., BNP Paribas, ING Bank N.V. / ING Bank Śląski S.A., Société Générale SA Oddział w Polsce and UniCredit Group.
    The resulting financing structure will allow PKN ORLEN S.A. to maintain reasonable financing costs and simultaneously facilitate the issue of Eurobonds, planned for 2007. PKN ORLEN S.A. intends to obtain at least

EUR 800 million for the repayment of the Bridge Loan Facility through this manner of financing. On 28 November 2006, PKN ORLEN S.A. has signed a contract for preparing the issue of Eurobonds, with the same group of banks with which it has signed the agreement for the Bridge Loan Facility.
The Revolving Credit Facility provides for a possibility of prolongation by a two one-year periods.
This pool of financial resources will also allow for financing other potential future undertakings within the scope of acquisition of AB Mazeikiu Nafta, i.e. purchasing of shares offered by the minority shareholders in AB Mazeikiu Nafta in response the mandatory tender offer announced by PKN ORLEN S.A., as well as a potential acquisition by PKN ORLEN S.A. of 70,750,000 shares in AB Mazeikiu Nafta, representing approx. 10% of AB Mazeikiu Nafta share capital from the Lithuanian Government.

14. On 28 December 2006, PKN ORLEN S.A. signed two agreements with Orlen PetroCentrum Sp. z o.o. for a period of one year each. Under the said agreements, PKN ORLEN S.A. shall sell to Orlen PetroCentrum gasoline and diesel oil in the period from 1 January 2007 to 31 December 2007. The value of the object of the first Agreement amounts to approx. PLN 3,604,000 thousand, whereas the estimated value of the second agreement amounts to approx. PLN 522,000 thousand.
15. On 29 December 2006, PKN ORLEN S.A. signed an agreement with BP Polska Sp. z o.o. for a period of one year. Under the said agreement, PKN ORLEN S.A. shall sell to BP Polska gasoline and diesel oil in the period from 1 January 2007 to 31 December 2007. The value of the object of the Agreement within its duration is estimated at approx. PLN 4,404,000 thousand.
16. On 29 December 2006, PKN ORLEN S.A. signed an agreement with Shell Polska Sp. z o.o. for a period of one year. Under the said agreement, PKN ORLEN S.A. shall sell to Shell Polska gasoline and diesel oil in the period from 1 January 2007 to 31 December 2007. The value of the object of the Agreement within its duration is estimated at approx. PLN 3,883,000 thousand.

Major agreements concluded in 2006 by other companies from the Capital Group, not listed in the part relating to the Parent Company

- **ORLEN PetroCentrum Sp. z o.o.**

1. On 29 December 2006, ORLEN PetroCentrum Sp. z o.o. concluded two agreements with ORLEN PetroTank Sp. z o.o. Under the said agreements, ORLEN PetroCentrum Sp. z o.o. will be selling to the benefit of ORLEN PetroTank gasoline and diesel oil in the period from 1 January 2007 to 31 December 2007. The approximate value of the agreements signed on 29 December 2006 by ORLEN PetroCentrum Sp. z o.o. amounts to:
   - PLN 694 million as regards the first agreement,
   - PLN 133 million, as regards the second agreement.

   Moreover, in the period of the last 12 months ORLEN PetroCentrum concluded with ORLEN PetroTank the following agreements:
   - on 30 December 2005, an agreement for the delivery of gasoline and diesel oil within a period from 1 January 2006 to 31 December 2006 of an approx. value of PLN 670 million;
   - on 30 December 2005, an agreement for the delivery of gasoline and diesel oil within a period from 1 January 2006 to 31 December 2006 of an approx. value of PLN 137 million;
   - on 30 June 2006, an agreement for the delivery of gasoline in the period from 1 July 2006 to 31 July 2006 of a value of approx. PLN 9 million.

   The total value of agreements signed by ORLEN PetroCentrum with ORLEN PetroTank within the last 12 months amounts to approximately PLN 1,643 million.

- **ORLEN Deutschland AG**

1. On 12 January 2006, ORLEN Deutschland AG concluded an annual contract with Deutsche BP Aktiengesellschaft for the sale of fuel to ORLEN Deutschland AG in the period from 1 January 2006 to 31 December 2006. The estimated value of the transaction amounts to EUR 800,000 thousand, i.e. approx. PLN 3,035 thousand, in accordance with the average EUR/PLN exchange rate published by the National Bank of Poland as at 12 January 2006.

2. On 23 February 2006, ORLEN Deutschland AG has signed an annual contract with Shell Deutschland Oil GmbH in Hamburg for the supply of fuel to ORLEN Deutschland gas stations situated in Germany in the period from 1

January 2006 to 31 December 2006. The estimated value of the transaction amounts to approx. EUR 600 thousand, i.e. approx. PLN 2,271,240 thousand in accordance with the average EUR/PLN exchange rate published by the National Bank of Poland as at 23 February 2006.

3. On 19 December 2006, Orlen Deutschland AG received all corporate approvals for acquiring from Deutsche BP AG 58 gasoline stations located in the northern part of Germany. The price for the outlets being object of the transaction amounts to EUR 7.6 million and will be paid by Orlen Deutschland from its own resources and with the use of the existing credit lines. The transaction on the purchase of fuel stations by Orlen Deutschland from Deutsche BP will be carried out once Orlen Deutschland receives a permit of the German Antimonopoly Office for the transaction to be concluded.

- **Unipetrol a.s.**

1. On 29 September 2005, PKN ORLEN S.A. concluded a contract with Unipetrol Rafinerie a.s. which has granted PKN ORLEN S.A. an exclusive right to supply Unipetrol Rafinerie a.s. with REBCO crude oil from 1 January 2006 on. The value of turnover from the sale of the raw material under this contract is estimated at approximately USD 1 billion per year, i.e. approx. PLN 3.239 billion. Moreover, the contract provides also that within two months, the parties will agree upon terms and conditions of sales of light sweet crude oil. The contract refers to the concept of creating a crude oil supply centre for the whole PKN ORLEN Capital Group, including the supply of crude oil to Płock, Litvinowo and Kralupy refineries.
2. On 27 October 2006, ANWIL S.A. and Unipetrol a.s. concluded an agreement on the purchase of 1500 ordinary bearer's shares of A series and 6,090,941 ordinary bearer's shares of B series in Spolana a.s. The acquisition was carried out by virtue of a share purchase agreement executed on 27 October 2006 by and between ANWIL and a subsidiary of PKN ORLEN S.A., i.e. Unipetrol, a.s. The acquired shares constitute 81.78% of the share capital of Spolana a.s., of a nominal value of CZK 11,600 each share of A series and of CZK 116 each share of B series and give right to 81.78% votes cast at the General Meeting of Shareholders of Spolana a.s. The total price for the Acquired Shares amounts to CZK 640,382,956 and was paid for in cash by ANWIL from its own resources.
3. On 27 November 2006, an agreement for the transfer by Spolana a.s. of shares in NeraPharm with its registered office in Neratovice to the benefit of Cayman Chemical Company with its registered office in Michigan, USA was executed. The shares being object of the transaction represent 100% of the share capital of NeraPharm and give right to 100% votes cast at the shareholders' meeting of NeraPharm. The total nominal value of the said shares amounts to CZK 200,000. The carrying value of the transferred shares amounted to CZK 200,000 was recorded in the books of Spolana a.s. as such, as at 27 November 2006.
4. In the course of 2006, two annexes to the agreement concluded between Česká spořitelna a.s., Citibank a.s. and Chemopetrol a.s. on the financing of lignite purchases in the years 2003 - 2008. The value of both transactions amounts to CZK 7,088 million.
5. The contract concluded by Unipetrol Rafinerie a.s. and Chemopetrol a.s. on the purchase and supply of ethylene. The value of the transaction amounts to CZK 1,397 million.
6. The agreement on the purchase of two gas outlets concluded between Benzina a.s. and Benaz. The estimated value of the transaction amounts to an approximate of CZK 61 million.
7. The agreement concluded by Spolana a.s. on the purchase of ammonia from Anwil S.A. The value of the transaction has been estimated at CZK 150 million.
8. The agreement concluded by Spolana a.s. on the purchase of cyclohexane from Unipetrol Deutschland. The value of the transaction has been estimated at CZK 305 million.
9. In January 2006, Chemopetrol a.s. and Kaucuk executed an agreement for the delivery of benzene (CZK 2,805 million), ethylene (CZK 915 million), C4 fraction (CZK 1,726 million).
10. In January 2006, Chemopetrol a.s. and Ceska Rafinerska executed an agreement for the supply of electric power and energy-related services of a total value of CZK 769 million.
11. In 2006, a framework agreement between Chemopetrol a.s. and Spolana a.s. with respect to deliveries if ethylene in the years 2007-2016. The value of the transaction amounts to CZK 1,268 million.
12. In 2006, Paramo a.s. has entered into agreements with the following companies:
    - OMV of a value of CZK 800 million for the sale of Diesel oil and light heating oil;

- Marimpex Mineralöl-Handelsgesellschaft of a value of CZK 600 million for the sale of Diesel oil and light heating oil;
- Unipetrol Rafinerie a.s. of a value of CZK 300 million for the sale of Diesel oil and light heating oil.
- SSŽ s.r.o., BHG CZ s.r.o., Skanska DS a.s. of a total value of CZK 390 million for the sale of asphalts.

13. In 2006, Doprava a.s. has entered into agreements with the following forwarders:
    - Spedi-Trans Praga, s.r.o. of a value of CZK 630 million;
    - Čechofracht a.s. of a value of CZK 227 million;
    - Argo Bohemia, s.r.o. of a value of CZK 26 million;
    - Česká rafinérská a.s. of a value of CZK 450 million;
    - Spolana a.s. of a value of CZK 195 million;
    - Chemopetrol, a.s of a value of CZK 190 million.

- **Anwil S.A.**

1. Long-term contracts for the distribution of POLANVIL on the German market have become binding in the beginning of 2006 (with a three-month termination notice). The contract was concluded with HELM and SOLVADIS for the German market distribution and MB Barter & Trading for the distribution within the Italian and Turkish markets.
2. In the I half of 2006, ANWIL S.A. concluded an insurance contract against fire and other calamities, it has also insured its machinery against the risk of damage with three major insurers: Powszechny Zakładem Ubezpieczeń PZU S.A., Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. and Sopockie Towarzystwo Ubezpieczeniowym ERGO HESTIA S.A.
3. From 1 February 2006 to 31 January 2007 an agreement with CTL Logistics was in force with respect to rail forwarding services within Poland and abroad.

- **BOP Sp. z o.o.**

1. On 7 February 2006, the Annex no. 1 to the insurance contract dating from 2005 with Powszechny Zakład Ubezpieczeń S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A and Towarzystwo Ubezpieczeniowe Allianz Polska S.A. on the amendment of certain terms and conditions of the insurance was executed. On 14 March 2006, the Annex No. 2 to the above-mentioned insurance contact was executed regarding the coverage of Spheripol installation and laboratory tools, machines and equipment with the said insurance.
2. On 28 February 2006, BOP Sp. z o.o. and Beretu Veritas Quality International Polska Sp. z o. o. have concluded the Annex No. 1 to the agreement dated 6 July 2004 for verifying the compliance with norms of the Integrated Management System.
3. On 18 December 2006, BOP concluded two credit facility agreements, one for a specific time, and one working capital credit facility, for a total amount of EUR 320 mln with a group of the following banks: Bank BPH S.A., Bank Polska Kasa Opieki S.A., BNP Paribas, ING Bank N.V., ING Bank Śląski S.A., KBC Bank N.V., Nordea Bank Polska S.A., Powszechna Kasa Oszczędności Bank Polski S.A., Rabobank Polska S.A., Société Generale, WestLb AG – London branch, WestLb Bank Polska S.A. The funds obtained will be allocated for refinancing the liabilities of the Group from the previously granted project financing.

- **IKS Solino S.A.**

1. On 29 March 2006, an annual agreement with IZCh Soda–Mątwy S.A. for the supply of brine was concluded. The planned volume of brine supplied under the agreement will amount to 2,908,074 m3 of brine, whereas the net value of deliveries set forth in the agreement amounts to PLN 12,272 thousand.
2. On 30 November 2006, an agreement for supplying raw bring was concluded for an indefinite term with Anwil S.A.

- **ORLEN PetroTank Sp. z o.o.**

On 10 February 2006, ORLEN Petrotank Sp. z o.o. concluded agreements for the lease of 12 gas stations. The said lease agreements have been concluded for a period of 15 years with a possibility of extension for two consecutive periods of five years each, whereas the value of monthly lease has been fixed on the level comparable with monthly costs of depreciation of assets held by particular gas stations.

- **ORLEN Eko z o.o.**

The agreement with PKN ORLEN S.A. for the provision of waste management services, which entered into force as of 1 December 2006. The anticipated value of the agreement amounts to PLN 21.6 million/year.

- **ORLEN Laboratorium Sp z o.o.**

The agreement dated 20 January 2006 was concluded with ORLEN Oil Sp. z o.o. for the sale of services consisting in the analysis of sewage waste, waters, atmosphere and analyses of products and technological flows in the course of the production. The value of services sold in 2006 amounted to PLN 1,982 thousand.

- **ORLEN Oil Sp z o.o.**

1. Annex dated 31 May 2006, extending the Factoring Services Agreement concluded with BPH PBK S.A. until 30 September 2006. The value of limits awarded under the said agreement amounts to:
   - factoring without retrocession: PLN 25,800 thousand.
   - factoring with retrocession: PLN 9,200 thousand.

   The agreement was not prolonged for a further term.
2. Annex dated 31 May 2006, extending the Framework Agreement for financing trade receivables for the Paylink platform concluded with Bank Handlowy S.A. until 30 September 2006 up to the total limit of PLN 23,000 thousand. The agreement was extended by an annex dated 29 September 2006 until 30 September 2007.

- **Petrotel Sp. z o.o.**

On 30 May 2006, the company concluded a credit facility agreement with Bank PKO BP S.A. in the amount of PLN 2,800 thousand for financing an investment “Vision monitoring, development of the telecommunications network, expansion of a broad-band subscriber’s network”.

- **Rafineria Trzebinia S.A.**

1. In 2006, an agreement for distribution of Ekoterm light heating oil dated 7 March 2003 continued in force. Under the said agreement, Rafineria Trzebinia was operating as the Authorized Dealer of PKN ORLEN S.A. Heating Oil. The value of Ekoterm Plus bought in 2006 based on the said agreement did not exceed PLN 44 million.
2. On 17 August 2004, an agreement with Ewico Sp. z o.o. was concluded for deliveries of crude rape oil in the amount of 25,000 T/ year. The agreement expired on 24 August 2006. A volume of 22,000 tonnes of rape oil was delivered based on the above agreement of a value of PLN 55 million.
3. In 2006, an agreement concluded with Bodaczów Sp. z o.o. on 20 July 2005 continued in force. Based on the agreement deliveries of crude rape oil in the amount of 15,000 tonnes per year were guaranteed. The agreement remains in force until 20 July 2010. In 2006, a volume of 8,800 tonnes of rape oil was delivered of a net value of PLN 22 million.
4. On 28 December 2005, an agreement for the delivery of methanol from Miderhelm GmbH was signed, effective as of 1 January to 31 December 2006 Under the agreement an amount of 2,200 tonnes of methanol of a value of PLN 3.3 million was delivered. On the same day, an agreement with z J&S Energy S.A. in force until 31 December 2006 was executed. On the basis of the agreement, an amount of 8,000 tonnes of methanol of a value of 11.4 million was delivered.
5. On 4 January 2006, an agreement with PKN ORLEN S.A. was concluded for the deliveries of diesel oils and motor gasoline based on prices calculated in accordance with market quotations. On the same day, another agreement for the delivery of the above-mentioned product against spot prices based on pricelists published by PKN ORLEN S.A. was concluded. The value of purchases made under the said agreements did not exceed PLN 492 million.

- **Rafineria Nafty Jedlicze S.A.**

1. Lease Agreement dated 19 December 2005, concluded with ORLEN Oil Sp. z o.o. on leasing of the Unit for the production of Oils and Lubricants together with a part of day-to-date activity connected with the operation of the said unit. The agreement entered into force as of 1 January 2006.
2. Agreement with PKN ORLEN S.A. for a comprehensive, exclusive and independent operation of Solvents installation was executed.
3. Agreement with PKN ORLEN S.A. for the sale of “Ekoterm Plus” heating oil.
4. Agreements for the supply of base raw materials, including the most important agreements for the delivery of crude oil were concluded with the following suppliers: „J&S Energy” S.A. w Warszawie, „Baltex Inc” Sp. z o.o. w Warszawie, PGNiG S.A. w Warszawie, Sanoku branch, PKN ORLEN S.A., UNIMOT EXPRESS Sp. z o.o. w Warszawie, BMP Trading GmbH Niemcy, LAMA – Petr Lamich, Czechy.
5. Investment credit facility agreement concluded in September 2006 with ING Bank Śląski S.A. The funds granted under the credit facility are to finance a unit for the production of solvents up to PLN 15.5 million.

- **Petrolot Sp. z o.o.**

1. In 2006 a financial leasing agreement, which was executed with ING LEASE (Polska) Sp. z o. o. for a period of 7 years, have remained in force. The agreement related to :
   - 50 tank cars – concluded 10 May 2000;
   - 12 tank cars – concluded 8 October 2001.
2. On 18 December 2002, a financial leasing agreement was concluded with BRE Leasing Sp. z o.o. for a period of 5 years with respect to using of five Esterer aircraft bowers, one Esterer tank tailor and automatic distribution system of aviation fuel.
3. In 2006, a financial leasing agreement for the lease of seven rail cisterns was concluded with Fortis Lease Polska Sp. z o.o. for a period of 7 years.
4. On 17 February 2005, the company concluded a financial leasing agreement for a period of 7 years with Handlowy Leasing S.A. The object of the agreement is the lease of seven Esterer aircraft bowers and two Esterer tank trailers.
5. On 21 June 2005, a financial leasing agreement was signed for a term of 7 years with Handlowy Leasing S.A for using two Esterer aircraft bowers.
6. In April 2006, third party insurance agreement in connection with the operation of PETROLOT up to the guaranteed sum of USD 500 million was renewed.

- **ORLEN Projekt S.A.**

1. Agreement with PKN ORLEN SA executed on 24 January 2006 for the restructuring of the Warehousing Base in Świnoujście. ORLEN Projekt S.A. is the leader of the Consortium. The project will be completed by 31 July 2007. The value of the agreement amounts to PLN 29.9 million.
2. Agreement with Agat Sp. z o.o. entered to on 11 April 2006 on the refurbishment of Żurawica Warehousing Base. ORLEN Projekt S.A. is a member of the Consortium. The project will be finished by 31 July 2007. The anticipated value of the agreement amounts to PLN 3.9 million.
3. Agreements with PKN ORLEN SA signed on 29 November 2006 on the construction of unit dispensing methyl esters to diesel oil at warehousing bases in Gdansk, Szczecin, Nowa Sól, Ostrów Wlkp., Wrocław and Mościska. The project will be ready for using by 30 September 2007 The total value of the agreements amounts to PLN 35.0 million.

INFORMATION ON KEY PRODUCTS AND SERVICES, MARKETS AND SOURCES OF SUPPLY, INCLUDING LIST OF PARTICULAR SUPPLIERS

Consolidated companies	Basic products, goods and services	Markets (areas of operation)	Major suppliers	Sales revenues (in PLN thousand)
Parent Company				
PKN ORLEN S.A.	gasoline, leaded petrol, diesel oil, heating oil, special oils, lube oils, asphalt, polyethylene, polypropylene ethylene, propylene, butadiene, glycols, phenol, acetone	domestic market and export	J&S Service&Investment Ltd, Fisotra, Petraco, KD Petrotrade, PGNiG	33,501,034
Subsidiaries				
Unipetrol capital group				13,049,034
UNIPETROL a.s.:	advisory and consulting services			
Chemopetrol a.s.	polyethylene, polypropylene ethylene, propylene, benzene fraction C4, fraction C5, fraction C9, BTX, ethanol, OXO alcohols, ammonia, carbamide	Czech Republic and foreign markets	Unipetrol Rafinerie a.s.	-
Kaucuk a.s.	E-SBR, EPS, CPS, butadiene, raffinate II, ABS	Czech Republic and foreign markets	Chemopetrol a.s.	-
Spolana a.s.	PVC, caprolactam, NaOH	Czech Republic and foreign markets	Chemopetrol a.s.	-
Unipetrol Rafinerie a.s.	Diesel oil, gasoline raw materials for pyrolysis , HCVD, LPG, Jet, asphalt, propylene, raw materials for POX	Czech Republic and foreign markets	PKN ORLEN S.A.	-
Paramo a.s.	raw materials for pyrolysis, diesel oil, LFO (light fuel oil), HFO (heavy fuel oil), asphalt, greases and oils	Czech Republic and foreign markets	Unipetrol Rafinerie a.s.	-
Benzina a.s.	gasoline, diesel oil	Czech Republic	Unipetrol Rafinerie a.s.	-
Unipetrol Trade a.s.	HDPE (high density polyethylene) , polypropylene, PVC, polystyrene, benzene, cyclohexanone, caprolactam, acids, caustic soda, pigments, ammonia, carbamide, ammonium nitrate	Western Europe and Russia, Romania, Ukraine, Bulgaria and Turkey	companies from the Unipetrol Capital Group	-
Ceska Rafinerska a.s.	gasoline, diesel oil raw materials for pyrolisis, HCVD, LPG, Jet, asphalts, propylene, raw materials for POX, oils	Czech Republic	-	-
Mazeikiu capital group *)	Gasoline, diesel oil	Lithuania	PKN ORLEN S.A.	-
Anwil capital group	ammonium nitrate, CANWIL – nitro-chalk, ammonia, PCV, soda lye, caustic soda, soft and hard granulate products	domestic market and export	PKN ORLEN S.A., PGNiG S.A., IKS SOLINO SA	1,980,117
Rafineria Trzebinia capital group	motor spirits, diesel and heating oil, FAME Biodiesel, BIO diesel oil, crude oil semi-products, paraffin for candles	domestic market and export (Europe)	PKN ORLEN, Ewico, Bogaczów, J&S Energy., Miderhelm Gmbh; Fabryka Parafin Naftowax, Energomedia., PGNiG, ENION, Orlen	1,118,389

Consolidated companies	Basic products, goods and services	Markets (areas of operation)	Major suppliers	Sales revenues (in PLN thousand)
	and lights, paraffin emulsion and waxes for wood, paraffin medicines, candle products		Oil.	
Rafineria Nafty Jedlicze capital group	motor spirits, diesel and heating oil, lube oil and special oils, greases oil, base oil	domestic market and export (Slovakia)	PKN ORLEN, PGNiG, Unimot Express, BMP Trading GmbH, Konsorcjum Olejów Przepracowanych	360,572
ORLEN-Oil capital group	lubricants, base oils, other oil products, maintenance fluids	domestic market and export	PKN ORLEN S.A.	708,858
ORLEN Asfalt Sp. z o.o.	road asphalt BITREX, modified asphalt ORBITON and industrial asphalt, bitumen products, glue, transportation services	domestic market and export (Hungary, Lithuania, Germany, Czech Republic, Romania, Ukraine)	PKN ORLEN S.A. Kraton Polska, ORLEN Oil Sp. zo.o..	694,428
IKS Solino S.A.	brine for trading, evaporated brine, domestic salt, iodine sodium, salt tablets, bagsy, salt for pickling, compact salt, fuel storage service at PMRiP	domestic market and export (Europe)	ORLEN Oil, Ciech – Janikosoda, Ciech - Soda Mątwy, Anwil, Marma Polskie Folie Rzeszów, Opus Kraków, Galaktyk, Storaenso, Ostrołęka, Eurologistic Poznań, FM Logistick Mszczonów	113,589
ORLEN PetroTank Sp. z o.o.	motor spirits, diesel oil, heating oil and liquid gas	Poland (podkarpackie, malopolskie świętokrzyskie, opolskie, slaskie voivodeship)	PKN ORLEN S.A., ORLEN Petrocentrum Sp. zo.o.	1,100,065
ORLEN PetroProfit capital group	motor spirits, heating, engine and industrial oils, diesel oil, LPG	Eastern Poland	ORLEN PetroCentrum, Realgas, PKN ORLEN, Rafineria Trzebinia, BP POLSKA, PETROFIX, Skotan, J&S Energy, Petrax, Kolgard ITC Ltd, Petrooktan, Eko-Service, Petromont, ORLEN PetroZachód, ORLEN Transport Lublin, SEMI, COPAR, Nijman/Zeetank International Transport, BM Reflex.	636, 925
ORLEN PetroCentrum Sp. z o.o.	motor spirits, diesel oil, heating oil and liquid gas, non-liquid products	Poland	PKN ORLEN, ORLEN Gaz, BP Polska, ORLEN PetroProfit, J&S ENERGY, Milo, ORLEN Transport Płock.	2,967,092
Petrolot Sp. z o.o.	Jet A-1 aviation fuel, 100LL aviation gasoline, automobile gasoline	domestic and foreign airlines at Polish airports, sale of automobile gasoline in Warsaw, Gdansk and Poznań	PKN ORLEN,Agencja Rezerw Materiałowych, Grupa Lotos, Ośrodek Badawczo Rozwojowy Przemysłu Rafineryjnego w Płocku	841,933
ORLEN PetroZachód Sp. z o.o.	motor spirits, diesel oil, city diesel, Biodiesel, heating oil, LPG, plastics	Poland: Wielkopolskie, Lubuskie and Dolnośląskie voivodeship	PKN ORLEN, ORLEN PetroCentrum, Basell ORLEN Polyolefins.	603,293
ORLEN Morena Sp. z o.o.	motor spirits, diesel oil, heating oil, LPG	Northern Poland	ORLEN PetroCentrum, PKN ORLEN, ROMGAZ	604,995
Ship - Service capital group	Intermediate Fuel Oil (IFO), Marine Diesel Oil (MDO), Marine Gas Oil (MGO)	sea and inland navigation, fishery harbors (Poland and	PKN ORLEN, Tintrade Ltd, AS Bominflot Estonia, TELF AG, Grupa Lotos.	297,593

Consolidated companies	Basic products, goods and services	Markets (areas of operation)	Major suppliers	Sales revenues (in PLN thousand)
		abroad)		
ORLEN Gaz Sp. z o.o.	liquid gas	domestic market, export (Slovakia, Czech Republic, Germany)	PKN ORLEN, Gaspol, BP Polska, Unipetrol Rafinerie, Bałtyk – Gaz.	755,451
ORLEN Deutschland AG	motor spirits, diesel oil, heating oil,	Northern Germany	BP, Shell, Mabanaft, Holborn,	8,858,996
ORLEN Automatyka Sp. z o.o.	installation, repair and maintenance services of control and measuring tools and devices	domestic market	Zakłady Automatyki POLNA, ASE, Kauko Metek, Atmoservice, Metso Automation GmbH, Sema, Klinger Polska, PPH MAR-JAN, Micol P.H.P., AMPER , PHU ELGAL, Emerson Process Management , Endress+Hauser Polska, INTROL Honeywell, POLYCO, Krohne Polska, ANTYCOR Controls, KLIMA-THERM, SFM Filtry Łuczak, Kujawska Fabryka Manometrów ALF-Sensor, Linde Gaz Polska Sp. z o.o. BOC Gazy, Okręgowy Urząd Miar	24,401
ORLEN Wir Sp. z o.o.	repair services of compressors and turbines	Poland	Neo-Tec, ZBA, Hartmak, Transfer, Transfer-Bis, Alfa, Euro-tech, Gaz-Tech, Achtel, Ewan, Solmet, Hydrof, Maden, Zielonka	13,578
ORLEN Transport Płock Sp. z o.o.	provision of TDG services, transport of goods, passenger transport, forwarding, services relating to construction machines, repair and maintenance, sale of Petrygo and Ekoterm fuels transportation of chemical agents	Poland and Europe	PKN ORLEN	109,629
ORLEN Transport Szczecin Sp. z o.o.	transportation services	Poland: zachodniopomorskie, lubuskie, wielkopolskie, pomorskie voivodeship	PKN ORLEN	4,575
ORLEN Transport Kraków Sp. z o.o.	transportation services	domestic and foreign markets	PKN ORLEN, ORLEN PetroTank, ORLEN Oil, KrakGaz	29,123
ORLEN Transport Nowa Sól Sp. z o.o.	transportation services, sale of fuels	Poland: lubuskie, dolnośląskie and partly zachodniopomorskie voivodeship	ORLEN Morena, Opony Serwis Piechnik, Suder Plus Świętno, Auto Service Przylep, Frączak Wrocław	27,396
ORLEN Transport Słupsk Sp. z o.o.	transportation services, services relating to motor-driven vehicles, sale of fuels	domestic and foreign market	PKN ORLEN	32,158
ORLEN Transport Olsztyn Sp. z o.o.	transportation services, sale of fuels	domestic market	PKN ORLEN, ORLEN Morena.	23,556
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	transportation services	domestic and foreign market	PKN ORLEN, ORLEN PetroTank, ORLEN Oil	15,304
ORLEN KolTrans Sp. z o.o.	lease and maintenance of tankers, sale of services: license-requiring transportation, maintenance of DEC cars	Poland	PKN ORLEN, ORLEN PetroCentrum, Hagans, Petro Mechanika, Transchem, Tender, Transpol, ORLEN Transport Płock , PKP PLK, ZNPS Malbork, Ekonaft Bolesławiec, Spedkol	80,596

Consolidated companies	Basic products, goods and services	Markets (areas of operation)	Major suppliers	Sales revenues (in PLN thousand)
Petrotel Sp. z o.o.	telecommunications services, GSM connection services, goods and materials	Płock and and Stara Biała commune	Exatel, Limex, Polkomtel, ERA GSM PTC	30,709
ORLEN Projekt S.A.	planning and designing, investment start-up general realization of investments, investment supervision, investor substitution, printing	domestic market	HENCZKE Budownictwo Płock, A.Wałęsa, K.Rybicki, L.Malara Płock, KB Pomorze Gdańsk, PETRO WodKan, AGAT, TOREX, MERRID Controlls Łódź, PHU Wereszczyński Płock	45,444
ORLEN Medica Sp. z o.o.	provision of health-care related services	domestic market	Konsultacje i hospitalizacje - CSK WIM, LEWANDPOL, PKN ORLEN, Euromed, Wojewódzka Stacja Pogotowia Ratunkowego i Transportu Sanitarnego, GlaxoSmithKline, Apteka VITA	13,862
ORLEN Laboratorium Sp. z o.o.	laboratory services, analysis of petrochemical products, analysis In the area of enviromental care, additional services	domestic and foreign market (Germany)	PKN ORLEN, Petrotel, Polkomtel ORLEN Medica,ROFA Laboratory Inkom Instruments Co., Perlan Technologies, PERKIN Elmer, P.U. Zieleń, POCh, Boc Gazy, Messer, Tusnovics Instruments Polska, Optimal, Andy	42,605
ORLEN Powiernik Sp. z o.o.	trust and other services to the benefit of PKN ORLEN	Płock	PKN ORLEN	0
ORLEN Budonaft Sp. z o.o.	construction and installation production within the scope of construction and maintenance of gas stations production of steel constructions	Poland	Brugg, Gamart, Biel-stal, Elektret, Deiterman, Roya-hurt, Rohe	26,736
ORLEN Eko Sp. z o.o.	waste management services	domestic market	SITA Starol Chorzów, Petro WodKan, ZBA, PKN ORLEN, Ciba Speciality Chemicals Hungary Limited.	14,555
ORLEN Administracja Sp. z o.o.	real estate management, office management, printing, records keeping, additional services, services to the benefit of purchase and warehousing offices ,VITAY	domestic market	PKN ORLEN	11,201
ORLEN Księgowość Sp. z o.o.	payroll services, bookkeeping services, stock-taking services for the benefit of companies	domestic market	PKN ORLEN, DELL, P.H.U. Studio Wyposażenia Wnętrz, Lyreco Polska, Płocki Park Przemysłowo-Technologiczny, Centrum Edukacji.	5,577
ORLEN Prewencja Sp. z o.o.	work security and hygiene related services, fire protection, environmental protection, servicing life-saving and fire-fighting equipment	domestic market	PKN ORLEN, DELL.	4,478
ORLEN Upstream Sp. z o.o.	supporting the development of PKN ORLEN S.A. within the scope of prospecting and exploration	domestic and foreign market	Wollen Consulting Limited, Seferoyich Patrick, Bankowe Biuro Podróży Trayelbank, Regus Business Centre Capital Plaza, Gaffney, Cline Associates, Kancelaria Prawna Radcy Prawnego Aleksandra Kretkiewicz, Koktem Group Ltd, Wood Mackenzie.	2,268
Etylobenzen Płock Sp. z o.o.	production and slaes of organic chemicals.	domestic and foreign market	PKN ORLEN	-
Orlen Holding Malta Limited	investing in shares of other companies, undertakings, joint – ventures, consortia and	domestic and foreign market	-	-

Consolidated companies	Basic products, goods and services	Markets (areas of operation)	Major suppliers	Sales revenues (in PLN thousand)
	syndicates			
Orlen Insurance Ltd	property incurance activityw of the PKN ORLEN group	domestic and foreign market	-	55,131
Jointly controlled companies				
Basell Orlen Polyolefins Sp. z o.o.	polyethylene, polypropylene, sale of imported products, agency services to the benefit of Basell Polyolefins Company	domestic market and export	PKN ORLEN, Karl Schmidt Spedition GmbH & Co. K, LKW Walter, International, Mexem, Bertschi AG Durrenasch, Equus, Hoyer-Talke GmbH&Co.	1,368,557
Płocki Park Przemysłowo -Technologiczny S.A.	advisory services with respect to business activity and management. Holding management, general construction civil ingeneering	domestic market	PKN ORLEN	591
Associate companies				
Polkomtel S.A.	telecommunications services	domestic market	-	7,359,014
NOM Sp. z o.o.	telecommunications services	domestic market	-	33,161
Chemiepetrol Sp. z o.o.	butyl acetate, PVC, xylene, MEG, copper sulfate	Germany	PKN ORLEN, Dwory, Ciech	17,953

*) due to insignificant impact on the consolidated income statements of PKN ORLEN Capital Group for 2006 the income statement of Mazeikiu capital group for the period from 15 December 2006 to 31 December 2006 was not included into the consolidated income statement of PKN ORLEN Capital Group for the year ended on 31 December 2006

TRANSACTIONS WITH RELATED ENTITIES

Transactions between the Parent Company and related entities where the value of a single transaction or the total value of transactions in 2006 has exceeded a PLN equivalent of EUR 500 thousand:

No.	Party to a transaction	Sales in PLN thousand	Purchases in PLN thousand
1.	ORLEN Gaz Sp. z o.o.	356,200	538,728
2.	ORLEN PetroProfit Sp. z o.o.	75,007	19,773
3.	ORLEN PetroTank Sp. z o.o.	91,684	30,724
4.	Inowrocławskie Kopalnie Soli "SOLINO" S.A.	1,147	30,961
5.	ORLEN PetroCentrum Sp. z o.o.	2,937,878	2,287
6.	PETROLOT Sp. z o.o.	702,768	3,529
7.	Petrotel Sp. z o.o.	665	7,743
8.	Rafineria Trzebinia S.A.	539,938	45,049
9.	ORLEN Medica Sp. z o.o	157	5,131
10.	ORLEN PetroZachód Sp. z o.o.	38,722	10,727
11.	ORLEN Projekt S.A.	122	15,413
12.	ORLEN Ochrona Sp. z o.o.	2,423	33,755
13.	Wisła Płock Sportowa S.A.	15	6,783
14.	Zakład Budowy Aparatury S.A.	1,232	4,777
15.	ORLEN Transport Płock Sp. z o.o.	72,039	33,446
16.	ORLEN Automatyka Sp.z o.o.	392	19,112
17.	ORLEN Wir Sp. z o.o.	509	7,990
18.	ORLEN Budonaft Sp. z o.o.	1,001	25,079
19.	Orlen Administracja	2,615	10,939
20.	Rafineria Nafty Jedlicze S.A.	57,478	127,865
21.	SHIP-SERVICE S.A.	103,398	136
22.	ANWIL S.A.	408,613	5,932
23.	ORLEN Oil Sp. z o.o.	424,818	129,371
24.	ORLEN Transport Olsztyn Sp. z o.o.	7,241	6,161
25.	ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	3,926	7,491
26.	ORLEN Transport Słupsk Sp. z o.o.	24,186	6,610
27.	ORLEN Transport Kraków Sp. z o.o.	5,010	8,571
28.	ORLEN Transport Szczecin Sp. z o.o.	902	3,511
29.	ORLEN Transport Nowa Sól Sp. z o.o.	929	13,028
30.	ORLEN Centrum Serwisowe (former Zakład Urządzeń Dystrybucyjnych)	1,455	34,452
31.	ORLEN KolTrans Sp. z o.o.	8,927	63,192
32.	ORLEN Asfalt Sp.z o.o. (former Bitrex Sp. z o.o.)	525,354	3,552
33.	ORLEN Morena Sp. z o.o.	63,840	378
34.	BASELL ORLEN POLYOLEFINS Sp. z o.o.	2,124,732	22,032
35.	ORLEN Laboratorium Sp. z o.o.	2,261	34,932
36.	ORLEN Eko Sp. z o.o.	3,951	13,295
37.	Orlen Prewencja Sp. z o.o.	880	3,941
38.	Orlen Insurance	0	30,008
39.	Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.	3,868	30,088

No.	Party to a transaction	Sales in PLN thousand	Purchases in PLN thousand
41.	Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o.	9,150	31,609
42.	Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o.	101	19,389
43.	Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o.	4,673	17
44.	KAUČUK, a.s.	33,173	0
45.	UNIPETROL RAFINÉRIE a.s.	5,732,148	56,542
46.	PARAMO, a.s.	10,484	1,387
47.	UNIPETROL, a.s	0	0
48.	Polkomtel S.A.	10,238	39,336
	Total	14,405,250	1,589,378

Transactions with related entities were translated at the exchange rate representing arithmetic average of average exchange rates published by the National Bank of Poland as at the last day of each ended month within the period from 1 January 2006 to 30 December 2006, namely of 3.8991 PLN/EUR; 3.0898 PLN/USD; 0.1345 PLN/CZK.

Transactions with related entities:

a. Transactions with members of the Management Board of the Company, their spouses, siblings, ascendants, descendants or other close relatives

In 2006 and 2005, the companies from the PKN ORLEN Capital Group did not make any advance payments, grant loans or credits, guarantees or sureties or any other agreements obliging to perform to the benefit of the Company and its related entities to the managing or supervising management or their relatives.
As at 31 December 2006 and 31 December 2005, the companies from the Group did not extend any loans the managing and supervising parties.
In 2006 and 2005, there were no significant transactions carried out with members of the Management Board or Supervisory Board of the Company, their spouses, siblings, ascendants, descendants or other close relatives.

b. Transactions with related entities carried out by the supervising persons of the Company and supervising persons of the companies from the Capital Group (in thousand PLN)

In 2006 the supervising persons of the Company and companies from the Capital Group submitted statements on transactions concluded in 2006 with related parties in accordance with the requirements of the amended IAS 24 "Related Party Disclosures".

thousand PLN	Sale	Purchase	Receivables	Liabilities
Legal persons *	79,901	210,999	5,069	40,085
Natural persons	300	-	-	-

* Transactions in the period where a person acted as a member of the Company's supervisory bodies.

c. Transactions with related parties through the managing persons of the Company and the managing persons of companies from the Capital Group

In 2006, members of management boards of the Parent Company and companies from the Capital Group did not conclude any significant transactions with related parties in accordance with the requirements of the amended IAS 24 "Related Party Disclosures".

d. Transactions of key management personnel of the Company and companies from the Capital Group with related parties

In 2006 the Company obtained on transactions concluded with related parties in accordance with the requirements of the amended IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons *	603	22	11	-
Natural persons	56	-	-	-

* Transactions in the period where a person acted as a key management personnel.

e. Transactions with related entities not covered by the full consolidation method were concluded in an arm's length transaction and were as follows in thousand PLN:

	Entities consolidated under equity method
Sales	
2006	28 369
2005	26 616
Purchases	
2006	160 652
2005	192 300
Short term receivables	
31 December 2006	3 748
31 December 2005	4 532
Short –term liabilities	
31 December 2006	26 137
31 December 2005	18 256

The above-mentioned transactions with related entities include the sale and purchase of petrochemical products and refurbishment, transportation and other services.

REMUNERATION, INCLUDING PROFIT DISTRIBUTION PAID AND DUE OR POTENTIALLY DUE TO THE MANAGEMENT BOARD, SUPERVISORY BOARD AND MEMBERS OF KEY MANAGEMENT, IN ACCORDANCE WITH IAS 24

Remuneration of the Management Board, Supervisory Board and key management personnel cover short-term benefits, benefits payable after the termination of the employment, other long-term benefits and payments made in connection with the termination of employment relationship paid, due or potentially due within the period in question.

a. Remuneration of the Members of the Management Board and Supervisory Board, including key management personnel of the Company in 2006 (in thousand PLN)

	2006
Remuneration of the Members of the Parent Company's Management Board	**19,437**
incl. remuneration paid to the Members of the Board remaining in office in 2006	14,081
potential remuneration payable to Members of the Board remaining in office in 2006	5,357
Remuneration paid to the Members of the Parent Company's Supervisory Board	**739**
Remuneration paid to the Parent Company's key management personnel:	**28,992**
incl. remuneration paid	18,953
remuneration due	10,039
Remuneration paid to the key management of the subsidiaries from the Capital Group:	**99,792**
incl. remuneration paid	84,176
remuneration due	15,616

Remuneration paid to the Members of the Supervisory Board of the Parent Company	**2006**
Konstanty Brochwicz-Donimirski	9
Robert Czapla	9
Dariusz Dąbski	54
Marek Drac-Tatoń	32
Raimondo Eggink	106
Maciej Gierej	9
Zbigniew Macioszek	100
Maciej Mataczyński	93
Krzysztof Obłój	9
Małgorzata Okońska – Zaremba	9
Andrzej Olechowski	52
Wojciech Pawlak	97
Adam Pawłowicz	25
Krzysztof Rajczewski	9
Wiesław Rozłucki	54
Adam Sęk	9
Ryszard Sowiński	54
Ireneusz Wesołowski	9

Total remuneration paid to the Members of the Supervisory Board of the Parent Company	**739**
	====

Remuneration paid, due and potentially due in 2006 to the Parent Company' Management Board Members remaining in office in 2006

	Remuneration	Bonus for 2005	Insurance Policy	Potentially payable*	Severance pay, non-competition clause and compensation	**Total**
Igor Chalupec	1,939	1,250	98	1,247		**4,534**
Cezary Filipowicz	842	-	73	506		**1,421**
Wojciech Heydel	1,160	1,033	76	1,154		**3,423**
Piotr Kownacki	185	-	-			**185**
Jan Maciejewicz	1,091	776	43	600		**2,510**
Cezary Smorszczewski	1,328	626	80	643		**2,677**
Krzysztof Szwedowski	635	-	43	408		**1,086**
Paweł Szymański	854	609	51	604		**2,118**
Dariusz Witkowski**	216	196	37	194	840	**1,483**
	------------	------------	------------	------------	------------	------------
Total	**8,250**	**4,490**	**501**	**5,356**	**840**	**19,437**
	=======	=======	=======	=======	=======	=======

* The potentially payable yet unpaid remuneration is due to the Management Board Members in connection with the new rules and regulations of bonus-awarding system, i.e. Management by Objectives (MBO) in force from 1 January 2005. The bonus was calculated on the basis of a preliminary evaluation of realization of MBO targets of the Management Board Members carried out by the Company's Supervisory Board.

In 2005, a new motivation system for key management personnel of Parent Company and the Capital Group was introduced. The system consists in motivating through objectives, i.e. Management by Objectives (the MBO). The new system covers the Management Board and key management personnel. Managers covered by the MBO system are remunerated for the realization of individual targets, set forth at the beginning of the settlement period, and on the basis of the joint target, i.e. shareholders value added (SVA). The Supervisory Board sets targets for particular Members of the Management Board. The targets refer either to quality or quantity (measurable) and are settled in accordance with the rules adopted in the Rules and Regulations of the Bonus-awarding System after the termination of the year for which they were set.

In 2005, a new motivation system for key executive management of PKN ORLEN S.A. and the Capital Group was introduced. The system consists in the motivation through objectives, i.e. Management by Objectives (the MBO). The new system covers the Management Board and key executive management. Individuals covered by the MBO system are remunerated for the realization of individual targets, set forth at the beginning of the settlement period, and on the basis of the joint target, i.e. shareholders' value added (SVA). The Supervisory Board sets targets for particular Members of the Management Board. There are either qualitative or quantitative (measurable) targets which are settled in accordance with the rules adopted in the Rules and Regulations of the Bonus-awarding System after the end of the year for which they were set.
The management covered by the MBO system is rewarded for the realization of 4 to 8 bonus targets, which are set individually for each Employee and registered in the Target Record. They can be either quantitative or qualitative. Quantitative targets are measurable, where both the target value and the realization value are assessable, e.g. EBIT or amount of contracts executed. Each quantitative target is attributed the value of realization representing the target realization at the level of 80, 100 and 120 points accordingly. The said values are set through the Financial Department on the basis of budgets and plans adopted. When assessing the realization of particular quantitative targets, partial points are awarded in the 80-to-100 point range and 100-to-120 point range. Realization under 80 points represents „0" points value.
Qualitative targets cannot be represented in numbers, however, they can be determined in the outcome of the resulting activities. The assessment of the qualitative target realization is carried out on the basis of the Qualitative Target Realization Report submitted to a superior after the end of the year in which they were to be achieved. The realization of targets can be rewarded: 0 points (unsatisfactory), 60 points (average), 80 points (satisfactory), 100 points (very well) and 120 points (outstanding). Particular targets are attributed certain weight. The weight of a single bonus target cannot be lower then 5% or exceed 40%; the total weight of targets must equal 100%.
The value of the bonus awarded is also conditioned by the realization of the joint target, i.e. the Concern's consolidated SVA. In a case the planned SVA is realized, each employee receives a bonus in full amount. However,

when the joint target fails to be realized, all employees receive half of the generated bonus. This system enhances cooperation between the employees in order to achieve the best possible result within the whole Concern.

Remuneration of the Management Board and Supervisory Board of the Parent Company in connection with holding positions in Supervisory Boards and Management Boards of subsidiaries, jointly controlled entities and associate companies in 2006

In 2006, Members of the Management Board of PKN ORLEN S.A. holding positions of Management Board or Supervisory Board Members in subsidiaries, jointly controlled entities or associate companies belonging to the PKN ORLEN Capital Group did not receive any remuneration for holding the above-mentioned positions, except for UNIPETROL, where the remuneration due was transferred to the benefit of ORLEN Foundation "Dar Serca".
In 2006, Members of the Supervisory Board did not hold positions in Management Boards or Supervisory Boards of subsidiaries, jointly controlled entities or associate companies belonging to the PKN ORLEN Capital Group.

Remuneration of the Company's Management Board in 2006 include potential bonuses payable to the Members of the Management Board not recognized as costs in 2006, as well as include benefits paid to a former Member of the Management Board in the amount of PLN 1,289 thousand.

The position of the Company's key executive management in the period of 12 months of 2006 was held by 30 persons, including executive management personnel changes, as opposed to 40 persons in 2005. This change results from transformations of the Company's organizational structure. Under comparable conditions, the remuneration of the key executive management of PKN ORLEN for the period of 12 months of 2006 amounts to PLN 36,291 thousand.

b. Remuneration of Members of the Management Board and of the Supervisory Board and the key management personnel of the Parent Company for the year 2005 (in thousand PLN)

	2005
Remuneration of the Parent Company's Management Board Members	**26,147**
incl. remuneration paid to the Members of the Management Board remaining in office as at 31 December 2005	7,422
potential remuneration payable to Members of the Board remaining in office as at 31 December 2005	4,597
remuneration paid to other members of the Management Board	14,128
Remuneration paid to the Members of the Parent Company's Supervisory Board	**854**
Remuneration paid to the Parent Company's key management personnel:	**26,212**
incl. remuneration paid	18,604
remuneration due	7,608
Remuneration paid to the key management personnel of the companies belonging to the Capital Group:	**61,808**
incl. remuneration paid	61,624
remuneration due	184

Remuneration of the Supervisory Board Members of the Parent Company	**2005**
Jacek Bartkiewicz	118
Raimondo Eggink	101
Maciej Gierej	101
Krzysztof Lis	8
Krzysztof Obłój	22
Małgorzata Okońska – Zaremba	101
Andrzej Olechowski	51
Piotr Osiecki	79
Adam Pawłowicz	8
Adam Sęk	51
Michał Stępniewski	88
Ireneusz Wesołowski	101
Krzysztof Żyndul	25

Total remuneration of the Supervisory Board Members of the Parent Company	**854**
	====

Remuneration paid, due and potentially due in 2005 to the Parent Company Management Board Members remaining in office as at 31 December 2005

thousand PLN	Remuneration	Bonus	Insurance policy	Potentially due*	**Total**
Igor Chalupec	1,939	315	107	1,250	**3,611**
Wojciech Heydel	1,162	-	76	1,140	**2,378**
Jan Maciejewicz	1,093	-	42	776	**1,911**
Cezary Smorszczewski	1,335	-	80	626	**2,041**
Paweł Szymański	863	-	55	609	**1,527**
Dariusz Witkowski	355	-	-	196	**551**
	------------	------------	------------	------------	------------
Total	**6,747**	**315**	**360**	**4,597**	**12,019**
	=======	=======	=======	=======	=======

* The potentially payable yet unpaid remuneration due to the Management Board Members in connection with the new rules and regulations of bonus-awarding system, i.e. Management by Objectives (MBO) in force from 1 January 2005. The bonus was calculated on the basis of a preliminary evaluation of realisation of MBO targets of the Mangement Board Members carried out by the Company's Supervisory Board.

Remuneration paid in 2005 to other members of the Parent Company's Management Board

	Remuneration	Bonus	Insurance policy	Severance pay, non-competition clause and compensation	**Total**
Sławomir Golonka	-	1,500	-	1,325	**2,825**
Krzysztof Kluzek	-	824	-	513	**1,337**
Andrzej Macenowicz*	420	1,752	103	490	**2,765**
Andrzej Modrzejewski	112	-	-	-	**112**
Jacek Strzelecki	-	1,500	-	1,234	**2,734**
Janusz Wiśniewski*	703	1,752	100	1,800	**4,355**
Total	**1,235**	**7,328**	**203**	**5,362**	**14,128**

* Potential bonus was not estimated due to the fact that the assessment of targets was not carried out.

Remuneration of the Management Board and Supervisory Board Members of the Parent Company, in connection with holding positions in Supervisory Boards and Management Boards of subsidiaries, jointly controlled entities and associated companies in 2005

In 2005, Members of the Management Board of PKN ORLEN S.A. holding positions of Management Board or Supervisory Board Members in subsidiaries, jointly controlled entities or associate companies belonging to the PKN ORLEN Capital Group did not receive any remuneration for holding the above-mentioned positions, except for UNIPETROL, where the remuneration due was transferred to the benefit of ORLEN Foundation "Dar Serca".

In 2005, Members of the Supervisory Board did not hold positions in Management Boards or Supervisory Boards of subsidiaries, jointly controlled entities or associate companies belonging to the PKN ORLEN Capital Group.

Remuneration of the Company's Management Board in 2005 include potential bonuses payable to the Members of the Management Board that was not recognized as costs in 2005, as well as include remuneration paid together with an annual bonus to five former Members of the Management Board in the amount of PLN 12,802 thousand, including PLN 5,362 thousand severance pay (compensation stipulated for holding the position of the Management Board Member due after the termination or expiry of a contract in accordance with the provisions of the relevant contracts, including non-competition agreements). Part of remuneration packages, in the amount of PLN 10,500 thousand, paid to the former members of the Management Board in 2005 was recognized as costs in 2004

FEE PAYABLE UNDER AN AGREEMENT WITH AN ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS, DUE OR PAID IN CONNECTION WITH THE AUDIT AND REVIEW OF FINANCIAL STATEMENTS.

In the period covered by the foregoing report, KPMG Audyt Sp. z o.o. remains the Auditor of the Company. Under the agreement executed on 30 May 2005 for the period of 2005 to 2007, effective from the second quarter of 2005, the Auditor carries out interim reviews and audit of the Company's unconsolidated financial statements and consolidated financial statements of the Capital Group.
The review of the Company's unconsolidated financial statements and consolidated financial statements of the Capital Group for the first quarter of 2005 was carried out by Ernst & Young Audit Sp. z o.o. upon the agreement entered into on 18 January 2005.

In thousand PLN

	For the year ended 31 December 2006	For the year ended 31 December 2005
Fees payable for audit by KPMG Audyt Sp. z o.o.*	1,414	1,537
Fees payable for related services by KPMG Audyt Sp. z o.o.**	1,282	811
Fees payable for audit by Ernst & Young Audit Sp. z o.o.*	-	1,285
Fees payable for related services by Ernst & Young Audit Sp. z o.o.**	-	1,451
Fees payable for audit in relation to subsidiaries	4,754	5,852
Fees payable for related services in relation to subsidiaries	197	944
	7,647	11,880

* The audit fees include amounts payable to the entity authorized to audit financial statements in relation to professional services consisting in auditing financial statements of the Company's unconsolidated financial statements and the consolidated financial statements of the Capital Group, as well as in review of the quarterly and half-yearly financial statements of the same.

** The fees payable for related services include other amounts paid to the entity authorized to audit financial statements. The fees cover services connected with audit or review of the Company's unconsolidated financial statements and the consolidated financial statements of the Capital Group, other than covered by the item "Fees payable for the audit".

In 2005, a procedure on soliciting additional services with the chartered accountant and entities related with the latter was introduced at the Company. The Audit Committee of the Supervisory Board makes the decision on awarding contracts to the Auditor for additional services.

CONTRACTS BETWEEN THE ISSUER AND CORPORATE EXECUTIVES STIPULATING COMPENSATION (*GOLDEN HANDSHAKE*) IN CASE THE SAID MEMBERS RESIGN OR ARE DISMISSED FROM THEIR POSITIONS WITHOUT IMPORTANT REASON

The contracts concluded between the issuer and corporate executives provide for a specific severance pay in case of termination of those contracts as a consequence of dismissal from the position held or a non-competition clause binding after the termination or expiry of employment contract.

The issuer has signed with the executive management contracts which stipulate the payment of remuneration in connection with:

- termination of employment contract as a result of dismissal of a management board member from his/her position - the amount of severance pay does not exceed the amount of base remuneration due for a period of 12 months;
- non-competition clause binding after the termination or expiry of employment contract - the severance pay does not exceed the amount of base remuneration due for a period of 12 months.

CHANGES IN THE COMPOSITION OF THE MANAGING AND SUPERVISORY BODIES OF THE PARENT COMPANY AND OTHER COMPANIES WITHIN THE PKN ORLEN CAPITAL GROUP IN THE COURSE OF 2006

Management Board Members of the Parent Company are appointed and dismissed by the Supervisory Board. In the course of 2006, the following persons have been appointed as Members of the Management Board of the Parent Company:

Igor Chalupec	President of the Management Board, Chief Executive Officer
Wojciech Heydel	Vice-President of the Management Board, Chief Sales Officer
Piotr Kownacki	Vice-President of the Management Board, Audit and Regulations Office from 23 October 2006
Jan Maciejewicz	Vice-President of the Management Board, Cost Management
Cezary Smorszczewski	Vice-President of the Management Board, Chief Investment Officer
Cezary Filipowicz	Vice-President of the Management Board, Upstream and Crude Procurement from 2 January 2006
Krzysztof Szwedowski	Member of the Management Board, Organization and Capital Group from 31 March 2006
Paweł Szymański	Member of the Management Board, Chief Financial Officer.
Dariusz Witkowski	Member of the Management Board, Organisation until 31 March 2006

Supervisory Board Members of the Parent Company are appointed by the General Shareholders' Meeting. In 2006, the Company's Supervisory Board was composed of the following members:

Jacek Bartkiewicz	Chairman of the Supervisory Board until 31 January 2006
Dariusz Dąbski	Chairman of the Supervisory Board from 31 January 2006 to 26 June 2006
Maciej Mataczyński	Member of the Supervisory Board from 31 January 2006 to 9 November 2006 Secretary of the Supervisory Board from 14 February 2006 Chairman of the Supervisory Board from 27 June 2006
Zbigniew Macioszek	Member of the Supervisory Board from 31 January 2006 Chairman of the Supervisory Board from 30 November 2006
Andrzej Olechowski	Vice-Chairman of the Supervisory Board until 27 June 2006
Wojciech Pawlak	Member of the Supervisory Board from 31 January 2006 Vice-Chairman of the Supervisory Board from 5 July 2006

Ryszard Sowiński	Member of the Supervisory Board from 27 June 2006 Secretary of the Supervisory Board from 5 July 2006
Ireneusz Wesołowski	Secretary of the Supervisory Board until 31 January 2006
Konstanty Brochwicz-Donimirski	Member of the Supervisory Board from 30 November2006
Robert Czapla	Member of the Supervisory Board from 30 November 2006
Marek Drac-Tatoń	Member of the Supervisory Board from 11 September 2006
Raimondo Eggink	Member of the Supervisory Board
Maciej Gierej	Member of the Supervisory Board until 31 January 2006
Krzysztof Obłój	Member of the Supervisory Board until 31 January 2006
Małgorzata Okońska - Zaremba	Member of the Supervisory Board until 31 January 2006
Adam Maciej Pawłowicz	Member of the Supervisory Board until 28 March 2006
Krzysztof Rajczewski	Member of the Supervisory Board from 30 November 2006
Wiesław Rozłucki	Member of the Supervisory Board from 27 June 2006
Adam Sęk	Member of the Supervisory Board until 31 January 2006

Composition of the Management and Supervisory Bodies in the companies of the PKN Orlen Capital Group subject to consolidation as at 31 December 2006 (presented below Supervisory Board Members include only those representing the Parent Company)

The most important companies as per business segments, when considering turnover and equity:

Unipetrol a.s.	Management Board Supervisory Board	Francois Vleugels Marek Mroczkowski Dariusz Marzec Petr Bodlák Ivan Ottis Igor Chalupec - Chairman Cezary Smorszczewski Paweł Szymański Czesław Bugaj Rafał Kapler Wojciech Lorenc Piotr Kearney Dariusz Marek Formela Pawel Jasiński
AB Mazeikiu Nafta	Management Board Supervisory Board	Igor Chalupec – Prezes Piotr Kownacki, Jan Maciejewicz, Paweł Szymański, Krystian Pater, Paul Nelson English Marek Moroz – Chairman Czesław Bugaj Marcin Wasilewski Piotr Kearney Wojciech Wróblewski Rafał Zwierz
Rafineria Trzebinia S.A.	Management Board Supervisory Board	Grażyna Kuś-Jach - President Piotr Prusakiewicz Jerzy Pazura - Chairman Kazimierz Mosiński, Renata Rosiak, Ivan Ottis, Mateusz Markiewicz, Paweł Maślakiewicz.
Rafineria Nafty Jedlicze S.A.	Management Board Supervisory Board	Krzysztof Janas - President Andrzej Płocic Czesław Bugaj, Krzysztof Szwedowski, Dariusz Nowaliński, Ivan Ottis, Mateusz Markiewicz, Paweł Maślakiewicz.
IKS „Solino" S.A.	Management Board Supervisory Board	Andrzej Malinowski - President Piotr Mroziński, Jolanta Uzarczyk-Gerus, Krzysztof Szwedowski - Chairman Marek Bakuła, Elwira Lewtak, Dariusz Nowaliński, Mirosław Osiecki, Marcin Belowski

Anwil S.A.	Management Board Supervisory Board	Benedykt Michewicz - President Teresa Szeligowska, Krzysztof Kamiński, Paweł Szymański - Chairman Czesław Bugaj. Jacek Bartmiński, Rafał Kapler
ORLEN - Oil Sp. z o.o.	Management Board Supervisory Board	Milan Kuncir - President Mieczysław Markiewicz, Gustaw Duda Krzysztof Szwedowski - Chairman Czesław Bugaj Ivan Ottis, Mateusz Markiewicz, Dariusz Nowaliński, Paweł Maślakiewicz. Marek Szywacz
Basell Orlen Polyolefins Sp. z o.o.	Management Board Supervisory Board	Hartmut Lueker - President Karol Marek Sęp, Willem Adolf Eduardus Waelput, Robert Bednarski Jan Maciejewicz, Czesław Bugaj.
ORLEN Asfalt Sp. z o.o.	Management Board Supervisory Board	Piotr Heinrich - President Andrzej Zdzienicki, Jacek Podgórski Krystian Pater - Chairman Dariusz Kusiak, Mateusz Markiewicz, Waldemar Zaborowski, Hanna Wolińska.

Fuel companies:

ORLEN PetroTank Sp. z o.o.	Management Board Supervisory Board	Jacek Kołodziejczyk - President Grażyna Tomala, Jacek Stodółkiewicz Piotr Solka - Chairman Jerzy Pazura, Aneta Pankowska
ORLEN PetroProfit Sp. z o.o.	Management Board Supervisory Board	Jacek Kołodziejczyk - President Grażyna Tomala, Aneta Pankowska - Chairman Piotr Solka Krzysztof Kosiński
ORLEN PetroCentrum Sp. z o.o.	Management Board Supervisory Board	Jacek Kołodziejczyk - President Grażyna Tomala, Paweł Wysocki Aneta Pankowska - Chairman Piotr Solka Krzysztof Kosiński
Petrolot Sp. z o.o.	Management Board Supervisory Board	Jan Kujawa - President Wojciech Kotlarek, Krzysztof Czujkowski Kazimierz Klęk - Chairman Paweł Maślakiewicz,
ORLEN PetroZachód Sp. z o.o.	Management Board Supervisory Board	Jacek Kołodziejczyk - President Grażyna Tomala, Wojciech Jański Aneta Pankowska - Chairman Piotr Solka Krzysztof Kosiński

Ship – Service S.A.	Management Board Supervisory Board	Jacek Szafrański – President Anna Rotter, Tomasz Konieczny Dariusz Kusiak - Chairman Rafał Biczyk, Rafał Jędrzejewski, Ewa Kowalska – Chodubska
ORLEN Morena Sp. z o.o.	Management Board Supervisory Board	Jacek Kołodziejczyk - President Grażyna Tomala, Izabella Olszewska Aneta Pankowska - Chairman Piotr Solka Krzysztof Kosiński
ORLEN Deutschland AG	Management Board Supervisory Board	Krzysztof Żak - President Josef Niedworok, Olivier Michels Wojciech Heydel - Chairman Grażyna Szajgin, Dariusz Kusiak, Jerzy Pazura, Anna Walczowska, Rolad Makieła

Company trading in liquid gas:

ORLEN Gaz Sp. z o.o.	Management Board Supervisory Board	Tomasz Grzela - President Bernard Cichocki Wojciech Heydel - Chairman Dariusz Kusiak, Jerzy Pazura, Hanna Wolińska

PKN ORLEN S.A. maintenence companies:

ORLEN Automatyka Sp. z o.o.	Management Board Supervisory Board	Kazimierz Bętlejewski - President Jerzy Klatte Zdzisław Nicewicz - Chairman Renata Rosiak, Marcin Wasilewski.
ORLEN Wir Sp. z o.o.	Management Board Supervisory Board	Józef Świątczak - President Witold Kapela Zbigniew Belka – Chairman Renata Rosiak, Marcin Wasilewski.

PKN ORLEN S.A.transportation companies:

ORLEN Transport Płock Sp. z o.o.	Management Board Supervisory Board	Jerzy Jasiński - President Roman Rutecki, Remigiusz Miecznikowski Marek Bakuła - Chairman Anna Jasińska, Krzysztof Ościłowicz
ORLEN Transport Szczecin Sp. z o.o.	Management Board Supervisory Board	Paweł Hapczyk - President Bogdan Biskupski Krzysztof Gawłowski - Chairman Anna Jasińska, Monika Kober – Stefaniak
ORLEN Transport Kraków Sp. z o.o.	Management Board Supervisory Board	Robert Zaklika - President Piotr Tuniewicz Marek Bakuła - Chairman Anna Jasińska, Monika Kober – Stefaniak

ORLEN Transport Nowa Sól Sp. z o.o.	Management Board Supervisory Board	Leszek Gnitecki - President Paweł Hapczyk Krzysztof Gawłowski - Chairman Anna Jasińska, Krzysztof Ościłowicz
ORLEN Transport Słupsk Sp. z o.o.	Management Board Supervisory Board	Wiesław Idźkowski - President Sławomir Myśliński Krzysztof Gawłowski - Chairman Anna Jasińska, Krzysztof Ościłowicz
ORLEN Transport Olsztyn Sp. z o.o.	Management Board Supervisory Board	Tadeusz Kowalczyk - President Edward Klecha Krzysztof Gawłowski - Chairman Anna Jasińska, Monika Kober – Stefaniak
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	Management Board Supervisory Board	Robert Zaklika - President Piotr Tuniewicz Krzysztof Gawłowski - Chairman Anna Jasińska, Monika Kober – Stefaniak
ORLEN KolTrans Sp. z o.o.	Management Board Supervisory Board	Andrzej Małecki - President Andrzej Dorosz, Dorota Szewczyk-Kopcińska Marek Bakuła - Chairman Marcin Jeżewski Monika Kober-Stefaniak, Adam Woźniak, Małgorzata Olaszkiewicz Mirosław Osiecki

Other companies:

Petrotel Sp. z o.o.	Management Board Supervisory Board	Marian Ostrowski - President Ewa Raczyńska, Janusz Sawicki Andrzej Łobodziński - Chairman Piotr Wawak
ORLEN Projekt S.A.	Management Board Supervisory Board	Wiesław Gontarek – President Andrzej Czarzasty Eugeniusz Korsak - Chairman Małgorzata Olaszkiewicz, Marcin Wasilewski
ORLEN Medica Sp. z o.o.	Management Board Supervisory Board	Paweł Reszelski - President Monika Bernacka Wojciech Lorenc - Chairman Jerzy Adamus, Małgorzata Olaszkiewicz, Jacek Bielecki
ORLEN Laboratorium Sp. z o.o.	Management Board Supervisory Board	Józef Więckowski - President Adam Wiśniewski Dariusz Formela – Chairman Małgorzata Olaszkiewicz Cezary Chojnowski Piotr Giżyński
ORLEN Powiernik Sp. z o.o.	Management Board Auditing Commission	Arkadiusz Lewtak- President Mateusz Markiewicz - Chairman Iwona Zawidzka Robert Czekaj

ORLEN Budonaft Sp. z o.o.	Management Board Supervisory Board	Zygmunt Frankowski – President Beata Zawiłło, Michał Miklas Marcin Jeżewski - Chairman Walenty Cywiński, Rafał Jędrzejewski, Arkadiusz Lewak, Dariusz Kusiak
ORLEN Eko Sp. z o.o.	Management Board Supervisory Board	Paweł Krupa – President Krystian Pater - Chairman Elwira Lewak, Waldemar Tuszewicki, Małgorzata Olaszkiewicz
ORLEN Administracja Sp. z o.o.	Management Board Supervisory Board	Izabela Jarota - President Krystyna Brudzyńska – Kiełbowicz Dariusz Formela - Chairman Małgorzata Kalita Renata Rosiak Elwira Lewak
ORLEN Księgowość Sp. z o.o.	Management Board Supervisory Board	Jarosław Serba – President Anna Halnicka-Szulc Jerzy Pazura - Chairman Dariusz Formela Agata Kęszczyk – Grabowska Arkadiusz Lewtak Beata Weber
ORLEN Prewencja Sp. z o.o.	Management Board Supervisory Board	Dariusz Łątka – President Wojciech Szumski Dariusz Formela - Chairman Waldemar Tuszewicki Beata Weber Marcin Dolny
ORLEN Upstream Sp. z o.o.	Management Board Supervisory Board	Geiger Carsten – President Wiesław Prugar Cezary Filipowicz - Chairman Marek Moroz Piotr Kearney
Etylobenzen Płock Sp. z o.o.	Management Board Supervisory Board	Jerzy Nowaliński – President Sławomir Adamski Jolanta Brudnicka - Chairman Aneta Pankowska
Płocki Park Przemysłowo-Technologiczny S.A.	Management Board Supervisory Board	Krzysztof Lewandowski – President Adam Trojanowski Dariusz Formela - Chairman Renata Rosiak
Orlen Holding Malta Ltd	Management Board	Sławomir Krużmanowski – President Wojciech Ostrowski
Orlen Insurance Ltd	Management Board	Sławomir Krużmanowski – President Wojciech Ostrowski

NUMBER OF SHARES IN THE PARENT COMPANY AND OTHER ENTITIES OF THE CAPITAL GROUP HELD BY PERSONS HOLDING POSITIONS WITHIN THE SUPERVISORY AND MANAGING BODIES OF THE PARENT COMPANY

As at 31 December 2006, Raimondo Eggink, Member of the Supervisory Board, held 2,950 shares in PKN ORLEN S.A.

SHAREHOLDERS OF THE PARENT COMPANY

Shareholding structure of the Parent Company as at 31 December 2006.

	Number of shares	Number of votes	Par value of shares (PLN)	Holding
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17.32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10.20%
Bank of New York (as depositary)	23 919 466	23 919 466	29 899 333	5.59%
Other	286 079 399	286 079 399	357 599 249	66.89%
Total	427 709 061	427 709 061	534 636 327	100.00%

There are no known agreements according to which the proportions of shares held by the current shareholders could change in the future.

Management Board Report on Operations

of the Polski Koncern Naftowy ORLEN Spółka Akcyjna

Capital Group

for 2006

submitted by the Management Board composed of:

……………………
Management Board President
Piotr Kownacki

…………………………
Management Board Vice-President
Cezary Filipowicz

………………………..
Management Board Vice-President
Wojciech Heydel

…………………………
Management Board Member
Krystian Pater

………………………
Management Board Member
Krzysztof Szwedowski

………………………
Management Board Member
Paweł Szymański

Płock, 18 April 2007