Annual Report 2003

ORLEN

Who we are

PKN ORLEN is Poland's and Central Europe's largest refiner of crude oil and marketer of world-class petroleum and related products. It operates a network of approximately 1,900 petrol stations in Poland and around 500 outlets in Germany. The retail network is supported by an efficient logistics infrastructure, complete with storage depots and a pipeline network. The integrated refining and petrochemical production complex in Plock is one of the most advanced and efficient facilities of its kind in Europe with a total nameplate throughput capacity of 17.8 m tonnes.

Our mission

PKN ORLEN's mission is to build a strong corporate presence in central Europe, fully prepared to take a proactive role in the regional consolidation process. To meet this objective PKN ORLEN has resolved to enhance its efficiency and internal strength, through restructuring the company and the ORLEN Capital Group. PKN ORLEN has also invested in its retail operations and introduced cost saving programmes. At the same time PKN ORLEN is seeking to take advantage of M&A opportunities, both domestically and within the region.

Whenever you need us

Financial highlights 2000-2003

in accordance with IFRS

	2000 PLN m	2001 PLN m	2002 PLN m	2003 PLN m
Revenues	18,602	17,038	16,902	24,412
EBITDA	2,335	1,706	1,861	2,474
EBIT	1 425	617	731	1,267
Net profit	902	376	421	987
Total assets	14,087	14,383	15,073	17,149
Shareholders' equity	7,596	7,958	8,329	9,510
Net debt [1]	2,542	2,549	2,341	2,402
Net cash provided by operating activities	1,073	2,112	1,292	1,707
CAPEX [2]	1,459	1,533	967	1,337

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

	2000 in %	2001 in %	2002 in %	2003 in %
Gearing [3]	33.5	32.0	28.1	25.3
ROACE [4]	10.7	4.3	5.0	8.2

	2000 number	2001 number	2002 number	2003 number
Number of employees in PKN ORLEN Group	13,342	17,582 [5]	17,818	15,133

[1] Net debt = short and long-term interest-bearing debt - (cash and cash equivalents)
[2] Purchase of tangible and intagible assets
[3] Gearing = net debt / shareholders' equity
[4] ROACE = EBIT after actual tax rate / average (shareholder's equity + net debt)
[5] Full consolidation of Anwil started in 2Q01

Financial data by business segments

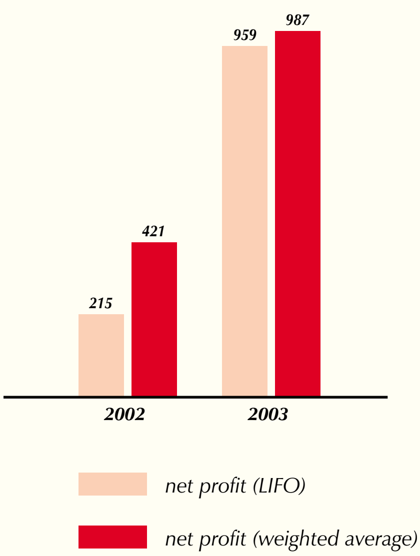
in accordance with IFRS

2003	Refining PLN m	Petrochemical PLN m	Other PLN m
Revenues [1]	24,476	4,545	1,653
Profit of the segment [2]	1,251	418	6
Non-attributed revenues and costs	-407		
Operating profit	1,267		
Assets [3]	11,571	2,268	1,968
Capex [4]	756	534	128

[1] Including inter-segment sales (PLN 6,262m)
[2] Including eliminations (PLN 1m)
[3] Investments in entities accounted for using the equity method, unallocated corporate assets, eliminations not included (PLN 1,342m)
[4] Unallocated Capex not included (PLN 35m)

Net profit

in accordance with IFRS



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ORLEN

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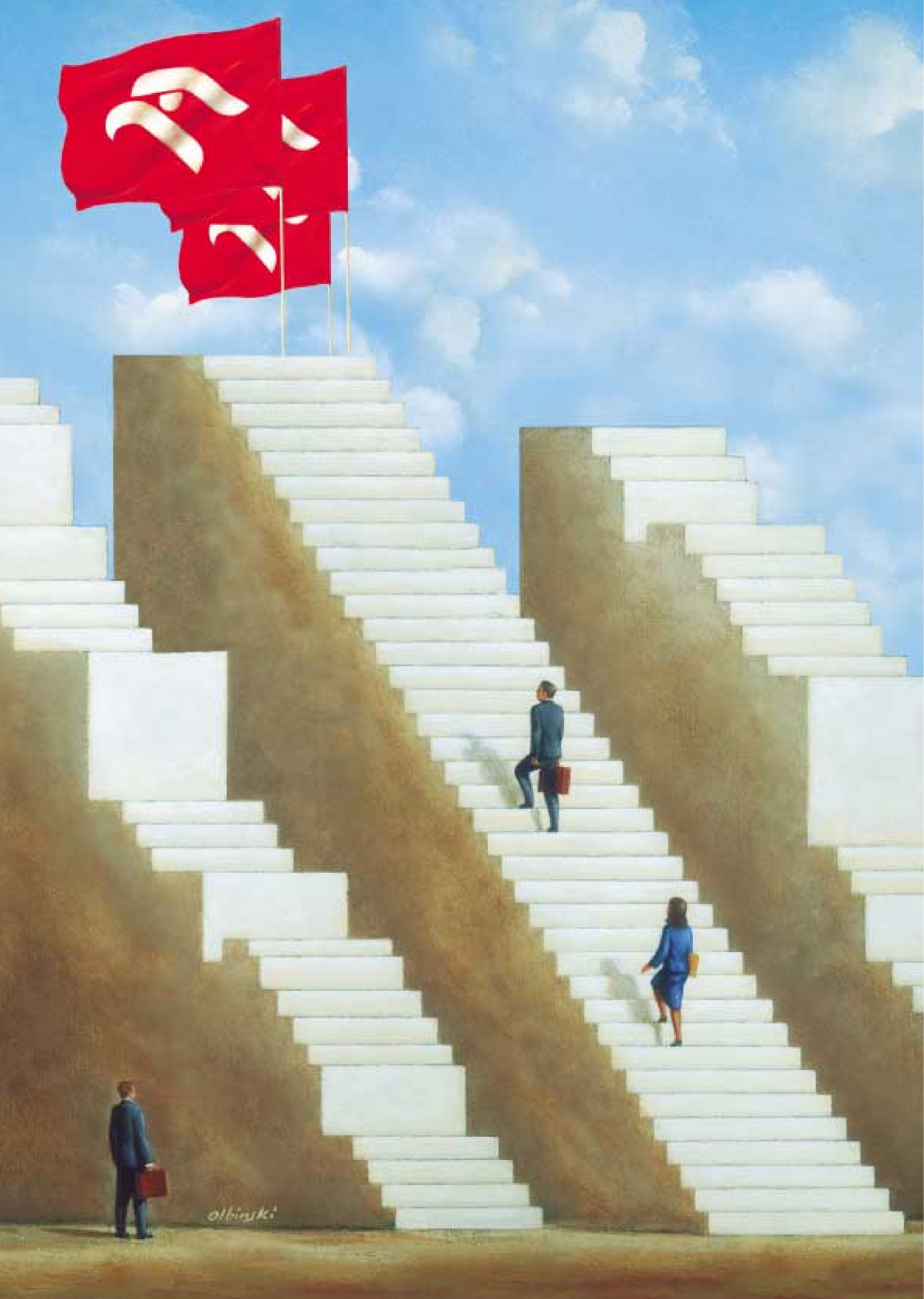
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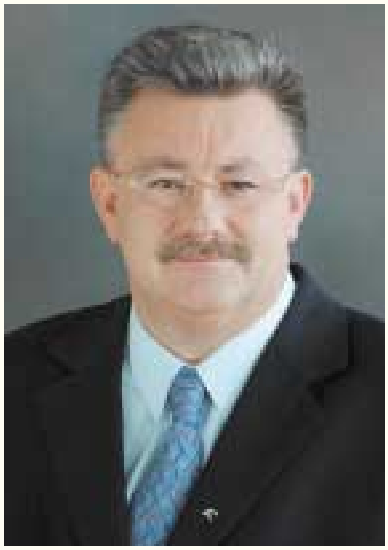
Letter from the President



Ladies and Gentlemen,

In 2003, PKN ORLEN expended considerable effort and initiated a number of significant undertakings and investments, which brought the expected results. The efforts and commitment of our management staff as well as the leveraging of the favourable market conditions translated into the best financial performance in our history. Our net profit for the year amounted to PLN 1,014 m* and, when published, the data boosted PKN ORLEN's stock price to a record high. We take great pride in this positive assessment of our performance by investors.

Last year was favourable for the refining industry although, despite the war in Iraq, oil prices rose by a mere 15.3% (to USD 28.86/b). The refining margin reached the very satisfactory level of USD 3.06/b (twice as high as in 2002). The Urals/Brent oil price differential, which is another material factor in our profitability, increased by 45.5% (to USD 1.76/b).

In 2003, Poland was one of the most rapidly developing countries in Europe. It recorded a 3.7% growth in GDP, which translated into an almost 6% growth in fuel consumption and a 16% increase in new car sales. The positive macroeconomic data for the first quarter of 2004 offers a further optimistic outlook.

One of the landmark events in 2003 was the launch of the industry consolidation process in the region by PKN ORLEN. The preliminary agreement with MOL, a Hungarian oil company, opens the way to closer cooperation, and perhaps later to an equity amalgamation of the two companies. We have also won the privatisation bidding for the Czech company, Unipetrol. All these steps are being taken in pursuit of our strategic objective – to establish PKN ORLEN with a strong position at the heart of a Central European refining and petrochemical group.

To create such a strong international player, we must make the most of our potential. That is why we have taken the pioneering step to prepare and implement the long-term Value Based Management project. This had led to the formulation of a strategy and its transformation into specific objectives for each management centre – from the Management Board to the middle management staff. The VBM has already been imple-

* PAS, consolidated, PLN 987m under IFFS

mented in the budget, reporting, investment assessment, management-by-objectives, and shareholder communication systems. In this way, the Management Board has gained an effective tool to define management objectives, make a correct assessment of subordinate performance and provide them with the appropriate motivation. The senior and middle management staff may verify which actions will affect shareholder value and how, so that the most effective solution may be selected. That is why the communications with our shareholders can be based on the same assessment criteria which have been known and applied in the developed markets for many years already. Our programme comprises five major elements:

- Employment rightsizing,
- Cost cutting,
- Reorganisation, modernisation and expansion in the retail segment,
- Increased use of the throughput capacities at our refinery (including the development of petrochemical segment),
- Reorganisation and sale of assets of our non-core businesses.

With a view to achieving the goal of doubling the Company's value by 2006, through the increased efficiency of PKN ORLEN and Group companies, in 2003 we consistently implemented individual elements of the programme. The implementation of the Comprehensive Cost Cutting Programme, which began in July, brought measurable financial benefits to the Company in 2003. Moreover, last year saw the creation of an entire implementation infrastructure and auxiliary programmes. Our cost-cutting programme is ambitious – it provides for savings of PLN 800m annually. However, with such highly motivated and devoted management staff, we are definitely closer to fulfilling this objective. The programme conveys a message to the entire team that it is necessary to take up serious challenges and perform the assigned tasks in our daily activities. In 2003, the entire Company recorded a reduction in costs of PLN 144m, which is in line with the projections made at the beginning of 2003. One of the supporting programmes, namely the Voluntary Retirement Scheme, is also producing material results (over 400 declarations have so far been received), while the Reorganisation of the Regional Structures Plan is ready for implementation. The initiatives, pursued in the area of sales, procurement and logistics, confirm that there is further scope for efficiencies. The total headcount in the Group fell by 2,700 in 2003, including a 1,500 decrease resulting from the disposal of PKN ORLEN's 25 non-core companies. A further 21 companies are planned to be sold in 2004, which will entail a further reduction of employment at the ORLEN Group by 1,600 employees and at PKN ORLEN by around 500. We have completed the rebranding of our own service stations and we are now preparing to re-brand the franchised stations.

In line with my declarations made after I took office two years' ago and with the plan which I outlined to you at that time, we have pursued the strategy of the diversification of our business, and expansion in Poland. We established a joint venture with Basell, a global leader and a major player in the petrochemical sector. The joint venture is one of the largest investment projects in the Polish economy, with an estimated value of EUR 500m. Basell ORLEN Polyolefins was awarded the 2003 European Petrochemical Transaction of the Year title by the Project Finance magazine.

Despite the fact that the tender for the privatisation of the LOTOS Group was postponed, we still believe that PKN ORLEN is the best partner for this group and we will continue our efforts aimed at implementing this concept.

In 2003, the rationale behind our first major foreign acquisition was confirmed. Almost 500 of our service stations successfully operated in the German market. Despite not fully continuous operation related to the rebranding of the stations into ORLEN and STAR, the service stations became profitable already in the first year of operations, although our conservative plan had assumed less optimistic financial results. Thanks to the operation of the network of service stations in Germany, we sold an additional 400,000 tonnes of fuel in Poland as a result of swap transactions with international concerns, which created synergies estimated at approximately EUR 10m, in line with the promise made last year.

These actions show that, apart from the work aimed at increasing the efficiency of PKN ORLEN, we also know how to execute and implement international projects. Currently we are working on our next projects.

The year 2003 proved that ORLEN shares are a good investment. The restructuring programmes yielded the anticipated results and ORLEN has a strong and established position in the market. The execution of the M&A plans in Central Europe will further boost the market value of our Company. The Warsaw Stock Exchange enjoys an upward trend in line with the growth of GDP, and Poland's accession to the European Union should provide another stimulus for further growth in the economy. As a result of the combination of these factors – the achieved increase in the efficiency of our operations, growth of the domestic economy and satisfactory margins – we are steadily pursuing our aim, which is the doubling of the economic value of PKN ORLEN by 2006.

The record-breaking 2003 results allow me to declare that the Management Board will put a motion to the General Shareholders Meeting to pay out a dividend amounting to 20% of the net profit, which means a more than three-fold increase compared with the 2002 dividend. Thus I am convinced that thanks to both the high dividend and the over 50% increase in the ORLEN share price over the last year, the entire ORLEN community will have found the year of 2003 to have been extremely successful.

I would like to thank all the employees whose efforts have contributed to the achievement of our historical success. It is to all of us a source of satisfaction and something to be proud of. I would also like to thank all the shareholders who trusted the Company's management and may now enjoy the results of their investments.

We do not take the favourable macroeconomic conditions for granted; therefore, we are continuing to focus our efforts on improving the Company's efficiency and reducing the cost of operations. I am convinced that in 2004 we will be able to deliver results comparable to those recorded in 2003, and that an investment in ORLEN shares will again be profitable.

Zbigniew Wróbel

President of the Management Board

Management Board of PKN ORLEN*

Janusz Wiśniewski	Vice-President, Production and Development
Krzysztof Kluzek	Member of the Management Board **
Zbigniew Wróbel	President of the Management Board, CEO
Andrzej Macenowicz	Vice-President, Human Resources and Management Systems Director
Jacek Strzelecki	Vice-President, CFO
Sławomir Golonka	Vice-President, Sales

from the left

Supervisory Board of PKN ORLEN

since 09.04.2004

Jan Waga	Chairman of the Supervisory Board
Jacek Walczykowski	Vice-Chairman
Andrzej Wieczorkiewicz	Member and Secretary of the Supervisory Board
Ryszard Ławniczak	Member
Andrzej Studziński	Member
Marian Czekański	Member
Krzysztof Szlubowski	Member
Janusz Zieliński	Member

* since 27.04.2004

Janusz Wiśniewski	– Vice-President, Production, Wholesale & Logistics
Krzysztof Kluzek	– Member of the Management Board, Retail Sales & Marketing
Andrzej Macenowicz	– Vice-President, HR & Management Systems
Jacek Strzelecki	– Vice-President, Chief Financial & IT Officer
Slawomir Golonka	– Vice-President, Strategy and M&A

** since 22.04.2004

Operating Review

We began the past year with a successful closing of the long and difficult negotiations concerning feedstock supply contracts. The terms and conditions we obtained ensure relatively cost-effective supplies of crude oil until 2009, as well as the long-expected diversification of oil sources, mitigating the risk of shortage of supplies. The most important investment in our production operations was the upgrade of the Hydrocracker, which increased throughput capacity by 30% (from 2.6m to 3.4m tonnes of crude oil per year) thus making it one of the largest units of this type worldwide. Work is underway on a state-of-the-art batching unit for blending ethanol additives to gasoline. Thanks to the on-going effort to ensure the technological development of the production plant in Płock and the stringent procedures we apply, ORLEN fuels already meet the quality standards which will be effective in the EU in 2005. After the cracking gasoline desulphurisation unit is completed in 2005, we will be able to offer our customers gasoline with a sulphur content no greater than 10 ppm.

The key project in our refining and petrochemical production complex is the upgrade of Ethylene Cracker II, designed to increase the production of basic monomers (ethylene, propylene) for Basell Orlen Polyolefins. The project's progress is 70%. Last year's financial result reported by Basell Orlen Polyolefins was 150% higher than planned, which confirms that our investment decisions in the petrochemical segment were correct.

In 2003 we continued to enhance the efficiency of our logistics network. We have reduced the number of active storage depots to 20 (for comparison, at the time of the Petrochemia Płock and CPN merger we employed 144 storage depots in our distribution activities). In 2003 we began the modernisation of the storage depots in Mościska and Ostrów Wielkopolski. The modification and extension of these facilities will involve their adaptation to new environmental regulations

Furthermore we used, for the first time, the unique underground fuel and crude oil storages in the mined-out caverns of the IKS Solino salt mine. The storage capacity of these facilities is 1,740,000 m^3 for crude oil and 670,000 m^3 for diesel and Ekoterm oils. The salt mine caverns offer a very cost-effective and efficient way of storing fuel. The cost of storage of one tonne of product is far lower than in traditional storage depots. In addition, owing to a change in regulations governing the level of mandatory stocks, we are using the underground storage depots more efficiently. Crude oil now accounts for 60% of the stocks, which is equivalent to 44 days' output (in line with EU requirements we will achieve 90 days in 2008). A few years ago the required share of crude oil represented only 30% of the stocks. Obviously, as an unprocessed material, crude oil is less expensive to store.

The Integrated Logistics Operator (ZOL) project, to be created jointly by PKN ORLEN and Nafta Polska in the process of the privatisation of Naftobazy, is at a key phase of negotiations with the strategic investor (VOPAK). A decision by the PKN ORLEN governing bodies established the basic conditions for improvement of the efficiency of the ZOL economic model, the acceptance of which is a prerequisite for the continuation of the project.

Our important wholesale customers are the dealer-operated stations. In 2003, we prepared and offered to our partners, the new terms and conditions for franchise-based agreements. We hope this initiative will stabilise and reinforce our relationships with the network operators. We signed 51 new franchise agreements, while another 100 are at the preparation stage. Our target, to be attained at the end of 2006, is to increase the number of dealer-operated stations in our network to around 250. We have also set up a network of 230 affiliated stations. These outlets are enjoying a growing interest on the part of customers. At the end of 2003 and at the beginning of 2004 we signed fuel supply contracts with international companies active in Poland. With our stations operating in Germany, we were able to win a contract to secure sales of an additional 400,000 tonnes of fuel in Poland. This would not have been possible without the good results recorded by our German operations. ORLEN Deutschland closed 2003 with a net profit of approximately PLN 5m, which is a cause for great satisfaction, given that we expected to finish the first year of our German operations with a negative result, chiefly because of the rebranding process. Actually, the rebranding of the German stations cost EUR 21.2m, which was EUR 4.9m less than initially expected. The savings are attributable to rational project management, following the deliberate parallel introduction of two brands. Our current share in the retail market in northern Germany amounts to 7%, and we intend to expand it to 10% by 2007. To this end we plan, among other things, to acquire some 10 to 30 service stations annually and to secure locations near motorways.

2003 was yet another year of growth in retail margins. Our fuel margin increased by 15%, and the non-fuel margin by as much as 22%. The service station rebranding programme planned for 2003 was fully completed.

Currently, all outlets in our distribution network bear the ORLEN logo. Approximately 400 underwent a comprehensive change of colours (brand). It is at those stations that the strongest growth in sales has been reported. A material factor in the improvement of the retail segment's performance were changes in the level of customer service. This most tangible and evident manifestation of the changes we have been introducing in our retail network is hardly surprising, considering that we have trained over 1,500 people and implemented new service quality standards. Our VITAY loyalty programme enjoys continuing interest; it has currently 4.4m participants, which is 100,000 more than projected. In 2004 we are going to welcome our five-millionth loyal customer. He or she will also contribute to the 2% retail sales increase planned for 2004.

The Group companies considerably improved their financial performance, which took our net profit up to PLN 170.3m. The total sales revenue of all consolidated undertakings amounted to almost PLN 40bn. Net of the intra-group transactions, the consolidated net sales revenue amounted to PLN 33.7bn (according to Polish Accounting Standards).

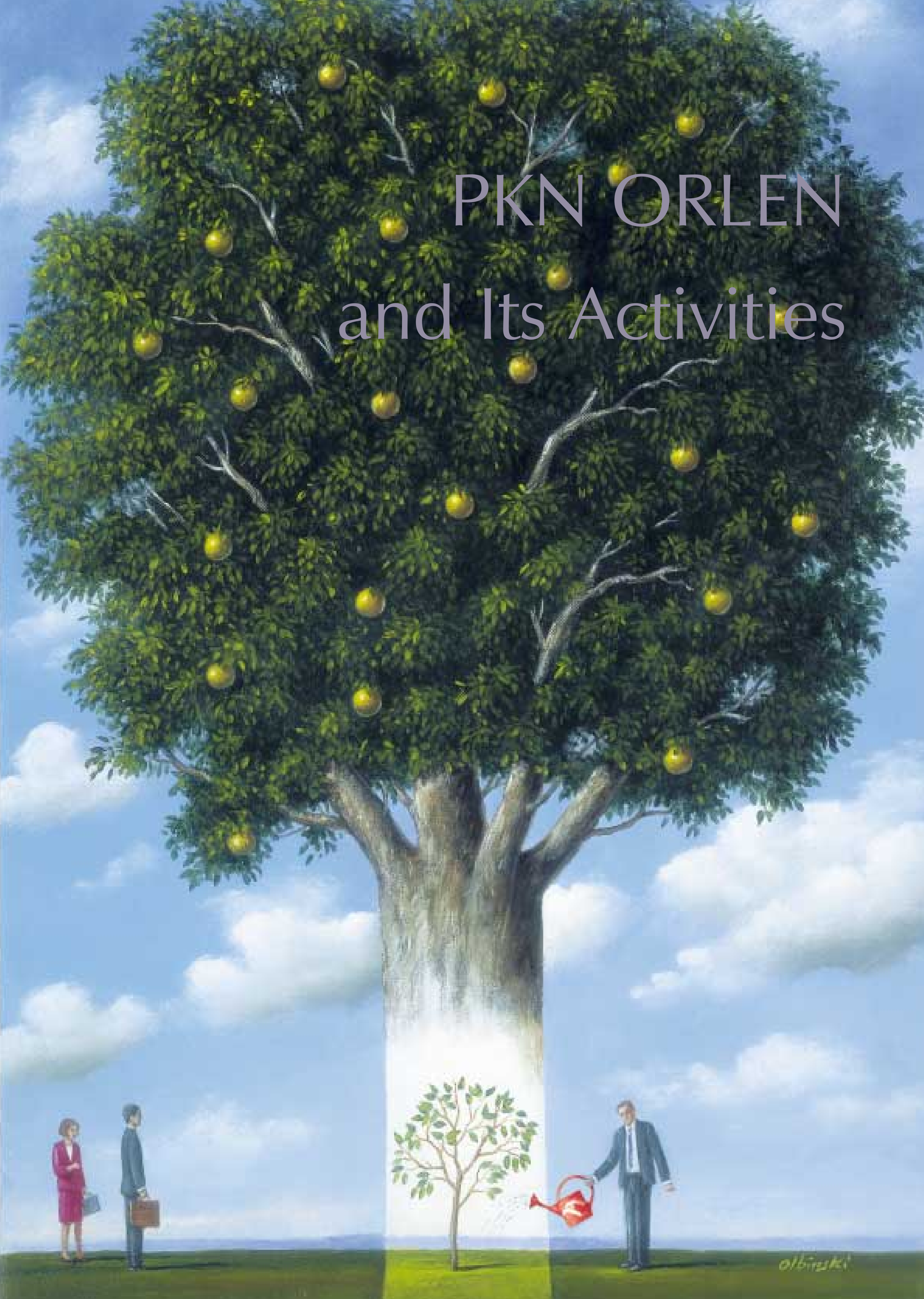
In view of Poland's accession to the EU, Rafineria Trzebinia devised and commenced implementation of a programme designed to shift its business profile towards the production and distribution of specialised products, such as asphalts, paraffin products, lubricating oils, and biocomponents. The programme's projects include construction of a vegetable oils esterification unit with a planned annual capacity of 100,000-150,000 tonnes, and an upgrade of the slack wax de-oiling installation to reach an annual capacity of up to 56,000 tonnes.

Following in the parent company's footsteps, Rafineria Trzebinia has also prepared a cost reduction programme. In spite of a considerable involvement in the restructuring projects, the management of the Rafineria Trzebinia Group was able to generate a net profit of PLN 68.2m. Rafineria Nafty Jedlicze also made intense efforts to prepare itself for the new, post-accession market conditions. Apart from reorganising its production, Rafineria Nafty Jedlicze managed to reduce its operating costs and achieve a positive financial result. For Anwil, another company from our Group, 2003 turned out to be the best year in its history. Thanks to improving market conditions and active efforts to win customers, Anwil was able to increase the use of its PVC and fertilizer production capacity. The company recorded a 300% increase in net profit, which amounted to PLN 59.3m. Anwil formed a joint venture with SK Chemicals, a Korean partner, in order to produce PET granules. The annual production capacity of the installation is 120,000 tonnes; it is scheduled to become operational in the second quarter of 2005.

In 2003 we strove to improve efficiency in all segments of our activity, based on detailed and rational economic analyses. Our consolidated financial result proves that we took the right course of action. With our well-thought-out concepts and plans, as well as Poland's improving economic conditions, we are ready to face new challenges on the way to increasing PKN ORLEN's value with growing optimism.

Sławomir Golonka
Vice-President, Sales

PKN ORLEN and Its Activities

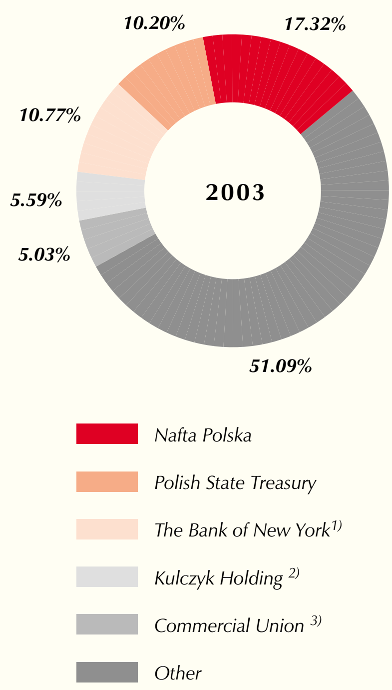


PKN ORLEN and Its Activities

Polski Koncern Naftowy ORLEN of Płock was established in 1999 as a result of the merger of Petrochemia Płock and Centrala Produktów Naftowych. With our 88 subsidiary and associated companies, we are among the largest oil corporations in Central Europe.

We hold a leading position on the Polish market for fuels and petrochemical products. We operate service station networks in Poland and Germany, providing our customers with top quality products and services. The retail network is supported by an efficient logistics infrastructure, comprising storage depots and a pipeline network. Our integrated refining and petrochemical production complex in Płock is among the most advanced and efficient facilities of its type in Europe.

SHAREHOLDER STRUCTURE OF PKN ORLEN



1) As at 16.02.2004
2) As at 20.06.2002
3) As at 4.07.2003

The major companies of the ORLEN Group are: Basell Orlen Polyolefins, ORLEN Deutschland, Anwil, IKS Solino, ORLEN OIL and the Trzebinia and Jedlicze refineries.

The depositary of PKN ORLEN GDRs is The Bank of New York. On the London Stock Exchange, each GDR represents two PKN ORLEN shares.

PKN ORLEN on capital markets

PKN ORLEN shares are listed on the Warsaw Stock Exchange and – in the form of Global Depository Receipts (GDRs) – on the London Stock Exchange. GDRs are also traded in the United States on the OTC market. PKN ORLEN shares were first listed in November 1999. In 2003, following the issue of 7,531,924 shares to be allotted under a management stock option scheme, the share capital of PKN ORLEN was increased by PLN 9,414,905 (1.8%). The share capital is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 per share.

PERFORMANCE OF PKN ORLEN SHARES ON THE WSE

Strategy

The Management Board's objective is to create a regional, vertically integrated oil company in Central Europe. We intend to spearhead the process, with the following three key principles as the basis for our strategy:

- internal strengthening,
- expanding and diversifying our domestic operations,
- acquisitions and international alliances in the region.

Internal Strengthening

Internal strengthening will be achieved on the basis of the assumptions for the Value Based Management programme, launched in 2003. The key elements of the programme are:

Comprehensive Cost Cutting Programme, which provides for:

- PLN 450m cost reduction by 2004,
- PLN 800m cost reduction by 2005.

Headcount reduction:

- by 2,000 employees throughout the Group in 2004,
- by 5,000 employees (total) by 2006.

Restructuring of the ORLEN Group:

- in 2004 – disposal of shares in Polkomtel and 21 non-core companies,
- by 2006 – disposal of shares in 40 companies (total),
- merger of core companies.

Enhanced production and sales efficiency:

- maximum use of throughput capacity as early as in 2004,
- maximising the profit margin for the entire sales chain,

- achieving average sales of 3m litres of fuel per service station (1,000 company-owned service stations) by 2006,
- earning a 30% non-fuel margin by 2006,
- hedging operating cash flow against selected external risks (e.g. foreign exchange rate fluctuations) – risk management.

Expanding and diversifying our domestic operations

Expansion and diversification of our business in Poland will reduce our sensitivity to changing conditions in the industry and will bring additional financial benefits.

The key directions to be taken are:

- development of our petrochemical business in cooperation with Basell, which will result in doubling the volume of polyolefin sales through Basell Orlen Polyolefins by 2006,
- building the Integrated Logistics Operator on the basis of assets of PKN ORLEN and Naftobazy, with a view to cutting the logistics cost,
- expanding the petrochemical production line through the take over of selected companies which use our semi-finished products in their production.

Acquisitions and international alliances in the region

Acquisitions and alliances in Central Europe will serve as a springboard for creating a strong regional concern to partner upstream companies.

Key directions to be taken:

- expansion in Germany
  – Increase in net profit to EUR 10m–15m and new synergies of EUR 10m–15m by 2005
  – 10% increase in market share in northern Germany by 2007,
- full consolidation with MOL (Hungary)
  Fostering close business relationships in 2004,
- taking over Unipetrol (Czech Republic)
  launching the restructuring process in 2004.

MOL: fully integrated oil company based in Hungary

- production: 1m tonnes of crude oil, 3bn m^3 of natural gas
- annual refining capacity: 13.5m tonnes
- share in the Hungarian market: 42% in the gasoline market and 48% in the diesel market
- 749 service stations in 6 countries.

Unipetrol: integrated oil concern based in the Czech Republic

- annual refining capacity: 9m tonnes
- share in the Czech market: 50% in the gasoline market and up to 100% in selected petrochemical products market
- 335 service stations in the Czech Republic

Question to Zbigniew Wróbel, the President & CEO

What is your vision of PKN ORLEN in five years?

My vision is that in five years the Central European fuel and energy market will be dominated by a Regional Oil Concern, whose one of the core elements will be PKN ORLEN. Over the next two to three years we will be making consistent efforts aimed at releasing the potential of our Company. The cornerstones of the restructuring are our Value Based Management programme, which includes a reduction of costs by PLN 800m, and the diversification and expansion throughout Poland, which has been described in this chapter. It will also be a time of acquisitions and consolidation of assets, oriented towards the creation of the regional concern. Such actions should bear fruit in the form of the first consolidation premium for our shareholders. We will also seek to establish closer cooperation with large oil concerns, and we expect that as a result our shareholders will be able to receive another consolidation premium. It should occur in about five years.

What synergies do you expect after the acquisition of a controlling stake in Unipetrol?

Unipetrol is an integrated holding company that produces a full range of refinery products. This embraces the import and processing of crude as well as the marketing of fuels and petrochemical products. For PKN ORLEN, participation in the tender provides a unique opportunity to execute our corporate plans with regard to regional expansion, with considerable potential to obtain increased benefits of scale. The acquisition of Unipetrol will allow us to capture strategic synergies in the areas of the procurement of feedstocks and raw materials, the utilisation of the logistics infrastructure, and in chemical production. Synergies can also be achieved by Polish producers, and subsidiaries and affiliates of Unipetrol. Our capital involvement in Unipetrol will open the Czech retail market to ORLEN, and this will strengthen our position in the CEE region.

Does PKN ORLEN intend to expand its operations to include production of oil and gas? If so, what would be the way to execute such plans and who would be the partner?

Definitely yes. But oil and gas should be viewed separately. In terms of gas, our purchases account for about 10% of the domestic consumption. To reduce costs, we have to seek cooperation with the operators active in this market. That is why we engaged in close cooperation with PGNiG. We are currently evaluating profitability of potential joint ventures in the area of gas production beyond our eastern border. As for oil, we intend to acquire access to oil reserves through regional consolidation. When embarking on the development of a strong regional concern, we will have a dominant position in the downstream and know-how and some capabilities in the upstream segment. The consolidation will secure us sufficient resources to expand our production operations.

Retail Sales

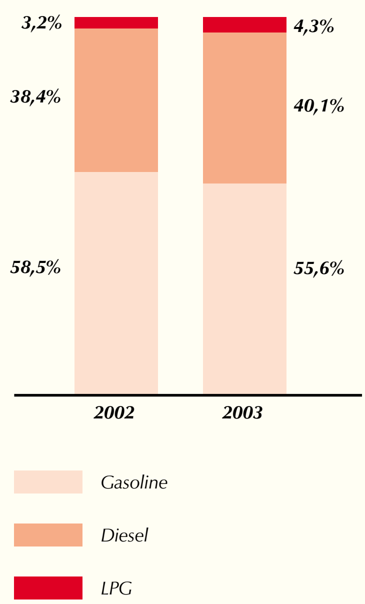
Retail sales

Domestic Sales

2003 Volumes

- In 2003, our retail network sold 2,759.45m litres of engine fuels, which was a 1.1% increase compared with volume sales in 2002.
- The average sales per company-operated service station was 2.1m litres of fuel and LPG, which represents a 1.7% increase in sales compared with 2002.
- In 2003, we reported an increase in the sales of diesel and LPG, while sales of gasoline decreased. This change in the structure of fuel sales follows from a growing share of diesel-oil and LPG-fuelled vehicles in the total number of vehicles.

FUEL SALES STRUCTURE

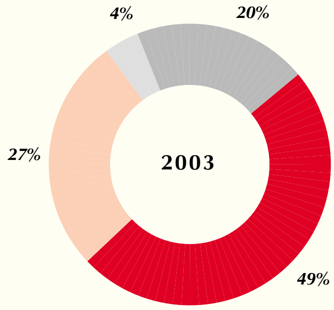


- The 2003 value of non-fuel sales amounted to PLN 752m – up by 15% over the 2002 figure.

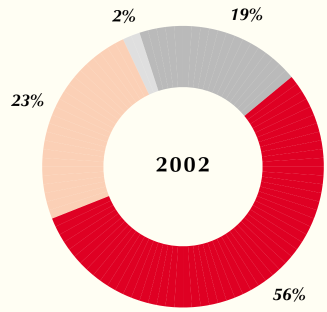
2003 margins*

- In 2003, we reported a 15% increase in the total margin, which reached PLN 1,045.7m.
- The retail margin on gasoline, diesel and LPG sales amounted to PLN 835.5m, and was 13% higher than in 2002.
- The retail margin on non-fuel products and services increased by 22%, to PLN 210.2m.

2003 MARGIN STRUCTURE



2002 MARGIN STRUCTURE



Gasoline
Diesel
LPG
Non-fuel products and services

Retail Network

Number of Service Stations

As at the end of 2003, our network included:

- 1,311 company-owned stations,
- 564 dealer-operated stations,
- 20 franchise stations.

Over the last year we built 35 new stations and carried out 271 modernisation projects.

Rebranding

In the first half of 2003, we completed the rebranding of our service stations.

As part of the rebranding programme, 281 stations underwent a full visual change, i.e. they were comprehensively marked with the ORLEN colours and brand, and 885 company-owned stations were subject to partial rebranding. At the end of 2003, there were 389 stations operating fully under the ORLEN brand, including all 20 franchise stations, and 872 stations after partial rebranding, which makes a total of 1,261 stations bearing the ORLEN logo.

The total costs and expenses for rebranding on the Polish market were:

- In 2002 – PLN 59m**,
- In 2003 – PLN 41.3m.

Efficiency

The analysis of total sales of fuels at 289 stations after the full rebranding showed higher sales dynamics as compared with that of the entire network.

* Company-owned stations

** Net of indirect expenditures

Franchise

As at the end of 2003, we sold fuels on a franchise basis at 20 service stations.

We executed franchise agreements with another 34 service station operators; currently, work is underway to adapt these facilities to ORLEN standards.

Taking into account:

- location,
- the sales potential (no less than 2m litres of fuels annually),
- the appropriate standard of the facility,

we selected approximately 260 potential franchisees from among the dealer-operated and non-affiliated stations.

2003 Market Share

According to the market research (Auto Scan and Omnibus) carried out in December 2003 by B.P.S. Auto Scan Consultants Poland, the share of PKN ORLEN in the retail market in 2003 was ca. 40%.

Loyalty Programmes

VITAY

VITAY is a loyalty programme targeted at our retail customers. With each purchase at our service station network, the customer holding our card is awarded a number of points redeemable for fuel or gifts. By the end of 2003 we had distributed more than 4.4m VITAY cards among our customers. Last year the best participants of the programme received the prestigious Super VITAY cards, entitling them to a package of benefits.

Flota Polska

The Flota Polska programme is designed for corporate vehicle fleets. The majority of the programme participants are transport companies, production enterprises, banks, central and local administration authorities, and foreign representative offices. We offer two types of fleet cards to our customers: the K card bearing the driver's name and the S card bearing the registration number of the vehicle. For each card, the customer may specify the limits of quantity or value of purchased products or the frequency of transactions. The fleet managers may also use a personalised website featuring fleet management facilitation tools. In 2003, the Flota Polska programme was joined by many Lithuanian companies.

Pre-Paid Cards

The pre-paid cards are offered to our institutional customers as a tool for rewarding their employees and customers. The companies using pre-paid cards include: Unilever, PepsiCo, Gillette, Citroën,

SALES DYNAMICS AT REBRANDED STATIONS

Fuel sales (in millions of litres)		**VII**	**VIII**	**IX**	**X**	**XI**	**XII**
All stations (CODO)	2001	239.6	252.3	236.9	252.3	221.4	210.0
	2003	256.3	266.3	245.0	252.0	214.3	220.9
	Dynamics	106.9%	105.5%	103.4%	99.9%	96.8%	105.2%
Rebranded stations	2001	84.6	87.2	81.6	87.3	78.6	75.2
	2003	91.9	94.6	88.1	91.6	79.6	81.7
	Dynamics	108.6%	108.5%	107.9%	105.0%	101.3%	108.6%
Difference in sales growth dynamics		**1.7 pts %**	**3.0 pts %**	**4.5 pts %**	**5.1 pts %**	**4.5 pts %**	**3.4 pts %**

Fiat, Chrysler, and Nestlé. By the end of 2003 we had distributed ca. 40,000 cards of this type.

Service Quality

In 2003, we carried out a series of incentive schemes, training programmes, and research in our retail network, aiming to enhance service quality and increase customer satisfaction. Thanks to the introduction of new high standards of quality management, PKN ORLEN is perceived by customers as a company offering the best service at stations in Poland.

The programmes we introduced included:

- Services of a Forecourt Attendant
  Service for the customer from the moment he or she approaches the petrol pump.
- Common Care for Quality
  Management care and supervision over selected service stations.
- 18 STOP
  Responsible Sale Programme, aiming to restrict the access of children and young people to cigarettes.
- Eagles' Academy
  Training programme for service station employees.
- Mystery Customer Survey
  Service quality survey carried out by independent, anonymous inspectors.

Strategic Objectives and Plans for 2004–2006

Plans for 2004

- Capital expenditure: PLN 450m
- Number of newly built company-owned stations: 124
- Number of modernisation projects at company-owned stations: 300
- Number of new franchise stations: 130

Plans for 2005

- Target number of franchise stations: 250

Plans for 2006

- Target number of company-owned stations: 1,020
- Average sales per station: 3.1m litres of fuels per year
- Share in Polish retail market: 40%

Foreign Sales

ORLEN Deutschland

In 2003, we completed the purchase of 494 service stations in northern Germany from BP/Aral. Currently, in addition to retail sales, we are also involved in the wholesale market in Germany.

Rebranding

In 2003 we completed the rebranding of our service stations. The cost of rebranding amounted to EUR 21.2m and was EUR 4.9m (19%) lower than projected.

Currently our retail network in Germany includes:

2003 Volumes

- In 2003 our retail network in Germany sold 1,381.3m litres of fuel.
- Average sales per station exceeded 2.8m litres.
- The sales value of non-fuel products exceeded EUR 81m.

2003 Margins

- In 2003, the fuel margin was EUR 69.6m
- The average margin was EUR 0.0547 per litre of fuel.

Retail Network

Number of stations

Our retail network in Germany consists of 490 service stations, including:

- 392 company-owned, dealer operated stations (CODO)
- 98 stations operating on a franchise basis.

- 126 stations under the ORLEN brand,
- 320 stations under the STAR brand,
- 44 stations on hypermarkets premises.

The parallel introduction of two brands on the German market is consistent with the Company’s marketing strategy.

Objectives and Plans for 2004–2007

2004

- Expand our existing network by acquisitions, construction of new stations or redevelopment of existing stations (ca. 30 stations per year).
- Increase sales volume by ca. 1.2% relative to 2003.
- Achieve a financial result of ca. EUR 4.5m.
- Optimise costs through streamlining of the organisational structure.
- Close several unprofitable stations.

2007

- Increase our share in the northern German market to 10%.

Question to Sławomir Golonka, Vice-President, Sales

Does the purchase of the service stations network in Germany increase the Company's value (does it add or destroy value)? At the end of 2003 the German operations generated a profit of mere PLN 5m.

As you know, in 2003 we acquired approx. 500 service stations in northern Germany, which had been earlier operated under three different brands. As early as in the second half of the year we completed rebranding of the network by introducing two brands: ORLEN and STAR. It involved a temporary discontinuation of sales of fuel under fleet cards. In addition, the change of the colours and the brand required temporary closing of individual stations. That is why in our financial model we even provided for a loss in 2003. Currently, our service stations in Germany are fully operational and open for the customers again, also selling fuel under the fleet cards. We assume that as of 2005 the net profit will amount to EUR 10-15m. A factor in support of our expansion to the German market was the scope for additional synergies, which followed from the signing of a sort of SWAP agreements. We estimate that this will push PKN ORLEN's profit up by an additional EUR 10-15m. As a result, this project does increase shareholder value.

When will the modernisation of the retail network be completed? Does it mean that all the stations will have a service standard at least equal to that offered by western companies? How much will it cost?

In 2003 we completed the rebranding of our company-owned stations network in Poland and, as I have already mentioned, all stations in Germany. As a result, we have approx. 400 service stations offering service standard at least equal to the western standards. Over the next three years we will complete modernisation and reorganisation of the entire retail network. It will cost approx. PLN 1bn. In 2006, all our company-owned stations in Poland (approx. 1,020 stations) will offer top quality services and their sales volumes will be comparable to those reported by western companies.

Wholesale

2003 Volumes

- Our aggregate domestic sales and exports on the wholesale market in 2003 amounted to 5,886,000 tonnes of fuels, down by 0.8% relative to 2002.
- Domestic fuel sales were 5,462,000 tonnes.
- Sales of diesel and Jet A-1aviation fuel increased, while the wholesale volumes of gasoline and Ekoterm Plus fuel oil decreased.

WHOLESALE OF FUEL (THOUSANDS OF TONNES)

	2002	2003	change
Gasoline	1,876	1,674	-10%
Diesel	2,207	2,379	7.8%
Jet A-1	266	294	10.5%
Ekoterm Plus	1,585	1,539	-2.9%
Total	**5,933**	**5,886**	**-0.8%**

Exports

- Exports of fuels in 2003 accounted for 7.2% of the total wholesale volume of fuels.
- In 2003 we sold abroad 424,000 tonnes of fuel, i.e. 30% more than in 2002. We increased exports of gasoline by 66%.
- The key foreign markets for our exported fuels are the Czech Republic, Hungary, and Slovakia.

EXPORTS OF FUELS (THOUSANDS OF TONNES)

	2002	2003	change
Gasoline	136	226	66.2%
Diesel	162	161	-0.6%
Jet A-1	29	37	27.6%
Total	**327**	**424**	**29.7%**

2003 Margins

In 2003 we achieved an inland premium of PLN 404m, which is 29.5% down from last year. The 2002 data was adjusted in line with the new calculation methodology to ensure comparability of periods. (The adjusted value of the 2002 inland premium was PLN 573m.)

Quality of Fuels

- All liquid fuels marketed by PKN ORLEN are of a superior quality. The quality is subject to constant supervision, from the production process to the delivery of fuel to the final customer.
- We guarantee a constant high quality of our fuels and their availability countrywide.

Market Factors

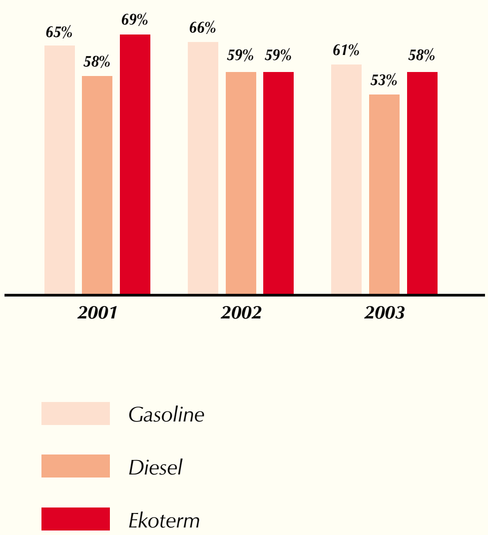
- In 2003, we recorded a ca. 5% drop in gasoline consumption and ca. 20% growth of diesel consumption relative to 2002. Fuel oil consumption remained flat compared to 2002.
- We observe a constant growth of competition, resulting from high refining margins.
- Despite the introduction of new excise regulations, the grey economy continues to adversely affect sales of our fuels.

2003 Market Share

In 2003, we renounced the price war and concentrated on margin maximisation, at the cost of a temporary decrease in our market share.

- In 2003, Ekoterm Plus was nominated for the promotional award "TERAZ POLSKA" ("Now Poland").

PKN ORLEN's SHARE IN DOMESTIC FUELS MARKET



Objectives and Plans for 2004

- Increase the wholesale of light products by 8%.
- Increase sales volumes under long-term contracts with foreign companies.
- Introduce short-term contracts.

Petrochemicals

- In 2003, PKN ORLEN sold 1,066,200 tonnes of petrochemicals, up by 1.9% in comparison with 2002.
- The sales structure changed significantly following the establishment of the joint-venture Basell Orlen Polyolefins, which is currently the key customer for the ethylene and propylene produced in Płock. This is why the highest sales growth was seen in these products. On the other hand, the contribution of PKN ORLEN's production assets to the new company (Basell Orlen Polyolefins) resulted in a significant drop in sales of plastics.
- The growth in sales of orthoxylene, paraxylene, benzene, phenol, and acetone was possible thanks to the planned increase in production yields.

SALES OF PETROCHEMICALS

	2002	2003	Dynamics
Groups of products and goods	**Volume (thousands of tonnes)**		**2003/2002**
Polyethylene	160.8	27.2	16.9%
Polypropylene	143.3	27.6	19.2%
Phenol	50.4	52.8	104.7%
Acetone	31.6	33.2	105.2%
Ethylene	116.1	246.8	212.5%
Propylene	83.3	201.2	241.6%
Glycols	117.4	99.3	84.6%
Ethylene oxide	19.1	19.1	100.4%
Butadiene	52.0	44.6	85.7%
Benzene	75.4	76.4	101.3%
Orthoxylene	20.3	24.6	121.4%
Paraxylene	32.2	36.8	114.5%
Other petrochemicals	185.3	176.4	95.2%
Total petrochemicals	**1,087**	**1,066**	**98.1%**

Question to Sławomir Golonka, Vice-President, Sales

Is there a direct relation between the size of the inland premium and the crack margins?

There is no direct relation between the inland premium and the crack margins. However, significant changes of crack margins produce a reverse effect on the inland premium. The inland premium is driven by competition on the domestic market, and therefore depends to a large extent on the profitability of imports, and obviously the cost of logistics. On the other hand, crack margins depend on the supply and demand prevailing on international markets. However, when the crack margins are high, the competitors, mostly importers, give up a portion of their margin and resort to dumping prices, which directly translates into a drop in the inland premium of PKN ORLEN. If the crack margin is very low, the competitors cannot use dumping prices, which gives a larger premium to PKN ORLEN.

What will be the possible effect of EU accession on the inland premium?

The Polish market has operated as an open and fully liberalised market for a few years now. I do not believe that joining the EU will have an adverse effect on our inland premium (we expect it to decrease slowly in the long term). However, there is a possibility of intensified competition from the companies from beyond our eastern border. But following the accession, our market will enjoy additional protection in the form of customs duty on refining products, which should help us to fight off the competition.

How will the new, EU requirement increasing the mandatory stocks to the equivalent of 90 production (sales) days, affect the Company's performance?

Immediately after the work on Poland's accession began, we considered the necessity to comply with this requirement. That is why we turned our attention to the salt caverns in IKS Solino. The cost of stocks storage in the caverns remains at a similar level, so even a material increase in the stocks should not adversely affect the financial performance of PKN ORLEN. This will have a positive effect on the SVA, through the cost of capital employed. Our Value Based Management Programme facilitates identification of the effects which do not show in the income statement, and which are very important to the investors.

Logistics

Storage Depots

As at the end of 2003, our storage facilities consisted of 20 storage depots. In 2004, we plan to discontinue operations of seven storage depots.

Restructuring of Storage Depots

In 2003, we identified 13 ineffective storage depots within our logistics structure. These facilities do not comply with EU environmental protection requirements, and owing to their poor technical condition and unsuitable location their potential modernisation would be unprofitable.

Adaptation to the EU's Requirements

The storage depots in Ostrów Wielkopolski and Mościska comply with all requirements under the EU regulations, including those concerning the air-tightness of storage and handling processes.

Because the depots are located on the routes of long-distance pipelines, they have been designated in the investment plan for expansion in order to increase the capacities for storing mandatory stocks of liquid fuels. The completion of the second stage of the modernisation programme is anticipated in the second quarter of 2004.

Storage Depot in Ostrów Wielkopolski

In 2003, the aggregate sales of products at the storage depot in Ostrów Wielkopolski reached 273,600 tonnes, while 2004 sales are planned at approximately 345,000 tonnes. The depot's capacity is 55,000 m^3 of fuel. We began transporting fuel via the Płock-Ostrów Wielkopolski pipeline, with the result that our savings in 2003 from the difference between the railway and pipeline tariffs reached PLN 5.2m.

Modernisation

We estimate the modernisation costs of the other storage depots at ca. PLN 213.2m.

In November 2003, the modernisation budget for the six depots designated for operation as part of PKN ORLEN's target logistics network was approved. In the second quarter of 2004 the Management Board will decide on a potential modernisation of the remaining five storage depots which will continue to be used for fuel trading.

Underground Crude Oil and Fuel Storage Depot

In 2003, the Company launched commercial operations of the underground crude oil and fuel storage depot located in IKS Solino. Over the year approximately 754,000 tonnes of crude oil and fuel were pumped into the underground depot, with 1,035,000 tonnes stored at the facility as at the end of the year. It allowed PKN ORLEN to fully meet the requirements with respect to creating and maintaining statutory mandatory stocks. At the end of 2006, as the subsequent investment projects are carried out, our storage capacities will reach over 4,300,000 tonnes. It should be noted that the storage operations are carried out at one of the largest, most advanced and at the same time most environmentally friendly underground liquid hydrocarbon storage facilities in Europe.

Naftobazy

PKN ORLEN uses only six out of the 22 fuel depots owned by the State Treasury. In 2003, the turnover at these facilities increased from 3,880,000 tonnes to 4,140,000 tonnes.

Mandatory Stocks

PKN ORLEN obtained consent from the Ministry of Economy, Labour and Social Policy for changing the structure of mandatory stocks maintained in 2003: from the previous ratio of 50% fuel – 50% crude oil to 40% fuel – 60% crude oil. As a result of the change, the cost of storing mandatory stocks decreased by PLN 8m.

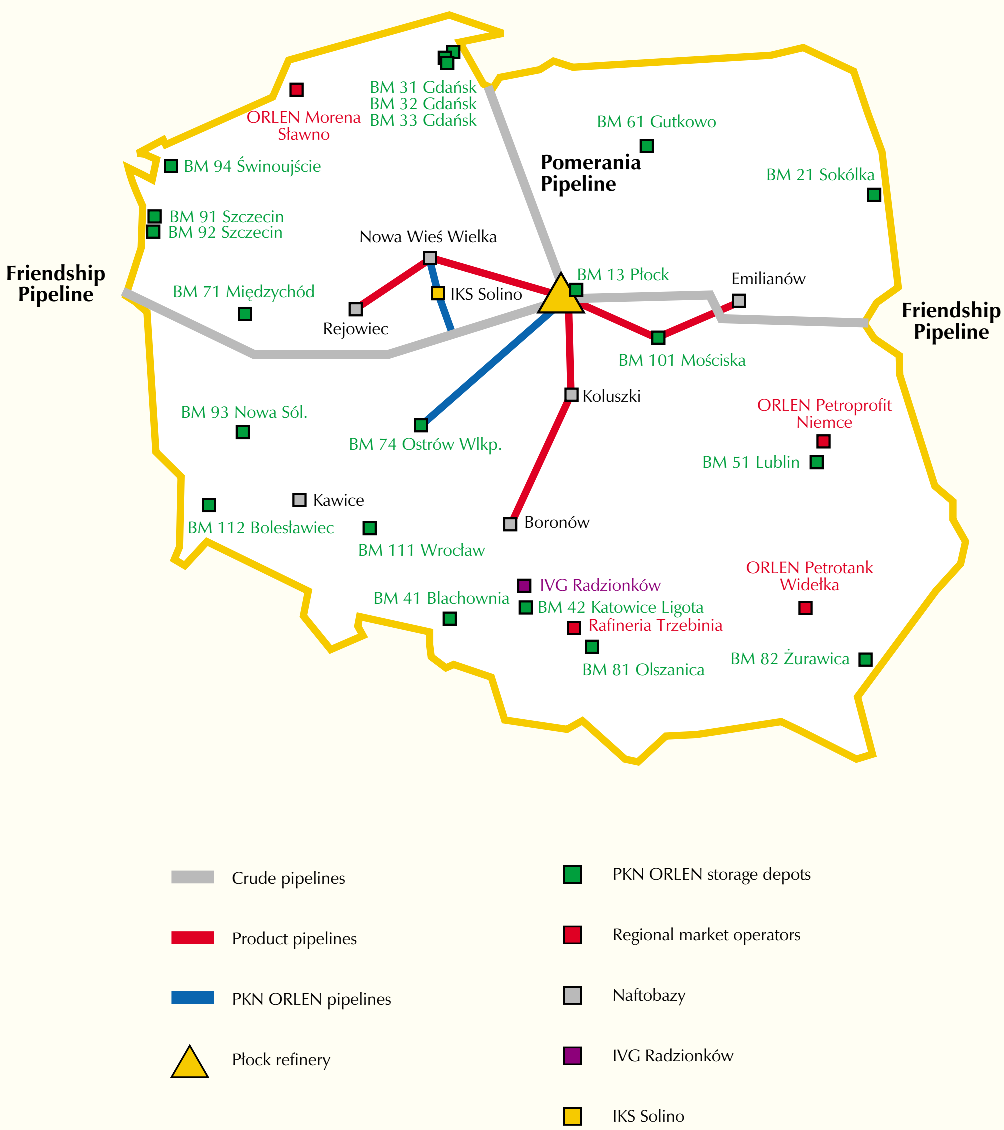
Own Railway Transport Facilities

In 2003, our Railway Transport Division carried out our own railway transport operations based on a license. The Company achieved the projected savings of over 20% relative to the transport costs which would have been incurred if the transport services were provided by a third-party carrier.

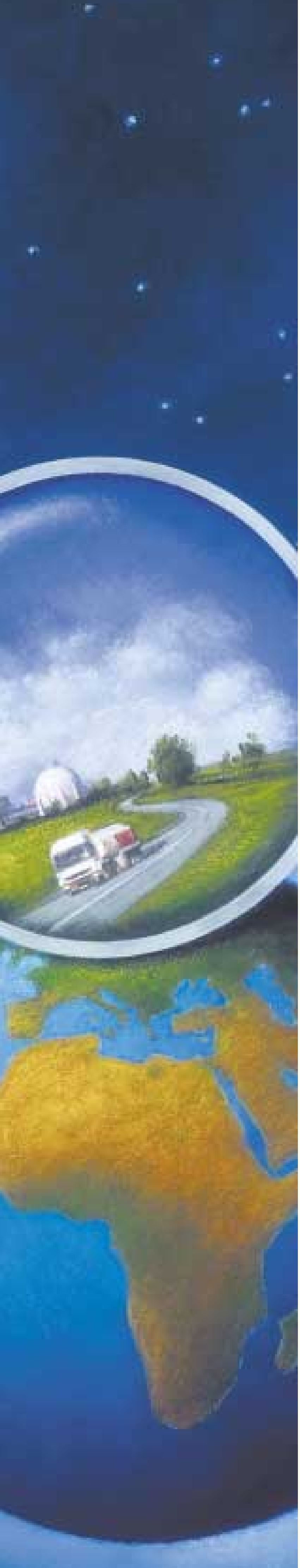
Plans and Goals for 2004

- Reduce the unit cost of primary logistics to approximately PLN 50.70 per tonne (ca. 12%) and secondary logistics to approximately PLN 26.20 per litre (ca. 24%), i.e. achieve the level of costs typical of international oil companies.
- Complete the modernisation of storage depots in Ostrów Wielkopolski and Mościska.
- Discontinue commercial operations of another seven ineffective storage depots.
- Establish the Integrated Logistics Operator in cooperation with VOPAK, the strategic investor selected by Nafta Polska SA in the privatisation process of Naftobazy Sp. z o.o. The basic assumptions of the transaction structure and the project's financial model were developed by the end of 2003.
- Continue development of own railway transport facilities.

THE NETWORK OF FEEDSTOCK AND PRODUCT PIPELINES



Refining



Refining

2003 Volumes

- Crude oil throughput in 2003 amounted to 11,724,000 tonnes and was 6% lower compared with 2002. The main cause of the decrease was the temporary shut-down of the hydrocracker during its modernisation. Given the changed fuel demand structure in Poland we reduced the production of gasoline and increased the production of diesel and aviation fuel. Following the improvement of efficiency in the crude oil distillation and desulphurisation processes we reduced the share of the more expensive low-sulphur oil in the total volume of the processed feedstock from 3% in 2002 to as little as 1% in 2003.
- White products yield, following the modernisation of the hydrocracker, grew from 78.40% in 2002 to 79.73% in 2003.
- Fuel production efficiency in 2003 grew by nearly 2%: from 65.50% in 2002 to 67.26%.

Quality

In 2003 we introduced significant changes in the quality structure of our basic engine fuels.

Production volumes in 2002–2003 (thousands of tonnes)

	2001	2002	2003	Change 2003/2002
Crude oil throughput	12,318	12,474	11,724	-6%
Total gasoline	8,409	8,175	7,886	-3.5%
Engine gasoline	3,176	2,979	2,767	-7.1%
Diesel	2,759	3,020	3,071	1.7%
Jet A – 1 aviation fuel	283	263	301	14.4%
Ekoterm Plus	1,974	1,705	1,531	-10.2%
LPG	216	206	216	1.5%
Fuel yield %	68.26	65.50	67.26	1.76%
White product yield %	79.72	78.40	79.73	1.33%

Gasoline

In 2003 the volume of gasoline containing the biocomponent (EETB = min. 5%) represented 61% of the total volume of our engine gasoline. The volume of gasoline containing less than 150 ppm of sulphur and less than 1% of benzene amounted to 2,767,000 tonnes, representing 100% of the gasoline produced. (The average sulphur and benzene content in engine gasoline in 2002 amounted to 200 ppm and 1.17%, respectively, while in 2003 it was 106 ppm and 0.71%).

2003 Modernisation

Modernisation of the hydrocracker

The modernisation of the hydrocracker, carried out in June and July 2003, was designed to improve the unit's throughput capacity and replace the catalyst in its reactors. The new catalyst has made it possible to increase the yield of diesel fractions and reduce gasoline fractions. The process involved replacement of some of the equipment and fixtures, as the throughput capacity was increased by 30%, from 325 to 425 tonnes of the oil feedstock.

Diesel

In mid-2003 we began to produce Standard 25 city diesel and discontinued the production of Standard 50. The new fuel contains two times less sulphur and has very good low-temperature parameters, so it may be used under the harshest winter conditions: down to a temperature of -34 degrees centigrade. It considerably reduces the content of toxic compounds in the engine exhaust gas. Standard 25 city diesel has been awarded the European Medal by the Office of the Committee for European Integration and the Business Centre Club.

The upgrade resulted in a substantial growth of low-sulphur components (sulphur content below 1 ppm) in diesel.

Construction of the ethanol dosing unit - BIOFUELS

The unit is designed to work at a capacity of 150,000 tonnes of alcohol gasoline a month.

Plans for 2004–2005

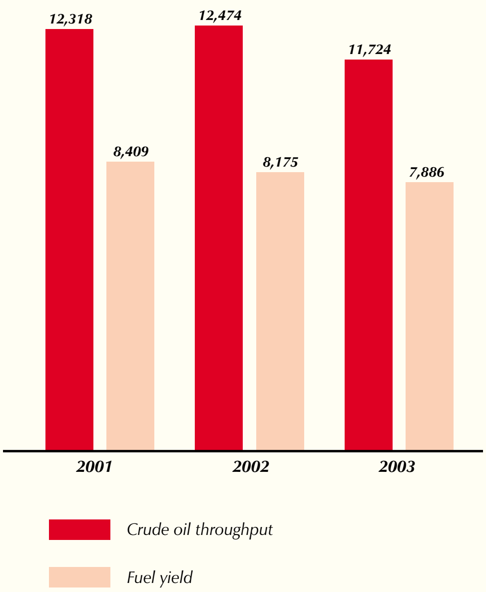
Cracking Gasoline Desulphurisation

In 2003 we decided to improve the cracking gasoline desulphurisation process. This investment will enable us to produce gasoline compliant with the standards which will become effective in the EU after 2005. We have already selected contractor to prepare the unit's technical design. The facility, scheduled to be launched at the end of 2005 or beginning of 2006, will be used to desulphurise the gasoline from the CC II Unit, which has the highest sulphur content among gasoline components.

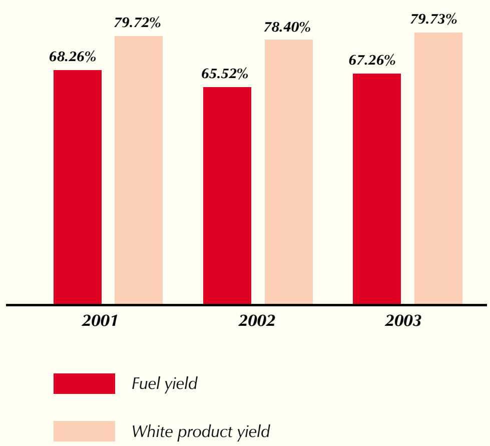
Aromatics Extraction

Another investment will be the modernisation of the Aromatics Extraction Unit. It is expected to optimise the management of the aromatic streams produced in the refining and petrochemical processes at the Main Plant in Płock. The modernisation will allow us to increase benzene production to 22.4 tonnes per hour and toluene production to 27.4 tonnes per hour. Its completion is scheduled for 2005.

CRUDE OIL THROUGHPUT AND FUEL YIELD
(THOUSANDS OF TONNES)



YIELD



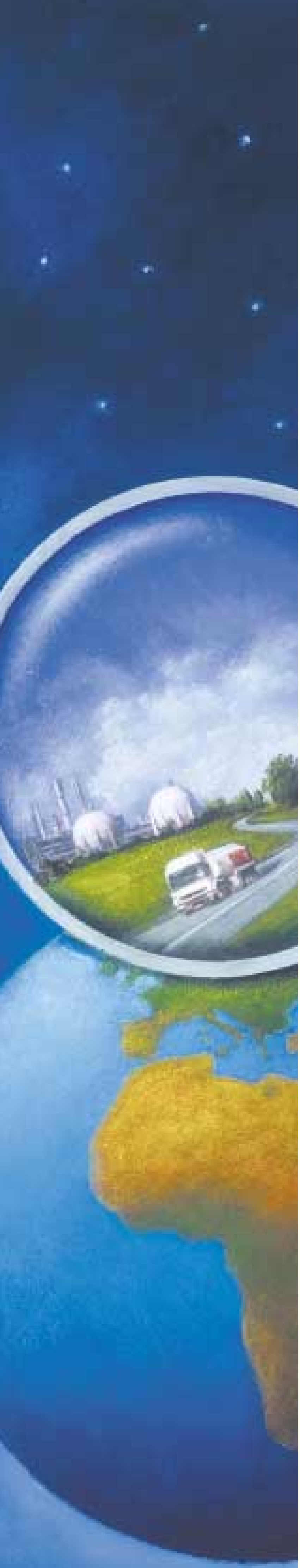
Question to Janusz Wiśniewski, Vice-President, Production and Development

What is the level of investment outlay required to adapt the fuel products of the Plant to the requirements of the EU 2005 norm?

Our Plant is now fully prepared to meet the requirements of the EU 2005 norm. According to Wood McKenzie, the Płock complex is one of the ten most technologically advanced integrated refining and petrochemical operations in Europe. Nevertheless, we are currently executing two projects which will partly adapt our procedures to the requirements scheduled to come into force in 2009, and will result in greater efficiency of the production processes. These projects are: modernisation of the Aromatics Extraction Unit and construction of the cracking gasoline desulphurisation unit. Relevant agreements with contractors have already been signed and work has been scheduled to commence this year. The level of our investment outlay towards the two projects is estimated at approx. PLN 270m.

What is the effective capacity for crude oil processing as compared to crude distillation capacity?

At present, the effective capacity of the PKN ORLEN refining and petrochemical complex in Płock is 13.1m tonnes of crude oil per year, with all products meeting quality requirements in force, and the economic targets achieved. It is worth remembering though that the nameplate capacity of our crude distillation units, depending on the type of crude oil, is over 17m tonnes annually. The investment projects we are implementing now, designed to increase deep processing, will facilitate more intensive exploitation of this potential. Once the revamping of the Ethylene Cracker II has been completed, our effective crude oil processing capacity will grow to 13.8m tonnes per year.



Petrochemical segment

2003 Volumes

Total petrochemical production decreased by 3.7%, from 1,164,000 tonnes to 1,121,000 tonnes.

Plans for 2005

Modernisation of Ethylene Cracker II

Following the modernisation, the annual production capacity of the unit will be increased to 660,000 tonnes of ethylene and 315,000 tonnes of propylene.

Basell Orlen Polyolefins

Basell Orlen Polyolefins (BOP) is a joint venture established in 2003 by PKN ORLEN and Basell Europe Holdings B.V., the largest polypropylene producer in the world. Both companies hold 50% stakes in the joint venture. PKN ORLEN's contribution to the new undertaking was an integral part of the enterprise using qualified personnel.

Basell Orlen Polyolefins Business

BOP produces and sells high-quality polyethylene (PE) and polypropylene (PP), sourced from PKN ORLEN's installations in Płock. The company uses the latest state-of-the-art plastics production technologies and operates an extensive sales network distributing the Płock plant's products.

2003 Sales

- In 2003, BOP sold 245,000 tonnes of Malen®, and 45,000 tonnes of the new products: Hostalen® and Moplen®.
- Sales revenue totalled PLN 725,697,000.

Market Share

In 2003, Basell Orlen Polyolefins' share in the Polish polyolefins market reached 50%.

Plans and Objectives for 2004–2005

2004

- Develop a world-class logistics and distribution centre to support customer service and the distribution of increased volumes of plastics.
- Construct polymerisation reactors.

2005

- Complete a polyolefins unit.

PRODUCTION VOLUMES OF SELECTED PETROCHEMICALS (TONNES)*

	2002	2003	Change 2003/2002
Ethylene	116,111	246,899	112.6%
Propylene	81,551	201,000	146.5%
Butadiene	51,377	44,055	-14.3%
Phenol	50,726	52,577	3.6%
Acetone	31,430	33,277	5.9%
Glycol	115,870	96,665	-16.6%
Coolants	16,717	16,719	0.0 %
Solvents	48,383	18,082	-62.6%
Aromatics	222,461	236,618	6.4%
Sulphur	111,032	104,331	-6.0%

* PKN ORLEN

Question to Janusz Wiśniewski, Vice-President, Production and Development

It is estimated that EU market is experiencing oversupply of polyolefins. Why has PKN ORLEN decided to expand in this direction?

The current situation and prospects of the market in Central Europe are very much different from those prevailing within EU. The per capita consumption of polyolefins is several times lower and the growth of the market is two–three times faster than in Western Europe. Moreover, the Polish market is actually experiencing a deficit of polyolefins. Expansion into this segment seems obvious. We have ensured the safety of the project by selecting the strongest partner for cooperation – the Basell company. Basell is responsible for off-take and distribution of products. Profitability of the project is enhanced by the economies of scale and full integration of the refining and petrochemical segment. We are optimistic about the future prospects of the project and our optimism is strengthened by Germany, Spain and Great Britain planning to close three polyolefin production plants in 2005.

When and what kind of benefits can be expected to result from the investment projects?

First outcomes can be expected to materialise as early as 2005. But an impact on profitability of our petrochemical operations (increased production of ethylene and propylene) and refining operations (increased processing of crude oil) will be visible in 2006. These effects will be attributable to PKN ORLEN. As far as BOP is concerned, extra gains will be generated as a result of consolidation of 50 % of its profits.

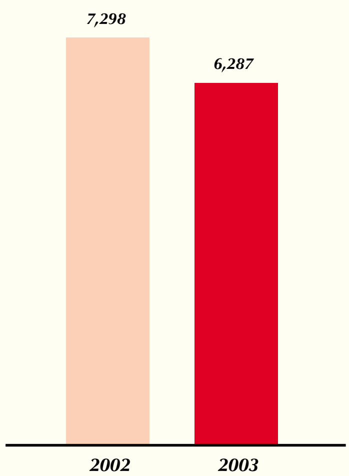
Employees

Employees

Employment

- As at the end of 2003, the ORLEN Group employed a total of 15,133 staff.
- The headcount at PKN ORLEN at the end of 2003 was 6,287.
- In 2003 our employment number was reduced by about 2,700 (1,000 in PKN ORLEN) compared with the 2002 figure.
- Approximately 20% of the redundancies were made under the Voluntary Retirement Scheme.

HEADCOUNT IN PKN ORLEN



Education

- In 2003, approximately 7,200 employees of PKN ORLEN took part in various educational and training courses.
- The share of university graduates in the total employment number increased by 4%, which attests to the continuous professional development of our personnel.

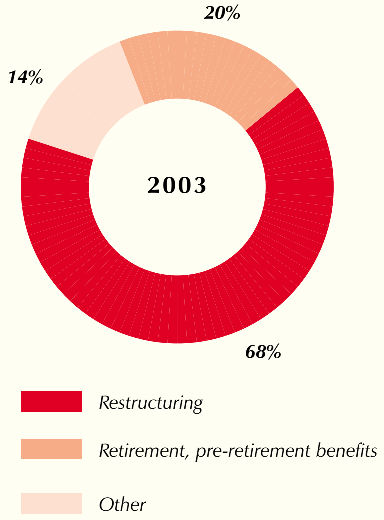
Implementation of the SAP HR Module

In 2003, we commenced implementation of the HR module on the My SAP platform. The main objective of this initiative is to optimise human resources management processes, as well as to reduce personnel-related costs.

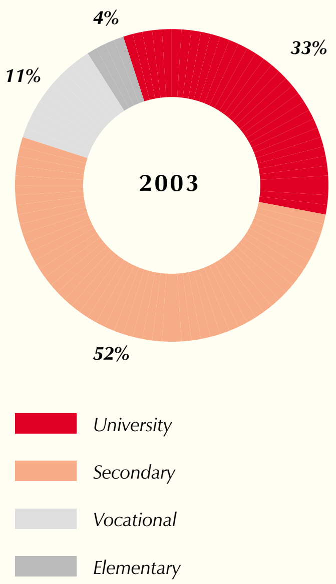
Social Benefits Fund

We continued to provide social benefits to employees of PKN ORLEN, employees of the ORLEN Group's companies, retirees, sick retirees and their families. We provided our social services to employees of 30 Group companies, with which we had signed an agreement for common employee benefits. The total number of employee benefits financed with the budgeted funds and paid in line with the Rules for Employee Benefits was 36,578.

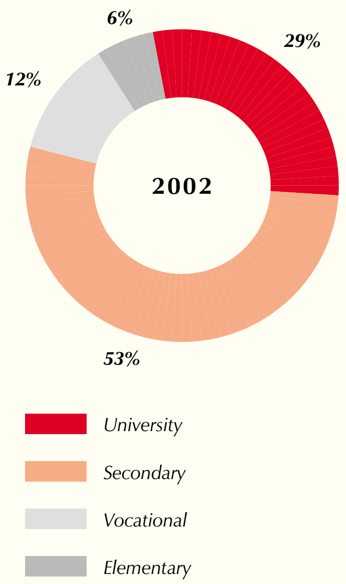
2003 REDUNDANCIES



EMPLOYMENT BY EDUCATION
(AS AT DEC 31 2003)



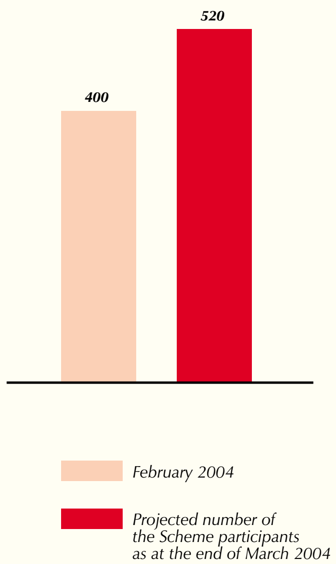
EMPLOYMENT BY EDUCATION
(AS AT DEC 31 2002)



Prizes and Awards

In March 2004, PKN ORLEN ranked first in the industry in the Employer of the Year ranking prepared by the Polish edition of the Newsweek weekly.

PROGRESS OF THE VOLUNTARY RETIREMENT SCHEME



Plans for 2004

In order to mitigate the effects of restructuring, in 2003 we introduced another scheme to encourage employees entitled to retirement or pre-retirement benefits to use these rights. According to estimates, approximately 550 employees will have taken advantage of the scheme by the end of 2004.

Introduction of New Labour By-Laws at PKN ORLEN

As a result of amendments to the Labour Code as well as changes in the corporate structure it became indispensable to formulate new labour by-laws for all Group companies. The relevant work has commenced in December 2002 and as early as in January 2003 the project was prepared to constitute a basis for featuring individual by-laws for each company from the ORLEN Group.

In accordance with the legal requirements, each employer (The Group company) has agreed its own labour by-laws with their respective trade unions. Since May 2003 new labour by-laws were in operation across PKN ORLEN.

Company Image

Company Image

ORLEN Brand

- In 2003 we continued to build the image of the ORLEN brand and to further implement our corporate visual identity system for the Company and the ORLEN Group. Marketing research has confirmed that the strategy adopted was the right choice.
- Over the first half of 2003 a substantial increase was recorded in the rate of spontaneous awareness of the ORLEN brand: it rose from 40%* in 2002 to 66%* in 2003.

The respondents perceive ORLEN primarily as:

- Leader in fuel distribution (59%) *
- Provider of high-quality fuel (52%) **
- Modern company (39%) *
- Product brand (31%) *
- Network of the most modern service stations (30%) *
- Dynamically developing company (26%) *

ECONOMIC LEADERSHIP

As one of the largest companies in Poland, PKN ORLEN has a material influence on the economic development of the country and the region. The ECONOMIC LEADERSHIP programme makes it possible to present ORLEN as the driving force for change, and a company operating on an international scale. Under this programme we support numerous scientific and economic conferences. In 2003 the most important of them were:

- 13th Economic Forum in Krynica under the slogan "Enlargement of the European Union. The first or the last stage of integration?". The Forum, dubbed the "Polish Davos", featured the conference "2nd Polish International Oil & Gas Summit", with PKN ORLEN as the honorary patron and an active participant.

** Source: Pentor, July 2003 – Poll on the quality of fuel offered at service stations.

* Source: BPS Consultans Poland, June 2003 – Research – spontaneous awareness of names of service station networks and brand name association.

- 6th Central European Initiative Economic Forum, in connection with Poland's presidency in the CEI, was held in Warsaw. The Forum was attended by members of 17 Central and Eastern European Governments, representatives of international organisations (such as OECD, FAO, UNIDO), financial institutions (e.g. the European Investment Bank, the World Bank) and businessmen from all over Europe.

as the Museum contributes to our Company's image as a patron of culture – in this case supporting exhibitions and other important cultural events organised in the Museum.

Auctions and Exhibitions

The ORLEN Group was awarded the status of the "Golden Sponsor of the Auctions and Exhibitions" organised by the "Bliźniemu swemu…" Foundation, which acts in support

Patron of Polish culture

Under the PATRON OF CULTURE programme PKN ORLEN promotes Polish culture by participating in important cultural events.

Our commitment to this idea has been confirmed by the fact that in 2003 we sponsored such events as:

- Ludwig van Beethoven Easter Festival in Kraków,
- Bulat Okudjava Festival in Kraków,
- Four Cultures Festival in Łódź,
- "Ludźmierz Vespers" concert in Płock,
- Shanty Concerts organised in the Mazury lake district.

National Museum in Warsaw

Our cooperation with such a prestigious institution

of St. Brother Albert's Aid Society, a non-governmental charity organisation helping the homeless and the poor.

Sector Expert

As a SECTOR EXPERT the Company sponsored the most important motor events in Poland:

- Rally of Poland
- Kormoran Rally
- ORLEN Trophy "4x4" – off-road rally
- Safe Driving School

At the moment we are the only Polish company to have built its own, professional dirt-track racing team – ORLEN Team.

Our representatives first appeared in the 1999 Paris-Dakar Rally – they were motorcyclists, Jacek Czachor and Marek Dąbrowski. The current composition of the ORLEN Team dates back to June 2003: besides Jacek Czachor and Marek Dąbrowski it now also includes Łukasz Komornicki and Rafał Marton, who make up the crew of the dirt-track racing car. The Team's members repeatedly confirm their high-level sports skills. They participate in the most important sporting events, such as the FIM World Cup eliminations, in which Marek Dąbrowski won

the title of the Vice-Champion in 2003. Together with Jacek Czachor he featured in the top ten of the most prestigious rally in the world – Dakar Rally. The motorcyclists of the ORLEN Team were the first Poles in the history of this event to finish the rally and perform so excellently.

During the 2004 Dakar Rally the ORLEN Team also demonstrated its immense potential for arousing media interest. The brand name ORLEN frequently appeared in the news services of TVP1, Radio ZET, Super Express daily etc. At the same time a new element was added to the VITAY loyalty programme. Customers were offered the possibility of redeeming their collected points for awards from the limited ORLEN Team Dakar 2004 collection. The promotional goods included energy drinks under the brand name of the ORLEN Team, prepared especially for that occasion. According to advertising experts, the sponsoring of the racing team is one of the largest projects of this type on the market. We adopted a strategy of concentration on a selected sponsoring field, in this case the ORLEN Team, which has produced tangible effects, demonstrating that being a market pioneer pays off. Thanks to the ORLEN Team the ORLEN brand is associated by an increasing number of drivers with a modern, dynamic brand offering high-quality products, which translates directly into sales growth.

JACEK CZACHOR – *Motorcyclist, Team Captain*
Jacek Czachor has been involved in motor sports since 1981 and has won the Polish Enduro Rally championship and vice-championship many times. He participated in the Dakar Rally five times, and in 2000 finished in 46th position, thus becoming the first Polish motorist to finish the most challenging off-road rally in the world. In 2004, Jacek Czachor came 10th, just behind the KTM factory team. When a race is over, Jacek always takes time to check his motorcycle. He spends his free time, the little that he now has, with his family.
Date of birth: June 22nd 1967, Warsaw; Height: 176 cm; Weight: 80 kg; Hobby: motor sports.

Success: first start in the Paris–Dakar Rally in 2000, when he came 46th and was the first ever Pole to finish this tough rally.

MAREK DĄBROWSKI – *Motorcyclist*

Marek Dąbrowski has been involved in motor sports since 1989. Vice-Champion of the World in 2003 and Second Vice-Champion of the World in 2002. He has won the Polish Enduro Rally championship and vice-championship many times. He was a member of the World Championship winning team in the Enduro Rallies of 1993. Four times participantin the legendary Dakar Rally. In 2003, he was the first Pole ever to come in the top ten in this toughest of races, taking the 9th position in general classification. His favourite pastime, after training or racing, is surfing and snowboarding.

Date of birth: December 16th 1972, Warsaw; Height: 183 cm; Weight: 76 kg; Hobby: snowboarding, windsurfing, motor sports; Success: his family and his little son.

ŁUKASZ KOMORNICKI – *Racing Driver*

Cross-country racing driver in the Orlen Team, son of Krzysztof Komornicki

(one of the most famous Polish racing drivers of the 60s and 70s). His first racing experiences were off-road events in Poland. He came 5th in the 2003 World Cup, with a very creditable 14th position in the 2004 Dakar Rally, ahead of such drivers as Colin McRae and Jutta Kleinschmidt.

Date of birth: August 7th 1965, Kraków; Height: 175 cm Weight: 76 kg Hobby: sports (skiing, enduro, squash) Success: 2nd place in the general classification of Rallye d'Orient.

RAFAŁ MARTON – *(Co-driver)*

Participant in the World Rally Championship, Europe Rally Championship and Polish Championship; former pilot of Leszek Kuzaj and Krzysztof Hołowczyc. Came 4th in the 2003 World Cup in the Co-driver category. Excellent 14th position in the 2004 Dakar Rally

Date of birth: May 7th 1971, Warsaw; Height: 175 cm; Weight: 78 kg; Hobby: enduro, windsurfing, water skiing, fishing; Success: participation in the 2002 Dakar Rally.

Local Partner

As a LOCAL PARTNER, the Company is involved in a number of events of vital importance to the Płock community. Besides the many years of cooperation with, and the sponsoring of, Wisła Płock (sports club) ORLEN also supports other undertakings, not only of a sporting nature. Some examples include:

- the concert of the Great Orchestra for Christmas Charity in Płock
- ORLEN POLISH OPEN, Poland's Championships in wheelchair tennis held annually in Płock
- European Picnic
- Organising the celebrations on the Chemist's Day
- Cooperation with the Mazovian Museum, the Płock Scientific Society, and the Płock Yachting Society, which involved organisation of numerous events of importance for the town of Płock

Friends of the Environment programme

As an active participant of vital and public-interest events, PKN ORLEN organised a campaign for planting a new forest in the area of Puszcza Piska (Piska Forest), which was destroyed by a hurricane in 2002. The project was linked to the VITAY programme, so customers of our service stations were also able to participate in it.

In 2003, in cooperation with the University of Gdańsk, we organised an action for the protection of the only mammal living in the Baltic Sea, the porpoise, which has been placed on the Red List of Threatened Species of the International Union for Conservation of Nature.

As part of the FRIENDS OF THE ENVIRONMENT programme we also continued activities designed to increase the convenience and safety of tourism on the sailing route of the Great Lakes of Mazury. In cooperation with the Voluntary Water Rescue Service of Mazury we marked the navigation obstacles on the route and supplied the fuel for the rescue boats.

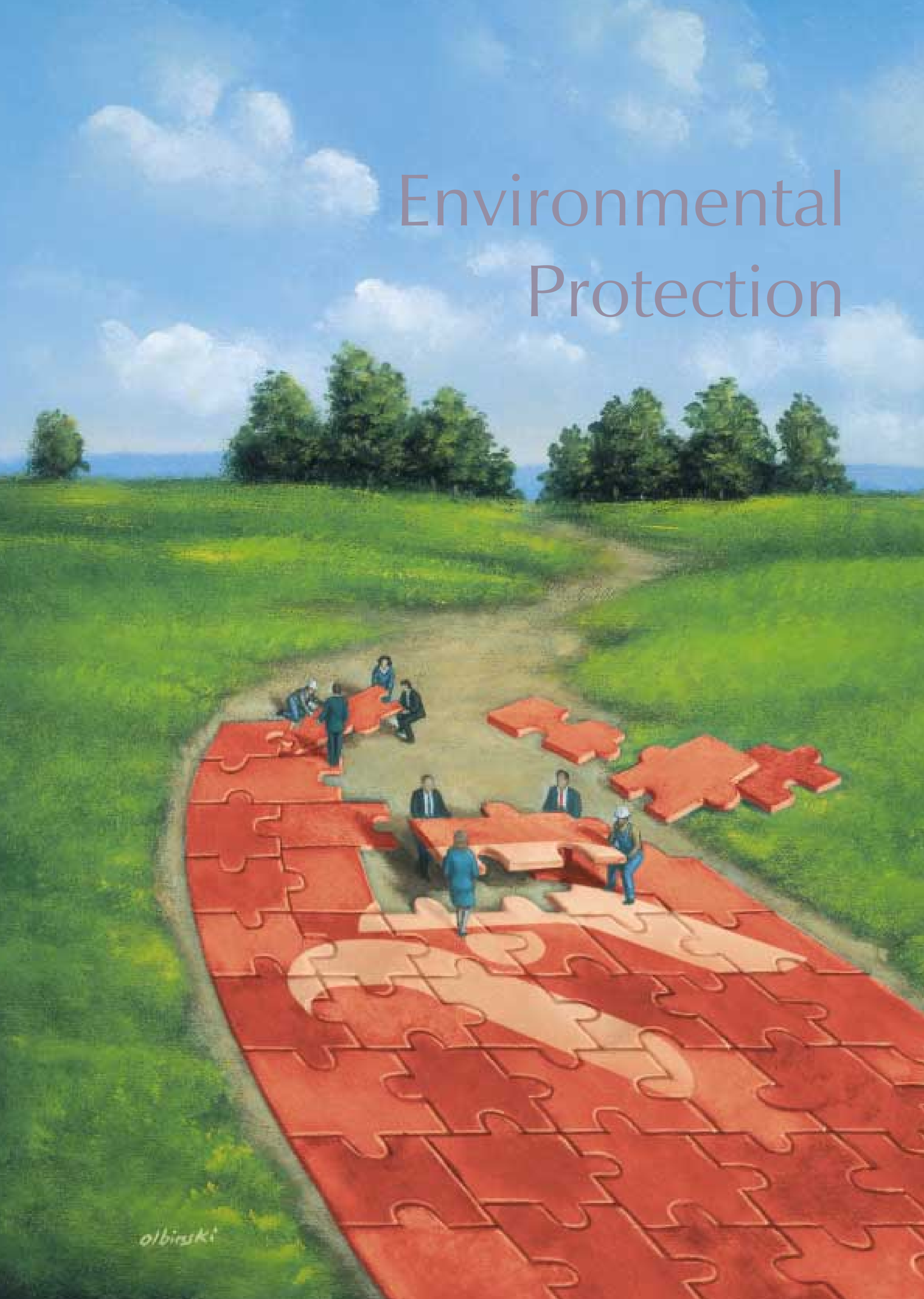
Patron of sport

PKN ORLEN, as an active leader of the economic and cultural life in Poland, also promotes sports. Under the PATRON OF SPORTS programme we are sponsoring the Polish representatives during their preparations for the 2004 Summer Olympics in Athens and for the 2006 Winter Olympics in Turin.

ORLEN

We support Polish Olympics Team

Environmental Protection



Environmental protection

The supreme quality of our products and customer service, with full observance of environmental protection requirements, has been the overall objective of our production and trade activities.

This objective is reflected in the integrated approach to environmental issues implemented in 2003. The entire year was marked with work related to preparation of an application for an integrated permit for the Main Plant in Płock. The permit is an "ecological passport" necessary for PKN ORLEN to continue its operations. The completion of the work and submission of the application is scheduled for the second half of 2004.

Environmental Policy

Aware of our impact on the natural environment, we declare on-going adjustment of both our planning methods and process management to the needs of environmental protection. This aim determines our strategy, which is then reflected in our current and future development programmes, as well as in all our other activities conducted under the ISO 14001 Environmental Management System implemented at the refining and petrochemical production complex. We have made a pledge to roll out the system at our other units in Poland and to build an environmental management regime which will ensure mitigation of PKN ORLEN's environmental impact in all areas of our activity.

Environmental Management Systems

Based on the ISO 14001 standards, our Environmental Management System has been in operation at the Main Plant in Płock since 1999. In March 2000, the conformity of the system with the ISO 14001 requirements was confirmed, with a certificate issued by Bureau

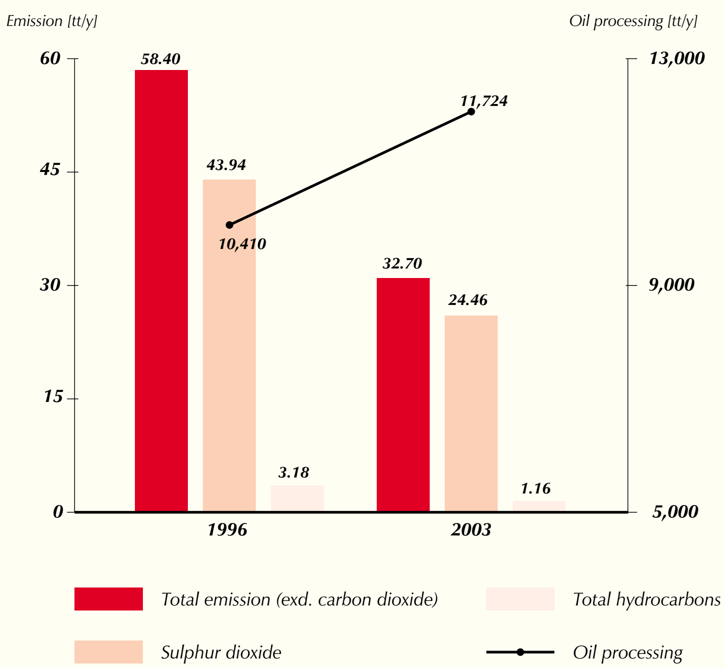
Veritas Quality International (BVQI). In 2003, the validity of the certificate was extended for a further three years.

About 526 environmental tasks, worth in total over PLN 42.5m, were undertaken at PKN ORLEN service stations, storage depots and other facilities. We estimate that last year our total capital expenditure on environmental protection amounted to PLN 190m.

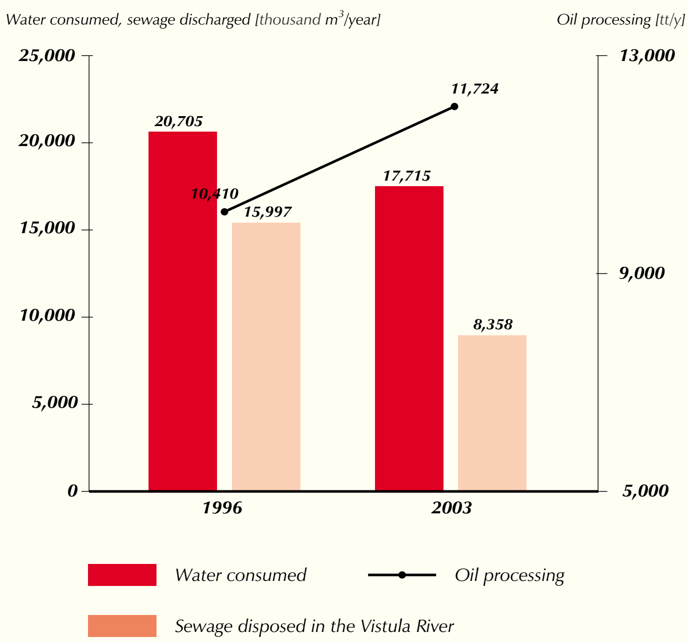
Environmental Protection Investment

In 2003, the capital expenditure on environmental protection projects at the refining and petrochemical production complex in Płock exceeded PLN 147m.

EMISSION OF MAJOR POLLUTANTS AT THE PLANT FACILITIES IN 1996 AND 2003



WATER CONSUMED AND TREATED SEWAGE DISCHARGED IN 1996 AND 2003



Pro-Environmental Adaptation Programme

2003 was the last year of our Pro-Environmental Adaptation Programme, which reduced the range and scale of the Main Plant's impact on all components of the natural environment. The most significant measurable and clear results were achieved in air quality control and water and sewage management. In 1997–2003, when the Programme was in operation, the total emission of pollutants dropped by 44% and the amount of sewage discharged by 47%. We also achieved a marked reduction in our water consumption.

The inspections conducted in 2003 confirmed that the environmental effects we achieved are permanent and are in compliance with the applicable norms. These achievements came about in the period of dynamic development at the Main Plant, which was accompanied by the construction of new installations – all potential sources of sewage and noise. The Pro-Environmental Adaptation Programme did not provide a complete solution to the issue of noise reduction, yet a downward tendency has been observed in this respect.

Responsible Care

Initiated by the Canadian Chemical Industries Association, the Responsible Care programme had been carried out at PKN ORLEN over the seven years to 2003.

As part of the programme, the following steps were taken:

- Cooperation with non-governmental organisations for environmental protection,
- Work on successive implementation of the Management System for Health and Safety at Work at the Main Plant's units,
- Preparation of the brochure Safety Instruction for Persons Visiting the Main Plant in Płock,
- Publication of the book Safety at Work Rules of PKN ORLEN,
- On-going update of the Environmental Safety Manual for PKN ORLEN's Employees,

- Participation in the Forum for Płock ecological group, which is a public and private initiative to create a balanced development strategy for Płock.

Plant Environmental Inspection

The activities of the Plant Environmental

Inspection programme reflect our constant care regarding the control and full monitoring of processes which may have a negative impact on the environment, especially in the event of disruptions in the regular operation of our installations. The Plant Environmental Inspection also monitors how PKN ORLEN is perceived by the local community, and handles and examines all reported issues concerning inconveniences caused by our operations. In 2003, the number of such reports declined by over 60%, which is yet further proof that we are committed to eliminating any unfavourable effects of our activities.

Air Quality Control

In 2003, PKN ORLEN recorded a reduction in total pollutant emissions at the Main Plant in Płock by ca. 1.2%. Furthermore, last year we considerably reduced the emissions of aliphatic and aromatic hydrocarbons (by over 29%, compared with 2002).

Awards

Our achievements in the area of environmental protection were acknowledged by the jury of the fourth edition of the Friends of the Environment Ecological Contest organised under the auspices of the President of the Republic of Poland, who awarded PKN ORLEN with the title of the Environmentally Friendly Company in 2003. Furthermore, the Service Station 682 at al. Solidarności in Warsaw was awarded the golden medal in the 2003 Cleanest Service Station contest.

Question to Andrzej Macenowicz, Vice-President, Human Resources and Management Systems

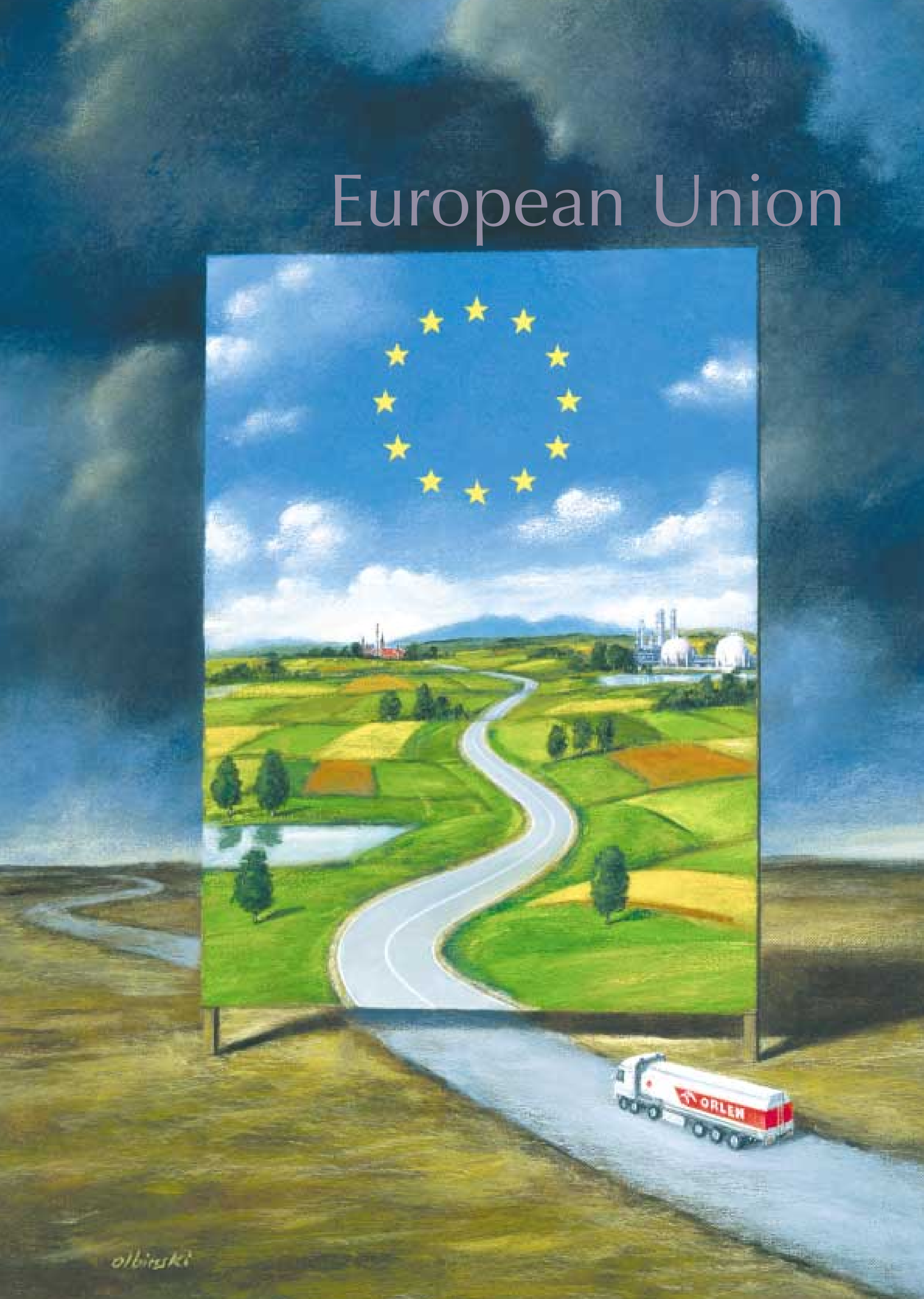
Which of the environmental activities pursued by the Company in 2003 are the most important in your opinion?

Without a doubt, the most important activities were those related to completion of our Pro-environmental Adaptation Programme. This project allowed us to significantly reduce the impact of all our production facilities on practically all components of the natural environment. A measure of the reduction in the environmental burden of the Production Plant is the number of issues reported to our Plant Environmental Police. In 2003, the number of such reports declined. The same has been confirmed by the results of ongoing air monitoring at four locations in the Plant's vicinity, as no instances of exceeding the permissible emission limits have been reported.

What environmental projects is the Company going to face in the near future?

The key challenge will be to obtain an integrated permit for the Płock Plant Units. The work on this project commenced in 2003. This new instrument of environmental management was introduced in the European Union on the basis of the Directive concerning integrated pollution prevention and control. It relies on entirely new assumptions as to the assessment of the Company's total impact on all components of the environment. It also requires an environmental assessment of the technologies we employ. In 2004 we will continue to work on such assessment in many complex production processes.

European Union



European Union

Preparation of PKN ORLEN to comply with requirements resulting from EU Regulations

- In 2003 we carried out a review of PKN ORLEN's adjustments to EU regulations in the areas of free movement of goods, corporate law, competition, transport, social and employment policies, taxes, energy, the environment, protection of consumers, and health.
- Since 2001 we have been producing fuels whose quality meets the requirements set forth in directives 1998/70/EC and 2003/17/EC. In addition, certain parameters of our fuels are better than those required in the EU (e.g. we produce diesel oil with a sulphur content below 30 ppm, i.e. more than ten times lower than as admissible under the said directives (350 ppm)).
- We actively participate in the preparation of the Polish system for monitoring engine fuel quality and we are developing a similar in-house system.
- Acting in line with Polish regulations, we are far ahead in meeting the requirements related to the promotion of fuels from renewable sources (directive 2003/30/EC).
- We are implementing EU laws on the environmental impact of industrial installations.
- The implementation of directive 94/63/EC on the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations, is proceeding in line with the national schedule.
- We have contributed to the transposition of EU laws into Polish laws through cooperation with the public administration authorities, the active backing of related initiatives and support for relevant organisations.
- We are actively participating in the preparation of domestic trading in sulphur and

nitrogen oxides emission allowances, by implementing directive 2001/80/EC, as well as in Poland's preparations for the proposed EU regulation of the chemical substances market (the REACH system).

- We are participating in work on the implementation of directive 2003/87/EC, to establish a scheme for greenhouse gas emissions allowance trading and we are preparing our Company for participation in the scheme; the directive was adopted in accordance with the European Union's obligations under the Kyoto Protocol.
- Since 1999 we have been maintaining mandatory stocks of liquid fuels (partially in the form of crude oil); we will increase these stocks by 2% of output every year, following the schedule for Poland's participation in the EU energy security system as determined on the basis of directive 98/93/EC and as provided for in the accession treaty.

Representation of Interests at the European Level

PKN ORLEN is a member of EUROPIA (European Petroleum Industry Association), an organisation of European refining companies jointly accounting for over 90% of the EU oil market. We participate in the work of various EUROPIA teams, which are responsible for developing the association's positions and lobbying strategies with respect to issues of key importance for the oil industry. Our EUROPIA membership provides us with direct access to the most recent industry information and the opportunity to present our position on proposals of regulations which are to be enacted by the EU.

Benefits to PKN ORLEN SA in connection with Poland's accession to the EU

- Opportunity to leverage expenditure incurred on:

  a. PKN ORLEN's technological adjustment to the requirements set forth in the EU directives:

  – Investments in the construction of modern crude oil processing facilities (over USD2bn);

  – Extensive preparation of the refining installations and the distribution network for the reduction of harmful emissions, i.e. implementation of the provisions of the IPPC (Integrated Pollution Prevention Control) system and the European Parliament and Council Directive 94/63 (on the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations);

– Active development of the system of mandatory stocks and the infrastructure for their storage (e.g. at IKS Solino SA);

b. Acquiring the skills required to operate on a free and open market – the upgraded and restructured distribution network is a modern and efficient system, which ensures best-of-breed customer service, the source of our success on the Polish market where:

– There are no logistic or formal barriers to fuel imports;

– The financial regulations are compatible with EU requirements – the import duty rate on fuels is 0% and excise tax rates exceed the minimum set by the EU;

– We compete with the distribution networks of the world's largest oil companies.

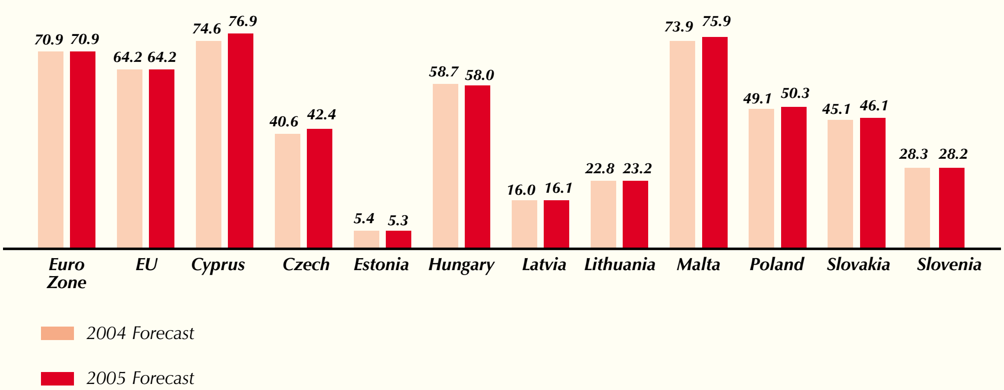
- More effective enforcement of provisions governing fuel quality controls and fair competition:

– Use of unfair competitive practices by other market participants will become more difficult given the continuous monitoring and control of engine fuel quality;

– Limited ability of the state to provide aid to inefficient companies.

- The prospect of faster economic growth, translating into the development of the fuel market and better financial results for PKN ORLEN.
- Possibility to use EU funds for restructuring the company by joining in the implementation of the National Development Plan, particularly in the field of activities promoting the innovativeness and competitive edge of companies operating in the single European market.

PUBLIC DEBT IN 10 NEW EU MEMBERS (%)



Threats to PKN ORLEN in connection with Poland's accession to the EU

- More stringent quality requirements for engine fuels: from 2009, the maximum admissible content of sulphur will be 10 ppm, and fuels with such sulphur content

will have to be available in the market by in 2005; another requirement will be the introduction of a separate kind of diesel oil for off-road engines and farming equipment and the reduction of the admissible sulphur content in marine oils.
- Increase in costs related to the more stringent environmental protection regulations concerning such issues as pollution liability, prevention of excessive contamination, or reduction of greenhouse gas emissions.
- Wider scope of the mandatory analyses of chemical substances introduced to the market (the REACH system regulations).
- Weaker position of crude-oil derivative fuels as a result of energy saving regulations to be enacted by the EU (providing for a reduction in energy consumption by 1% annually in each country, reduction of engine fuel consumption to 5.8 litres per 100 km, more common use of alternative fuels, such as hydrogen, CNG, and fuels from renewable sources).

Question to Zbigniew Wróbel, the President & CEO

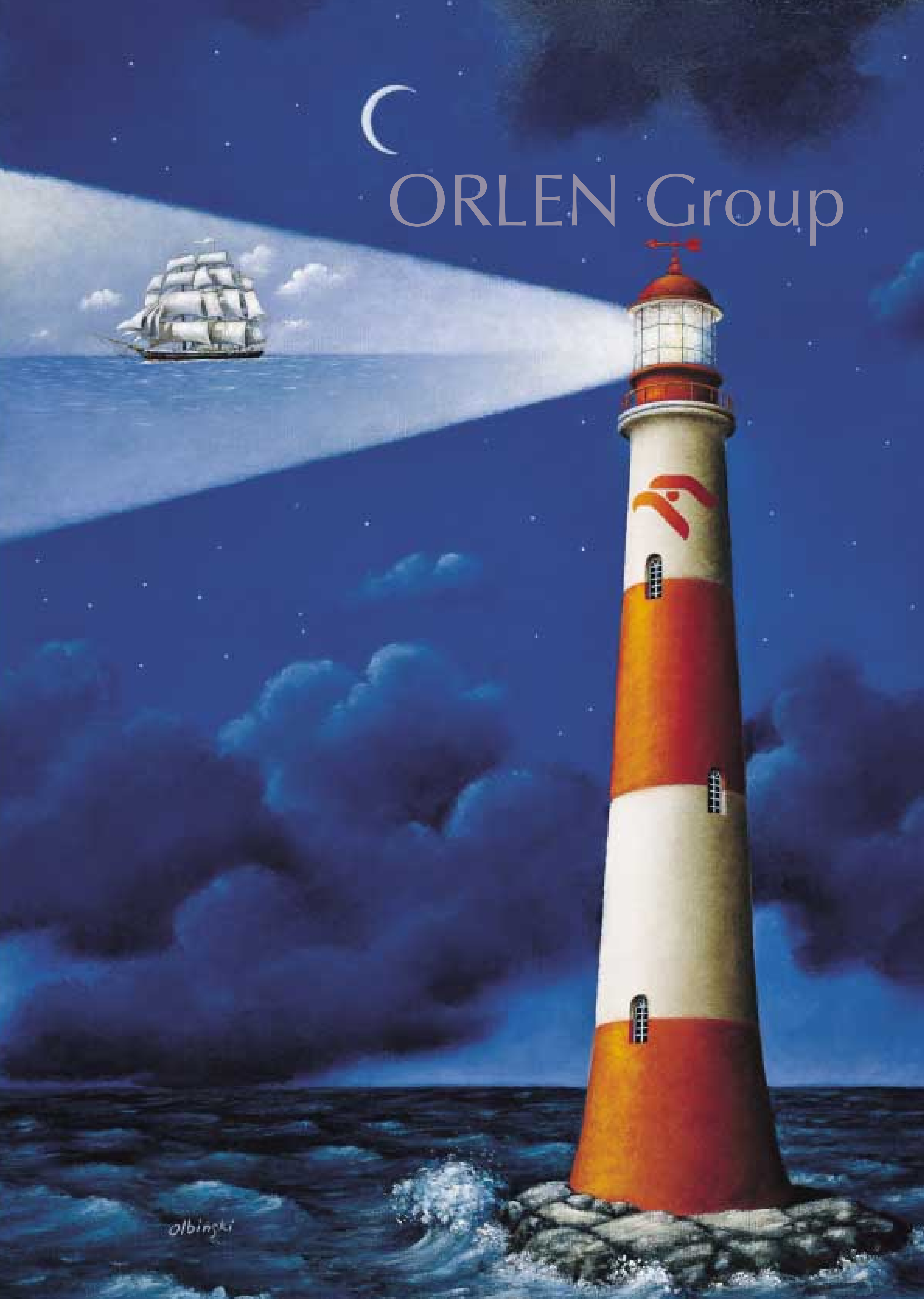
Will the EU accession have a positive impact on PKN ORLEN's position and performance?

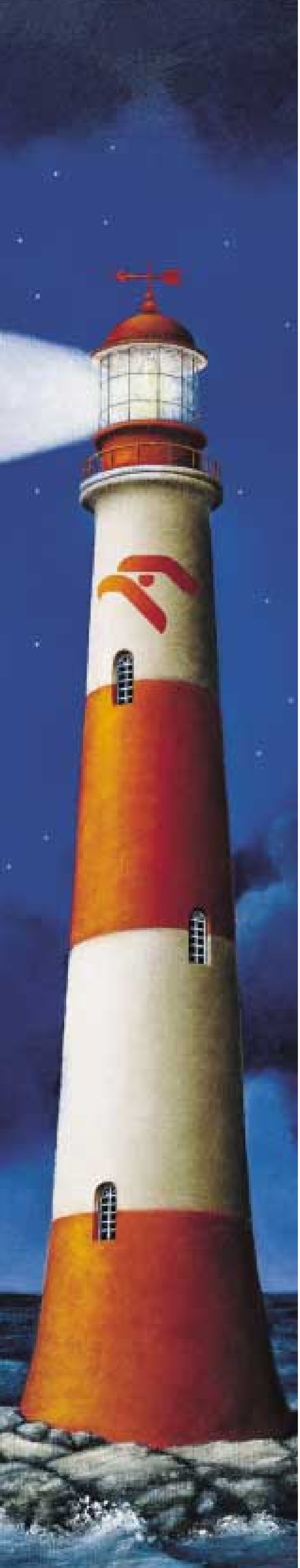
Yes. The benefits we presented in this chapter are significantly larger than the potential threats. I am referring to two key elements here. The first is the opportunity to discount the expenditure on production assets and the distribution network, which will include obtaining economies of scale, that is expansion on the domestic market. The other element is increasingly effective enforcement of the regulations on control of fuel quality and the principles of fair competition. Even now we can see a material improvement in this area. The grey economy is diminishing, and the fuel and service quality is more and more important to customers. That is why PKN ORLEN's position and image are already strengthening. One manifestation of this are our results.

Should we expect a change in the structure of shareholders, both Polish and foreign?

Our company is beginning to attract attention of investors who choose to place their assets in the EU. Their investment policy compelled them to look towards the companies operating on emerging markets, and the EU accession made PKN ORLEN an interesting opportunity. I had the pleasure of meeting and talking to some of them. It is possible that now may be the best time for the Polish State Treasury to seriously consider the possibility of taking advantage of the favourable market conditions to reduce its shareholding in PKN ORLEN, and to implement the third stage of PKN ORLEN's privatisation, which would complete the regime transformation process.

ORLEN Group





ORLEN Group

Structure of the ORLEN Group

As at the end of December 2003, PKN ORLEN held shares in 88 companies, including:

- 51 subsidiary companies of PKN ORLEN (equity interest exceeding 50%);
- 1 joint-venture company (50% equity interest);
- 5 associated companies (equity interest from 20% to 50%);
- minority holdings in 31 companies (interest below 20%).

Sale of equity interests

In line with the policy adopted by the Management Board, in 2003 we disposed of shares in 25 non-core companies, raising PLN 154m in proceeds and realising a PLN 51m profit on disposal.

The most significant transactions included the disposals of:

- a 35% interest in Niezależny Operator Międzystrefowy at a price of PLN 111,511,000, yielding a profit of PLN 27,508,000
- a 51.23% interest in ORLEN Remont for PLN 4,866,000, yielding a profit of PLN 4,057,000
- a 51% stake in ORLEN Eltech for the total price of PLN 3,680,000, yielding a profit of PLN 2,687,000.

Basell Orlen Polyolefins

Basell Orlen Polyolefins Sp. z o.o. is an important member of the ORLEN Group. The company is PKN ORLEN's joint-venture with Basell Europe Holdings B.V., which is involved in production of polypropylene and polyethylene and their marketing in Europe. On May 21st 2003, the share capital of Basell Orlen Polyolefins Sp. z o.o. was increased from PLN 50,000 to PLN 907,398,000. PKN ORLEN acquired 907,398 new shares in the increased share capital for a non-cash contribution in the form of an organised part of the enterprise (real estate, plant, equipment, and current assets, used for the production and distribution of polyolefins), and Basell Europe Holdings B.V. acquired 907,398 new shares in exchange for a cash contribution. Following the share capital increase, PKN ORLEN and Basell Europe Holdings B.V. hold equal numbers of shares in the share capital of Basell Orlen Polyolefins, i.e. each holds 907,398 shares, representing 50% of the share capital and conferring the rights to 907,398 votes at the company's general shareholders meeting.

Since March 1st 2003, the company has offered new types of polymers. A proportion of these products will ultimately be produced in Płock; some of which, such as high density polyethylene (HDPE), will be produced in Poland for the first time. The company is expected to reach its full production capacity by the end of 2005.

New Spin-Offs

ORLEN Laboratorium

In 2003, we continued the restructuring efforts designed to spin off companies from the PKN ORLEN structure. As a result ORLEN Laboratorium, which is based on the laboratories operating within the Company, launched its business on January 1st 2003. We estimate that by the end of 2005 the new undertaking will have invested ca. PLN 15m in new equipment, research, and own-development.

ORLEN Asfalt

With the view to creating a robust undertaking involved in the production and marketing of road and industrial bitumens and bitumen binders, we established a Bitumen Plant (Zakład Asfaltów). This plant plus assets held by Rafineria Trzebinia were combined to create ORLEN Asfalt, a company with a target production capacity of ca. 750,000 tonnes of bitumen per year. On July 15th 2003, the court registered changes in the ownership structure and the change of company name from Bitrex to ORLEN Asfalt The company's share capital of PLN 10,635,000 was increased by PLN 50m. Following the share capital increase of ORLEN Asfalt, PKN ORLEN's interest in that company is 82.46%, and the remaining 17.54% stake is held by Rafineria Trzebinia.

Plans for 2004

In 2004, we will continue the disposal of equity interests in 21 non-core companies. We estimate that these transactions will yield a profit of ca. PLN 24m.

The ORLEN Group's Financial Performance

The total sales revenues of the subsidiary and affiliated companies of PKN ORLEN amounted to approximately PLN 15.2bn, which represented an increase of ca. 105% relative to 2002. The 2003 net profit earned by the companies was PLN 170.3m, over 90% improvement on the 2002 figure.

ORLEN Asfalt

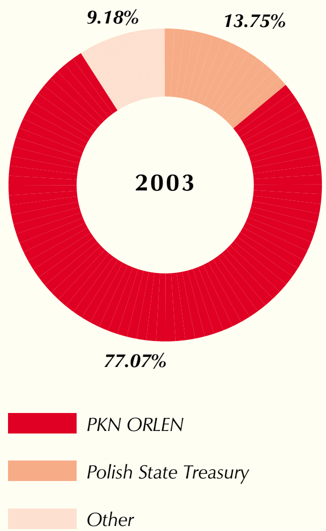
Rafineria Trzebinia

In terms of its throughput capacity Rafineria Trzebinia ranks fourth in Poland, after the Płock, Gdańsk and Czechowice refineries.

The company's business includes:

- crude oil distillation;
- production and sales of fuel (including gasoline, diesel oil, and fuel oil);
- blending and packaging of lubricating oils;
- processing of paraffin slack waxes;
- production of bitumens and bitumen products.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



PKN ORLEN's plans regarding the company

Work is underway on the concept of restructuring the "southern assets" comprising Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN OIL.

rafineria trzebinia
GRUPA ORLEN

Sales revenue: PLN 1,626,500,440*
Share capital: PLN 43,042,000
Number of employees as at December 31st 2003: 890
2003 net profit: PLN 68,210,600
Shareholders' equity as at December 31st 2003: PLN 325,856,700
Rafineria Trzebinia holds equity interests in 7 subsidiary and associated companies

* Rafineria Trzebinia's subsidiaries and associated companies

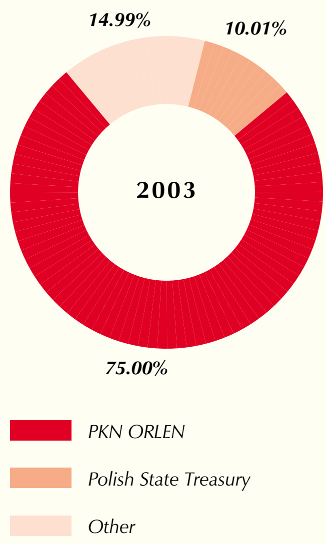
Rafineria Nafty Jedlicze

Rafineria Nafty Jedlicze SA is located near Krosno, in the southeast of Poland. The company ranks second in Poland in terms of the production of lubricating oils.

The company's business comprises:

- transport, processing, storage and trade in crude oil and oil derivatives, as well as used oils and other types of waste,
- collection of used oils,
- blending of lubricating oils and other industrial fluids,
- production of oil solvents and fuels,
- production of lubricants and bitumens,
- production of containers and packaging of oils and other industrial fluids.

Shareholder Structure as at December 31st 2003



PKN ORLEN's plans regarding the company:

Work is underway on the concept of restructuring the "southern assets" comprising Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN OIL.

JEDLICZE GRUPA ORLEN

Sales revenue: PLN 477,359,300*

Share capital: PLN 78,000,000

Number of employees as at December 31st 2003: 868

2003 net profit: PLN 2,006,100

Shareholders' equity as at December 31st 2003: 133,129,600

Rafineria Jedlicze holds equity interests in 15 subsidiary and associated companies

* Rafineria Jedlicze's subsidiaries and associated companies

Naftoport

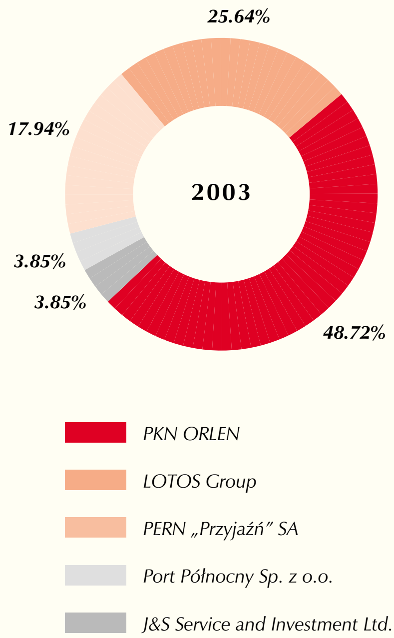
The company is the largest operator of imported crude oil reloading facilities for ships in Poland. The company's core business consists in the reloading of oil and oil products for Polish refineries.

Because of its ability to help secure the alternative supply of feedstock, Naftoport is an important asset for us. It is also an important asset for the State Treasury due to its role in the country's energy security.

PKN ORLEN's plans regarding the company

PKN ORLEN plans to continue as a shareholder in Naftoport.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



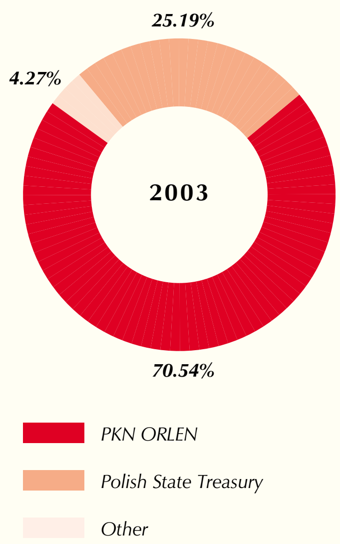
Naftoport

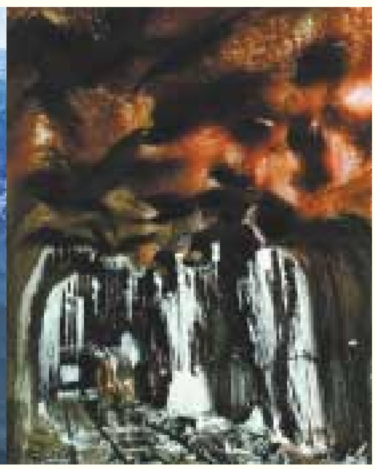
Sales revenue: PLN 56,613,220	
Share capital PLN 45,942,000	
2003 net profit: PLN 22,921,000	
Shareholders' equity as at December 31st 2003: PLN 106,507,400	
Annual reloading capacity: 23 million tonnes of crude oil	

IKS Solino

The company mines and processes brine, and produces industrial brine. The brine is supplied, via a pipeline, to Anwil in Włocławek, a member of the ORLEN Group. Given the nature of its core business, the company is ideally suited to store large amounts of crude oil and fuels cheaply.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003





The company's business comprises:

- storage of crude oil and refinery products,
- production of industrial brine,
- processing and packaging of vacuum salt,
- trade in the company's own products on domestic and foreign markets,
- trade in mining, mechanical, electrical, construction and transport assets.

PKN ORLEN's plans regarding the company

PKN ORLEN plans to continue as a shareholder in IKS Solino.

SOLINO
INOWROCŁAWSKIE KOPALNIE SOLI
GRUPA ORLEN

Sales revenue: PLN 95,414,800
Share capital PLN 19,145,600
Number of employees as at December 31st 2003: 323
2003 net profit: PLN 9,000,400
Shareholders' equity as at December 31st 2003: PLN 76,295,800

ZA Anwil

Zakłady Azotowe Anwil SA is one of the largest enterprises in the Bydgoszcz Province, and is also the leading chemical industrial enterprise in Poland.

The company's business comprises:

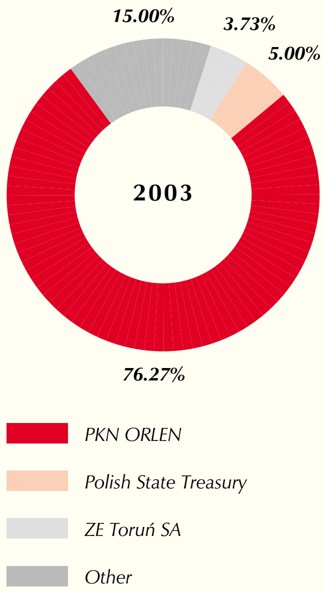
- production of nitrogen fertilisers, semi-products and other related products;
- production of polyvinyl chloride and other related products;
- production of polyethylene packaging;
- trading and service activities based on the company's production capabilities.

The company is Poland's largest manufacturer of polyvinyl chloride (PVC) and a major producer of nitrogen fertilisers. Ethylene, the principal raw material used in the production of polyvinyl chloride, is purchased from PKN ORLEN. Zakłady Azotowe Anwil SA owes its position on the Polish and international markets mainly to the high quality of its products, certified by ISO 9001 and 9002 quality certificates, as well as to the Polish Q quality sign granted to its ammonium nitrate.

PKN ORLEN's plans regarding the company

Over the next several years, PKN ORLEN may increase its equity interest in the company.

Shareholder Structure
as at December 31st 2003



Anwil®
GRUPA ORLEN

Sales revenue: PLN 1,284,040,500 *
Share capital: PLN 150,000,000
Number of employees as at December 31st 2003: 2,439
2003 net profit: PLN 59,355,700
Shareholders' equity as at December 31st 2003: PLN 872,548,700
As at the end of 2003, Anwil held equity interests in 13 subsidiary and associated companies

* Anwil's subsidiaries and associated companies

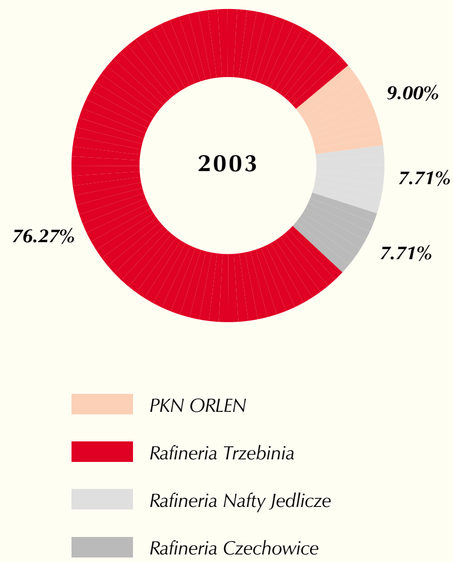
ORLEN OIL Sp. z o.o.

ORLEN OIL Sp. z o.o. is a producer of lubricating oils and car-care products marketed under the ORLEN brand, and a distributor of the products of the ORLEN Group.

The company's business comprises:

- production and sales of lubricating and base oils, and chemical products;
- domestic and international trade in chemical, refinery, and petrochemical products;
- provision of storage and transport services.

Shareholder Structure as at December 31st 2003



PKN ORLEN's plans regarding the company

Work is underway on the concept of restructuring the "southern assets" comprising Rafineria Trzebinia, Rafineria Nafty Jedlicze and ORLEN OIL.

Sales revenue: PLN 434,080,000*

Share capital: PLN 43,558,000

Number of employees as at December 31st 2003: 208

2003 net profit: PLN 6,432,500

Shareholders' equity as at December 31st 2003: PLN 64,572,440

ORLEN OIL holds equity interests in 12 subsidiary and associated companies

* ORLEN OIL's subsidiaries and associated companies

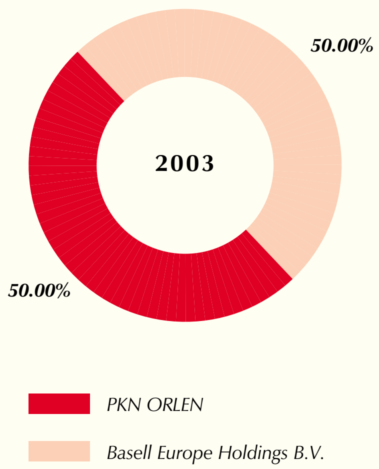
Basell Orlen Polyolefins

Basell Orlen Polyolefins Sp. z o.o. (BOP) is a joint-venture company established in March 2003 by PKN ORLEN and Basell Europe Holdings BV, the largest polypropylene manufacturer in the world. PKN ORLEN and Basell each hold 50% of the shares in the joint venture, in which they have invested EUR 217m. Additionally, in 2003 the company obtained a EUR 350m loan which, combined with the capital invested by the partners, ensures the undertaking's financial stability.

BOP manufactures and sells polyethylene (PE) and polypropylene (PP) from the plants in Płock and sells advanced polyolefins produced by the international network of Basell's production plants. PKN ORLEN contributed to the joint venture an organised part of its enterprise and qualified staff with a thorough knowledge of the local market. Additionally, PKN ORLEN provides raw materials, utilities and services necessary for the company's operations. Basell, in turn, provided the necessary modern technology know-how, operational procedures, and access to its sales network.

New sales and marketing procedures, customer service standards and the high quality of products enabled BOP to win in 2003 a 50% share in the Polish polyolefins market.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



PKN ORLEN's plans regarding the company

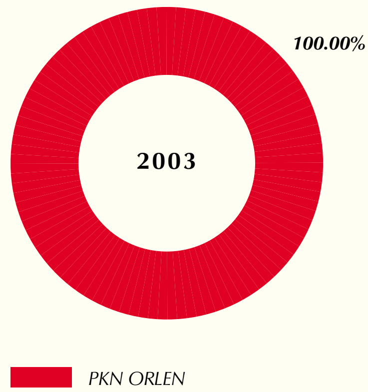
PKN ORLEN plans to continue as a shareholder in Basell Orlen Polyolefins.

Sales revenue: PLN 725,696,900
Share capital: PLN 907,398,000
Number of employees as at December 31st 2003: 386
2003 net profit: PLN 43,999,700
Shareholders' equity as at December 31st 2003: PLN 951,398,400

ORLEN Deutschland

In 2003, ORLEN Deutschland GmbH finalised the purchase of 494 service stations in Germany in the so-called Northern Package, for a total of EUR 140m. We took over 323 stations with the BP-ARAL logo and 171 stations under the Eggert brand – a company previously acquired by ARAL, thus obtaining a 3% share in the entire German market and a 7% share in the local market in northern Germany. PKN ORLEN's operations in Germany are concentrated in 16 regions, and the main three zones of concentration are the Berlin and Hamburg urban areas and the Ruhr Valley. By 2010, ORLEN Deutschland ultimately aims to achieve a 10% share in the northern Germany market.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



In 2003, ORLEN Deutschland concentrated primarily on rebranding the acquired service stations. On December 9th, we completed the process in northern Germany, satisfying all the conditions of the agreement between PKN ORLEN and the BP Group. The BP Group paid PKN ORLEN a EUR 5m premium for the timely completion of the rebranding.

PKN ORLEN's plans regarding the company

PKN ORLEN plans to continue as a shareholder in ORLEN Deutschland.

Sales revenue: PLN 6,269,563,300
Share capital: PLN 283,020,000
Number of employees as at December 31st 2003: 97
2003 net profit: PLN 4,971,900
Shareholders' equity as at December 31st 2003: PLN 571,136,500

ORLEN Asfalt

In 2003, PKN ORLEN concluded an agreement concerning the disposal of the assets of its Bitumen Plant to Bitrex of Trzebinia and, based on the resolution of the Bitrex General Shareholders Meeting, made a cash contribution to acquire shares in the company's increased share capital. The share capital increase at Bitrex was registered and the company's name was changed to ORLEN Asfalt on July 15th 2003.

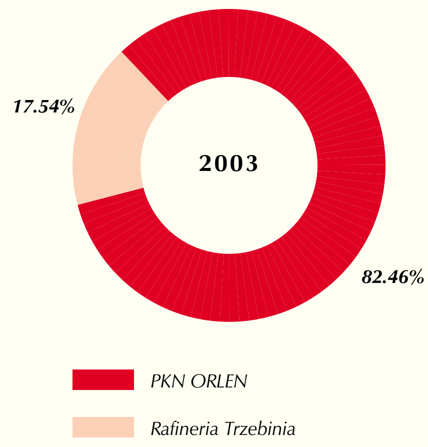
The business of ORLEN Asfalt comprises the production and processing of oil derivative products. The basic offering includes road and industrial bitumens and bitumen products. The company intends to develop the production of modified and special bitumen while maintaining its share in the road bitumen segment.

Currently, the company has a substantial share in the Polish bitumen market. In the first half of 2003, based on an original technology and components, the company launched the production of polymer-modified bitumen under the ORBITON trade name, a product perfect for highway construction.

PKN ORLEN's plans regarding the company

PKN ORLEN plans to continue as a shareholder in ORLEN Asfalt.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



Sales revenue: PLN 351,565,500	
Share capital: PLN 60,635,000	
Number of employees at December 31st 2002: 131	
Net profit for 2003: PLN 20,701,200	
Shareholders' equity as at December 31st 2003: PLN 83,246,000	

Polkomtel

Polkomtel SA, offering its services under the brand names of Plus GSM and Simplus, is one of Poland's three mobile telephony operators using the GSM 900 and DCS 1800 systems. At present, it is the second largest mobile telephony operator in Poland in terms of the number of subscribers.

Because of its value, Polkomtel SA is an important member of the ORLEN Group, even though it is not consolidated in the Group's accounts.

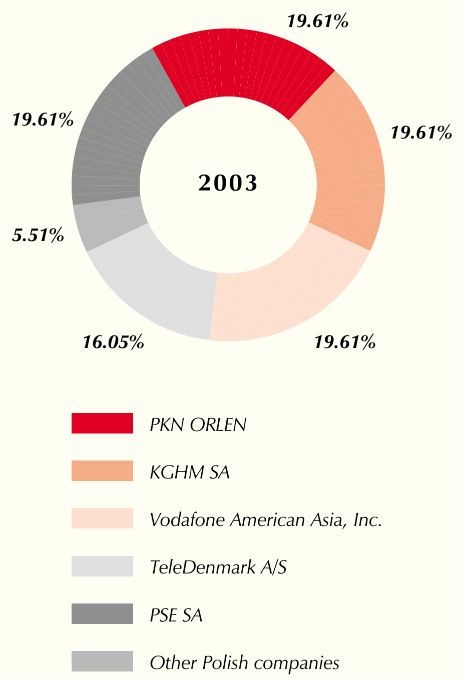
The company's business comprises:

- provision of mobile telephony services,
- sale of GSM-related products and services,
- design, installation, operation, and management of the GSM system.

PKN ORLEN's plans regarding the company

The shares in Polkomtel SA are PKN ORLEN's financial investment and are to be disposed of in the medium term.

SHAREHOLDER STRUCTURE
AS AT DECEMBER 31ST 2003



As at December 31st 2003, the companyís share capital was PLN 2,050,000,000
The 2003 sales revenue was PLN 5,176m
The company recorded a net profit of PLN 757m

Corporate Governance

Corporate Governance

Ethics

In striving to strengthen corporate governance, PKN ORLEN has implemented an internal code of ethics. We have been introducing a number of changes which are necessary and beneficial to everybody. Our efforts are geared towards achieving the highest quality of our management systems and operating procedures. Reliability is also our priority. Therefore, we strictly follow technological standards and moral principles, driven by the conviction that principles of conduct in the community have a decisive effect on a successful business.

The Company's corporate bodies are responsible and thoughtful

We strive for our Company to be competitive, effective in achieving its objectives, and properly managed. The Management Board is accountable for its actions before both the Supervisory Board and the shareholders. We are aware that even strictly followed good practice is not enough. Reliable management and the cooperation of executive officers at all levels are also indispensable. We make all efforts in terms of good practice and proper management to contribute jointly to the increase in the Company's value.

Interests of shareholders and stakeholders

We have been consistently working on increasing confidence in our Company. We provide the necessary information on our business activities to all interested parties. We disseminate the culture of dialogue by providing high-quality and utterly transparent information to shareholders and capital market players. We disclose information in the form of ad hoc reports, as well as during one-on-one meetings, conferences and conference calls. To furnish information on PKN ORLEN, we also use state-of-the-art multimedia presentation technologies and our web site: www.orlen.pl


ORLEN

Social Responsibility

In striving to build a modern corporation which will rank high in a united Europe, we feel obliged to constantly improve our performance in meeting the economic, environmental and social expectations of our stakeholders. We want our growth strategy to combine economic success with the responsibility for creating conditions that encourage social development and environmental protection. The dialogue which we have established to this end, and local partnerships, are innovative management tools which will enable the Company to not only achieve a competitive edge, but also develop and grow in a sustainable manner.

We have set the principle of partnership at the core of our code of values and apply it in our day-to-day production and commercial operations. We are interested in establishing dialogue on issues important to our operations. Therefore, we intend to assess, on a regular basis, the implementation of the principles of partnership in the community in line with identified needs and expectations.

We have adopted the following principles:

- PKN ORLEN conducts and develops its business activities so as to maximise both the direct and indirect positive social effects, through our support of various forms of involvement, those which we consider our moral duty, as well as those which we believe will serve the well-conceived interests of our Company whether in the near future or in the long run.
- PKN ORLEN, being a major business player on the market, is eager to use its advantages to become a driver of necessary structural changes in the local, countrywide and European environment, as well as to contribute to actions encouraging sustainable growth, the creation of job oppor-

tunities and the building of a modern industrial culture.

- PKN ORLEN endeavours to build well-established relations based on mutual trust and benefits with each person, organisation and community affected by the Company's activities. While motivating its employees to social engagement, PKN ORLEN abides by the human rights principles adopted by the international community and laid down in such documents as the Global Compact, as proposed by the Secretary-General of the United Nations, Mr Kofi Annan.

vative project which will involve the local community in the municipal management process.

Over 40 local organisations, representing local businesses, non-governmental organisations, residents and local government have, for half a year, cooperated on the identification and development of the growth priorities for Płock for the period to 2012, as well as on the definition of measures for monitoring the progress of their implementation. In this way, an informal group known as the Forum for Płock has been established to include representatives of local business, non-governmental organisations and

Forum for Płock – Local Partnership

An example of a long-term investment in common welfare is the Forum for Płock, a social partnership initiative implemented in cooperation with the United Nations Development Programme (UNDP) and the Płock local government. It is the first ever large-scale project of cooperation between the public and private sectors in Poland, with no comparison with similar schemes which have to date been implemented in Central and Eastern Europe. We see the programme as a "laboratory" of social responsibility and the building of partner relations as part of a local presence. The Płock local government views the programme as an innolocal government. A group of local leaders has emerged with a common objective to accelerate the growth of Płock.

The initial phase of the programme included a review of the growth strategy for Płock and meetings of Forum participants, prepared in cooperation with the UNDP and Partnership for Environment Fund (Fundacja Partnerstwo dla Środowiska). Representatives of local institutions (cultural institutions, church, sport organisations, charities, pro-environmental and scholar organisations, as well as the police) and numerous representatives of companies and local government participated in the effort. The meetings enabled the participants to know each other better, learn from each other, develop new skills and discover their potential for joint action.

The new strategy for the sustainable growth of Płock, approved by the Town Council, represents a vision which, once brought to life, will deliver social development and a clean environment to the residents, and excellent conditions for economic growth to the companies and their employees.

The participants agreed upon three major areas of focus: social development, environmental protection and economic growth. The strategy is described in detail on the web site at www.forum.ump.pl.

Fund for Płock

Under the partnership programme Forum for Płock, its participants established the Fund for Płock designed to encourage the social engagement of employees and thus implement the new development vision for Płock. The Fund provides support to Płock non-governmental organisations through the financing of selected tasks as specified in the new strategy. The opening budget of the Fund totalled PLN 1,300,000 and included contributions by PKN ORLEN (PLN 500,000), the town of Płock (PLN 600,000) and Levi Strauss (PLN 200,000). Another vital objective of the project is to enhance the organisational skills within the non-governmental sector. To achieve this objective, the organisations must meet the requirements stipulated for grant applications and abide by the transparent rules of application assessment and execution monitoring. The contributors have delegated the decisions concerning the allocation of grants to the Steering Committee, which is composed of persons of public trust: three winners of the annual Płock Citizen of the Year (Płocczanin Roku) polls and the winner of the Lekarz 30-lecia contest for medical professionals organised on the thirtieth anniversary of Płock Hospital.

Funds contributed by PKN ORLEN were supplemented by contributions from other partners, which enabled the Company to participate in each of the 33 projects implemented by the grantees. Small grants were awarded in an amount of up to PLN 40,000 and large ones of up to PLN 80,000.

The Grant Fund is monitored by the Forum for Płock, which also provides advice and knowledge of local development issues, as well as disseminating information on the Fund's activities, thus involving a larger number of units and organisations. The UNDP intermediates in the partnership and supports the building of transparent and stable mechanisms for the Fund's activities. The partners expect a new dedicated organisation to be established at the beginning of 2005, to take over the administrative duties currently performed by the UNDP. Seven towns of a size similar to Płock's, namely Włocławek, Ostrów Wielkopolski, Tarnów, Nowy Sącz, Olsztyn, Trzebinia and Gliwice, intend to replicate the project in 2004, which attests to its popularity and innovativeness. The project has already been presented and discussed at sessions organised in New York, Salzburg, Warsaw, Krynica and Brussels.

More information on the Forum and its development, the Fund, and all of the award-winning applications can be found on the web site at www.fundusz.ump.pl.

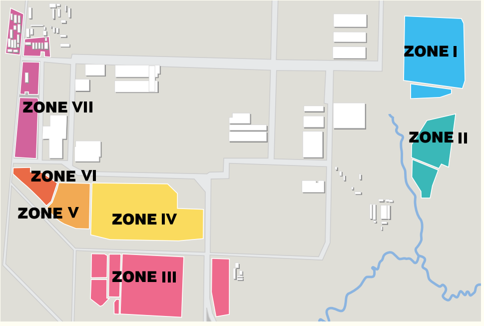
Industrial and Technological Park in Płock

The Płock Industrial and Technological Park is a project carried out by PKN ORLEN in conjunction with the municipality of Płock in the form of a public-private partnership. The idea behind the project is to ensure good prospects of long-term economic growth based on know-how and modern technology, which would lead to the creation of new companies and jobs in the region of Płock.

The Park will be a bridge between science and economy, not only thanks to the concentration of institutions and organisations from both these spheres, but principally by acting as the initiator and organiser.

THE PŁOCK TECHNOLOGICAL AND INDUSTRIAL PARK SITE

THE PŁOCK TECHNOLOGICAL AND INDUSTRIAL PARK



- Zone I - approx. 38 ha
  Preferred business activity: refining & petrochemical production, R&D in the area of chemical and bio-chemical production as well as processing of refinery products
- Zone II - approx. 21 ha
  Preferred business activity: refining & petrochemical production, R&D in the area of chemical and bio-chemical production as well as processing of refinery products
- Zone III- approx. 54 ha
  Preferred business activity: administration, R&D, service, technological and industrial activities with limited environmental impact
- Zone IV - approx. 44 ha
  Preferred business activity: administration, R&D, service, technological and industrial
- Zone V - approx. 23 ha
  Preferred business activity: administration, R&D, service, technological and industrial activities with limited environmental impact
- Zone VI - approx. 12 ha
  Preferred business activity: administration, R&D, service and recreation
- Zone VII - approx. 22 ha
  Preferred business activity: administration and R&D; production with limited environmental impact

By virtue of an agreement signed in 2003, the Płock authorities and the governing bodies of PKN ORLEN appointed a joint Project Team. Analysis has shown that the project offers an opportunity to create as many as several thousand new jobs within 25 years.

Although the idea to build an industrial and technological park in Płock emerged a few years ago, the work accelerated in connection with the imminent EU entry and the opportunity to use EU funds. The implementation of the project as a public-private partnership makes it possible to better use this opportunity.

The core idea behind the establishment of the Park is the creation of new companies, and thus new jobs. The key objectives of the project include:

- Fostering sustainable economic and social growth of the town and the region;
- Increasing the inflow of investment capital;
- Creating new and stable jobs, thus enhancing the living standard of the town's population;
- Better leveraging of the human and physical potential, and increasing competitiveness of the Park companies;
- Cooperating in the process of restructuring PKN ORLEN through the creation of new jobs;
- Ensuring development of the member companies of the ORLEN Group.

The philosophy of the Park relies on the "all under one roof" principle.

One job in the high technology sector creates from 5 to 10 new jobs in traditional sectors, and know-how is currently considered the key driver of production and economic success. An essential condition for successful business is being able to quickly implement and commercialise the results of scientific research and innovations.

PPPT

THE PŁOCK TECHNOLOGICAL AND INDUSTRIAL PARK

Question to Andrzej Macenowicz, Vice-President, Human Resources and Management Systems

During the Chemist Day celebrations, you presented a list of rules which are a type of a code of conduct for PKN ORLEN. Which of these rules do you consider the most important?

The code comprises eight key rules, which have been developed through consultations with almost two thousand persons. All of them are of equal importance to us, so it would be very difficult to point to any one of them as the most vital. We would like them to become determinants of our day-to-day activities. We want to act in accordance with those rules and to enhance the standards of the Company's operations, in line with the expectations of our stakeholders.

You act as the project leader in the development of the Płock Technological and Industrial Park. Please tell us about the history of this project and the related expectations.

The decision to launch the project was based on a few factors, including the ongoing restructuring of the Company and the very high unemployment rate in Płock and the region. In establishing the Park we use the town's asset – the presence of PKN ORLEN. The possible synergies with the Production Plant, combined with the opportunity to use the town's and the Company's potential more fully, should serve as an incentive for an economic boom in the region. We will seek to create a place which, in addition to being a dynamically developing production centre, will be a research and development centre, a location of choice for large companies, but also a perceived source of development opportunities for small ventures. It is our intention that the actions we have taken in cooperation with the Płock authorities produce quick results and inspire comprehensive development of the town and the region over the next years.


olbinski

Letter from the Vice-President of the Management Board, CFO

Dear Shareholders, Ladies and Gentlemen

It gives me great honour and pride to present to you the 2003 economic and financial results of PKN ORLEN and its Group. And it was not only the record-high financial profit that made 2003 a special year to PKN ORLEN. We continued our internal restructuring processes and commenced expansion in Central Europe through the successful acquisition of the retail network in the north of Germany and by taking an active part in the privatisation processes in the Czech Republic. Metaphorically speaking, we crossed the Rubicon – from a local company we have turned into an international player. The correctness of our strategy is confirmed by the performance of our stock – a clear evidence of investors' confidence in our success.

As the Management Board member responsible for finance, I would like to present to you my reflections and views on the phenomena and trends in economic areas of PKN ORLEN's operations, as well as the vision of our further restructuring towards a modern and effectively managed company ready to face the challenges posed by the globalising economy.

Following more than –two years of slowdown, the development of the Polish economy is starting to gather pace. According to the preliminary data from the Central Statistics Office, the 2003 GDP grew at an average rate of over 3.7%, with an increase of over 4.7% in the forth quarter alone. Last year, manufacturing output was 8.7% higher than in 2002 (when growth was 1.5%). In the forth quarter of 2003, the industrial production figures were markedly higher (by 12.1%) than in the previous periods. At the same time, the Consumer Price Index was lower than in 2002 (0.8% against 1.9%) and than the figure assumed in the Budget Act (by 1.5 percentage points). The only, yet fairly material, negative aspect of Poland's macroeconomic situation was the continued high unemployment rate (18% in 2003 i.e. down by a mere 0.1% on the previous year).

According to data published by Samar, the vehicle market rebound in 2003 resulted in 358,000 new car sales in Poland (up by 16.3% over 2002), including 37,600 cars sold in December alone.

As a consequence, for the time in a few years, fuel consumption in Poland rose (by 5.9%) over the 2002 figure, with the increase in the fourth quarter as high as 9.6%.

The market environment in the oil sector was also advantageous. The 15.3% average annual rise of oil prices (to USD 28.86/b) was correlated with the ca. 200% increase in the crack margin (to USD 3.06/b). Simultaneously, the URAL/BRENT price differential, which is of immense importance to PKN ORLEN, went up by over 45% (to USD 1.76/b). The only adverse tendency for PKN ORLEN was the falling exchange rate of the dollar (by ca. 5%, to PLN 3.89 per USD 1).

Therefore, the major task of our sales policy was to determine an optimum price level to maximise our revenue in the face of the rapidly growing competitive pressures. The strategy of maximising the margin volume translated into an over 55% higher profit for the refining segment (production, logistics, wholesale) in comparison with 2002, accompanied by a significant decline of the inland premium (by nearly PLN 170m), a 2.8% fall in light product sales, and stronger fuel exports (up by ca. 35%). The profitability of the segment picked up markedly also because of our logistics and production cost cutting initiatives (by ca. PLN 120m). It is noteworthy that in LIFO terms, which serves as the most exact measure of performance of refining businesses, the profit earned by the refining segment soared by as much as 150%.

In a similar way to experience in the wholesale sector, the retail segment saw a clear drop in gasoline sales, and strong growth in diesel and LPG sales. The margin maximisation strategy, adopted also in the refining segment, brought a substantially higher retail result (up by PLN 66m), 1.1% higher sales of fuels, and a considerable increase in unit margins, particularly for diesel. The growth of margin volume was particularly strong in sales of non-fuel products and services (up by 22%).

The result posted by the petrochemical segment also grew notably (by 109%), primarily due to the more favourable conditions in the area of chemical fertilisers, greater sales of monomers to newly incorporated Basell Orlen Polyolefins (which replaced the sales of polyolefins in our offering), and the contribution in kind to Basell Orlen Polyolefins (up by PLN 112m in the consolidated accounts).

Where external factors may have a significant adverse effect on the profitability of PKN ORLEN, and where our ability to enhance sales is limited by the prevailing market conditions, the major means to ensure satisfactory profitability is the Comprehensive Cost Cutting Programme, launched in 2003. The key elements of the programme in 2003 were cost cutting initiatives in logistics (PLN 84m) and production (PLN 36m). Together with savings in other areas (PLN 24m), the overall cost efficiencies were at least over a dozen million złoty higher than originally planned.

Even though the cost cutting process was developed and implemented in 2003, I believe that 2004 will be decisive to the success of the programme as a whole. For the first time, we have incorporated the expected effects of the cost-cutting initiatives in the budgets of individual segments and in the management incentive scheme.

In addition to the cost reduction initiatives, the programme for the increase of the Company's value includes a number of other projects aimed at enhancing efficiency or optimising our activities in particular areas. Last year's instability on the world's markets resulting from the war in Iraq focussed our attention on the issue of margin optimisation and proper pricing policy. The projects of comprehensive margin optimisation and retail price centralisation, currently underway, serve to implement integrated systems of management for refining margins and retail prices at PKN ORLEN, based on the world's best practice. They are expected to help us enhance the efficiency of our sales policy, maximise margins and fully utilise available throughput capacity. The effectiveness of these programmes in wholesale will be supported by the implementation of regional prices and a professional customer relationship management system (CRM).

Being an organisation strongly exposed to external factors, we are attempting to mitigate the risk by developing hedging strategies based on the risk management tools we use. The test phase of the risk assessment and measurement system is coming to an end; and we are developing procedures for management and the integration of risk with other business processes occurring in PKN ORLEN.

The success of the Company value increase programme depends greatly on the processes of restructuring the retail network, which are intended to trigger significant growth in both fuel sales efficiency (the 2006 target is an increase of average sales per station to 3m litres per year) and the non-fuel margin (to 25% of the total retail margin).

Apart from the actions within PKN ORLEN itself, we plan to intensify the restructuring and disinvestment processes related to the Group companies. This year we intend to dispose of a further 21 companies, thus reducing employment by ca. 1,600 jobs. The most important transaction, however, will be the disposal of our interest in Polkomtel, our key equity asset. Additional funds may be raised from the disposal of assets used by the Group companies. These funds, together with the growing operating cash flow and increased financial leverage, are to secure our growing capital needs.

All of these efforts are coordinated through the Value Based Management programme (VBM), a priority for PKN ORLEN. The programme's pivotal element is the implementation of a strategic management system based on the strategic score card.

The strategic score card will be prepared as a set of objectives, performance indicators, their expected values and, more importantly, the action programmes which focus on four key areas: finance, customers, internal processes, and development. These objectives reflect our strategic plans. The performance indicators, assigned to each objective, will allow us to quantify the objectives and measure the progress of their execution. The values of the indicators will serve to specify the target to be achieved through the formulated initiatives or action programmes. The strategic score card will therefore allow us to simply and logically describe causal relationships between individual strategic objectives. It will help us maintain an appropriate balance between the short-term results (finance) and investments in future development and success (customers, internal processes, and development). This balance is the foundation for the long-term success of PKN ORLEN. The strategic management will be supported by a medium-term planning process, covering a 3-5year perspective, translating the initiatives and measures of the strategic score card into the language of financial statements.

Under the VBM programme, we are also preparing a new budgeting process to make the entire procedure more flexible and to turn it into an effective tool for executing strategic goals.
The key features of the new budgeting method are:

- introduction of rolling budgets,
- introduction of flexible budgets method (controllable deviation analysis),
- formulation of annual business objectives for directors, based on the value increase objectives and taking into account the key performance indicators (KPI),
- redefinition of the budget verification process based on the calculation of economic profit, SVA for business entities, and key performance indicators,
- full integration with the systems of strategic score cards, medium-term planning and Management by Objectives in the tool area.

To prevent the value creation strategy from becoming a set of meaningless declarations, we expect to support it by implementing an evaluation and incentive scheme for the management, based on the strategic core cards and compliant with the MBO philosophy. This process is to be supported by an IT system, which will also allow the staff participating in the MBO programme to monitor the objectives and degree of their completion.

The year 2004 will be of particular importance, not only in terms of creating foundations for the long-term value increase programme, but most of all in the context of key decisions in the Central European consolidation process. The planned acquisitions, particularly that of shares in the Czech Unipetrol, or the already initiated process of merger with the Hungarian MOL, will redefine the positions of key players on the oil and gas market in this part of Europe. In these circumstances, it is becoming extremely important to ensure proper funding for the execution of the entire programme, while at the same time maintaining appropriate financial standards, confirmed by an investment-grade rating.

In July 2003, we executed an agreement for a EUR 500m long-term dual-currency credit facility. The facility, extended by a syndicate of 18 Polish and foreign banks for a period of five years, is not secured on the Company's assets, and the loan margin will range from 0.4% to 0.6%, depending on the debt to EBITDA ratio. The facility will be advanced in two loans, a EUR 350m term loan and a EUR 150m revolving loan. The funds under the facility were assigned for the repayment of the maturing three-year USD 200m syndicated loan and for covering other needs of PKN ORLEN, both of a long-term and current nature. The new financing allows us to shape the financial policy in a more flexible manner; it will also provide stability and security of our cash flow in the near future.

Ladies and Gentlemen,

The shift of focus from production to the market, adopted two years ago, resulted in an entirely new philosophy for our market activities. We came to look at our sales processes from the customer's perspective and resolved to initiate rebranding, create a fully professional offering for the customers, and enhance service quality to achieve the highest standard on the market. At present, our actions are driven by a constant pursuit of excellence, aiming at a full utilisation of the economies of scale inherent in this business. The stronger operating cash flow, generated thanks to improved performance, combined with the proceeds from disinvestment and increased financial leverage, are a basis for new investment projects, which are to maximise the economies of scale by taking advantage of the synergies.

As a result, the growing cash flow from our existing and new assets will exponentially contribute to achieving the primary goal of our actions: creating shareholder value.

Jacek Strzelecki

Vice-President, CFO

Question to Jacek Strzelecki Vice-President & CFO

The plan to double the Company's value rests on the cost cutting programme. What reduction can be expected in 2004 and in what areas?

2004 will be key to the full implementation of the programme. Our savings target for the year is PLN 450m. It means that most of the initiatives will have to start bringing the expected effects by the end of the year. I believe it is a realistic goal. We have been implementing the programme successfully for three quarters now. What must be borne in mind though, are the one-off costs of the programme introduction. In line with our earlier announcements, in 2004 we expect additional costs of approx. PLN 100m.

What does it mean? Will the cost reduction show in the income statement? If so, where?

It means that the income statement will show savings of PLN 450 minus 100, that is approx. PLN 350m. Some of the initiatives concern efficiency improvement, which consists in increased revenue with the expenses remaining unchanged. But the majority are cost-related initiatives. They will be manifested in lower cost of sales, administrative expenses and distribution costs. As for our operational areas, the largest savings are expected in production and logistics.

Investments in organic growth in 2004 are planned at approx. PLN 2bn. Is the Company going to invest as much in the subsequent years?

Over the past two years PKN ORLEN materially reduced its investment expenditure. 2004 and 2005 are seen as time for expansion and diversification of our operations on the domestic market. We resolved to assign additional PLN 1bn to develop our petrochemical operations and the retail network. That is why organic growth investments at PKN ORLEN will range from PLN 1.5 to 2bn in the two next years. Then we plan to return to the level of approx. PLN 1bn. The amount is even lower than depreciation charges, because after the planned investment projects are completed, we will have not only state-of-the-art production complex, but also selling network. I believe that the PLN 1bn is sufficient to fund modernisation and a moderate expansion. As a result, our free cash flow should be satisfactory for even he most demanding shareholders.

Does PKN ORLEN have a dividend policy? If so, what can investors expect in the next few years?

Our dividend policy was defined at the time of the first IPO and it is pursued consistently. We set ourselves a goal to achieve the dividend pay-out ratio of 30% after the restructuring is completed. It means that every year, 30% of net profit will be distributed to our shareholders. To date we have increased this ratio from approx. 3% in 1999 to approx. 15% in 2002. At the General Shareholders Meeting we will recommend payment of dividend of PLN 188m for 2004. It represents 20% of the net profit earned and will be the highest ever dividend paid by PKN ORLEN.

Consolidated Financial Statements

for the years ended 31 December 2003 and 31 December 2002
prepared in accordance with international financial reporting standards
together with auditors' opinion

Independent Auditors' report

To the Supervisory Board of Polski Koncern Naftowy ORLEN SA

We have audited the accompanying consolidated balance sheet of Polski Koncern Naftowy ORLEN SA ("the Company") as of 31 December 2003, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) requires that the carrying amounts of assets and liabilities reported in a period of hyperinflation should be expressed in the measuring unit current at the end of the hyperinflationary period and constitute the basis for the carrying amounts in the subsequent financial statements. The Polish economy was hyperinflationary until the end of 1996 and ceased to be hyperinflationary in 1997. The Company last revalued its fixed assets as of 1 January 1995 to reflect the effects of inflation, in general by applying price indices determined by the Central Statistical Office for individual groups of assets. This revaluation was not performed in accordance with the provisions of IAS 29 since the Company did not use a general price index and did not subsequently revalue its fixed assets as of 31 December 1996. As a result, the cumulative balances of property, plant and equipment as of 31 December 2003, which existed prior to 31 December 1996, have not been expressed in the measuring unit current at the end of 1996. The Company also did not apply International Accounting Standard No 16 "Property, Plant and Equipment" requiring that the revalued amount of fixed assets approximate their fair value as at the date of revaluation.

In our opinion, except for the matter referred to in the paragraph above, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of 31 December 2003, and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

We also reported separately on the consolidated financial statements of the Company for the year ended 31 December 2003 prepared in accordance with Polish Accounting Standards ("PAS"). The significant differences between PAS and International Financial Reporting Standards as far as they concern the financial statements referred to above are summarized in Note 33 of the accompanying consolidated financial statements.

Warsaw, Poland
19 April 2004

Consolidated Balance Sheets

as of 31 December 2003 and 31 December 2002

	Note	31.12.2003 in PLN million	31.12.2002 in PLN million
ASSETS			
Non-current assets			
Property, plant and equipment	6	9,807	9,089
Negative goodwill	7	(273)	(222)
Intangible assets	8	121	107
Financial assets	9	534	601
Investments accounted for using equity method	10	493	199
Deferred tax assets	26	15	25
Other non-current assets		18	15
Total non-current assets		**10,715**	**9,814**
Current assets			
Inventories	11	3,058	2,868
Trade and other receivables	12	2,513	2,056
Income tax receivables		65	32
Short-term investments	13	67	44
Deferred costs	14	80	57
Cash and cash equivalents	15	562	178
Other financial assets	23	89	24
Total current assets		**6,434**	**5,259**
Total assets		**17,149**	**15,073**

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

	Note	31.12.2003 in PLN million	31.12.2002 in PLN million
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity	21		
Common stock		534	525
Capital reserve		1,359	1,174
Revaluation reserve		856	859
Foreign exchange differences on subsidiaries		62	-
Retained earnings		6,699	5,771
Total shareholders' equity		**9,510**	**8,329**
Minority interests	16	**427**	**412**
Non-current liabilities			
Interest bearing borrowings	17	1,836	402
Provisions	18	616	576
Deferred tax liabilities	26	293	431
Total non-current liabilities		**2,745**	**1,409**
Current liabilities			
Trade and other payables and accrued expenses	19	3,258	2,747
Income tax liabilities		-	-
Interest bearing borrowings	17	1,195	2,161
Deferred income	20	14	15
Total current liabilities		**4,467**	**4,923**
Total liabilities and shareholders' equity		**17,149**	**15,073**

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

Consolidated Income Statements

for the years ended 31 December 2003 and 31 December 2002

	Note	For the year ended 31.12.2003 (in PLN million)	For the year ended 31.12.2002 (in PLN million)
Revenue		**24,412**	**16,902**
Cost of sales	24	(19,986)	(13,455)
Gross profit		**4,426**	**3,447**
Other operating income		422	256
Distribution costs	24	(2,259)	(1,787)
Administrative expenses	24	(934)	(891)
Other operating expenses	24	(388)	(294)
Profit from operations		**1,267**	**731**
Financial income	25	279	211
Financial expenses	25	(377)	(220)
Income from investments accounted for using equity method		50	13
Profit before income tax and minority interests		**1,219**	**735**
Income tax	26	(198)	(285)
Profit after tax		**1,021**	**450**
Minority interests		(34)	(29)
Net profit		**987**	**421**
Basic earnings per share for the period (in zloty per share)		**2.35**	**1.00**

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

Consolidated Cash Flow Statements

for the years ended 31 December 2003 and 31 December 2002

	For the year ended 31.12. 2003 (in PLN million)	For the year ended 31.12.2002 (in PLN million)
Cash flows from operating activities		
Net profit for the period	987	421
Adjustments for:		
Minority interests	34	29
Net income from investments accounted for under equity method	(50)	(13)
Depreciation and amortisation	1,207	1,130
Interest and dividend charges, net	29	128
Income tax on current period profit	198	285
Losses/(Gains) on investing activities	59	(80)
(Increase) in receivables	(114)	(171)
(Increase) in inventories	(158)	(668)
Increase/(decrease) in accrued expenses and payables	(111)	382
Increase in provisions	25	29
Other adjustments	14	49
Net income tax paid	(413)	(229)
Net cash flows from operating activities	**1,707**	**1,292**

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

Consolidated Cash Flow Statements

for the years ended 31 December 2003 and 31 December 2002

	For the year ended 31.12. 2003 (in PLN million)	For the year ended 31.12.2002 (in PLN million)
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1,337)	(967)
Proceeds from sales of property, plant and equipmen	40	38
Proceeds from sales of available for sale investments	17	106
Acquisition of available for sale investments and shares in entities accounted under equity method	(56)	(65)
Acquisition of business activity in Germany, net of cash acquired	(279)	-
Acquisition of short term securities	(62)	(267)
Proceeds from sales of short term securities	55	235
Dividends and interest received	85	34
Loans granted/repaid	83	-
Other	73	(22)
Net cash flows (used) in investing activities	**(1,381)**	**(908)**
Cash flows from financing activities		
Proceeds from long-term and short-term loans and other borrowings	4,452	1,686
Repayment of long-term and short-term loans and other borrowings	(4,207)	(1,879)
Interest paid	(116)	(156)
Dividends paid	(59)	(50)
Other	(12)	(10)
Net cash flows from/(used) in financing activities	**58**	**(409)**
Net increase/(decrease) in cash and cash equivalents	**384**	**(25)**
Cash and cash equivalents at the beginning of the year	178	203
Cash and cash equivalents at the end of the year	**562**	**178**

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

Consolidated Statement of Changes in Equity

for the years ended 31 December 2003 and 31 December 2002

	Common stock	Capital reserve	Revaluation reserve	Foreign exchange differences on subsidiaries	Retained earnings	Total shareholders' equity
1 January 2002	**525**	**1,174**	**859**	**-**	**5,400**	**7,958**
Valuation of available for sale investments at fair value	-	-	42	-	-	42
Disposal of available for sale investments at fair value	-	-	(42)	-	-	(42)
Dividends	-	-	-	-	(50)	(50)
Net profit for 2002	-	-	-	-	421	421
31 December 2002	**525**	**1,174**	**859**	**-**	**5,771**	**8,329**
1 January 2003	**525**	**1,174**	**859**	**-**	**5,771**	**8,329**
Issue of shares	9	-	-	-	-	9
Share premium	-	185	-	-	-	185
Foreign exchange gains on consolidation	-	-	-	62	-	62
Dividends	-	-	-	-	(59)	(59)
Fixed assets impairment	-	-	(6)	-	-	(6)
Other	-	-	3	-	-	3
Net profit for 2003	-	-	-	-	987	987
31 December 2003	**534**	**1,359**	**856**	**62**	**6,699**	**9,510**

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

Notes to the Consolidated Financial Statements (in PLN million)

1. Principal activities

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

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

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

Until the second public offering completed in July 2000, the Company was primarily owned, directly and indirectly, by the Polish State Treasury. The employees and others had a minority shareholding. The State Treasury supervised the Company through its control of the Company’s majority shareholder, and ultimate parent company Nafta Polska SA. As at 31 December 2003 the Polish State Treasury owned directly or indirectly 28% of the Company shares, Bank of New York (Global Depository Receipts) held 11% shares and other shareholders owned 61% of the Company shares.
On 20 June 2002 the Company announced that Kulczyk Holding SA and its subsidiaries are in possession of 23,911,206 bearer shares of PKN ORLEN which account for 5.591% (considering capital increase of PKN ORLEN dated 20 November 2003) of the votes at the general meeting of shareholders of PKN ORLEN.
On 4 July 2003 the Company announced that Commercial Union OFE BPH CU WBK is in possession of 21,533,539 bearer shares of PKN ORLEN which account for 5.035% (considering capital increase of PKN ORLEN dated 20 November 2003) of the votes at the general meeting of shareholders of PKN ORLEN.

2. Basis of presentation

a. Accounting standards

The Group applied for these consolidated financial statements all International Financial Reporting Standards ("IFRS") effective for respective accounting periods except for accounting for hyperinflation under International Accounting Standard No 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and revaluation of fixed assets under International Accounting Standard No 16 "Property, Plant and Equipment" (IAS 16) referred to in Note 3.

The Group entities maintain their books of account in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish Accounting Standards ("PAS") as defined by the Accounting Act ("Accounting Act") and related regulations. These financial statements include certain adjustments not reflected in the Company's or other Group entities books to present these statements in accordance with standards and interpretations issued by International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"), formerly Standing Interpretations Committee ("SIC"), except for adjustments required by IAS 29 and by IAS 16 referred to in Note 3. The adjustments to the Company's books and other Group entities and their effect on net profit and net assets resulting from adopting International Financial Reporting Standards are presented in Note 33.

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

b. Reorganisation of the Group

In connection with the Polish Government's restructuring and privatisation program for the Polish oil sector companies, the Polish State Treasury, through its holding in Nafta Polska SA reorganised the Polish oil sector in the years 1997 through 1999. The existing Group is a result of this reorganisation of several significant operating companies, which were all under the common control of Nafta Polska SA and the Polish State Treasury. In particular, this reorganisation included the following transactions:
– merger with Centrala Produktow Naftowych "CPN" SA ("CPN"), a major Polish fuel retailer,
– contribution of shares of Rafineria Trzebinia SA and acquisition of Rafineria Nafty Jedlicze SA,
– spin - off from CPN of Dyrekcja Eksploatacji Cystern Sp. z o.o.– major Polish rail logistics operator,
– disposal of Naftobazy Sp. z o.o. by CPN – major Polish fuel storage farms operator.

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

c. Entities included in financial statements

These consolidated financial statements for the periods ended 31 December 2003 and 31 December 2002 include all material entities within Group located in Poland and in Germany, ie.:

	Share in total voting rights[2)] 31.12.2003 (in full %)	31.12.2002 (in full %)
PKN ORLEN	Dominant Company	
ORLEN Deutschland GmbH[1)]	100%	-
ORLEN Deutschland Immobilien GmbH[1)]	100%	-
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o.	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Polimer Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o.	100%	100%
ORLEN Transport Szczecin Sp. z o.o.	100%	100%
ORLEN ASFALT Sp. z o.o. (formerly Bitrex Sp. z o.o.)[5)]	100%	100%
Petrogaz Lapy Sp. z o.o.	100%	90%
ORLEN Transport Lublin Sp. z o.o.	98%	98%
ORLEN Transport Krakow Sp. z o.o.	98%	98%
ORLEN Transport Plock Sp. z o.o.	98%	98%
ORLEN Transport Nowa Sol Sp. z o.o.	97%	97%
Zaklad Budowy Aparatury SA	97%	97%
ORLEN Transport Slupsk Sp. z o.o.	97%	96%
ORLEN Transport Poznan Sp. z o.o.	96%	96%
ORLEN Laboratorium Sp. z o.o.[4)]	95%	-
ORLEN Transport Olsztyn Sp. z o.o.	95%	92%
ORLEN Transport Warszawa Sp. z o.o.	94%	94%
Capital Group ORLEN OIL Sp. z o.o.	92%	92%
ORLEN Petro - Tank Sp. z o.o.	90%	90%
ORLEN Transport Kedzierzyn-Kozle Sp. z o.o.	89%	89%
Petrotel Sp. z o.o.	89%	89%
Capital Group ORLEN Petroprofit Sp. z o.o.	85%	85%
ORLEN WodKan Sp. z o.o.[6)]	-	82%
Capital Group Rafineria Trzebinia SA	77%	77%

Capital Group Anwil SA	76%	76%
Capital Group Rafineria Nafty Jedlicze SA	75%	75%
Inowroclawskie Kopalnie Soli „Solino" SA	71%	71%
ORLEN Mechanika Sp. z o.o.[3)]	-	68%
Capital Group Ship-Service SA	56%	56%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachod Sp. z o.o.	52%	52%
Petrogaz Wroclaw Sp. z o.o.	52%	52%
ORLEN Remont Sp. z o.o.[3)]	-	51%
Petrolot Sp. z o.o.	51%	51%
ORLEN Eltech Sp. z o.o.[3)]	-	51%
ORLEN Projekt Sp. z o.o.	51%	51%
ORLEN EnergoRem Sp. z o.o.[3)]	-	51%
ORLEN Wir Sp. z o.o.	51%	51%
ORLEN Morena Sp. z o.o.	51%	51%

1) Entities managing German activities acquired in transaction described in Note 5b).

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

3) Entities disposed in 2Q 2003.

4) Entity founded by PKN ORLEN in 1Q 2003.

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

6) Entity disposed in 4Q 2003.

3. Measurement and reporting currency

The measurement and the reporting currency of these consolidated financial statements is Polish Zloty ("PLN"). These consolidated financial statements have not been adjusted for the effects of inflation as is required by International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29).

IAS 29 requires companies that report in the currency of a hyperinflationary economy to restate assets and liabilities in terms of the measurement unit current at the balance sheet date. Taking into account that the three-year cumulative rate of inflation fell below 100% in late 1996, Poland was no longer considered to be a hyperinflationary economy from the beginning of 1997. For such circumstances IAS 29 requires that assets should be stated in terms of the measurement unit current at the end of the hyperinflationary period.

The Group last revalued its fixed assets as of 1 January 1995 to reflect the effects of inflation in general by applying price indices determined by the Central Statistical Office ("GUS") to reflect level of inflation for individual groups of fixed assets. This revaluation was not performed in accordance with the provisions of IAS 29 since the Company did not use a general price index and did not subsequently revalue its fixed assets as of 31 December 1996. The Group is unable to quantify the impact on these financial statements of non-compliance with IAS 29.

The above revaluation was also not performed in accordance with the provisions of International Accounting Standard 16 “Fixed assets” (IAS 16) since the revaluation method did not assure that the revalued amount of fixed assets was approximate to their fair value as at the date of revaluation.

4. Statement of principal accounting policies

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

a. Principles of consolidation

The consolidated financial statements of the Group include Polski Koncern Naftowy ORLEN SA and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital or is able in other way to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders’ interests are shown separately in the balance sheets and income statements, respectively.

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

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

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

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

All subsidiaries’, joint-ventures’ and associates’ financial statements were prepared for the year ended 31 December 2003.

b. Property, plant and equipment

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

As a result of this revaluation both the carrying amount and tax base of the assets subject to revaluation have been increased with a resulting increase in the revaluation reserve and therefore in shareholders' equity.

The Group has not revalued its property, plant and equipment as of 31 December 1996, which is a departure from IAS 29, which requires that assets are restated to a measurement unit current as of the end of hyperinflationary period. According to Polish law, the Group companies performed the revaluations, which increased net book value of property, plant and equipment by a total of PLN 859m. The amount equal to the difference between the depreciation on a revalued asset and the depreciation based on the cost of that asset is not transferred from revaluation reserve to retained earnings. Construction-in-progress was not subject to revaluations. Depreciation is based on the revalued amounts. Unless Polish economy is again subject to a period of hyperinflation, the Group does not intend to include effects of any further revaluations in its consolidated financial statements prepared under IFRS.

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

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

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

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

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

c. Financial lease

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

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

d. Goodwill and negative goodwill

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

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

e. Intangible assets

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

The Group companies review the value of intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

f. Inventories

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

g. Receivables

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

h. Cash and cash equivalents

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

i. Revenue recognition

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

j. Borrowings

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

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

k. Jubilee and retirement bonuses

Certain Group companies provide defined jubilee and retirement benefit plans for their employees. Jubilee bonuses are paid to employees upon completion of a certain number of years in service whereas retirement allowances are one–off payments on retirement, both depending on employee's average remuneration and length of service. The jubilee and retirement benefits are not funded. The jubilee and retirement bonus obligations are accounted for on an accrual basis. Jubilee benefits are other long - term employee benefits, while retirement bonuses are post-employment defined benefit plans according to IAS 19. An independent actuary has determined the net present value of these obligations using discount rate of 5% p.a. and a wage inflation rate up to 3% p.a. Accrued obligations are those future discounted payments, adjusted by employee attrition rates, which were earned by the employees prior to the balance sheet dates. Demographic and attrition profiles are based on the historical data. Actuarial gains and losses are recognised in the period they occur.

During the years ended 31 December 2003 and 31 December 2002 the Group paid PLN 27m and PLN 21m jubilee and retirement bonuses combined, respectively.

l. Foreign exchange transactions

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

Monetary assets and liabilities denominated in foreign currencies are reported at lower of commercial bank's buy rate and NBP average while foreign currency monetary liabilities are reported at higher of commercial bank's sell rate and NBP average.

m. Financial instruments

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

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

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

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

Available-for-sale financial assets are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date unless they do not have a quoted market price in an active market and their fair value cannot be reliably measured by alternative valuation methods. Such available-for-sale financial assets are measured at cost less impairment.
Changes in fair value are recorded on the revaluation account if market price set on regulated active market exists or for which the fair value can be reliably determined. The decrease in the value of available-for-sale financial assets resulting from impairment is recognized in the income statement as financial costs.

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

Loans granted are carried at amortised cost.

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

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

- recognised directly in equity through the statement of changes in equity for portion determined as an effective hedge;
- recognised in the income statement for ineffective portion.

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

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

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

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

Financial assets of which control has been lost are removed from the balance sheet.

n. Income tax

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

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

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

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

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

o. Earnings per share

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

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

p. Provisions

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

q. Environmental provisions

The Group companies accrue for environmental clean-up and remediation costs when they have a legal or constructive obligation to do so.

Environmental provisions are periodically reviewed by independent environmental specialists.

r. Equity compensation plans

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

s. Management use of estimates

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

5. Specific items affecting the amounts presented in these financial statements

a. Joint Venture PKN ORLEN- BASELL

On 28 February 2003 PKN ORLEN acquired 50% of the shares in BASELL ORLEN POLYOLEFINS Sp. z o.o. (formerly Poliolefiny Polska Sp. z o.o.) located in Plock ("BOP") by a contribution in kind of an organized part of a business (assets and liabilities related to production and sales of polyolefin). The remaining 50% shares were acquired by Basell Europe Holding B.V. ("BEH") for cash. The share capital of BOP amounts to PLN 907m.

As a result of the contribution in kind organized part of business to BOP, the Group recognized a gain amounting to PLN 82m, net of deferred tax. The gain presented in these financial statements results from 50% share in net assets of BOP which is proportionate to BEH's share in the net assets of this company. The gain amounting to PLN 112m is presented as the other operating income. As at the transaction date, i.e. 1 March 2003, the investment in BOP was recorded at cost of PLN 342m.

Since 1 March 2003 the joint-venture BOP is accounted for under the equity method in consolidated financial statements. 50% of the company's net profit is adjusted by profits related to 50% of net assets of the company arisen on the transaction of contribution in kind and current mutual transactions.

b. Long term investments in Germany

On 28 February 2003 the Company acquired a chain of 494 retail stations in Germany (323 stations under the name BP - Aral and 171 stations under the name Eggert together with shareholdings in Eggert – a company previously acquired by ARAL). The business activity in Germany is realized through 6 subsidiaries directly or indirectly 100% controlled by PKN ORLEN.

The transaction has been accounted under purchase method as presented below:

Purchase price according to the agreement	589
Adjusted purchase price (cash) due to change in working capital, caused mainly by growth of liabilities	300
Fair value of acquired assets and liabilities, adjusted for liabilities to BP paid by PKN (including PLN 21m of acquired cash)	(371)
Negative goodwill	(71)

The amount of the assets and liabilities as of the acquisition date summarised by each major category:

Property, plant and equipment	683
Other non-current assets	28
Inventories	62
Trade and other receivables	87
Cash and cash equivalents	21
Other Current assets	2
Provisions	(16)
Long term liabilities	(145)
Short term liabilities	(351)
Total	**371**

Beginning from 1 March 2003 PKN ORLEN consolidates its activities in Germany using purchase method of consolidation.

c. Dividend from Polkomtel SA

Under the resolution of the General Shareholders Meeting of Polkomtel SA which took place on 31 March 2003, the dividend pay out to the shareholders from the profit of 2002 was authorised. As the Company owns 19.61% stake in Polkomtel SA share capital (i.e. 4,019,780 shares), it recognized dividend income equal to PLN 47m.

d. Disposal of stake in NOM Sp. z o. o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN to Polskie Sieci Energetyczne SA ("PSE"). The "put" price equals to PLN 111,5m and is calculated as a sum of a par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.

On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the validity of the shares sales agreement. Up to the date of preparation of these financial statements the legal proceedings in the Court of Arbitration were not commenced.

In the opinion of the Management Board of the Company, based on independent legal analyses, the Company executed its put option and sold NOM shares to PSE. Consequently, the Company recognised on the transaction profit amounting to PLN 27,5m (difference between purchase price of the stakes and the sales price resulting from the put option). According to the Management Board the receivable of PLN 111,5m will be realised in full.

6. Property, plant and equipment

	31.12.2003 in PLN million	31.12.2002 in PLN million
Land	365	137
Buildings and constructions	5,385	5,131
Machinery and equipment	2,886	3,029
Vehicles and other	314	306
Construction in progress	857	486
Total	**9,807**	**9,089**

The movements in each year were as follows:

	Land	Buildings and constructions in PLN million	Machinery and equipment in PLN million	Vehicles and other in PLN million	Construction in progress in PLN million	Total in PLN million
Cost						
1 January 2002	121	7,926	8,580	900	904	18,431
Additions at cost	16	795	455	114	902	2,282
Acquisition of subsidiaries	-	8	6	18	-	32
Disposal of subsidiaries	-	-	-	-	-	-
Reclassifications	-	7	(4)	(3)	-	-
Disposals, including:	-	(105)	(138)	(52)	(1,320)	(1,615)
Transfers to other groups of PPE	-	-	-	-	(1,306)	(1,306)
31 December 2002	**137**	**8,631**	**8,899**	**977**	**486**	**19,130**
1 January 2003	137	8,631	8,899	977	486	19,130
Additions at cost	27	403	417	138	1,301	2,286

Acquisition of subsidiaries *	210	418	334	11	-	973
Disposal of subsidiaries	-	-	(16)	(17)	-	(33)
Reclassifications	-	4	(2)	(2)	-	-
Disposals	(9)	(194)	(739)	(61)	(930)	(1,933)
Transfers to other groups of PPE	-	-	-	-	(868)	(868)
31 December 2003	**365**	**9,262**	**8,893**	**1,046**	**857**	**20,423**
Accumulated depreciation						
1 January 2002	-	3,207	5,297	606	-	9,110
Charge	-	341	687	95	-	1,123
Other charges	-	-	2	-	-	2
Impairments	-	17	2	-	-	19
Acquisition of subsidiaries	-	4	4	14	-	22
Disposal of subsidiaries	-	-	-	-	-	-
Reclassifications	-	6	(4)	(2)	-	-
Disposals	-	(75)	(118)	(42)	-	(235)
31 December 2002	**-**	**3,500**	**5,870**	**671**	**-**	**10,041**
1 January 2003	-	3,500	5,870	671	-	10,041
Charge	-	389	700	106	-	1,195
Other charges	-	4	4	-	-	8
Impairments	-	48	5	-	-	53
Acquisition of subsidiaries **	-	59	140	8	-	270
Disposal of subsidiaries	-	-	(11)	(13)	-	(24)
Reclassifications	-	3	(1)	(2)	-	-
Disposals	-	(126)	(700)	(38)	-	(864)
31 December 2003	**-**	**3,877**	**6,007**	**732**	**-**	**10,616**
Net book value						
31 December 2002	**137**	**5,131**	**3,029**	**306**	**486**	**9,089**
31 December 2003	**365**	**5,385**	**2,886**	**314**	**857**	**9,807**

* including foreign exchange gains/losses amounting in total to PLN 105m.

** including foreign exchange gains/losses amounting in total to PLN 22m.

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

Perpetual usufruct granted to the entities of the Group by virtue of law meets the definition of an asset. In accordance with the Framework for the Preparation and Presentation of Financial Statements prepared by the International Accounting Standards Board an asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. Accordingly the asset should be recognized at its historical cost. As at the date of the first adoption of IFRS and as at the date of these financial statements, the historical cost of the asset could not be determined reliably and therefore no asset has been recognized in these financial statements, in accordance with SIC-8.

As at 31 December 2003 and 31 December 2002 the carrying amount of property, plant and equipment pledged as security for liabilities were PLN 464m and PLN 259m, respectively.

Impairment losses presented in the movements of property, plant and equipment are the amounts by which the carrying amounts of the assets exceeded their estimated recoverable amounts. The impairment losses are charged to other operating expenses. Impairment losses recognised during the year 2002 and 2003 resulted from the restructuring process of the Company and mainly relate to idle gasoline warehouses and retail sites.

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

As of 31 December 2003 and 31 December 2002 construction in progress included:

	31.12.2003 in PLN million	31.12.2002 in PLN million
Revamping of Olefins II production unit	471	68
Increase of production capacity of Biturox installation	66	32
Infrastructure of Olefins II	48	9
Construction of gasoline storage in Ostrow Wielkopolski	38	-
Intensification of IFP, Pyrotol, Butadien	33	13
Modernisation of wholesale site in Mosciska	26	-
Construction of underground crude oil and gasoline storage	9	59
Intensification of Aromatics Extraction Installation	8	-
Modernization of boiler	-	54
Intensification of Hydrocracking Installation	-	38
Construction of containers	-	29
Other construction in progress	158	184
Total	**857**	**486**

The Group companies record all scheduled maintenance and repairs as expenses when incurred. Environmental remediation costs are provided for when management has a legal or constructive obligation to restore and clean up the sites or removal of harmful substances (see Note 18).

The amounts of borrowing costs capitalised for the years ended 31 December 2003 and 31 December 2002 were PLN (1)m and PLN 40m, respectively. The average capitalisation rates in the years ended 31 December 2003 and 31 December 2002 were (1)% and 7%, respectively.

7. Negative goodwill, net

	31.12.2003 in PLN million	31.12.2002 in PLN million
CPN	61	72
Anwil SA	(276)	(315)
ORLEN Deutschland	(75)	-
Other	17	21
Total	**(273)**	**(222)**

Net changes in negative goodwill for the years ended 31 December 2003 and 31 December 2002 were as follows:

	31.12.2003 in PLN million	31.12.2002 in PLN million
Gross amount, opening balance	**(322)**	**(334)**
Increase of negative goodwill on acquisition of Anwil SA shares in 2002	-	(8)
Increase of negative goodwill on acquisition of German activities [3]	(71)	-
Foreign exchange gains/losses on negative goodwill valuation of German activities as at balance sheet date	(9)	-
Other additions/decrease of goodwill/(negative goodwill)	-	20
Gross amount at the end of the period	**(402)**	**(322)**
Accumulated amortisation, opening balance	**100**	**70**
Charge for the period, net	29[1]	30[2]
Accumulated amortisation at the end of the period	**129**	**100**
Net book value at the end of the period	**(273)**	**(222)**

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

[2] PLN (12)m relates to goodwill amortisation and PLN 42m relates to negative goodwill write-off both presented in other operating income/(expenses), net in the consolidated income statement.

[3] Method of negative goodwill valuation presented in Note 5b).

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

8. Intangible assets

	31.12.2003 in PLN million	31.12.2002 in PLN million
Software	12	3
Patents and trademarks	66	84
Other	43	20
Total	**121**	**107**

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

	Software in PLN million	Patents and trademarks in PLN million	Other in PLN million	Total in PLN million
Gross amount				
1 January 2002	16	146	30	192
Additions at cost	1	29	13	43
Acquisition of subsidiaries	-	-	-	-
Disposals of subsidiaries	-	-	-	-
Disposals	(1)	-	(10)	(11)
31 December 2002	**16**	**175**	**33**	**224**
1 January 2003	16	175	33	224
Additions at cost	7	15	15	37
Acquisition of subsidiaries *	7	-	21	28
Disposals of subsidiaries	-	-	-	-
Disposals	(2)	(2)	(3)	(7)
31 December 2003	**28**	**188**	**66**	**282**
Accumulated depreciation				
1 January 2002	12	60	12	84
Depreciation charge	2	31	4	37
Consolidation of subsidiaries	-	-	-	-
Disposals of subsidiaries	-	-	-	-
Disposals	(1)	-	(3)	(4)

31 December 2002	**13**	**91**	**13**	**117**
1 January 2003	13	91	13	117
Depreciation charge	3	32	6	41
Consolidation of subsidiaries **	2	-	5	7
Disposals of subsidiaries	-	-	-	-
Disposals	(2)	(1)	(1)	(4)
31 December 2003	**16**	**122**	**23**	**161**
Net book value				
31 December 2002	**3**	**84**	**20**	**107**
31 December 2003	**12**	**66**	**43**	**121**

* Including foreign exchange gains/losses amounting in total to PLN 3m.

** Including foreign exchange gains/losses amounting in total to PLN 1m.

9. Financial assets

a. available for sale investments

	31.12.2003	31.12.2002	Group interest in capital as at 31.12.2003	Group voting rights	Principal activity
	in PLN million	in PLN million	%	%	
Polkomtel SA	436	436	19.61%	19.61%	GSM mobile operator
NFI Piast SA [2)]	-	9	-	-	Investment fund
AW SA Holland II B.V.	61	61	9.22%	9.22%	Dominant company of Autostrada Wielkopolska SA
Other	55	39			
Total at cost	552	545			
Impairment	(40)	(42)			
Net value of available for sale investments	512	503			

b. loan granted

Polkomtel SA net value [3)]	-	98
Other loans	22	-
Total	**22**	**98**

c. financial assets held to maturity

Telewizja Familijna SA bonds 1)	26	26
Impairment	(26)	(26)
Net value of financial assets held to maturity	**-**	**-**
Total net value of financial assets	**534**	**601**

1) On 8 April 2003 the bankruptcy of Telewizja Familijna SA was announced; net book value of shares and bonds as at 31 December 2003 and 31 December 2002 equals 0.

2) The Company disposed of shares of NFI Piast S. in 2003 – revenue from disposal PLN 2m, purchase cost less impairment PLN 2m, profit on disposal PLN 0.

3) On 17 December 2003 Polkomtel made an earlier repayment of loan.

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

Shares of Polkomtel SA, a Polish GSM mobile operator, are presented at historical cost of PLN 436m (19.61% interest) as at 31 December 2003. There are three other shareholders of Polkomtel with approximately 19% ownership interest and several other minority shareholders.

As at 31 December 2003 the Company had 9,22% share in AW SA Holland II B.V. share capital at total purchase price of PLN 61m. The company is the dominant holding company of Autostrada Wielkopolska SA that bears a licence to develop certain motorways in Poland. Shares are presented in the balance sheet at purchase price, as they have no active market and their fair value cannot be reliably measured. The Company owns a put option of AW SA shares to Kulczyk Holding SA, at purchase price not lower, than the balance sheet value as at 31 December 2003. The option can be exercised till year 2038. Management of the Company believes that put option is fully realisable. Shares in AW SA are not traded on an active market and their fair value cannot be reliably measured. Therefore the option was not valued.

10. Investments accounted for using equity method

a. As at 31 December 2003 and 31 December 2002 the Group's investments accounted for using equity method were as follows:

	Recorded value using equity method as at 31.12.2003	31.12.2002	Group interest in equity as at 31.12.2003	Principal activity
BOP[1)]	384	-	50.00%	Production, distribution and sales of polyolefins
Naftoport Sp. z o.o.	52	49	48.71%	Construction, operation and maintenance of loading station for liquid fuel
Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") [2)]	-	84	35.00%	Telecommunication services
Other	57	66		
Total	**493**	**199**		

[1)] The Company contributed organised part of business to joint venture company - BOP on 28 February 2003, further described in Note 5a).

[2)] The Company disposed of shares in NOM in 2003 – revenue from disposal PLN 111,5m, carrying value PLN 84m, profit on disposal PLN 27,5m, further described in Note 5d). Because the Company had a put option of shares in NOM, as at 31 December 2002, the balance sheet value of NOM is at acquisition cost.

b. The Group's share of the assets, liabilities, revenue and expenses of the joint venture company – BOP are as follows at 31 December and for the years then ended:

Current assets	173
Non-current assets	526
Current liabilities	179
Non-current liabilities	-
Revenue	363
Operating costs	(332)
Profit before income tax	29
Income tax expense	(7)
Net profit	22

As of 31 December 2003 BOP had signed investment contracts with total capital commitment in the amount of EUR 200m. As of 31 December 2003 BOP had contingent liabilities in the amount of EUR 59m.

As at 31 December 2003 all PKN ORLEN's shares in BOP were pledged as security for liabilities of BOP, as further described in Note 30 m).

11. Inventories

	31.12.2003 in PLN million	31.12.2002 in PLN million
Finished goods	971	1,079
Work in progress (semi-products)	285	341
Goods for resale	260	85
Materials and production supplies	1,542	1,363
Net inventories	**3,058**	**2,868**

The inventory write-offs to net realisable value amounted to PLN 1m and PLN 6m for the years ended 31 December 2003 and 31 December 2002, respectively.

As at 31 December 2003 and 31 December 2002 the carrying amounts of inventories valued at net realisable value were PLN 71m and PLN 69m, respectively.

As at 31 December 2003 and 31 December 2002 the carrying amounts of inventories pledged as security for liabilities were PLN 37m and PLN 13m, respectively.

Pursuant to the Act on State Reserves and Mandatory Fuel Reserves of 30 May 1996 (Journal of Law no 90. position 404 with further amendments) in 1998 the Company was subject to an obligation to create and maintain mandatory reserves of liquid fuels, which accounted for 2% of the previous year production or import. Starting from year 2002 the level of mandatory reserves is created on the basis of schedule defined by the Decree of Ministry of Economy dated 14 June 2002 (Journal of Law no 84. position 756) as to reach the level of 76 days of production or imports less export of the entity as at the end of 2008 (moreover the Ministry of Economy is responsible for setting of economic fuel reserves: for liquid fuel in quantity equal to 14 fuel consumption days in current year).

As at 31 December 2003 the Group's mandatory reserves were equal to PLN 1.064m.

12. Trade and other receivables

	31.12.2003 in PLN million	31.12.2002 in PLN million
Trade receivables	2,027	1,614
Tax receivables	500	518
Advanced payments	-	93
Investment receivables (due to disposal of stake in NOM)	112	-
Other receivables	191	147
Gross receivables	2,830	2,348
Less allowance for doubtful accounts	(317)	(292)
Net receivables	**2,513**	**2,056**

Total receivables include PLN 421m and PLN 71m of amounts in foreign currencies as at 31 December 2003 and 31 December 2002, respectively. Trade receivables relate primarily to the sales of finished goods and sales of goods bought for resale.

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

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

Maximum credit risk amounts to PLN 2,513m. The Management believes that risk of doubtful receivables is reflected by the set allowance for doubtful accounts.

The impairment charges and changes therein for the years ended 31 December 2003 and 31 December 2002 were as follows:

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Allowance, beginning of year	292	226
Increase	118	193
Released	(84)	(92)
Written off	(9)	(35)
Allowance, end of period	**317**	**292**

13. Short-term investments

Short-term investments as at 31 December 2003 and 31 December 2002 included securities which are classified as held-for-trading.

14. Deferred costs

	31.12.2003 in PLN million	31.12.2002 in PLN million
Prepayments	37	38
Other	43	19
Total	**80**	**57**

15. Cash and cash equivalents

	31.12.2003 in PLN million	31.12.2002 in PLN million
Cash on hand and in bank	514	144
Cash in transit and cash equivalents	48	34
Total	**562**	**178**

Total cash and cash equivalents include PLN 331m and PLN 11m of amounts in foreign currencies as at 31 December 2003 and 31 December 2002, respectively.

Concentrations of credit risk relating to cash and cash equivalents are limited because the Group places its cash mainly with several well-established Polish and international banks.

16. Minority interests

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

	31.12.2003 in PLN million	31.12.2002 in PLN million
Minority interests		
Beginning of the period	412	395
Change in the Groups' share of equity	(19)	(27)
Minority interest in the profit/loss of the Group's entities	34	29
Inclusion of new companies in consolidated financial statements	-	15
End of the period	**427**	**412**

Minority interests consist of interest of minority shareholders in the following subsidiaries:

	31.12.2003 in PLN million	31.12.2002 in PLN million
Capital Group Anwil SA	207	194
Capital Group Rafineria Trzebinia SA	75	59
Capital Group Rafineria Nafty Jedlicze SA	33	33
Inowroclawskie Kopalnie Soli "Solino" SA	22	23
Other	90	103
Total	**427**	**412**

17. Interest bearing borrowings

	Note	31.12.2003 in PLN million	31.12.2002 in PLN million
Bank loans	(a)	2,918	2,152
Other loans and borrowings	(b)	36	71
Short terms bonds	(c)	77	340
Total		**3,031**	**2,563**
Less: short-term portion		1,195	2,161
Long-term portion		1,836	402

As at 31 December 2003 principal repayments fall due on:

	31.12.2003 in PLN million
12 months till 31 December 2004	1,195
1 January 2005 – 31 December 2006	254
Thereafter	1,582
Total	**3,031**

The Group's interest bearing borrowings have increased by PLN 468m during the year period ended 31 December 2003. Changes were mostly a result of:

- decrease of short – term securities by PLN 263m,
- increase of bank loans by PLN 429m due to consolidation of activity in Germany,
- incurring loans in PLN:
  – PLN 11m in Bank Handlowy SA in Warsaw,
  – PLN 6m in BPH PBK SA,
- incurring of consortium loan:
  – EUR 115 m and USD 218m of Syndicated Dual Currency Loan*,
- repayment of the following currency loans:
  – USD 200m (consortium loan),
  – EUR 25m in BPH PBK SA,
  – EUR 25m in BH SA,
- repayment of loans in PLN:
  – PLN 53m in Bank Millenium SA,
  – PLN 47m in BPH PBK SA,
  – PLN 30m in CITI Bank International,
  – PLN 27m in BH SA,
  – PLN 4m in PKO BP SA.

* Agreement of Syndicated Dual Currency Loan for the amount of EUR 500m was signed on 29 July 2003. The loan will be repaid in full in 2008. Loan is to be incurred both in EUR and in USD.

Though 18% of the Dominant Company loans are incurred with one bank, according to the Management Board, there is no risk of loans concentration in one bank.
Banks secure their interests with corresponding records in the loan agreements. In case of significant deterioration of financial situation of the debtor, banks are entitled to demand earlier repayment of the loans.

a. Bank loans analysed by currency are as follows:

	Note	31.12.2003 in PLN million	31.12.2002 in PLN million
Polish Zloty	(1)	897	1,273
U.S. Dollar	(2)	839	791
Swiss Franc	(3)	22	26
EURO	(4)	1,160	62
Total		**2,918**	**2,152**

As of 31 December 2003 and 31 December 2002 fixed rates and margins relating to loans with floating rates were following:

Polish Zloty (1)

31 December 2003	Amount	Lowest margin	Highest margin
Floating rate	897		
T/N WIBOR		0.15%	1.00%
1T WIBOR		0.60%	2.50%
1M WIBOR		0.02%	3.20%
3M WIBOR		0.40%	1.00%
6M WIBOR		-	0.95%
NBP discount rate		0.250	0.375
Total Polish Zloty	**897**		

U.S. Dollar (2)

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

Swiss Franc (3)

31 December 2003	Amount	Lowest margin	Highest margin
Floating rate	22		
3M LIBOR		-	1,00%
Total Swiss Franc	**22**		

EURO (4)

31 December 2003	Amount	Lowest margin	Highest margin
Fixed rate	163	4.17%	7.90%
Floating rate	997		
3M LIBOR		0.45%	1.00%
1M EURIBOR		0.16%	0.50%
3M EURIBOR		-	0.45%
6M EURIBOR		-	0.30%
Total EURO	**1,160**		

Total	**2,918**		

Polish Zloty (1)

31 December 2002	Amount	Lowest margin	Highest margin
Fixed rate	2	6.0%	8.0%
Floating rate	1,271		
T/N WIBOR		0.15%	1.10%
1T WIBOR		-	1.00%
1M WIBOR		0.00%	3.20%
3M WIBOR		0.30%	1.00%
6M WIBOR		-	0.95%
1M WIBID		-	0.50%
NBP discount rate		0.250	0.375
Total Polish Zloty	**1,273**		

U.S. Dollar (2)

31 December 2002	Amount	Lowest margin	Highest margin
Floating rate	791		
1M LIBOR		-	1.00%
3M LIBOR		-	0.35%
Total U.S. Dollar	**791**		

Swiss Franc (3)

31 December 2002	Amount	Lowest margin	Highest margin
Floating rate	26		
3M LIBOR		-	1.00%
Total Swiss Franc	**26**		

EURO (4)

31 December 2002	Amount	Lowest margin	Highest margin
Floating rate	62		
1W LIBOR		-	0.60%
1M LIBOR		-	1.70%
3M LIBOR		1.00%	2.00%
3M EURIBOR		-	1.20%
6M EURIBOR		-	0.30%
Total EURO	**62**		

Total	**2,152**		

The interest rates as of 31 December 2003 and 31 December 2002 for the following basis were the as presented:

	31.12.2003	31.12.2002
T/N Wibor	5.33%	7.19%
1T Wibor	5.35%	7.04%
1M Wibor	5.41%	6.98%
3M Wibor	5.60%	6.87%
6M Wibor	5.69%	6.60%
1M Wibid	-	6.69%
1M Euribor	2.101%	2.8980%
3M Euribor	2.124%	2.8650%
6M Euribor	2.168%	2.8040%
1W Libor (USD)	1.0888%	1.36%
1M Libor (USD)	1.12%	1.38%
3M Libor (USD)	1.1519%	1.38%
1M Libor (EUR)	2.1001%	2.8966%
3M Libor (EUR)	2.1230%	2.8613%
3M Libor (CHF)	0.26%	0.62%
NBP discount rate	5.75%	7.50%

In 2003 the effective interest rate for loans in Polish Zloty is of 6.04% (in 2002 - 10.31%), and for loans in other currencies is of 2.14% (in 2002 – 2.39%).

b. Other loans and borrowings

	31.12.2003 in PLN million	31.12.2002 in PLN million
Wojewodzki Fundusz Ochrony Środowiska i Gospodarki Wodnej (Voivodship Fund for Environmental Care)	1	4
Narodowy Fundusz Ochrony Środowiska (National Fund for Environmental Care)	35	67
Total	**36**	**71**

As at 31 December 2003 other loans and borrowings were subject to floating interest rates at 1.44% - 9.00% (as at 31 December 2002 3.0% - 10.0%).

c. Bonds issued by PKN ORLEN

Bonds issued by PKN ORLEN and presented in balance sheet as at 31 December 2003, are denominated in PLN and they are subject to interest rates at 5.4% – 5.73% and are repayable in the first quarter 2004.

The Group continuously monitors the achievable interest rates and attempts to replace its loans with more favourable ones in response to market conditions.

The Group is granted loans both in PLN and foreign currencies, that bore mainly floating rates.

Based on arrangements made with their banks the Group had unused floating rate loan facilities of PLN 1,740m as at 31 December 2003.

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

As of 31 December 2003 and 31 December 2002 loans amounting to PLN 554m and PLN 570m respectively, were secured on specific assets of the Group as stated in relevant notes.

18. Provisions

	31.12.2003 in PLN million	31.12.2002 in PLN million
Environmental provisions	407	380
Jubilee awards and retirement bonuses	159	150
Penalties, compensation, other	22	29
Other provisions	28	17
Total	**616**	**576**

The Group companies have a legal or constructive obligation to restore a significant number of contaminated retail and wholesale sites as well as production sites. An evaluation of the sites and an estimation of remediation costs were performed based on independent experts' analyses taking into account present legal rules and practices relating to contaminated land reclamation. Potential future changes to the legal regulations and practices concerning environmental protection may influence the level of the provision in future periods. The amount of environmental provision was reassessed by the Management on the basis of independent professional consultants' reports prepared as at 31 December 2003 and represents Management's best estimate of future costs assuming average level of parameters influencing estimated costs.

The movements in each year were as follows:

	Environmental provision	Jubilee awards and retirement bonuses	Penalties and compensations, other	Other provisions	Total
1 January 2002	412	135	20	34	601
Charge	1	40	16	19	76
Use of provision	(10)	(21)	(5)	(6)	(42)
Release	(23)	(4)	(2)	(30)	(59)
31 December 2002	**380**	**150**	**29**	**17**	**576**
Charge	51	62	1	21	135
Use of provision	(13)	(27)	(1)	(30)	(71)
Release	(13)	(13)	(7)	(9)	(42)
Change in Group	2	(13)	-	29	18
31 December 2003	**407**	**159**	**22**	**28**	**616**

19. Trade, other payables and accrued expenses

Trade and other payables and accrued expenses consist of the following:

	31.12.2003 in PLN million	31.12.2002 in PLN million
Trade payables	2,172	1,658
Taxes and social security	836	887
Social funds	46	46
Holiday pay accrual	23	17
Wages and salaries	14	34
Loyalty program	48	44
Valuation of convertible bonds	-	11
Accrued expenses and other payables	119	50
Total	**3,258**	**2,747**

The social fund, classified as a short-term employee benefit, is an employer's obligation based on the government mandated calculation based on the number of employees and the monthly minimum wage in Poland. The amounts calculated under this formula must be used for the benefits of the employees.

Trade and other payables and accrued expenses include PLN 1,986m and PLN 947m of amounts denominated in foreign currencies, respectively as at 31 December 2003 and 31 December 2002. Balance sheet value of short- term trade payables approximates their fair value, because trade payables are of a short - term.

20. Deferred income

	31.12.2003 in PLN million	31.12.2002 in PLN million
Grants	8	8
Other	6	7
Total	**14**	**15**

21. Shareholders' equity

The share capital as at 31 December 2003 represented by the parent company's share capital is PLN 534m, divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital consisted of the following share series as of 31 December 2003 and 31 December 2002:

Share series	Number of shares issued at 31.12.2003	Number of shares issued at 31.12.2002	Number of shares authorised at 31.12.2003	Number of shares authorised at 31.12.2002
A series	336,000,000	336,000,000	336,000,000	336,000,000
B series	6,971,496	6,971,496	6,971,496	6,971,496
C series	77,205,641	77,205,641	77,205,641	77,205,641
D series	7,531,924	-	11,344,784 *	11,344,784 *
	427,709,061	**420,177,137**	**431,521,921**	**431,521,921**

* Number of shares approved by the general shareholders meeting before the final settlement of Motivation Program.

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

On 15 May 2000 Ordinary General Meeting of Shareholders of PKN ORLEN took a resolution concerning capital increase by issuance of 11,344,784 series D ordinary bearer shares. These shares are to be acquired by bearers of series A bonds convertible to shares with exclusion of pre-emptive rights of the owners of the existing shares. The issuance of the shares was conducted within the Motivation Program.

During the year 2003 7,531,924 bonds were converted into shares as a effect of the execution of the management options program. On 20 November 2003 District Court for capital city of Warsaw registered the increase in PKN ORLEN share capital. As a result of that increase the total number of shares amounts to 427,709,061.

Revaluation reserves result from obligatory in Poland revaluation of fixed assets. Revaluations of property, plant and equipment were generally performed as mandated based on rates set by the Central Statistics Office ("GUS") and were designed to reflect the level of inflation. These amounts are not distributable.

Reserves available for distribution, according to Polish law (Commercial Code set certain restrictions in relation to periods for which dividends can be paid) as at 31 December 2003 and 31 December 2002 amounted to PLN 2,204m (period 2003-2000) and PLN 1,879m (period 2002-1999) respectively. PKN ORLEN is authorised to pay dividends to the extent of distributable reserves available under Polish Accounting Standards on a stand-alone reported basis.

During the years ended 31 December 2003 and 31 December 2002 the Company has paid dividends in the amount of PLN 59m and PLN 50m for 2002 and 2001, which represented respectively PLN 0.14 and PLN 0.12 zloty per share.

In March 2004 the Management proposed to pay out dividends from 2003 net profit totalling PLN 188m (i.e. PLN 0.44 per share).

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

	For the year ended 31.12.2003	For the year ended 31.12.2002
Weighted average common stock outstanding	420,804,797	420,177,137
Net profit for the period per share (in zloty per share)	2.35	1.00

As at 31 December 2003 and 31 December 2002 there is no dilutive effect regarding convertible bonds.

22. Segment reporting

Business segments

The Group's activities are conducted through two major operating divisions: Refining and Marketing (R&M) and Chemicals (C).

– The Refining and Marketing (R&M) includes crude oil refining, storage, wholesale and retail trading of refinery products.

– The Chemicals (C) includes mainly production and trading of petrochemical products by PKN ORLEN and fertilisers and PVC by Anwil as well as share in the net profit of BOP joint venture.

Other operations include mainly support activities in PKN ORLEN, transport activities and repair and construction activities performed by the Company's subsidiaries.

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

	Refining and Marketing		Chemicals		Other operations		Eliminations		Total	
	for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Revenue										
External sales	20,717	13,635	3,145	2,870	550	397	-	-	24,412	16,902
Inter-segment sales	3,759	2,627	1,400	1,296	1,103	1,242	(6,262)	(5,165)	-	-
Total revenue	24,476	16,262	4,545	4,166	1,653	1,639	(6,262)	(5,165)	24,412	16,902
Total costs	(23,161)	(15,403)	(4,266)	(4,004)	(1,616)	(1,600)	6,261	5,165	(22,782)	(15,842)
Other operating income	187	161	173	59	42	25			402	245
Other operating costs	(251)	(227)	(34)	(21)	(73)	(19)			(358)	(267)
Result										
Segment result	1,251	793	418	200	6	45	(1)	-	1,674	1,038
Unallocated corporate costs									20	11
Unallocated corporate expenses									(427)	(318)
Profit from operations									**1,267**	**731**
Financial income									279	211
Financial expenses									(377)	(220)
Share of net profits of associates	(1)	-	45	2	6	11			50	13
Profit before income tax									**1,219**	**735**
Income taxes									(198)	(285)
Minority interests									(34)	(29)
Net profit									**987**	**421**

	Refining and Marketing		Chemicals		Other operations		Eliminations		Total	
	for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Other Information										
Segment assets	11,571	10,242	2,268	2,050	1,968	1,688	(101)	(96)	15,706	13,884
Investments in entities accounted for using the equity method	3	4	394	8	96	187			493	199
Unallocated corporate assets									950	990
Total assets									**17,149**	**15,073**
Segment liabilities	2,798	2,778	367	203	369	351	(100)	(94)	3,434	3,238
Unallocated corporate liabilities									3,778	3,094
Total liabilities									7,212	6,332

	Refining and Marketing		Chemicals		Other operations		Total	
	for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December	
	2003	2002	2003	2002	2003	2002	2003	2002
Property, plant, equipment and intangible assets expenditure	756	554	534	183	128	183	1,418	920
Property, plant, equipment and intangible assets expenditure unallocated to segments	-	-	-	-	-	-	35	28
Total property, plant, equipment and intangible assets expenditure	-	-	-	-	-	-	1,453	948
Segment depreciation	834	754	198	208	168	165	1,200	1,127
Unallocated assets depreciation	-	-	-	-	-	-	36	33
Total depreciation	**-**	**-**	**-**	**-**	**-**	**-**	**1,236**	**1,160**
Non-cash expenses other than depreciation	**159**	**147**	**18**	**16**	**41**	**27**	**218**	**190**

Geographical segments

As a result of acquisition of financial assets in Germany, beginning on 1 March 2003, the Group operates in Poland and in Germany. The following table shows the distribution of the Group's consolidated sales by geographical market segmental reporting for business segments for the years ended 31 December 2002 and 2003.

	Refining and Marketing		Chemicals		Other operations		Total	
	for the year ended 31 December		for the year ended 31 December		for the year ended 31 December		for the year ended 31 December	
Segment	2003	2002	2003	2002	2003	2002	2003	2002
Export sales	771	947	791	800	17	15	1,579	1,762
Domestic sales	13,676	12,688	2,354	2,070	533	382	16,563	15,140
Sales in Germany	6,270	-	-	-	-	-	6,270	-
Total external revenue	**20,717**	**13,635**	**3,145**	**2,870**	**550**	**397**	**24,412**	**16,902**

All Group's assets as at 31 December 2003 were located in Poland and Germany, where also the capital expenditures were incurred during the year ended 31 December 2003.

23. Financial instruments

	31.12.2003 in PLN million	31.12.2002 in PLN million
Assets		
Financial assets (see note 9)	534	601
Participation units in investment funds	52	-
Derivatives, including	89	23
Derivatives - PKN	79	-
Derivatives - subsidiaries	3	-
Embedded derivatives - PKN	7	23
Other	15	48
Total	**690**	**572**
Liabilities		
Derivatives, including	27	3
Derivatives - PKN	26	-
Embedded derivatives - PKN	1	3
Total	**27**	**3**

a) Derivative transactions – swap

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

The reduction of the changeability of cash flows related to the statutory activities is the Company's major goal in terms of market risk management. The Group companies manage the risk to which they are exposed, reduce the changeability of future cash flows and limit the potential losses caused by the occurrence of events which might have negative impact on the companies' results or endanger their continuity of activities. The policy and strategy of using derivatives is defined and supervised by the management boards of the Group companies.

The purpose of derivative transactions concluded by the Company in year 2003 was to decrease the vulnerability of revenues from sale of petrochemicals denominated in EUR. Revenues from the execution of contracts on sale of petrochemicals, although expressed in PLN, are dependant on EUR to PLN exchange rate. To hedge its revenues exposed to foreign currency risk the Company uses currency-interest swap transactions.

As a result of the derivative transactions, whose characteristic of market changes is adversely correlated with changes in revenues from sale of petrochemical products, the Company, in the fourth quarter of the year, significantly reduced fluctuations of revenues from sale of above mentioned products expressed in PLN.

The Group companies do not conclude speculative transactions.

During the year 2003 the Group companies did not use hedge accounting in relation to the above mentioned derivatives and as a result the change in their fair value was charged to the income statement.

Derivative transactions – continuation

Swap transactions – in Dominant Company

Company	Type of transaction	Opening transaction date	Period of transaction	Nominal amount	Interest rate*	Exchange rate*
PKN ORLEN SA	Currency-interest swap depreciated using the straight-line method	08.10.2003	20.10.2003 - 29.09.2006	224	2.4%	4.5
PKN ORLEN SA	Currency-interest swap depreciated using the straight-line method	10.10.2003	20.10.2003 - 29.09.2006	224	2.4%	4.5
PKN ORLEN SA	Currency-interest swap depreciated using the straight-line method	15.10.2003	20.10.2003 - 29.09.2006	226	2.4%	4.6
PKN ORLEN SA	Currency swap depreciated using the straight-line method	17.12.2003	18.12.2003 - 30.11.2006	815	0.0%	5.5

* Interest rates and exchange rates rounded to one decimal

Date of payments of the amount bought forward	Last working day of the month
Date of payments of the amount sold forward	-
Amount received by the PKN ORLEN SA in 12 months period to 31 December 2003	3
Amount paid by PKN ORLEN SA in 12 months period to 31 December 2003	-
Total fair value, net as at 31 December 2003	53
Total fair value, net as at 31 December 2002	-

Derivative transactions – continuation

Swap transactions – in subsidiary

Subsidiary Anwil SA entered into foreign exchange and interest rate swap in order to hedge the foreign exchange risk arising from foreign currency loan incurred. Data concerning the following swap as at 31 December 2003 and 31 December 2002 are presented in the table below:

Company	Anwil SA
Bank	Bank Millennium SA
Type of transaction	Currency – interest swap
Opening transaction date	03/01.2003
Closing transaction date	08.04.2004
Amount bought forward	12 EUR
Amount sold forward	49 PLN
Interest rate for the amount bought forward	6M EURIBOR + 0.0%
Interest rate for the amount sold forward	6M WIBOR + 0.05%

Date of payments of interests on the amount bought forward	every 6 months from 08.10.2003 to 08.04.2004
Date of payments of interests on the amount sold forward	every 6 months from 08.10.2003 to 08.04.2004
Amount received by the Group in 2003	1
Amount paid by the Group in 2003	2
Fair value at 31 December 2003	3
Fair value at 31 December 2002	-

b. Changes of particular categories of financial assets

Changes of particular categories of financial assets (except for cash and cash equivalents) and financial liabilities of the Group in the 12 months periods ended 31 December 2003 and 31 December 2002 are the following:

Balance sheet value, net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2002	15	11	483	105	-
- increases	19	190	120	19	3
- decreases	(11)	(159)	(102)	(18)	-
31 December 2002	**23**	**42**	**501**	**106**	**3**
Balance sheet items					
Long term investments	-	-	501	100	-
Short term receivables	-	-	-	3	-
Short term investments	-	42	-	2	-
Other financial assets	23	-	-	1	-
Short term liabilities	-	-	-	-	3
Total	**23**	**42**	**501**	**106**	**3**

Value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2002 amounted to PLN 499m and included mainly shares and stakes with no active market.

The Group presents derivatives of positive fair value as financial assets held for trading, whereas derivatives of negative fair value as financial liabilities held for trading.

Balance sheet value, net	Financial assets held for trading	Financial assets held to maturity	Financial assets available for sale	Loans granted and own receivables	Financial liabilities held for trading
1 January 2003	23	42	502	106	3
- increases	150	1,066	29	38	29
- decreases	(32)	(1,093)	(19)	(122)	(5)
31 December 2003	**141**	**15**	**512**	**22**	**27**
Balance sheet items					
Long term investments	-	1	512	21	-
Short term receivables	-	-	-	-	-
Short term investments	52	14	-	1	-
Other financial assets	89	-	-	-	-
Short term liabilities	-	-	-	-	27
Total	**141**	**15**	**512**	**22**	**27**

Value of long term financial assets available for sale valued at adjusted purchase price as at 31 December 2003 amounted to PLN 511m and included mainly shares and stakes with no active market.

Fair value of financial assets held for trading as at 31 December 2003 included derivatives and embedded derivatives amounting to PLN 89m and participation units in investment funds amounting to PLN 52m.

24. Operating costs

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Raw materials and energy	11,005	10,331
Cost of goods bought for resale*	7,537	1,836
External services	1,789	1,539
Payroll and benefits (staff costs)	1,055	1,016
Depreciation and amortisation	1,236	1,160
Taxes and charges	263	239
Other	595	513
	23,480	**16,634**

Adjusted by:		
Change in inventories, deferred and accrued costs	188	(143)
Internal costs capitalised	(101)	(64)
Operating costs	**23,567**	**16,427**

* Increase of cost of goods bought for resale for the year ended 31 December 2003 results from consolidation of business in Germany which sales goods.

25. Financial income and expenses, net

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Interest expense	(111)	(153)
Foreign exchange losses	(185)	(22)
Interest income	62	71
Foreign exchange gains	81	21
Profit from sale of shares, securities	33	63
Dividends received	49	-
Other, net	(27)	11
Total	**(98)**	**(9)**

26. Income tax

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Current income tax charge	(379)	(227)
Deferred tax	181	(58)
Total	**(198)**	**(285)**

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

According to the Polish tax regulations, the tax rate in effect in 2003 and 2002 was 27% and 28% respectively. Income tax law has changed in November 2002 imposing 27% rate for 2003 and subsequent years. Before this change the tax rate was supposed to be 24% in 2003 and 22% in 2004 and thereafter. The change caused reassessment of net deferred tax liability, by PLN 75m (increase of net deferred tax liability) in the year ended 31 December 2002.

In 2003 a change of the tax rate to 19% was approved starting from year 2004. The Group entities reassessed deferred tax assets and liabilities. The reassessment was accounted in results of year 2003 in amount of PLN 104m (decrease of net deferred tax liability).

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

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Profit before income tax	1,219	735
Income tax calculated at statutory rate (27% - 2003; 28% - 2002)	(329)	(206)
Effect of investment tax allowance bonus	-	14
Effect of tax rate changes	104	(75)
Other	27	(18)
Income tax expense for the year	**(198)**	**(285)**
Effective tax rate	16%	38%

The net deferred tax liability as at 31 December 2003 and 31 December 2002 consists of the following:

	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Deferred tax assets:		
Deferred tax on environmental charges	77	102
Investment tax allowance bonus	-	14
Jubilee and retirement costs provisions	30	39
Unrealised foreign exchange loss	10	-
Other	52	66
Deferred tax assets – total	**169**	**221**
Deferred tax liabilities:		
Investment tax allowance	(225)	(369)
Capitalisation of borrowing costs	(86)	(140)
Unrealised foreign exchange gains	-	(32)
Difference between tax and accounting amortisation and depreciation	(60)	(53)
Revaluation of assets to fair value relating to acquisition of majority stake of Anwil SA	(20)	(26)

Difference in contribution in kind – BOP (Note 5a))	(19)	-
Valuation of financial instruments	(37)	(7)
Provision for deferred tax - total	**(447)**	**(627)**
Net deferred tax liabilities	**(278)**	**(406)**

As the companies in the Group are not subject to group taxation and relief, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheets reflect deferred tax assets of PLN 15m and PLN 25m and deferred tax liabilities of PLN 293m and PLN 431m as of 31 December 2003 and 31 December 2002, respectively.

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

Both the initial deduction and the additional deduction have been subject to limits prescribed in the Corporate Income Tax Act dated 15 February 1992. A deduction not used in a given year due to lower pre-tax profit could not have been carried over into the next year.

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

27. Operating leases

Operating lease agreements are mainly in respect of the lease of buildings, computer equipment and vehicles. The lease expenses for the year ended 31 December 2003 and 31 December 2002 were PLN 4m and PLN 6m, respectively.

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

	31 December 2003
2004	5
2005	2
2006	1
2007 and thereafter	-
Total minimum lease payments	**8**

28. Commitments resulting from capital expenditures

As of 31 December 2003, capital and other expenditures amounting to PLN 1,011m had been committed and authorised under contractual arrangements and PLN 3,663m had been authorised by the Management Board and not contracted yet.

29. Related party transaction

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

As at 31 December 2003 the Group companies did not grant any advances, loans, borrowings, guarantees and any other agreements which result in any operation in favour of the Company and its related companies to managing and supervising persons and their relatives.

In 2003 members of Management Board, Supervisory Board, their spouses, siblings, descendants and their other relatives have not entered into any significant transactions with the Company.

The Company shares possessed by the Management Board and by the Supervisory Board in 2003:

	Number of shares, options as at 01.01.2003	Acquired	Disposed	Number of shares, options as at 31.12.2003
Management Board*	-	254,493	254,493	-
Supervisory Board	-	-	-	-

* Transactions referred to the purchases of convertible bonds within the motivation programme.

b. Transactions between the Company and its related parties were conducted on normal commercial terms and were as follows:

	Entities accounted for using equity method
Sales	
year ended 31 December 2003	780
year ended 31 December 2002	141
Purchases	
year ended 31 December 2003	138
year ended 31 December 2002	198
Trade receivables, gross	
31 December 2003	103
31 December 2002	13
Trade payables	
31 December 2003	30
31 December 2002	36

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

c. Other significant transactions with related parties

- As described in Note 9, the Company has put option of AWSA shares to Kulczyk Holding SA which is a shareholder of the Company.
- As described in Note 5a) the Company contributed organised part of business to BOP, which is joint venture of the Company.

30. Contingencies and risks

a. Guarantees and other contingent liabilities

1. Guarantees and sureties

   The Group entities granted guarantees and sureties. The amounts of such guarantees and other contingent liabilities were PLN 107m (including PLN 100m to associates and joint venture) and PLN 16m (including PLN 1m to the associates) as at 31 December 2003 and 31 December 2002, respectively.
2. Other contingent liabilities

   – PLN 33m - liability securing three rent agreements to „Locum" Sp. z o.o. located in Szczucin,

   – PLN 16m - related to cession of rights to receivables to bank,

   – PLN 11m - related to cession of rights.

b. Litigations

In accordance with the Agreement signed on 20 December 2002, Tankpol Sp z o.o. transferred to PKN ORLEN due to cession, 40% of shares held in ORLEN PetroTank Sp z o.o. in exchange for receivables from Tankpol Sp. z o.o. Final settlement of this transaction should be made after valuation of shares in ORLEN PetroTank Sp. z o.o. On 30 October 2003 a legal case was filed against PKN ORLEN as compensation for PLN 70m or return of the ceded shares. On 26 January 2004 Tankpol Sp. z o.o. modified its claim for repayment of PLN 36m or return of the ceded shares. Together with the claim, Tankpol Sp. z o.o. presented a new valuation of ORLEN Petro Tank Sp. z o.o. amounting to PLN 232m. On 22 January 2004 Tankpol Sp. z o.o. approached Company with a compromise offer, stating, that the claim will be revoked if PKN ORLEN pays PLN 33m. On 18 February 2004 during the first hearing the court suspended the legal proceeding for the period of three months, in order to allow parties to reach a compromise.

In the Company's Management view, based on the independent legal opinion obtained, the final outcome of the above claim should not have a material impact on the presented financial results.

c. Tax regulations in Poland

Poland currently has a number of laws related to excise tax, value-added tax, corporate income tax and payroll (social) taxes. Regulations regarding these taxes are often changed which causes their ambiguity and inconsistency. Implemented regulations are often unclear or inconsistent. Often, differing opinions regarding legal interpretations exist both among and within government ministers and organisations, creating uncertainties and areas of conflict. Tax settlements, together with other legal compliance areas (for example: customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially higher than those typically found in countries with more developed systems.

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

d. Excise tax – contingent liability of Rafineria Trzebinia SA

On 15 November 2002, based on the act on restructuring of certain budget receivables from enterprises, Rafineria Trzebinia, the Company's subsidiary, applied for the restructuring of budget receivables concerning excise duty and VAT for the period from June to December 1998. On 30 December 2002 fiscal authorities issued a decision on restructuring conditions of payables concerning VAT and excise duty of total value of PLN 35.3m, stating the restructuring charge in the amount of PLN 5.3m. The charge was paid in full in January 2003.

As a result of the audit performed by the Tax Audit Office in Krakow, tax allowance for the months I-XII.1999, I-XII.2000 and I-XII.2001 on VAT concerning production of diesel fuel with component extracted from reprocessed used oil, was questioned. On 22 December 2003 the company received decisions of the Director of Tax Audit Office in Krakow, which stated the additional VAT liability together with penalties in the total amount of PLN 79.8m.

As a result of the above decisions, the Management Board of Rafineria Trzebinia, taking into account a significant interest of the taxpayer and ambiguous regulations regarding the tax allowance on reprocessing of used oil, applied to the Tax Office in Chrzanow for partial remission of the liability. The application received a favourable opinion of the Tax Office Jury in Krakow. On 29 December 2003 Rafineria Trzebinia SA paid PLN 11.8m of overdue tax liability covered by the decisions of Tax Audit Office Director. On 31 December 2003 the Head of Tax Office in Chrzanow, after obtaining a positive opinion from Tax Office Jury in Krakow, issued a decision, in which the remaining liability of PLN 68m was cancelled.

e. VAT litigation

On 30 June 2003 General Tax Control Council issued to PKN ORLEN four tax decisions related to December 1997 and August - October 1998 VAT, setting tax liability higher by PLN 15m tax liability and interest of PLN 20m. The decisions were questioned in accordance with Article 26 paragraph 2 of Act on Tax Control dated 28 September 1991.

General Tax Control Council, after reassessment of four issued decisions, cancelled former decisions and on 19 September 2003 ceased the proceeding.

f. Power transfer fee – settlements with Zaklad Energetyczny Plock SA

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No. 1 dated 15 January 2001), the power transfer fee calculation method has been changed. According to the paragraph 37 of the Decree a different method of power transfer fee settlement has been allowed. Following the decision of Chairman of Electricity Regulation Office the electricity sale agreement between Zaklad Energetyczny Plock SA and PKN ORLEN was signed. The agreement did not determine contentious issues concerning transfer fee for the period from 5 July 2001 to 30 June 2002, as it was regarded as civil case to be settled by an appropriate court.

Zaklad Energetyczny Plock SA called on PKN ORLEN to compromise agreement, as well as District Court in Warsaw called PKN ORLEN as co-defendant in court case Polskie Sieci Energetyczne against Zaklad Energetyczny Plock SA

The Company's Management made estimate of the claim and provided for it accordingly.

g. Anti-trust proceedings

In 2003 the Company was subject to two anti-trust proceedings.

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

Methods of setting prices for antifreeze liquid to radiators „Petrygo" and prices for monoethylene glycols – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting penalty of PLN 40m. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OPCC, which blame PKN ORLEN of applying monopolistic practice, annulling at the same time cash penalty, in 2001 due to this fact the provision was fully released. OPCC applied on 4 October 2001 to the Supreme Court to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the Anti-Trust Court dated 13 August 2001 due to administrative deficiencies. In these circumstances the case will be conducted again by District Court in Warsaw and Anti-Trust Court.

These consolidated financial statements do not include provisions relating to the above proceeding as in the opinion of the Company's Management charging the Company with that penalty is not probable.

In 2003 final decision was made concerning mentioned below proceeding. The proceeding concerned:

Prices of fuels – the Company appealed to Anti-Trust Court against the negative decision of OPCC setting a penalty of PLN 5m. Anti-Trust Court repealed the decision of OPCC concerning monopolistic practice of PKN ORLEN and therefore the cash penalty was repealed. In 2000 provision of PLN 5m, set in year 1999, was released. On 21 February 2001 OPCC applied to the Supreme Court to annul the positive verdict for the Company. On 16 May 2003 Supreme Court overruled cessation of OPCC. Decision of Supreme Court is final and cannot be appealed against.

h. Employees compensation plan

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

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

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

i. Tax allowances – investment incentives

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

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

The above described allowances and bonuses are conditional. The law provides for the loss and reversal of entitlement for all investment allowances if within 3 years, any of the following circumstances arise:

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

(ii) the taxpayer transfers, in any form, the ownership of items that were subject to investment deductions; this does not concern the transfer of ownership resulting from the change of an entity's legal form or the merger or diversion of companies, performed on the basis of regulations regarding state-owned companies, the commercialisation and privatisation of state-owned companies, the Commercial Code and Cooperative Law,

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

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

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

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

j. Fixed assets located on land where ownership is disputed

The Group operates and reflected in assets several fuel stations and other properties on which the ownership of the underlying land is unclear. The book value of the fixed assets located on such plots were PLN 25m and PLN 29m as of 31 December 2003 and 31 December 2002, respectively.

k. Termination benefits for the Management Board

PKN ORLEN Management Board members, based on their individual employment contracts, are entitled to receive 6 to 12 months salaries after the termination of the employment.

l. Disposal of stake in NOM Sp. z o.o.

The Group presented in the balance sheet as at 31 December 2003 receivables totalling PLN 111.5m and related to the execution of put option for shares in NOM. The realisability of the related receivable was described in Note 5d.

m. Pledge on BOP shares

Pursuant to the registered share pledge agreement dated 19 December 2003, PKN ORLEN established for the benefit of Kredyt Bank SA with seat in Warsaw (acting as the Security Agent) (the "Security Agent") a registered pledge, and as the temporary security until the date of entering the registered pledge into pledge register an ordinary pledge (i.e., a pledge under Article 327 et seq. of the Civil Code), in respect of all the shares held by PKN ORLEN in the share capital of the BOP, that is, 907,398 shares with a nominal value of PLN 500 each, which shares represent 50% of the share capital of BOP, and entitle the shareholder to exercise 50% of the votes at the Shareholders Meeting of BOP. The condition for the effective establishment of the registered pledge is the entry of such pledge into the pledge register held by the applicable court. Upon registration of the registered pledge the ordinary pledge shall expiry.

The pledge established pursuant to the share pledge agreement dated 19 December 2003, provides a security for repayment of present and future pecuniary claims of the pledgee under the Hedging Intercreditor Agreement up to the maximum amount of EUR 750m.

On 23 January 2004 the entry to the pledge register in respect of all the shares of the BOP held by the Company was made.

n. Other risks

Due to the public information in relation to the Company's purchase transactions, the Supervisory Board has taken actions including requests to audit firms to perform specific test procedures, which were aimed at verifying the above information, including an analysis of the specified procurement transactions. The reports on these procedures has been presented to the Supervisory Board for further analyses. Simultaneously, the Management Board filed notifications to the Public Prosecutor's Office regarding a suspicion of a commitment of crimes connected with:

– disclosure of confidential information, included in auditors' reports,
– violation of the Company's purchase procedures.

The final outcome of the above notifications is not known as at the date of the preparation of these financial statements. However, in the Management's opinion, there are no circumstances indicating that the above mentioned matters may materially impact the true and fair presentation of the accompanying financial statements for 12 month period ended 31 December 2003.

31. Short-term employee benefits paid to the Management Board and the Supervisory Board

Management Board remuneration include salaries, annual bonuses and cash equivalent for unutilized holiday.

Management Board and Supervisory Board remuneration during years ended 2003 and 2002 was as follows:

Remuneration	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Management Board	13,043	11,439
Supervisory Board	856	859
Total	**13,899**	**12,298**

32. Employment structure

Average employment by category during years ended 2003 and 2002 was as follows:

Emplozment structure	For the year ended 31.12.2003 in PLN million	For the year ended 31.12.2002 in PLN million
Blue collar workers	8,852	10,012
White collar workers	7,534	7,798
Total	**16,386**	**17,810**

Employment level as of 31 December 2003 and 31 December 2002 totalled 15,133 and 17,818 persons, respectively.

33. Post balance sheet events and other additional information

1. On 12 January 2004 PKN ORLEN submitted an indicative offer (the “Offer”) for the acquisition of 62.99% of the share capital of UNIPETROL, a.s., a company operating in the Czech oil sector (“UNIPETROL”), and the purchase of the receivables of Česká konsolidační agentura (“ČKA”) towards certain entities directly or indirectly owned by UNIPETROL, as well as for the potential purchase of 9.76% of the share capital of SPOLANA, a.s., currently owned by ČKA (collectively the “ČKA Assets”). The Offer represents an early stage in the discussions and is a non-binding document confirming PKN ORLEN’s interest in the privatization process of UNIPETROL.

2. On 1 March 2004 Jacek Bartkiewicz was dismissed from the position of Member of the Supervisory Board of the Company by the Minister for State Treasury as a result of his resignation. Simultaneously, Grzegorz Mroczkowski was appointed to the Supervisory Board of the Company.

3. On 8 April 2004 Maciej Gierej, Edward Grzywa, Andrzej Kratiuk and Orest Nazaruk were dismissed from the position of Members of the Supervisory Board of the Company by the Extraordinary Shareholders Meeting. Simultaneously, Jacek Walczykowski, Andrzej Wieczorkiewicz, Andrzej Studzinskiego and Marian Czakanski were appointed to the Supervisory Board of the Company.

4. On 20 November 2003 the Management Board of Polski Koncern Naftowy ORLEN SA informed, that PKN ORLEN and MOL Hungarian Oil and Gas Plc. („MOL") signed agreement whereby they agreed intention to initiate the co-operation in the Central and Eastern European oil sector. The parties believe that this co-operation would allow both MOL and ORLEN to benefit from synergies and could create the opportunity to compete more effectively with the major global operators in the sector. The agreement provides for an initial period of exclusive consultation between MOL and ORLEN in respect of potential co-operation. The parties have also agreed to establish working groups to assess the feasibility of further potential co-operative initiatives and to consider the structuring and timing of such initiatives. Despite the fact that the agreement involves non-binding elements, the parties believe it will serve as a useful measure and look forward to productive discussions between the MOL and PKN ORLEN teams.

34. Transformation for IFRS purposes

The Group companies maintain their accounts in accordance with the accounting principles and practices employed by enterprises in Poland as is required by the Accounting Act and related regulations. The financial statements set out above reflect certain adjustments not reflected in the companies statutory books to present these financial statements in accordance with IFRS effective for 2003, except for non-compliance with IAS 29 and IAS 16 as specified in Note 3.

The adjustments to the consolidated financial statements prepared under Polish Accounting Standards ("PAS") are set out below:

	Net profit for the year ended	
	31.12.2003	31.12.2002
	in PLN million	in PLN million
PAS basis consolidated	1,014	479
Distributions from profit for social activity	(4)	-
Borrowing costs capitalisation, less depreciation	(68)	(25)
Amortisation of CPN goodwill	(10)	(11)
IFRS treatment of negative goodwill	17	8
Deferred tax on the above	53	(17)
Other	(15)	(13)
IFRS Consolidated	**987**	**421**

	Net assets 31.12.2003 in PLN million	Net assets 31.12.2002 in PLN million
PAS basis consolidated	9,130	7,927
Distribution from profit for social activity	-	-
Borrowing costs capitalisation less depreciation	458	526
Goodwill on CPN, net	62	72
IFRS treatment of negative goodwill	(54)	(71)
Deferred tax on the above	(87)	(140)
Other	1	15
IFRS Consolidated	**9,510**	**8,329**

a. Distribution from profit for social activity

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

b. Capitalisation of borrowing costs

In accordance with PAS, borrowing costs are written off to the income statement as incurred net of the amount capitalised related to borrowings for specific capital projects. Borrowing costs incurred on general borrowings are always expensed as incurred. Borrowing costs are capitalised as a part of the costs of the relevant fixed assets up to the date of commissioning and written off to the income statement over the period in which the assets is depreciated.

In these financial statements borrowing costs are subject to capitalisation in accordance with allowed alternative treatment of IAS 23 "Borrowing costs" presented in Note 4(i).

c. Goodwill on shares purchased from former CPN employees

The acquisition of CPN's employee shares was recorded for IFRS purposes under the acquisition method of accounting. As a result the Company recognised goodwill of PLN 107m on the acquisition of the 19.43% CPN shares held by the employees.

For PAS, the acquisition of CPN, including the acquisition of the minority shares was pushed back to the earliest financial statements presented under pooling of interests' method.

d. IFRS treatment of negative goodwill

According to PAS, before the amended Accounting Act came into force, the Company released negative goodwill to income during two to five years period subsequent to acquisition. In the IFRS financial statements negative goodwill is recognised in a manner presented in Note 4(c).

e. Deferred tax effects

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

f. IFRS treatment of revenues

In accordance with PAS, the Company and certain of its subsidiaries included excise tax charged on the oil product manufactured in their revenues and selling expenses.

For the purpose of these consolidated financial statements prepared under IFRS revenues and selling expenses had been presented net of excise tax of PLN 9,309m and PLN 9,426m for the years ended 31 December 2003 and 31 December 2002, respectively.

35. Other

The consolidated financial statements have been authorised by Company's Management Board at premises of the Company, on 19 April, 2004.

Qal is a low-freezing, ready-to-use cooling fluid of long durability and high purity. The latest generation of organic additives used in Qal provide for perfect anti-corrosion and anti-cavitation protection of all the materials in an engine's cooling system . Qal is a fluid optimised for European weather conditions and temperatures, , i.e. from summer heat to freezing winters (up to -35 °C). The completely new production technology and strict quality controls, complying with ISO 9002 Standard, have resulted in a fluid of highest worldwide quality. Qal was awarded the title of best Polish products and services in the 12th edition of "Teraz Polska".

Malen-E and Malen-P are high quality plastics used for production of packaging, technical, thermo-shrinking and garden foils, foils exposed to UV radiation, and transportation bags. They are also used for production of containers, bottles, pipe and profile extrusion Cable coating.

Platinum oils with a New Extreme Technology formula ensure ideal smearing from the engine start. The Platinum series oils perfectly protect engines from sediment and wear. The highest quality of Platinum oils has been confirmed by DaimlerChrysler, Volkswagen, BMW and Porche.

Light Heating (Furnace) Oil is a product of highest quality which meets the worldwide standards both for its exploitation parameters and environment protection requirements. EKOTERM PLUS is an ideal fuel for central heating boilers in detached houses, hospitals, schools, etc EKOTERM PLUS has very good quality parameters which meet the strictest German DIN Standards.

Road bitumens modified with termoplastic rubber are used in the most demanding conditions. Their highest quality is guaranteed by ISO 9002.

A ready-to-use cooling fluid for all types of engine's cooling system. Petrygo was awarded the title of „Lider Rynku" (Market Leader) at the International Moto Fares AWTOTEX in Lwow, Ukraine.

Owing to special additives of the highest quality, Eurosuper 95 provides for excellent engine care. The results of a special test prove that Eurosuper 95 additives significantly limit fuel consumption and deposit formation. They also reduce the risk of damage to the engine. Eurosuper 95 ensures smooth engine operation at high load, both at low and high temperatures.

SUPER PLUS unleaded gasoline, with a 98 octane number, is the highest octane car gasoline available worldwide. SUPER PLUS 98 provides appropriate performance, smooth engine action and economic fuel consumption. The fuel is enriched with a set of additives which guarantee the cleanliness of the outlet system of the engine.

Universal U-95 unleaded gasoline is used for all ignition engines except aero-engines. It is mainly intended for car engines whose valve-seats are not made of special wear resistant materials. However, it may also be used in car engines equipped with catalytic converters. It has all the characteristics of unleaded gasoline of octane number 95, and it contains additives that replace the lead and protect the valve-seats from wear.

Ekodiesel Plus 50 is environmentally friendly diesel. Its environmental parameters are better than those provided by the European Union 2005 standards. It contains 700% less sulfur (0.005%) than is required in the European Union. When using the new diesel , vehicles produce lower sulfur emissions in exhaust fumes. Ekodiesel Plus 50 has also a higher factor of combustion quality, guaranteeing easier cold starting and better performance due to the higher cetane number.

PKN ORLEN is currently the largest Polish manufacturer of liquefied gas. PKN ORLEN's liquified petroleum gas has very good combustion parameters and excellent environmental quality. It is stored and transported in pressurized tanks in liquid form but t is used in its gaseous state.

VITAY is a loyalty card system for individual customers which is designed to reward motorists who make purchases at PKN ORLEN petrol stations in Poland. As at the end of 2003 the programme served as many as 4.4 million clients at over 1,500 ORLEN bearing the VITAY logo.

FLOTA POLSKA fuel card programme is aimed at corporate clients operating fleets of vehicles. The ORLEN fleet cards allow for the non-cash purchase of fuel, goods and services at the country's largest retail network.

Professional Polish rally team made of Jacek Czachor and Marek Dąbrowski (motocyclists) and Łukasz Komornicki i Rafał Marton (off-road car drivers).

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Published by: PKN ORLEN • Concept and realisation: BPiM FILMAR • Illustrated: Rafał Olbiński