GK/MK/1567/2005

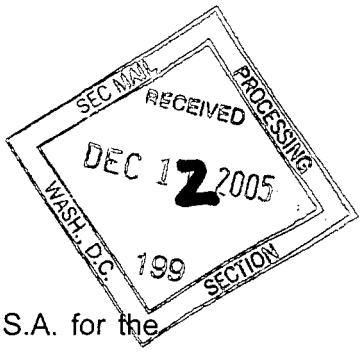
***SEC file: 82-5036***

Płock, 8 December 2005

Polski Koncern Naftowy S.A.

SUPPL

**Securities and Exchange Commission**
**Division of Corporate Finance**
**450 Fifth Street, N. W.**
**Washington, D.C. 20549**




With reference to Information Reporting Requirements of PKN ORLEN S.A. for the U.S. Securities and Exchange Commission please find enclosed following documents:

- PKN ORLEN S.A. regulatory announcements from no 44/2005 to 62/2005;
- PKN ORLEN S.A. Financial Statements for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004 prepared in accordance with International Financial Reporting Standards;
- PKN ORLEN S.A. Financial Statements for the half-year periods ended 30 June 2005 and 30 June 2004 prepared in accordance with International Financial Reporting Standards.

Should you have any queries do not hesitate to contact the undersigned on the telephone numbers: +48 24 365 56 24 or mobile: +48 605 199 586.

Yours faithfully,

PROCESSED
DEC 14 2005
THOMSON
FINANCIAL

Magdalena Krzemińska

***Magdalena Krzemińska***
Investor Relations Department

PKN ORLEN SA
SEC File
82-5036

| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.: Sale of shares |
| **Released** | 15:41 01-Jul-05 |
| **Number** | 3801O |

## Regulatory announcement no 44/2005 dated 1st July 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company") Central Europe's largest downstream oil company, hereby announces that on 2 June 2005, on the basis of share transfer agreements, the Company sold 8,219 shares of ZAWITAJ Swinoujscie Sp. z o.o. („**ZAWITAJ Swinoujscie**") based in Swinoujscie (Poland) with a par value of PLN 500 each, representing 100.00% (and the same number of votes at its shareholders' meeting), for a total of PLN 2,900,000.00, i.e. PLN 352.84 for each share, to Ms Grazyna Grabowska, who operates a business with the same name as her in Swinoujscie .

Ms Grazyna Grabowska is the President of the management board of ZAWITAJ Swinoujscie.

The share ownership was transferred to Ms Grazyna Grabowska on 30 June 2005.

Following the above transaction PKN ORLEN will cease to have any holding in ZAWITAJ Swinoujscie.

Except in respect to the execution of the share transfer agreements referred to above, no other relationship exists between the issuer and the issuer's managing or supervising persons, and the sellers of the shares.

END

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PKN ORLEN SA
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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.: Vice-Chairman of SB |
| **Released** | 15:40 07-Jul-05 |
| **Number** | 6380O |

## Regulatory announcement no 45/2005 dated 7 July 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, announces following the Ordinary General Meeting of Shareholders the appointment of new members to the Supervisory Board; Mr Andrzej Olechowski and Mr Adam Sek. In addition Mr Michal Stepniewski has resigned from the position of Vice-Chairman of the Supervisory Board. In today's meeting the Supervisory Board of PKN ORLEN has appointed Mr Andrzej Olechowski to the position of the Vice-Chairman of the Supervisory Board of PKN ORLEN.

END

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PKN ORLEN SA
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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Exercise of total votes |
| **Released** | 18:13 12-Jul-05 |
| **Number** | 7922O |

## Regulatory announcement no 46/2005 dated 12 July 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby discloses the list of shareholders who had a right to exercise at least 5% of total votes at the Ordinary General Meeting of Shareholders of PKN ORLEN which was originally called on June 29, 2005.

| No | Shareholder | Number of shares owned | Type of shares | Number of votes | Votes (%) |
|---|---|---|---|---|---|
| 1 | **COMMERCIAL UNION OFE BPH CU WBK**<br>ul. Prosta 70<br>00-854 Warszawa | 20,000,000 | bearer | 20,000,000 | 8.30% |
| 2 | **ING NATIONALE-NEDERLANDEN POLSKA OFE**<br>ul. Ludna 2<br>00-406 Warszawa | 15,500,000 | bearer | 15,500,000 | 6.43% |
| 3 | **NAFTA POLSKA Spolka Akcyjna**<br>ul. Jasna 12<br>00-013 WARSZAWA | 74,076,299 | bearer | 74,076,299 | 30.73% |
| 4 | **State Treasury**<br>ul. Krucza 36 / Wspolna 6<br>00-522 WARSZAWA | 43,633,897 | bearer | 43,633,897 | 18.10% |
| 5 | **THE BANK OF NEW YORK**<br>101 Barclay Street<br>New York, N.Y. 10286, USA | 51,096,238 | bearer | 51,096,238 | 21.20% |

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.: Changes MB |
| **Released** | 18:30 19-Jul-05 |
| **Number** | 0802P |

## Regulatory announcement no 47/2005 dated 19 July 2005

The Management Board of PKN ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby announces that the Supervisory Board of PKN ORLEN has appointed, following its meeting on 19 July 2005, Mr Dariusz Witkowski to the position of Member of the Management Board with effect from 1 August 2005. This complies with the motion of the Ministry of the State Treasury according to the § 9 item 1 point 3 of the Articles of Association of PKN ORLEN.

**Mr Dariusz Witkowski**, born in 1966 in Warsaw, is a graduate of the Foreign Trade Faculty of the Warsaw School of Economics.

**Previous Experience:**

May 2005 – present - Undersecretary of State at the State Ministry of the Treasury

April 1995 – April 2004 Polish Security Exchange Commission, Department of Public Companies and Finance (Head of Unit (from December 1995); Director of Department (from July 2000); Deputy Director (from June 1999)).

**Courses and training:**

- Executive MBA Program (Polish American Management Center, University of Maryland and University of Lodz)
- Human Resources Management (organised by the US Office of Personnel Management)
- Capital Markets Management (organised by PricewaterhouseCoopers, Arthur Andersen, the Foundation for Accounting Development in Poland).

END

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PKN ORLEN SA
SEC File
82-5036

| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.:Rejection of applications |
| **Released** | 07:00 20-Jul-05 |
| **Number** | 0828P |

# Rejection of applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares in UNIPETROL, PARAMO and SPOLANA

## Regulatory announcement no 48/2005 dated 19 July 2005

The Management Board of PKN ORLEN S.A. ("PKN ORLEN" the "Company"), Central Europe's largest downstream oil company, hereby gives notice that on July 19, 2005, the Czech Securities Commission (the "SC") informed the Company that it has rejected the applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s.

In connection with the purchase on May 24, 2005 of shares which entitle PKN ORLEN to 62.99% of the votes in UNIPETROL, a.s. and 9.76% votes in SPOLANA, a.s., PKN ORLEN was required to announce mandatory tender offers for shares in UNIPETROL, a.s., PARAMO, a.s., and SPOLANA a.s. (the "Mandatory Tender Offers").

PKN ORLEN authorized Patria Finance, a.s. to conduct the Mandatory Tender Offers.

As under Czech law the terms of the Mandatory Tender Offers have to be approved by the SC prior to their announcements, applications asking the SC for approval concerning the Mandatory Tender Offers were filed with the SC in appropriate term, i.e. on June 30, 2005.

The prices proposed by PKN ORLEN were: CZK 103 per one UNIPETROL share; CZK 701 per one PARAMO share; and, CZK 100 per one SPOLANA share. The valuations were based on DCF method, compiled by an independent Czech expert NS Group.

According to the explanation behind the decision given by the SC, the principal reason for the rejection of the application was irregularities in the valuation of the shares in UNIPETROL, SPOLANA and PARAMO, attached to the application, compiled by the independent Czech expert, which PKN ORLEN selected last year in September to comply with Czech Republic regulations.

Under the Czech regulations, PKN ORLEN should announce the Mandatory Tender Offers for shares in UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s. on or before July 25, 2005.
Failure to announce the tender offers by that deadline may produce the following consequences:

1. Within six months after July 25, 2005, minority shareholders may require PKN ORLEN to purchase the shares they hold in UNIPETROL, PARAMO and SPOLANA for a price determined in compliance with the relevant regulations.
2. In the period following July 25, 2005 until the announcement of the tender offers approved by the SC, PKN ORLEN and persons acting in concert with PKN ORLEN until the Mandatory Tender Offers are announced may not exercise the voting rights attached to the shares they hold in UNIPETROL a.s. and SPOLANA a.s. Furthermore, during that period the SC may issue a decision barring PKN ORLEN from exercising other rights attached to the shares in those entities.
3. If the SC deems it indispensable from the point of view of protecting the interests of other shareholders, lenders or employees, it may pass a decision forbidding PKN ORLEN to exercise its voting rights for up to one year.
4. The SC may impose a fine on PKN ORLEN.

It is PKN ORLEN's intention not to appeal against the decision received and to proceed forthwith to prepare new applications which will take into account the requirements indicated in the SC's decisions.

UNIPETROL and SPOLANA.

END

PKN ORLEN SA
SEC File
82-5036

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PKN ORLEN SA
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82-5036

| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Disallowance-voting rights |
| **Released** | 16:04 26-Jul-05 |
| **Number** | 3328P |

**Disallowance of the exercise of voting rights attached to the shares of UNIPETROL, a.s. and SPOLANA, a.s held by PKN ORLEN S.A. and persons acting in concert with PKN ORLEN S.A.**

**Regulatory announcement no 49/2005 dated 26 July 2005**

Further to regulatory announcement No. 48/2005 of July 19, 2005, the Management Board of Polski Koncern Naftowy ORLEN S.A. (hereinafter "PKN ORLEN" or the "Company") hereby informs that, in connection with the Company's failure to announce by July 25, 2005, the required tenders for the shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s., as mandatory under Czech law, as of July 26, 2005 until the day of announcing the aforementioned tenders PKN ORLEN, and persons acting in concert with PKN ORLEN, may not exercise the voting rights attached to the shares of UNIPETROL, a.s. and SPOLANA, a.s which are held by them. Additionally, within the time period in question, the Czech Securities Commission (the "SC") may issue a decision prohibiting PKN ORLEN from exercising any other rights attaching to the shares of the aforementioned entities.

PKN ORLEN intends immediately to file with the SC new applications for consent to be granted to PKN ORLEN to announce mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

If a General Shareholders' Meeting of UNIPETROL, a.s. or SPOLANA, a.s. were to be held before the announcement of the tenders, PKN ORLEN will apply to the SC for a suspension of the prohibition regarding the exercise of the voting rights attached to the shares of UNIPETROL, a.s. and SPOLANA, a.s.; as, according to Czech Law, the SC can make such a decision.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.Unipetrol's financial data |
| **Released** | 08:46 28-Jul-05 |
| **Number** | 4097P |

**PKN ORLEN SA**
**SEC File**
**82-5036**

## Regulatory announcement no 50/2005 dated 28 July 2005

The Management Board of Polski Koncern Naftowy ORLEN S.A. (hereinafter "PKN ORLEN" or the "Company") hereby informs that Unipetrol a.s. and the major companies forming the holding, announced on 27 July 2005 their unconsolidated financial data for the period covering the first two quarters of 2005.

The above-mentioned financial data is now available for downloading from the web site: www.unipetol.cz

END

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|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | New date_Q2 2005 |
| **Released** | 15:48 09-Aug-05 |
| **Number** | 9162P |

**PKN ORLEN SA**
**SEC File**
**82-5036**

## Regulatory announcement No 51/2005 dated 9th August 2005

Polski Koncern Naftowy ORLEN Spolka Akcyjna ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby announces that it is moving the publication of its consolidated financial statement for Q2 2005 from 16th August 2005, as originally planned, to 29th September 2005.

However, on 16th August 2005 PKN ORLEN will publish a regulatory announcement with selected consolidated financial data for PKN ORLEN for the period covering the first two quarters of 2005, but excluding the influence of the purchase of UNIPETROL.

The change is has been necessitated by the complicated and time-consuming valuation process subsequent to our purchase of UNIPETROL.

PKN ORLEN has received appropriate approval for the change of date from the Polish Security Exchange Commission.

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.: New applications |
| **Released** | 14:23 12-Aug-05 |
| **Number** | 0608Q |

**PKN ORLEN SA**
**SEC File**
**82-5036**

# New applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares in UNIPETROL, PARAMO and SPOLANA

## Regulatory announcement no 52/2005 dated 12 August 2005

The Management Board of PKN ORLEN S.A. ("PKN ORLEN" the "Company"), Central Europe's largest downstream oil company, hereby gives notice that on August 12, 2005, PKN ORLEN has again applied to the Czech Securities Commission (the "SC") with new applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s.

The prices proposed by PKN ORLEN are: CZK 135 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one SPOLANA share.

Previous applications submitted by PKN ORLEN were rejected by the SC due to irregularities in the valuation methodology of shares, attached to the application and compiled by an independent expert NS Group. PKN ORLEN has pursued the highest standards of transparency and has placed considerable efforts in preparing the new applications and believes that the proposed prices fully reflect a valuation made according to the methodology, which will fulfill the SC's stipulations.

According to the regulations laid out by the SC, a decision will be made between 8 and 13 working days after receipt of the application.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Q2'05 prelim finan results |
| **Released** | 10:09 16-Aug-05 |
| **Number** | 1343Q |

**PKN ORLEN SA**
**SEC File**
**82-5036**

**Regulatory Announcement No. 53/2005 dated 16 August 2005**

The Board of Directors of Polski Koncern Naftowy PKN ORLEN S.A. [PKN ORLEN, Company] hereby publishes a regulatory announcement of a current report containing preliminary condensed consolidated financial statements for the period of two quarters 2005 as required under the Council of Ministers Decree of 21 March 2005 on current and periodical information provided by issuers of securities (Journal of Laws No. 49, item 463) and in compliance with the International Financial Reporting Standards, excluding IFRS 3 with respect to impact of UNIPETROL acquisition.

The financial statements present preliminary financial data of the PKN ORLEN Group. They do not include an effect of the UNIPETROL Group consolidation.

The complete financial statements covering two quarters of 2005 will be published on 29 September 2005.

Legal grounds: *Art. 81 section 1 of Public Trading in Securities Law Act of 21 August 1997 (Journal of Laws of 2002 No. 49, item 447, as amended)*

*PKN ORLEN S.A. BOARD OF DIRECTORS*

PKN ORLEN SA
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82-5036

POLSKI KONCERN NAFTOWY ORLEN S.A.

# PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS OF 6 AND 3 MONTHS ENDED 30 JUNE 2005 AND 30 JUNE 2004 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The foregoing current report presented as preliminary condensed consolidated financial statements contains preliminary financial results of the PKN ORLEN Group. The financial data disclosed in these financial statements do not reveal the impact of consolidation of the Unipetrol Group. The PKN ORLEN Group presents herein the acquired Unipetrol Group shares as long term financial investments without impact on the financial result. Beginning from the reports for the second quarter and the first half of 2005 to be published on 29 September 2005, the Unipetrol Group will be subject to full consolidation, i.e. all items of the financial statements will be adjusted by the effect of executed control from the acquisition date of 24 May 2005 to 30 June 2005. An initial estimate of the acquisition effect without fair value valuation according to IFRS 3 results in excess of PLN 1.6 billion of the acquired assets over acquisition cost including related expenses.

The Unipetrol Group will be consolidated basing on the Unipetrol Group financial statements beginning from the report for the second quarter and the first half 2005, which the Company shall publish on 29 September 2005. In order to define the acquisition impact, measurement is being carried out of the acquired Unipetrol assets as required under the first consolidation in accordance with IFRS 3 "Business Combinations".

The acquisition of 62.99% Unipetrol shares is recognised at initial cost as long term financial investments in the foregoing financial statements.

Due to the acquisition agreement, procedures have been initiated to define the final acquisition cost, which comprise audits of financial statements constituting a basis for cost measurement. The final acquisition cost may differ from the currently presented amount.

PKN ORLEN SA
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Poland, 7 Chemików Street ("PKN ORLEN", "Company", "Parent"). The Company was established under the notarial deed of 29 June 1993 as a result of transformation of a state owned enterprise into a joint stock company and registered as Mazowieckie Zak³ady Rafineryjne i Petrochemiczne "Petrochemia P³ock" S.A. in the District Court of P³ock. Effective from 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spó³ka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spó³ka Akcyjna was incorporated and thus CPN was removed from the commercial register. Effective from 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spó³ka Akcyjna.
The Company's operations comprise refining of petroleum and manufacture of a wide range of petroleum and petrochemical products, delivery, wholesale and retail sale of those products. Other Group entities are engaged mainly in related activities including manufacture and distribution of refined petroleum products and manufacture and sale of chemical products.

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## II. ADOPTED PRINCIPLES FOR THE CONSOLIDATED QUARTERLY STATEMENTS FOR THE SECOND QUARTER OF 2005

Effective from 1 January 2005, the Group companies have been applying accounting standards adopted by the International Accounting Standards Board. In compliance with IFRS 1 "Presentation of Financial Statements", the IFRSs consist of the International Financial Reporting Standards (IFRSs), the International Accounting Standards (IASs) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).
The International Accounting Standards Board issued the International Financial Reporting Standard No. 1 (IFRS 1) "First-time Adoption of International Financial Reporting Standards" which is to be applied at preparation of financial statements for periods beginning on or after 1 January 2004. IFRS 1 concerns, apart from entities preparing their first financial statements in accordance with IFRSs, also entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on incompliance with particular standards. In particular IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognised under the IFRSs. In accordance with IFRS 1, an entity may state its tangible fixed assets at fair value as of the IFRSs adoption date and recognise the fair value as cost of fixed assets as at that date.
As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with the IFRSs adopted by the European Union. The information to be disclosed in these consolidated financial statements is compliant with IAS 34 "Interim Financial Reporting".
As from 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 section 1c of the Accounting Act, wording effective as from 1 January 2005) has been preparing its statutory standalone financial statements in accordance with the IFRSs approved by the European Commission for 2005.
The Company did not complied with IFRS 3 with respect to acquisition of Unipetrol shares.

### 1. Statement of compliance

When preparing these preliminary condensed consolidated financial statements the Group applied the International Financial Reporting Standards (IFRSs) effective as of 30 June 2005, except for IFRS 3 relating to acquisition of Unipertol shares. As of 1 January 2004 the balance sheet value of fixed assets was measured by an independent expert. The Company recognised the effect of the measurement. 90% of net fixed assets was measured in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment" due to the ongoing process aiming at full compliance with the International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and the International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16). The Company valued the rights of perpetual usufruct of land but due to lack of clear interpretation the effect of the valuation was not recognised.
In order to comply to the above IFRS 1 requirements, the entity engaged an independent expert to measure tangible fixed assets at fair value as at the IFRSs adoption date and recognised the value as deemed cost as at that date. The Management Board of the Company expects to complete the process yet in 2005, which will ensure application of all IFRSs required for 2005 statutory reporting before the year end. According to the Board, the projected effect of potential adjustments related to compliance with the above requirements will not impact significantly the assets, equity or the Group results for the second quarter 2005.
In accordance with IAS 16, the Group has commenced the process aiming to ensure that all significant items of property, plant and equipment, of different economic useful life or depreciation method, be identified for relevant depreciation rates. The Group plans to conclude the process before the end of 2005.

As at the date of preparation of condensed consolidated financial statements, the Group applied adoption provisions of IFRS 3 "Business Combinations" for conversion of comparative data as at 1 January 2004 (required by IFRS 1), as discussed below. The Group applied also exemptions contained in IFRS 1 for business combinations despite the fact that it did not fully complied with IFRS 1 requirements as at the date of preparation of these financial statements. In accordance with IFRS 3, if IFRS 1 requirements are not complied with in 2005, the Group should apply transitional provisions of IFRS 3 as from 1 January 2005. Consequently, if IFRS 1 requirements are not met before the end of 2005, the Group will make relevant adjustments to its opening balance sheet of 1 January 2005.

Goodwill resulting from business combinations which took place before 1 January 2004 was stated at the amount defined under the previous Generally Accepted Accounting Principles (Polish Accounting Standards, PASs) effective as at the IFRSs adoption date, i.e. on 1 January 2004.

The presented condensed consolidated financial statements are compliant with all IFRS requirements, except for IFRS 3, related to

31 March 2004, in accordance with the IFRS requirements.

The condensed consolidated financial statements were prepared assuming that the Group will continue to operate as going concerns in the foreseeable future. As at the approval date of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as going concerns.

## 2. Format and general principles for preparation of condensed consolidated and standalone balance sheets, condensed consolidated and standalone profit and loss statements, condensed statements of changes in consolidated and standalone equity and condensed consolidated and standalone cash flow statements

The condensed consolidated and standalone quarterly financial statements included in these consolidated quarterly statements were prepared in accordance with the International Financial Reporting Standards and in the scope required under the Regulation of the Council of Ministers of 21 March 2005 on current and periodical information presented by issuers of securities (Journal of Laws no. 49, item 463).
The statements comprise the period from 1 January to 30 June 2005 and the comparative period from 1 January to 31 June 2004.
The accounting principles applied by Polski Koncern Naftowy ORLEN S.A. and the PKN ORLEN S.A. Group changed as of 1 January 2005. The foregoing document follows the applied accounting policy.

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## 3. Adopted accounting principles and policy

In the presented reporting period the Company and the Group introduced changes to the respective accounting principles applied by the Company and the Group for 2004 statutory reporting. The changes concern adoption of the International Financial Reporting Standards as from 1 January 2005 in accordance with the decision of the General Shareholders' Meeting of PKN ORLEN S.A. of 30 December 2004.
The last consolidated annual financial statements prepared by the Company were the annual statements for the period of 12 months ended 31 December 2004 prepared in compliance with the Polish Accounting Standards. The accounting principles applied in these financial statements are discussed below.

An impact on the previously published results, related with the adoption of the IFRSs is presented in Note XVII of these statements.
The Group applied the following exemptions from IFRS 1:
- statement of tangible fixed assets at fair value and use of the fair value as deemed cost defined as at adoption of the IFRSs – the Company included in these statements an initial measurement of tangible fixed assets at fair value as discussed under II.1,
- business combinations – the Company applied the exemption of IFRS 1 for business combinations which had taken place before 1 January 2004, as discussed in detail under II.1.

For comparability of the presented financial data, the 2004 data compliant with the PASs were stated in accordance with the IFRSs.

### A. Accounting principles

#### Property Plant and Equipment

Property, plant and equipment, excluding land and immovable property treated as investment, are stated at cost which consists of acquisition cost and direct cost related to bringing the fixed asset for use as well as estimated cost of dismantling, removal of the asset and cost of restoration of the site/land regardless of the fact whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, fixed assets are depreciated and subject to impairment write-offs.

Tangible fixed asset items acquired after 31 December 1996 are stated at acquisition cost less to date depreciation and impairment write-offs.

Fixed assets acquired before 1 January 1997 are stated at fair value defined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment loss. Fixed assets acquired before 1 January 1997 are stated in these condensed consolidated financial statements at acquisition or construction cost considering revaluation and decreased by depreciation and impairment.

The cost of current maintenance of fixed assets impact the financial result for the period when incurred.

Cost of significant repair and regular maintenance programme are regarded as tangible fixed assets and depreciated in accordance with their economic useful life.

Fixed assets are depreciated in accordance with the straight line method over the period reflecting their estimated economic useful life, considering the residual value. Correctness of the applied periods and depreciation rates is verified once a year, and respective adjustments are made to the subsequent periods depreciation. Particular components of fixed assets which value is material for the whole fixed asset are depreciated separately in accordance with their economic useful life.

The Company makes estimates of the residual value of fixed assets. The residual value is a net amount which the Company would currently obtain from disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition at the end of their useful life.
The residual value is not subject to depreciation and is verified once a year.

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The Company applies the following periods of economic useful life of fixed assets:

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machines and equipment | 3-25 years |
| Vehicles and other | 4-17 years |

The assets of the estimated useful life not exceeding one year and of the initial cost not exceeding PLN 3.5 thousand are recognised as cost once at their acceptance for use.

If there have been events or changes which indicate a risk that the carrying amount of fixed assets may not be recovered, the assets are analysed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount. The recoverable amount of fixed assets reflects the higher of net selling cost and useful value.
Impairment write-offs are recognised as operating cost in the profit and loss.

**Finance lease**

A lease contract, under IAS 17, is regarded as finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which comply with the above defined criteria are regarded as fixed assets and recognised at the lower of fair value of the leased asset at commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets are consistent with normal depreciation policy applied for the Company's owned similar assets and recognised depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain a title to the asset before the end of the lease term, a given item is depreciated over the shorter of the lease term and term of economic use.

Assets leased out on the basis of lease, tenancy, rental or similar contracts complying with the above discussed finance lease criteria are treated as long-term receivables and stated at net lease investment value.

**Goodwill**

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by accumulated impairment losses.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortised.

**Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

If the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and measurement of the cost of the combination;
- recognises immediately in the profit or loss any excess remaining after the reassessment in the period in which the combination was carried out.

**Intangible assets**

Intangible assets are recognised if it is probable that expected future economic benefits that are attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognised at fair value defined at the business combination.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortisation and impairment losses. Intangible assets are amortised by the straight line method over their estimated economic useful life. Correctness of the applied amortisation periods and rates is regularly tested, at least at the end of the reporting year, and potential adjustments to amortisation rates

Intangible assets of indefinite useful life are not amortised. Their value is decreased by potential impairment losses.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined in the contract for disposal of the title to the asset;
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful life for amortisation in case of intangible assets are:

| | |
|---|---|
| Acquired licenses, patents, and similar intangible assets | 2-15 years |
| Acquired computer software | 2-10 years |

The Company recognises perpetual usufruct of land obtained under an administrative decision at fair value, which is an estimated cost at acquisition less impairment losses. The process allowed the Company to define the fair value of those rights which amounts to PLN 904,467 thousand. The Company will follow the final interpretation on recognition and presentation of perpetual usufruct of land in the financial statements, after it is obtained.

Except for development, all intangible assets generated by the Company are not recognised as assets and stated in the profit and loss for the period when the related cost has been incurred.

Intangible assets with indefinite useful life and intangible assets which have not been used yet are tested for impairment once a year.
Other intangible assets are tested for impairment only if there are indications that their carrying amount may be irrecoverable. If there are indications for impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or related cash-generating units are revalued to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

**Investment property**

Initially investment property is recognised at acquisition cost considering transaction costs. After initial recognition investment property is presented at fair value. Gains or losses resulting from changes in fair value of investment property are presented in the profit and loss when incurred.

Investment property are derecognised at its disposal or when the property is permanently withdrawn from use and no future economic benefits are expected at its disposal. Any gains or losses arising from derecognition of the investment property are recognised in profit or loss in the period of derecognition. As at the date of preparation of these condensed consolidated financial statements, the Group possessed no investment property.

**Inventories**

Inventories are measured at the lower of cost and net realisable value, considering any write-downs. The net realisable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated costs necessary to make the sale.
Cost is determined based on weighted average costs formula. In case of finished goods, cost comprises relevant assignment of fixed and variable indirect costs defined for ordinary production level, excluding cost of external financing.

**Trade and other receivables**

Trade receivables are recognised when they arise at the present value of the foreseeable proceeds and stated in the subsequent periods at amortised cost less allowances for doubtful receivables.
Bad debts are stated in the profit and loss when their uncollectibility is established.

**Cash and cash equivalents**

Cash comprises cash on hand and bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less unrepaid loans at current accounts, if they form an integral part of an entity's cash management.

**Revenue from sale**

Revenue from sale is recognised when it is probable that the economic benefits associated with the sale transaction will flow to the entity and the amount of revenue can be measured reliably. The revenue on sale of finished goods and merchandise is recognised after deducting

transferred. Revenue from settlement of cash flow hedge instruments adjust the revenue on sale.

The revenue is measured at fair value of the received or due payment.

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**Revenue from dividends**

Dividends are recognised when the shareholder's right to receive payment is established

**Equity**

Equity is stated in accounting books by kind, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in compliance with the Company's Articles of Association and an entry in the Commercial Register.
The stated yet outstanding contributions to the share capital are recognised as outstanding share capital contributions. Own shares and outstanding contributions to the share capital decrease the Company's equity.
Share premium is created from surplus of issuance value above their nominal value decreased by the issuance cost.
Issuance costs incurred by setting up stock exchange company or increasing share capital decrease share premium to the amount of surplus of issuance value over nominal value and the remaining part of them is presented in other capital reserves.
Changes of fair value of cash flows hedges in their portion regarded as effective hedge are stated through equity as hedge accounting reserve.

Equity resulting from convertible bonds, liabilities and loans into shares is stated at par value of those financial instruments, liabilities and loans, considering non-amortised discounts or premiums, interest accrued before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve capital, the undistributed income from prior periods and the current period net income are presented in the financial statements as retained earnings.

**Loans and borrowings**

Loans are initially stated at fair value of obtained proceeds less the transaction costs. They are subsequently recognised at amortised acquisition cost in line with the effective interest method. The difference of net proceeds and the buyout amount is recognised as financial revenue or cost over the loan or borrowing term.

**External financing costs**

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are stated when incurred in accordance with a model approach of IAS 23 as profit and loss.

**Retirement benefits and jubilee bonuses**

Under the Group companies' remuneration plans, their employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined period of their employment. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average salary. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group makes a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits belong to post-employment benefit plans. The present amount of those liabilities at each balance sheet date is estimated by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and concern the period before the balance sheet date. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognised in the profit and loss.

**Foreign currency transactions**

Transactions denominated in or requiring settlement in a foreign currency are recognised after their translation to the functional currency, i.e. Polish New Zlotys, at the exchange rate effective on the transaction date. Monetary assets and liabilities expressed in foreign currencies are stated at the National Bank of Poland average foreign exchange rates announced at the balance sheet date. Gains and losses resulting from changes in foreign exchange rates after the transaction date are recognised as financial income or costs in the profit and loss. The exchange differences are stated in the profit and loss at their net amount.

**Financial instruments**

has a possibility to hold to maturity date. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value, the change in which is recognised through income statement.
All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

Financial investments held to maturity are part of long-term assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets at fair value, the change in which is recognised in the income statement, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Acquisition and sale of financial assets are recognised as at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.
Financial assets at fair value, the change of which are recognised through the income statement, are measured at fair value without deduction of the transaction costs and considering their market price as at the balance sheet date. The change in fair value of those financial assets, is recognised as financial revenues and costs.
Financial assets held to maturity are measured at the amortised acquisition cost using the effective interest rate.

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Financial assets available for sale are recognised at fair value, without deduction of the transaction costs, and considering their market price as at the balance sheet date. If the financial instruments are not traded on the active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment losses.

Positive and negative differences between fair value and acquisition cost, less deferred tax, of financial assets available for sale are reflected in revaluation reserve, if there is a market price defined on the regulated active market or which fair value may be estimated by some other reliable method. Decrease in value of financial assets available for sale due to impairment losses is charged to financial costs in the income statement.

Granted loans are presented at amortised cost.

Derivatives which are not designated as hedging instruments and are classified as financial assets or liabilities at fair value, which change is recognised through the income statement, are stated at fair value recognising its changes in the income statement.

Derivatives treated as cash flow hedge instruments are stated at fair value, considering its changes, in the following way:
- the portion determined to be effective hedge is recognised directly in equity through the statement on changes in equity;
- the portion determined to be ineffective hedge is recognised in the income statement;
- revenues or expenses on settlement of cash flow hedging instruments adjust revenues on sale when recognised in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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 realization 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 recognised in net profit or loss.

Embedded derivatives are accounted for in a similar way as separate derivatives which are not designated as hedging instruments.

Financial instruments are not presented in the financial statements if the titles and control resulting from the underlying contracts are lost. It usually takes place at disposal of the financial instrument or when all related cash flows are transferred to a third party.

Derivatives used by the entity in order to hedge against foreign exchange risks comprise mainly forwards. Such instruments are measured at fair value.
Fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.

In hedge accounting, hedges are classified as cash flow hedges against cash flow changes which are attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognised asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined as effective hedge is recognised directly in equity and the ineffective portion of the gain or loss is recognised in income statement.
The gain or loss from re-measuring of the derivative hedging instrument at fair value that do not comply with criteria for hedge accounting is recognised directly in income statement.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such case, total gain or loss on the hedging instrument, previously recognised in equity, is still presented in equity until the forecast transaction date. If the Company no longer expects the forecast transaction will take place, the total recognised net gain or loss are presented in the financial result of the current period.

**Corporate income tax**

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured by balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

base will be sufficient for deduction of those differences.

Deferred tax liabilities are recognised for all temporary tax differences.

Deferred tax assets and liabilities are recognised irrespective of their date of realization.
Deferred tax assets and liabilities are not discounted and they are accounted for as fixed assets or long-term liabilities in the balance sheet.

**Non-current assets classified for disposal/sale**

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Non-current assets classified for sale are those which comply with the following criteria:

- its disposal was declared by the Management Board of the Company;
- assets are available for an immediate sale in their present condition;
- active searching for a potential acquirer has been initiated;
- the sale transaction is highly probable and could be settled over 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets are introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the event. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset at its designation for sale.

Assets designated for sale are measured at the lower of the net carrying amount and fair value less selling cost.

**Earnings per share**

Basic earnings per share for each period are calculated by dividing a net profit for a given period by the weighted average number of shares in that period.

Diluted earnings per share for each period is calculated by dividing net profit for a given period adjusted by changes of the profit resulting from conversion of potential ordinary shares by the weighted average number of shares.

**Provisions**

The Group makes provisions if it has such an obligation, required by law or custom, resulting from prior events and if it is probable that fulfilment of this obligation will cause outflow of resources embodying economic benefits and if the obligation may be reliably measured.
The amount of provisions is tested as at the balance sheet date in order to make adjustments to relevant estimates as at that date.
If the effect of time value of money is material, the amount of the provision is the present value of the expenditure expected to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as external financing costs.

**Provisions for environment protection**

The Group makes provisions for future expenses on reclamation of contaminated land or elimination of harmful substances if there is such legal or customary obligation. The amount of the provision for reclamation is reviewed regularly based on reports by independent experts.
The Group conducts regular reclamation of contaminated land and related expenditure is offset against the provision.
The created provision reflects potential future expenses predicted to be incurred, estimated and verified periodically according to current prices.

**Government grants and assistance**

The government grants are recognised at fair value if there is reasonable assurance that grant will be obtained or the entity will comply with the conditions attaching to it. If the grant concerns a given cost item it is recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. If the grant concerns assets, its fair value is recognised as deferred income and subsequently on a systematic basis reduced in the profit and loss over the estimated useful life of the underlying asset.

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognised in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

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Contingent liabilities acquired by a business combination are recognised as liabilities in the balance sheet.

Contingent receivables are not recognised in the balance sheet however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

**Company's Board estimates**

The preparation of financial statements in accordance with the IFRSs requires the Management Board of the Company to make relevant estimates and assumptions that affect the amounts reported in the financial statements and the explanatory notes to these financial statements. Actual results may differ from those estimations.

**Application of accounting principles**

The above accounting principles are applicable to comparative data, except for those applied to assets classified as held for sale, which have been effective from 1 January 2005.

**B. Consolidation methods**

**Subsidiaries**

The Group consolidated financial statements comprise Polski Koncern Naftowy ORLEN S.A. and entities under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of votes in a certain entity or is able to govern the financial and operating policies of the enterprise so as to benefit from the results of its activity. The share attributable to minority interest is recognised in equity. The net profit attributable to the minority interest is presented in the profit and loss.
The acquisition method is applied at acquisition of shares in business entities. Entities acquired or disposed during the reporting year are presented in the consolidated financial statements from the acquisition date or to the date of disposal respectively.

**Investments in associated entities**

Investments in associated entities (overall 20% to 50% of an entity's share capital) where the Group executes significant influence are accounted for under equity method. An assessment of the carrying value of investments in associates is performed when there is an indication that impairment loss occurred or the impairment losses recognized in prior years are no longer required.

**Investments in jointly controlled entities**

Investments in jointly controlled entities, where joint control is exercised by the Group, are accounted for under proportionate consolidation method whereby proportional share in assets, liabilities, income and expenses of a jointly controlled entity, after elimination of effects of mutual transactions and settlements, is presented position after position with similar positions in the consolidated financial statements.

**4. Methods adopted for translation of financial data into EURO**

Financial records denominated in EURO were translated in accordance with the following method:

- particular assets and liabilities – at the National Bank of Poland average PLN/EURO exchange rate for 30 June 2005, i.e. PLN 4.0401/ 1 EURO; and for 31 December 2004 at PLN 4.0790/ 1 EURO;
- particular profit and loss and cash flow positions – at the average of all exchange rates defined by the National Bank of Poland as at the last day of each month in the period from 1 January 2005 to 30 June 2005, i. e. PLN 4.0805/ 1 EURO. For the period from 1 January 2004 to 30 June 2004 the rate was PLN 4.7311/ 1 EURO.

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### 3.1. Property, plant and equipment

| | 30 June 2005 (unaudited) | 31 December * 2004 (unaudited) | 30 June* 2004 (unaudited) |
|---|---|---|---|
| Land | 360,951 | 389,074 | 395,141 |
| Buildings and constructions | 5,388,993 | 5,404,153 | 5,423,079 |
| Machinery and equipment | 3,050,934 | 3,000,651 | 3,215,331 |
| Vehicles and other | 426,179 | 338,974 | 341,783 |
| Construction in progress | 2,090,683 | 1,948,279 | 1,397,433 |
| **Total** | **11,317,740** | **11,081,131** | **10,772,767** |

*The data were changed with respect to previously published records due to changes introduced to accounting principles and policy as a result of adoption of the IASs as from 1 January 2005:

| | 31 December 2004 | 30 June 2004 |
|---|---|---|
| Previously published information on consolidated tangible fixed assets in accordance with the PASs | 9,367,686 | 9,318,167 |
| Valuation of fixed assets at fair value | 1,119,045 | 1,201,526 |
| Change of the BOP consolidation method from equity method to proportionate method | 603,057 | 345,336 |
| Reclassification of catalysts | 71,343 | 79,751 |
| Reclassification of precious metals | 59,205 | 54,211 |
| Reclassification of fitout cost of dealer-owned stations network | 53,553 | 59,193 |
| Reclassification of prepayments for fixed assets | (27,915) | (122,957) |
| Recognition of perpetual usufruct of land as intangible assets | (35,717) | (28,991) |
| Derecognition of capitalised financial expenses | (63,745) | (68,088) |
| Impairment loss recognized on ORLEN Deutschland AG fixed assets | (65,381) | (65,381) |
| Consolidated fixed assets in accordance with IFRS | 11,081,131 | 10,772,767 |

| | 31 December 2004 | 30 June 2004 |
|---|---|---|
| Previously published consolidated information on depreciation in accordance with the PASs | 1,116,658 | 570,676 |
| Valuation of fixed assets at fair value | 168,783 | 77,901 |
| Change of the BOP consolidation method from equity method to proportionate method | 32,731 | 16,345 |
| Reclassification of fitout cost of dealer-owned stations network | 13,055 | 7,415 |
| Recognition of perpetual usufruct of land as intangible assets | (9,840) | (4,892) |
| Adjussted depreciation presented in consolidated comparative data in accordance with IFRS | 1,321,387 | 667,445 |

Due to the unfinalized process of fair value measurement at tangible fixed assets acquired before 1 January 1997, a complete fixed assets movements schedule with relevant adjustments will be presented in the financial statements for the 1st half of 2005.
Basing on an initial valuation report prepared by an independent expert, these preliminary condensed consolidated financial statements present adjusted tangible fixed assets in the reporting period and in comparative periods. Valuation covered 90 % of the Group of net fixed assets and was carried out in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment".

### 3.2. Short-term investments

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Cash on hand and in bank | 738,193 | 676,737 | 807,948 |
| Other short-term investments | 98,850 | 59,076 | 113,359 |
| **Total** | **837,043** | **735,813** | **921,307** |

As at 30 June 2005, 31 December 2004 and 30 June 2004 cash on hand and in bank denominated in foreign currencies amounts to PLN 445,064 thousand, PLN 482,142 thousand and PLN 651,398 thousand respectively.

The concentration of credit risk related to cash and cash equivalents is limited as the Group invests its cash at recognised financial institutions.

In accordance with the Polish law, the Group entities registered in Poland manage the entity's Social Fund on behalf of their employees. The contributions paid to the Social Fund are deposited in separate bank accounts and cannot be used for their operating activity. As at 30 June 2005, 31 December 2004, and 30 June 2004 cash relating to the Social Fund account amounted to PLN 31,023 thousand, PLN 28,979 thousand and PLN 35,105 thousand, respectively. The receivables related to borrowings from the Social Fund drawn by employees as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 21,195 thousand, PLN 23,886 thousand and PLN 26,777 thousand, respectively. Liabilities related to the Social Fund as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 45,688 thousand, PLN 35,245 thousand and PLN 45,195 thousand, respectively and were recognised as a part of trade and other liabilities.

Apart from the above presented amounts related to the Social Fund, cash and cash equivalents, which availability is limited as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 70,374 thousand, PLN 247,263 thousand and PLN 85,241 thousand respectively.

### 3.3. Impairment of assets

#### 3.3.1. Impairment of tangible fixed assets

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 216,870 | 98,273 |
| Additions in 1 April – 30 June | - | 11,841 |
| Disposals in 1 April – 30 June | (4,788) | (6,645) |
| Closing balance as at 30 June | 212,082 | 103,469 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 235,825 | 89,823 |
| Additions in 1 January – 30 June | 3,056 | 25,060 |

### 3.3.2. Impairment of construction in progress

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 42,712 | 40,748 |
| Additions in 1 April – 30 June | - | 7,897 |
| Disposals in 1 April – 30 June | (354) | (4) |
| Closing balance as at 30 June | 42,358 | 48,641 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 46,526 | 45,246 |
| Additions in 1 January – 30 June | - | 7,897 |
| Disposals in 1 January – 30 June | (4,168) | (4,502) |
| Closing balance as at 30 June | 42,358 | 48,641 |

### 3.3.3 Impairment of intangible assets

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 8,034 | 201 |
| Additions in 1 April – 30 June | 285 | - |
| Disposals in 1 April – 30 June | (225) | - |
| Closing balance as at 30 June | 8,094 | 201 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 8,292 | 196 |
| Additions in 1 January – 30 June | 285 | 5 |
| Disposals in 1 January – 30 June | (483) | - |
| Closing balance as at 30 June | 8,094 | 201 |

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 78,404 | 71,174 |
| Additions in 1 April – 30 June | - | 5,714 |
| Disposals in 1 April – 30 June | (5,672) | (406) |
| Closing balance as at 30 June | 72,732 | 76,482 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 78,370 | 71,389 |
| Additions in 1 January – 30 June | 63 | 5,714 |
| Disposals in 1 January – 30 June | (5,701) | (621) |
| Closing balance as at 30 June | 72,732 | 76,482 |

### 3.3.5. Receivables allowances

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 475,078 | 312,313 |
| Additions in 1 April – 30 June | 32,502 | 22,115 |
| Disposals in 1 April – 30 June | (32,922) | (17,254) |
| Closing balance as at 30 June | 474,658 | 317,174 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 474,235 | 317,072 |
| Additions in 1 January – 30 June | 52,859 | 31,329 |
| Disposals in 1 January – 30 June | (52,436) | (31,227) |
| Closing balance as at 30 June | 474,658 | 317,174 |

### 3.3.6. Inventory allowances

In the 2nd quarter 2005 the Group reduced the inventory allowances by PLN 1,151 thousand, cumulative in two quarters of 2005 the inventory allowance was reduced by PLN 5,302 thousand. In the 2nd quarter 2004 the Group increased the inventory allowances by PLN 5,088 thousand, and cumulative in the two quarters of 2004 by PLN 7,359 thousand.

### 3.4. Provisions

### 3.4.1. Deferred tax liabilities

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 370,332 | 462,440 |
| Additions in 1 April – 30 June | 127,461 | 2,654 |
| Disposals in 1 April – 30 June | (121,332) | (39,921) |
| Closing balance as at 30 June | 376,461 | 425,173 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 378,248 | 464,439 |
| Additions in 1 January – 30 June | 159,428 | 55,659 |
| Disposals in 1 January – 30 June | (161,215) | (94,925) |
| Closing balance as at 30 June | 376,461 | 425,173 |

### 3.4.2. Jubilee and retirement provision

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 197,924 | 160,512 |
| Additions in 1 April – 30 June | 7,750 | 24,786 |
| Disposals in 1 April – 30 June | (8,595) | (12,627) |
| Closing balance as at 30 June | 197,079 | 172,671 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 197,446 | 160,843 |
| Additions in 1 January – 30 June | 8,977 | 28,294 |
| Disposals in 1 January – 30 June | (9,344) | (16,466) |
| Closing balance as at 30 June | 197,079 | 172,671 |

| **Data for 2nd quarter 2005** | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.04.2005 | 493,497 | 70,000 | 89,805 | 80,525 | 733,787 |
| Increase in 1.04.2005 – 30.06.2005 | 362 | 54,187 | 376,164* | 16,262 | 446,975 |
| Decrease in 1.04.2005 – 30.06.2005 | (10,567) | - | (1,610) | (28,487) | (40,664) |
| Balance as at 30.06.2005 | 483,252 | 124,187 | 464,359 | 68,300 | 1,140,098 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

| **Cumulative data for two quarters 2005** | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2005 | 496,665 | 70,000 | 87,982 | 69,038 | 723,685 |
| Increase in 1.01.2005 – 30.06.2005 | 362 | 54,187 | 378,864* | 28,114 | 461,527 |
| Decrease in 1.01.2004 – 30.06.2005 | (13,775) | - | (2,487) | (28,852) | (45,114) |
| Balance as at 30.06.2005 | 483,252 | 124,187 | 464,359 | 68,300 | 1,140,098 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

| | | provisions | | | |
|---|---|---|---|---|---|
| Balance as at 1.04.2004 | 410,915 | - | 21,659 | 41,121 | 473,695 |
| Increase in 1.04.2004 – 30.06.2004 | 36,560 | - | 32,507 | 6,906 | 75,973 |
| Decrease in 1.04.2004 – 30.06.2004 | (4,413) | - | - | (6,803) | (11,216) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

| **Cumulative data for two quarters 2004** | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2004 | 411,848 | - | 21,812 | 41,288 | 474,948 |
| Increase in 1.01.2004 – 30.06.2004 | 36,574 | - | 32,507 | 7,087 | 76,168 |
| Decrease in 1.01.2004 – 30.06.2004 | (5,360) | - | (153) | (7,151) | (12,664) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

### 3.5. Goodwill

| | **30 June 2005** | **31 December 2004** | **30 June 2004** |
|---|---|---|---|
| | **(unaudited)** | **(unaudited)** | **(unaudited)** |
| ORLEN PetroTank Sp. z o.o. | 11,298 | 11,298 | 11,298 |
| Ship Service S.A. | 6,645 | 6,645 | 6,645 |
| PetroProfit Sp. z o.o. | 1,175 | 1,175 | 1,175 |
| Other | 1,383 | 1,383 | 1,015 |
| **Total** | **20,501** | **20,501** | **20,133** |

As at 1 January 2004 excess of fair value of identifiable assets, liabilities and contingent liabilities over the acquisition cost in comparative data was derecognised from liabilities simultaneously increasing the opening balance of the retained earnings in the amount of PLN 301,369 thousand.

### 3.6. Dividends

On 29 June 2005, the Company's General Shareholders' Meeting adopted a resolution to pay a dividend from the net profit of 2004 in the amount of PLN 911,020,299.91. The date of payment was defined in the following way:
- the first instalment of PLN 457,648,695.27, giving PLN 1.07 per share, will be paid on 1 September 2005;
- the second instalment of PLN 453,371,604.64, giving PLN 1.06 per share, will be paid on 1 December 2005.

### 3.7. Loans and borrowings

| | **30 June 2005** | **31 December 2004** | **30 June 2004** |
|---|---|---|---|
| | **(unaudited)** | **(unaudited)** | **(unaudited)** |
| Bank loans | 2,749,556 | 2,300,971 | 2,529,479 |
| Other loans and borrowings | 18,802 | 24,164 | 30,212 |
| Short-term debenture | - | - | 74,742 |
| Total including: | 2,768,358 | 2,325,135 | 2,634,433 |
| Short-term | 615,240 | 241,599 | 665,282 |

The value of loans and borrowings drawn by the Group increased net by PLN 443 million in the period of 6 months ended 30 June 2005. The change in indebtedness level results mainly from:

- loans drawn in PLN:
  103,044 thousand from Societe Generale Bank Consortium as a Leading entity
  169,081 thousand from Bank Pekao S.A.
  143,578 thousand from PKO BP S.A.
  17,587 thousand from BPH PBK S.A.
  149,768 thousand from BH w Warszawie S.A.
  7,555 thousand from BRE Bank S.A.
  3,019 thousand from Kredyt Bank
- PLN 72,401 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- repayment of loans in PLN:
  51,835 thousand to PKO BP S.A.
  36,716 thousand to BPH PBK S.A.
  17,064 thousand to BH SA.
  75,898 thousand to ING Bank Œl'ski S.A.
- PLN 9,360 thousand resulting from foreign exchange differences at BOP
- repayment of loans to German entities:
  EUR 2,640 thousand.

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### 3.8. Cost by kind

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Materials and energy | 6,868,544 | 3,599,780 | 5,562,217 | 2,967,171 |
| Cost of merchandise and materials sold | 4,727,423 | 2,529,902 | 4,911,240 | 2,651,662 |
| External services | 820,455 | 450,682 | 860,955 | 470,896 |
| Payroll, social security and other employee benefits | 506,417 | 248,919 | 560,753 | 300,519 |
| Depreciation* | 575,412 | 280,569 | 667,445 | 326,610 |
| Taxes and charges | 158,774 | 67,026 | 125,239 | 41,028 |
| Other | 689,803 | 584,934 | 435,126 | 366,223 |
| | 14,346,828 | 7,761,812 | 13,122,975 | 7,124,109 |
| Adjustments: | | | | |
| Change in inventory and prepayments | (341,707) | 130,029 | (239,510) | (159,645) |
| Cost of products and services for own use | (69,270) | (49,244) | (31,151) | (9,018) |
| Operating costs | 13,935,851 | 7,842,597 | 12,852,314 | 6,955,446 |

* The decrease of depreciation cost for the 6 months ended 30 June 2005 as compared to the same period of 2004 is attributable to th depreciation periods of tangible fixed assets starting from 1 January 2005, as a result of revision of previously assigned useful lives.

### 3.9. Net financial revenues and expenses

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Interest paid | (60,599) | (37,433) | (61,240) | (28,805) |
| Negative foreign exchange surplus | (130,687) | (95,219) | (19,074) | - |
| Interest received | 62,842 | 29,195 | 15,761 | 9,191 |
| Positive foreign exchange surplus | 8,818 | 1,414 | 55,212 | 105,649 |
| Gains on trade in shares and other securities | 32,957 | 32,692 | 7,711 | 6,676 |
| Dividends received | 90,427 | 85,934 | 68,216 | - |
| Other* | 239,240 | 247,659 | (3,949) | 11,434 |

*including unrealized discount on purchased receivables due from Unipetrol Group companies of PLN 204,532 thousand

### 3.10. Corporate Income Tax

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Current tax | (377,757) | (212,915) | (261,556) | (165,414) |
| Deferred tax | 16,627 | (6,556) | 23,360 | 29,338 |
| **Total** | **(361,130)** | **(219,471)** | **(238,196)** | **(136,076)** |

The PKN ORLEN Group is not a tax group, and therefore each of the entity in the PKN Orlen group settles separately its corporate income tax.

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| | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Weighted average amount of issued ordinary shares | 427,709,061 | 427,709,061 | 427,709,061 | 427,709,061 |
| Net earnings per share (in PLN) for the period | 3.08 | 1.63 | 2.06 | 1.29 |

There is no difference between basic earnings per share and diluted earnings per share.

## IV. CIRCUMSTANCES AND EVENTS, IN PARTICULAR OF NON-STATDARD NATURE, WHICH HAVE SIGNIFICANT IMPACT ON FINANCIAL RESULTS

During the six-month period ended 30 June 2005 the following significant events influencing the information presented in these preliminary condensed consolidated financial statements:

### 1. Acquisition of Unipetrol

On 24 May 2005 PKN ORLEN acquired 114,224,038 bearer shares in Unipetrol a.s., which is about 62.99% of all issued and existing Unipertol a.s. shares.

| Effect on acquisition of 62.99 % of UNIPETROL shares | |
|---|---|
| Initial acquisition price (increased by acquisition cost) before the final settlement of the transaction in PLN billion | 1.6 |
| Value of 62.99 % of equity as of 30 May 2005 after conversion to PLN billion at the exchange rate effective for that date* | 3.2 |
| Excess value of acquired assets over total acquisition price in PLN billion | 1.6 |

*Net equity of consolidated equity of the Unipetrol Group measured in accordance with the Unipetrol Group balance sheet prepared in line with IFRSs without considering fair value of acquired assets

The total excess value of the acquired assets over acquisition price, to be established in the course of the initiated measurement processes, will be recognised in the income of the period when the acquisition was concluded.

On 24 May 2005 PKN ORLEN acquired receivables of certain entities of the Unipetrol Group ("Receivables") which nominal value as at 1 April 2004 amounted to ca. CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition price of Receivables amounted to CZK 1.7 billion (ca. PLN 234,940,000 as at 23 May 2005).
The accompanying financial statements presents the effect of the unrealised discount of the acquired Receivables of PLN 204 million and 33 million of realised financial revenue as a discount and accrued interest.

Receivables were acquired under contracts concluded by PKN ORLEN on 4 June 2004 with Ceska Konsolidacni Agentura ("CKA"). Receivables were acquired as a result of contracts concluded on 24 May 2005.

### 2. Recognition of Unipetrol acquisition in the consolidated financial statements

The Unipetrol Group will be consolidated starting from the 2nd quarter and 1st half of 2005 reports, which the Company shall publish on 29 September 2005. Currently, for the first consolidation purposes, Unipetrol assets are being valued in order to define the acquisition impact in accordance with IFRS 3 "Business combinations".
These financial statements disclose the acquisition 62.99% Unipetrol shares as financial assets at the initial acquisition price.
Under the acquisition contract, certain procedures are being carried out to establish the final acquisition price, which involve audits of financial statements aiming at determination of the acquisition price of Unipetrol shares. The final acquisition price may differ from the currently presented.

### 3. Assets and liabilities sales agreement relating to Unipetrol shares acquisition

In 2003-2004, the former PKN ORLEN Board concluded a number of agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. relating to assets and liabilities sales of Unipetrol Group.
The present Managemennt Board of the Company, having analysed all consequences resulting from the above agreements and having consulted recognised independent experts, adopted and presented to the Supervisory Board a strategy assuming minimum negative impact for shareholders and Company related to execution of the agreements. As a consequence Management Board is exchanging formal correspondence with Agrofert Holding a.s. and ConocoPhillips and Unipetrol concerning the way of executing of the agreements obligations. Therefore the Management Board of PKN Orlen cannot disclose detailed information concerning the agreements.
As a consequence of the above mentioned agreements, PKN ORLEN created provisions to cover potential negative financial effects

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## Geographical segments

The below table presents the Group consolidated sales by geographical segments for the period of 6 and 3 months ended 30 June 2005 and 30 June 2004.

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| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| **1. Contingent assets** | **10,232** | **-** | **-** |
| 1.1. related parties | - | - | - |
| 1.2. other parties | 10,232 | - | - |
| **2. Contingent liabilities** | **1,974,293** | **1,360,697** | **1,534,299** |
| 2.1. related parties, ncluding | 1,536,705 | 1,232,941 | 1,412,127 |
| - consolidated entities | 993,322 | 915,231 | 1,098,719 |
| 2.2. other parties | 437,588 | 127,756 | 131,172 |
| **3. Other** | **62,730** | **76,687** | **14,940** |
| **TOTAL** | **2,047,255** | **1,437,384** | **1,558,239** |

Additional information concerning significant proceedings in front of the court, body appropriate for arbitrage proceedings or in front of public administration bodies and on other risks of the Company and its related parties are presented in Note X.

## VII. SIGNIFICANT EVENTS IN THE PERIOD FROM 1 APRIL 2005 TO THE DATE OF THIS REPORT, PRESENTED IN CURRENT REPORTS

1. On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "PrzyjaŸñ" S.A. ("PERN"), the buyer, for sale of 24 shares in the nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which constituted as at the agreement date 30.77% of the share capital of Przedsiêbiorstwo Przê³adunku Paliw P³ynnych "Naftoport" Sp. z o.o. ("Naftoport").

After the sale of shares PKN ORLEN holds 17.95% in Naftoport share capital. Other shares are held by:

a. PERN "PrzyjaŸñ" S.A. 67.95%
b. Grupa LOTOS S.A. 8.97%
c. Port Pó³nocny 3.85%
d. J & S Services Ltd. 1.28%

2. PKN ORLEN announced that on 24 May 2005 it acquired:

1) 114,224,038 bearer shares at Unipetrol a.s., of nominal value of CZK 100 each ("Unipetrol Shares"), which is about 62.99% of all issued and existing Unipetrol a.s ("Unipetrol") stock. The total acquisition cost of Unipetrol Shares amounted to CZK 11,303,886,660 (about PLN 1,562,197,136 as at 23 May 2005);

2) 745,000 bearer shares at Spolana a.s. of nominal value of CZK 655 each ("Spolana Shares"), which is 9.76% of the share capital of Spolana a.s. The total acquisition cost of Spolana Shares amounted to CZK 1.0 million (about PLN 138,200 as at 23 May 2005);

3) receivables from some of the Unipetrol Group entities ("Receivables"), which approximate nominal value as at 1 April 2004 amounted to CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of Receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).

The acquisition of Unipertol Shares, Spolana Shares and Receivables are financed in 90% by PKN ORLEN own financial resources and in 10% from available credit limits.

Acquisition of Unipertol and Spolana Shares is PKN ORLEN's long-term investment.

The transaction will strengthen PKN ORLEN market position as one of the largest companies of the oil and petrochemical sector in the Central and Eastern Europe. Moreover, it places PKN ORLEN as one of the consolidation leaders in the region.

After acquisition of Unipetrol Shares, under the law of the Czech Republic, PKN ORLEN shall make a mandatory public call for minority shareholders in Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.).

PKN ORLEN intends to restructure the Unipetrol Group. The general assumptions underlying the projected restructuring were announced in the current report no. 41/2004 of 4 June 2004.

3. On 24 May 2005 PKN ORLEN was informed that FMR Corp. with direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited with direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, which is 5.01% of the share capital, and gives title to 21,436,944 votes at the general meeting and 5.01% of the total votes at PKN ORLEN General Meeting.

4. On 1 June 2005 the District Court in Warsaw, XV Commercial Department, dismissed a suit, acting in the case Bengodi Finance Spó³ka Akcyjna against PKN ORLEN, on invalidity of the resolution no. 14 of 5 August 2004, adopted by the Extraordinary General Meeting of PKN ORLEN, appointing Mr Jacek Bartkiewicz as President of PKN ORLEN Supervisory Board.

5. On 9 June 2005 the District Court in Warsaw, XV Commercial Department, acting in the case no. XV GC 378/04, acknowledged the suit Bengodi Finance Spó³ka Akcyjna and other plaintiffs against PKN ORLEN S.A. on invalidity of the resolution no. 1 of the General Meeting of PKN ORLEN S.A. of 28 June 2004 which amended the provision in Article 7 section 11 of the Company's Articles of Association concerning limitation of some shareholders' voting rights. The Court ruled the resolution was invalid. The judgement of the first instance court is not binding.

6. On 14 June 2005 PKN ORLEN issued corporate guarantees to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH for the total amount of EUR 64 million and a letter of collateral to Bayerische-Hypo und Vereinsbank AG for EUR 25 million in order to secure liabilities of its German subsidiary ORLEN Deutschland A.G. resulting from trade in fuel (total about PLN 359 million). The guarantees provided to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH shall replace the existing security granted by the Issuer on 4 January 2005 (*cf. Current report of 5 January 2005).* The guarantees and security are valid till 31 January 2006.

7. The Ordinary General Meeting of Polski Koncern Naftowy ORLEN Spó³ka Akcyjna, at the sitting on 29 June 2005 appointed to the Supervisory Board:

1. Mr Adam Sêk
2. Mr Andrzej Olechowski.

8. PKN ORLEN Supervisory Board at its sitting on 19 July 2005, acting upon a motion from the Minister of Treasury, in accordance with § 9 section 1 para. 3 of the Company's Articles of Association, as from 1 August 2005 appointed Mr Dariusz Witkowski as PKN ORLEN Board Member.

9. On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

Due to acquisition, on 24 May 2005, of shares entitling PKN ORLEN to 62.99% of votes at UNIPETROL, a.s. and 9.76% of votes at SPOLANA, a.s., PKN ORLEN is required to make mandatory public calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. ("Mandatory Calls").

PKN ORLEN authorised Patria Finance, a.s. to make the Mandatory Calls.
As in accordance with the Czech regulations, conditions for Mandatory Calls are subject to approval from the CSEC, the respective application was filed at the CSEC within the required period on 30 June 2005.

The prices offered by PKN ORLEN were: CZK 103 per one share of UNIPETROL, a.s., CZK 701 per one share of PARAMO, a.s. and CZK 100 per one share of SPOLANA, a.s.; the pricing was based on the DCF method, and performed by an independent Czech expert, NS Group.
The CSEC justified its decision claiming that the application was rejected mainly due to incorrect share pricing of the Czech expert, selected in September last year by PKN ORLEN in accordance with the Czech law.

Under the Czech law, PKN ORLEN should make calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. within the period ending 25 July 2005.
The Company will face the following consequences if the calls are not made within the above period:

1. Within 6 months from 25 July 2005 the minority shareholders may present PKN ORLEN with a bid for their shares at the price defined by the respective regulations.
2. After 25 July 2005 to the date of Mandatory Calls, PKN ORLEN and people authorised by it may not execute their title to vote resulting from their shares in UNIPETROL, a.s. and SPOLANA, a.s. Moreover, in the discussed period the CSEC may issue a ban for PKN ORLEN preventing it to benefit from any other rights to which it is entitled due to the held shares.
3. If the CSEC regards it necessary for protection of other shareholders, lenders or employees, it may decide to prohibit PKN ORLEN to execute its title to vote for one year.
4. The CESC may impose a fine on PKN ORLEN.

PKN ORLEN does not intend to appeal against the decision, yet to prepare a new application acknowledging recommendations contained in the CSEC decision. PKN ORLEN is also going to refer to the CSEC to withhold the ban on title to vote resulting from ownership of UNIPETROL and SPOLANA shares.

10. PKN ORLEN Board announces that on 12 August 2005 the Company reapplied to the Czech Securities and Exchange Commission for a permit to make Mandatory Calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s.

The previously filed applications were rejected by the CSEC due to an improper pricing method adopted by a independent Czech expert, NS Group. PKN ORLEN, acting in accordance with the best transparency standards, did all it could to prepare the new applications with due care and diligence and hopes that offered prices reflect the pricing methods required by the CSEC.

The CSEC issues its decisions within 8-13 working days form the application filing date.

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## VIII. SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY VIA RELATED PARTIES AT LEAST 5% OF THE TOTAL VOTES AT THE PARENT'S GENERAL MEETING AS AT THE DATE OF FILING THE REPORT

| Shareholder | % of votes at the GSM at the prior quarter report filing date * | Number of shares at the prior quarter report filing date * | Change of % in the period 15 April 2005 – 1 August 2005 | % of votes at GSM at the report filing date ** | Number of shares at the report filing date ** |
|---|---|---|---|---|---|
| Nafta Polska S.A. | 17.32% | 74,076,299 | - | 17.32% | 74,076,299 |
| State Treasury | 10.20% | 43,633,897 | - | 10.20% | 43,633,897 |
| The Bank of New York (holders of GDRs) | 12.28% | 52,516,140 | 0.12 | 12.40% | 53,034,562 |
| Other | 60.20% | 257,482,725 | (0.12) | 60.08% | 256,964,303 |
| Total | 100% | 427,709,061 | - | 100% | 427,709,061 |

* Data as at 15 April 2005
** Data as at 1 August 2005

In accordance with the current report no. 54/2003 filed on 4 July 2003, Commercial Union OFE BPH CU WBK as at 1 July 2003 held 21,533,539 shares of PKN ORLEN S.A., which is 5.035% (considering increase of PKN ORLEN S.A. share capital of 20 November 2003) of the total votes at the General Shareholders' Meeting of PKN ORLEN S.A.
In compliance with the current report no. 19/2005 filed on 7 March 2005, Commercial Union OFE BPH CU WBK on 2 March 2005 held 21,040,915 shares of PKN ORLENS.A., which is 4.92% of PKN ORLEN S.A. share capital.
In accordance with the current report no. 33/2005, filed on 25 May 2005, FMR Corp. with direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited with direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, which is 5.01% of the share capital, and gives title to 21,436,944 votes at the general meeting and 5.01% of the total votes at PKN ORLEN General Meeting.
The percentage participation of the above shareholders in the Company's share capital is compatible with the percentage of votes at the General Shareholders' Meeting as at this report filing date.

## IX. CHANGES IN THE NUMBER OF THE COMPANY'S SHARES HELD BY THE BOARD OF DIRECTORS AND SUPERVISORY BOARD IN ACCORDANCE WITH THE COMPANY'S RECORDS

**The number of shares held by the Board of Directors and Supervisory Board in the second quarter 2005:**

| | Number of shares, options as of the date of the prior quarter report filing * | Acquisition | Disposal | Increase due to changes in composition | Decrease due to changes in composition | Number of shares as at the date of report filing ** |
|---|---|---|---|---|---|---|
| Board of Directors | - | - | - | - | - | - |
| Supervisory Board | 2,950 | - | - | - | | 2,950 |

* Data as at 15 April 2005

## A. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF THE COURT, BODY APPROPRIATE FOR ARBITRAGE PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION BODIES AND ON OTHER RISKS OF THE COMPANY AND ITS RELATED PARTIES

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1. On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-June 2004 at about PLN 60 million. According to the Board of Directors of Rafineria Trzebinia S.A., the company possesses all necessary expertises confirming correctness of the applied classification of goods taxed with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and to suspend execution of the decision until the date of settling the matter in the court of second instance.
   On 5 May 2005, in reply to its motion, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.
   On 9 May 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.
   On 28 July 2005 the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary legal opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.
   On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and a motion to suspend execution of the decisions until the case would be decided by the second instance authority.
   As at the date of preparation of these preliminary condensed consolidated financial statements, the outcome of the above appeal was not known.

   Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorisation from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003.
   As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods were not known.

   On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and tax settlement to be summarised in "Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.". The 2000-2004 tax audit was completed and its results presented to the Supervisory Board.
   On 22 April 2005, having received the first stage report on control procedures, the Supervisory Board of Rafineria Trzebinia ordered the second detailed stage of the "Report on agreed upon procedures" which would involve an analysis of transactions in the selected areas of the company's activity. As at the date of these preliminary condensed consolidated financial statements the final outcome of the second stage control was not yet known.

2. In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in exchange for receivables from Tankpol. On 30 October 2003, a suit was filed at court against PKN ORLEN for compensation of PLN 69.898 thousand or return of the transferred shares. On 26 January 2004 Tankpol modified its claim and demanded PLN 36.383 thousand or return the transferred shares. Tankpol supported the suit with a new valuation of Petrotank for PLN 232.147 thousand. As a result of the proceedings, on 22 March 2005 the Court dismissed Tankpol Sp. z o.o. suit against which Tankpol appealed. In the view of the Management Board, based on an independent legal opinion, the final result of the dispute should not have a material impact on the presented financial results or settlements' balances.
3. On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111.5 million and was calculated as a sum of par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.
   On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.
   On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. The Company provided an allowance for receivable in the amount of PLN 111.5 million presented in the financial statements for the year 2004.
   On 20 May 2005 the Company filed a complaint at the District Court in Warsaw for quash the above judgement of the arbitration court and applied for suspending the execution of the court sentence.
   On 26 June 2005, the District Court rejected the application for suspending of execution of the arbitration court judgement.
   On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111.5 million.
   On 8 August 2005 PKN ORLEN received PSE letter where PSE stated it was not bound to settle the penalty.
   On 5 August 2005 PKN ORLEN filed at the Arbitration Court at the Polish Chamber of Commerce in Warsaw a suit for adjudication of the contractual penalty of PLN 111.5 million.
   Up to the date of these financial statements the Arbitration Court at the PCC did not issue its judgement on PKN ORLEN suit.

4. According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No 1 dated 15 January 2001), the method

Office the electricity sale agreement between Zaklad Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zaklad Energetyczny Plock S.A. called on PKN ORLEN S.A. to compromise agreement, as the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zaklad Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.

As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zaklad Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for business risks was inceased by PLN 28,179 thousand to cover the whole claim.

The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings.

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5. As at the date of the report, the Company was a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office for Protection of Competition and Consumer ("OPCC") from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Plock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of gasoline Univerasl 95 through an unanimous decision to give up production and distribution of gasoline Universal 95 and eliminating the competition on the domestic sale market of gasoline Universal 95 as well as excluding the risk of the market take-over by the competition. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by OPCC. Answers to the further questions made by OPCC were sent on 5 May 2005.

The proceedings to take evidence are pending. They are prolonged due to motions filed by PKN ORLEN in order to limit access rights to evidence and due to respective decisions which are to be issued in this respect by the President of the OPCC and which may be sued at the Consumer and Competition Court. As the proceedings are at their earliest stage, it is difficult to assess the risk that PKN ORLEN may be fined.

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

Due to the received letter PKN ORLEN S.A. answered the questions of OPCC on 11 April 2005. Simultaneously OPCC approved prolongation of the period for giving answers up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining adequate geographical market of monoethylene glycol was sent to OPCC on 6 May 2005. Upon the OPCC's request, additional information was provided on 18 May 2005.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN and the petitioner in order to limit access rights to evidence and due to respective decisions that need to be issued in this respect by the President of the OPCC and which may be sued at the Consumer and Competition Court.

As the above proceedings are at their initial stage it is difficult to assess the risk of a fine which might again be imposed on PKN ORLEN. Due to elapse of time and considerable changes in the business environment where PKN ORLEN operates, the risk of a fine is still insignificant.

In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Board.

The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management, supported by an independent legal opinion, risk that the Company would be charged with a fine is limited.

6. On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in "Report on agreed upon procedures concerning review of control procedures at Orlen Oil Sp. z o.o." As at the date of preparation of these condensed consolidated financial statements, the tax audit did not reveal any material risks.

7. On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, which would verify correctness of the Company's procedures and tax settlements and be summarised in "Report on agreed upon procedures concerning review of control procedures at Rafineria Nafty Jedlicze S.A." As at the date of preparation of these condensed consolidated financial statements, the tax audit did not disclose risks which estimated value would have a significant impact on the company's operations.

8. According to the Management Board, the pending proceedings do not provide grounds to claim that they concern issues which could have a material impact on true and fair view of the condensed consolidated financial statements of the Group for the period ended 30 June 2005. The proceedings are not instituted against the Company.

of the previously deducted amount, i.e. the so-called investment premium. In the years 1998-2003, the Group companies benefited from their entitlement to the following investment relieves and premiums (amounts deducted from income):

| | Investment Relief | Investment premium |
|---|---|---|

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| | | |
|---|---|---|
| 2003 | - | 6,923 |
| Total | 113,161 | 99,895 |

The relieves and premiums are conditional. The Corporate Income Tax Act assumes the loss of entitlement to investment relieves if any of the following events occurs within three years from the end of the tax year when the relief has been exercised:

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

2) taxpayers transfer – in any form – ownership title to assets to which income deductions or tax exemptions relate; this does not refer to transfer of ownership resulting from a change in the legal personality, business combinations or separation of business entities carried out in compliance with the Commercial Code's regulations'

3) there are no longer grounds for recognition as the taxpayer's assets those fixed assets which have been adopted for chargeable use under tenancy, lease or similar agreements,

4) the taxpayer is subject to liquidation proceedings or its bankruptcy has been declared,

5) the taxpayer receives any form of reimbursement of investment expenditure.

Tax authorities may also deny a claim to tax allowances if the tax payer has been charged with outstanding tax liabilities at the moment in which the tax incentives deduction were recognized.

In accordance with the Amendment of 20 November 1998 to the Corporate Income Tax Act (Journal of Laws No. 144, item 931) when the title to deductions made under Art.18a of the Corporate Income Tax Act (in force till 31 December 1999) and Art. 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000) no longer exists due to circumstances discussed under paragraph 1) above, it is assumed that the title is not lost if the taxpayer makes adjustments to its tax return and settles the tax arrears with accrued interest or settles the arrears with interest within 14 days from the decision of the first instance authority defining the tax liability.

10. Poland has currently a number of regulations in force concerning value added tax, excise duty, corporate income tax and social security. The tax law is often amended, which results in unclearness and inconsistencies. The frequent discrepancies in tax law interpretations provided by state authorities and taxpayers generate uncertainty and conflicts concerning the interpreted issues. Tax settlements and other regulated areas of activity (for instance customs and foreign exchange control) are controlled by the respective authorities which are entitled by law to impose high fines, penalties and related interest. Due to the above, the tax risk in Poland is substantially higher than typical for countries with better developed taxation systems.

There are no formal procedures in Poland for determining the final taxation charge. Tax settlements may be subject to tax control over five years since the end of the calendar year when the tax liability reached its maturity. There is a risk that respective authorities adopt a different interpretation of the tax law than the Group companies, which could have a significant impact on their tax liabilities.

## XI. INFORMATION ABOUT CURRENT PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE PARENT COMPANY AND RELATED PARTIES OF THE TOTAL VALUE EXCEEDING 10% OF THE COMPANY'S EQUITY

During the period from 1 January to 30 June 2005, the Parent Company was not a party in proceedings concerning liabilities or receivables of the Parent Company or related entities, of the value exceeding 10% of the Company's equity.

## XII. RELATED PARTIES

### 1. Information about unusual related parties transactions

During the period from 1 January to 30 June 2005, there were no unusual related party transactions concluded between related parties within the Group, where the transaction would exceed EUR 500 thousand, except for a short-term EUR 60 million loan granted to ORLEN Deutschland on 23 December 2004. The repayment was made on 14 February 2005 and interest was paid on 24 February 2005.
The transactions concluded within the Group were trade transactions resulting from the type of activity of the particular Group's entities.

**relatives, descendants or their other relatives**

In the periods of 6 months ended 30 June 2005 and 30 June 2004, there were no significant transactions identified with Members of the Company's Board of Directors and Supervisory Board, their spouses, siblings, ascendant relatives, descendants or their other relatives.

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**b) Transactions of the Company's Supervisory Personnel with the related parties**

In the second quarter of 2005 the Company obtained statements of related party transactions in a more extensive scope as required under the new IAS 24 "Related Party Disclosures".

| | Sales | Purchases | Receivables | Liabilities | Dividend paid |
|---|---|---|---|---|---|
| **Legal persons *** | 12,598 | 24,242 | - | - | - |
| **Natural persons **** | 443 | - | - | - | - |

* Transactions in the period of activity of members of the Company's supervisory bodies

** During the period covered by the condensed consolidated financial statements the concluded transactions did not equal or exceed EUR 500 thousand.

**c) Transactions of the Company's key management personnel with related parties**

In the second quarter of 2005 members of the Company's key management did not conclude significant transactions with related parties as provided for in IAS 24 "Related Party Disclosures".

| | Consolidated subsidiaries 1) | Consolidated associates 2) | Non-consolidated subsidiaries 1) | Non-consolidated associates 2) | Consolidated jointly controlled entities 3) | Total related parties |
|---|---|---|---|---|---|---|
| Sales | 1.539.978 | 1.142 | 34.828 | 36 | 361.764 | 1.937.748 |
| Purchases | 361.458 | 31.688 | 41.718 | 137 | 3.071 | 438.072 |
| Financial revenues from interest | 3.627 | 11 | 1 | - | 39 | 3.678 |
| Financial expenses on interest | (39) | - | 2 | - | - | (37) |
| Gross short-term receivables | 507.849 | 4.892 | 405.247 | 57 | 76.053 | 994.098 |
| Short-term liabilities | 76.922 | 7.332 | 10.291 | 97 | 144 | 94.786 |
| Gross long-term receivables | 30.850 | - | 47.830 | - | - | 78.680 |
| Long-term liabilities | - | - | - | - | - | - |

1) Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members
2) Parent Company executes considerable control in supervisory bodies via its representatives
3) Parent Company executes a joint control over the entities under the deed of association

Management Board remuneration includes salaries, bonuses, annual bonus and equivalent for unused annual holiday.

The remuneration paid to the Board of Directors, Supervisory Board and key executive personnel amounted to:

| | for 6 months ended 30 June 2005 | for 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Parent's Board of Directors* | 11,490 | 11,375 |
| Parent's Supervisory Board | 400 | 436 |
| Parent's key executive personnel ** | 8,680 | 5,998 |
| Group entities' key executive personnel *** | 18,884 | 20,337 |
| **Total** | **39,454** | **38,146** |

* In the period of 6 months ended 30 June 2005 the remuneration to former Board members amounted to PLN 7.008 thousand.
** In the period of 6 months ended 30 June 2004 the remuneration was paid to 27 members of key executive personnel and in the period of 6 months ended 30 June 2005 to 34 members
*** Management Boards, Supervisory Boards and key executive personnel of the Group companies

## XIII. LOAN SECURITY, GUARANTEES AND COLLATERALS OF AT LEAST 10% OF THE COMPANY'S EQUITY GRANTED BY PARENT COMPANY OR ITS SUBSIDIARIES TO A THIRD ENTITY OR ITS SUBSIDIARY

In the period from 1 January to 30 June 2005 the Company and its subsidiaries within the Group did not grant loan security, or guarantees to another entity or its subsidiary, where the value of security or guarantee would constitute at least 10% of the Company's equity, except collaterals provided by PKN ORLEN under the share pledge agreement of 19 December 2003, securing Basell ORLEN Polyolefins Sp. z o.o. repayment of current and future claims to which the pledgee is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.

## XIV. SEASONAL OR CYCLICAL CHARACTER OF THE ISSUER'S OPERATIONS IN THE PRESENTED PERIOD

The PKN ORLEN Group does not report any material seasonal or cyclical character of its operations.

## XV. EVENTS AFTER THE BALANCE SHEET DATE

### a) Changes in the Parent's Board of Directors and Supervisory Board

Changes in the Parent's Board of Directors and Supervisory Board are discussed in detail under Note VII.

## XVI. IMPACT ON PRIOR RESULTS

Due to the fact that beginning from 1 January 2005 the Group for statutory purposes has been preparing its consolidated financial statements in accordance with the IFRSs, the below differences concern mainly those identified and reported by the Group between the IFRSs and the PASs with respect to changes in the equity opening balance as at 1 January 2005 and net profit comparative data for the period ended 31 December 2004. Section II also presents the differences which have been identified by the Group, as discussed in detail in that section, but they were not presented in these condensed consolidated financial statements.

| | Net profit for 12 months period ended 31 December 2004 | Net profit for 6 months ended 30 June 2004 | Net profit for 3 months ended 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Consolidated according to PASs | 2,588,981 | 1,028,855 | 647,088 |
| Withdrawing of capitalised borrowing costs | 8,011 | 3,667 | 1,511 |
| Deferred tax on capitalised financial expenses | (1,522) | (697) | (287) |
| Measurement of fixed assets at fair value | (155,004) | (69,078) | (26,698) |

| | | | |
|---|---|---|---|
| of identifiable assets, liabilities and contingent liabilities over purchases price | (27,758) | (17,728) | (10,626) |
| Withdrawing of goodwill's write-offs | 5,765 | 2,814 | 1,341 |
| Impairment of ORLEN Deutschland AG fixed assets | (65,381) | (65,381) | (65,381) |
| Distribution of profit other than dividends | (4,176) | (4,176) | (4,176) |
| Other | 5,654 | (11,585) | 1,038 |
| **Consolidated according to IFRSs** | **2,384,983** | **880,240** | **550,551** |

| | Net assets as at 31 December 2004 (unaudited) | Net assets as at 30 June 2004 (unaudited) | Net assets as at 1 January 2004 (unaudited) |
|---|---|---|---|
| Consolidated in accordance with PASs | 11,826,556 | 10,330,621 | 9,581,948 |
| Withdrawing of capitalised borrowing costs | (63,745) | (68,088) | (71,755) |
| Deferred tax on capitalised financial expenses | 12,111 | 12,937 | 13,633 |
| Measurement of fixed assets at fair value | 1,122,628 | 1,208,403 | 1,278,183 |
| Deferred tax on remeasurement of fixed assets at fair value | (204,506) | (221,372) | (234,920) |
| Alternative treatment of surplus of fair value of identifiable assets, liabilities and contingent liabilities over purchases price | 273,611 | 283,641 | 301,369 |
| Withdrawing of goodwill's write-offs | 5,765 | 2,814 | - |
| Impairment of ORLEN Deutschland AG fixed assets | (65,381) | (65,381) | - |
| Other | 70,563 | 53,324 | 61,170 |
| **Consolidated according to IFRSs** | **12,977,602** | **11,536,899** | **10,929,628** |

**a. Withdrawing of capitalised borrowing costs**

In accordance with the PASs financial expenses resulting from investment loans were stated as investment expenditure. Other financial expenses were recognised in the profit and loss when incurred. In financial statements prepared in compliance with the IFRSs, cost of loans and borrowings, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognised in the profit and loss statement in the period to which they refer.

**b. Alternative treatment of surplus of fair value of identifiable assets, liabilities and contingent liabilities over purchase price**

In accordance with the PASs the Company stated as revenues the excess of fair value of identifiable assets, liabilities and contingent liabilities above purchase cost over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities above purchase price was recognised as retained earnings.

**c. Withdrawing of goodwill's write offs**

In accordance with the PASs goodwill was depreciated by straight line method over the period no longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in compliance with IFRSs, goodwill was not depreciated but decreased by impairment losses.

**d. Impairment of ORLEN Deutschland AG fixed assets**

Due to the change in the policy discussed in detail under b) above, as at 1 January 2005 ORLEN Deutschland AG recognised as equity an excess of net fair value for identifiable assets, liabilities and contingent liabilities above acquisition cost. Consequently, for the purpose of consolidated annual financial statements the allowance for ORLEN Deutschland AG fixed assets was increased by the amount reflecting the above change in the accounting principles and recognised in 2004 financial result.

**e. Consolidation of BOP by proportionate method**

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise, Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.
In accordance with the records presented for the second quarter of 2004 and the second quarter of 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods the company was presented in line with the equity method.
As at 30 June 2005 and 31 December 2004 and for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

| | 30 June 2005 | 31 June 2004 |
|---|---|---|

| | | |
|---|---|---|
| Short-term liabilities | 90,370 | 152,590 |
| Long-term liabilities | 459,799 | 346,785 |

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Revenue | 253,802 | 116,551 | 240,067 | 116,398 |
| Cost of goods and materials sold | (223,618) | (110,318) | (209,690) | (103,717) |
| Management overheads | (4,321) | (2,546) | (3,526) | (1,892) |
| Financial costs | (13,925) | (7,559) | (5,936) | 5,610 |
| Profit before tax | 12,032 | 1,017 | 22,487 | 17,651 |
| Statutory liabilities | (2,094) | 276 | (4,318) | (1,524) |
| Net profit | 9,939 | (700) | 18,170 | 16,129 |

## XVII. SUPPLEMENTARY INFORMATION

### a) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN OIL participate in the Project of "Restructuring of southern assets of the PKN ORLEN S.A. Group". The Project aims at optimisation and consolidation of manufacture and sale of fuel, motor and lubricating oils and paraffin at the PKN ORLEN S.A. Group.
On 5 July 2005 the Board of Directors adopted "Restructuring plan for southern assets" thus accepting the restructuring objectives.

### b) Polkomtel S.A.

Polish shareholders of Polkomtel S.A. agreed as at 17 December 2004 that Polkomtel S.A. shares should be publicly listed. During this reporting period all mentioned above parties cooperated in equity restructuring of Polkomtel S.A. Financial and legal advisors made relevant analyses and estimates of different options for public quote of Polkomtel S.A. shares, in particular by sale of all or a portion of the shares to Vodafone and TDC.
KGHM Polska MiedŸ S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. and Wêglokoks S.A. concluded "Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital." Negotiations with foreign shareholders are being carried out in order to define conditions for obtaining the optimum value of Polkomtel S.A. shares.

**Financial Highlights**

| ORLEN Group Results according to IFRS | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % 3 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PL '0( |
| Sales revenue | 15,205,512 | 4,788,534 | 8,399,604 | 2,560,152 | 13,813,152 | 3,582,156 | 7,472,937 | 1,920,027 | 10.1% | 33.7% | 12 |
| EBITDA[2] | 2,006,750 | 631,968 | 920,582 | 280,588 | 1,737,915 | 450,692 | 913,331 | 234,663 | 15.5% | 40.2% | 0 |
| Operating profit/(loss) | 1,431,338 | 450,758 | 640,013 | 195,072 | 1,070,470 | 277,604 | 586,721 | 150,747 | 33.7% | 62.4% | 9 |
| Financial expenses | 227,120 | 71,525 | 159,697 | 48,675 | 98,259 | 25,481 | 35,703 | 9,173 | 131.1% | 180.7% | 347 |
| Net profit (loss) | 1,316,141 | 414,480 | 698,108 | 212,779 | 880,240 | 228,272 | 550,551 | 141,453 | 49.5% | 81.6% | 26 |
| Net profit (loss) according to LIFO method | 764,049 | 240,615 | 369,192 | 112,528 | 636,819 | 165,146 | 397,702 | 102,182 | 20.0% | 45.7% | -7 |
| Operating cash flow | 1,276,222 | 401,909 | 711,819 | 216,958 | 1,738,442 | 450,829 | 1,110,413 | 285,299 | -26.6% | -10.9% | -35 |

*(1) The following average exchange rates were used for the conversion of the amounts denominated in USD: 6 months 2005 – PLN 3.1754, 6 months 2004 – PLN 3.85( 2005 – PLN 3.2809, 3 months 2004 – PLN 3.8921.*

*(2) EBITDA = OPERATING PROFIT + AMORTISATION/DEPRECIATION*

- **Refining (Production + Wholesale):** In Q2 2005, the segment's financial result gained PLN 215m year on year, chiefly as a result of such factors as an increase in commodity margins on refinery products, a higher URAL/Brent differential, and lower operating expenses. The rising oil prices favourably affected the result computed with the weighted average method (effect of the LIFO method on EBIT: (-)PLN 406m).
- **Refining (Retail):** A PLN 73m improvement of the segment's financial performance in Q2 2005 year on year, foremost driven by disclosing in Q2 2004 a PLN 65m provision created by ORLEN Deutschland.
- **Petrochemicals:** Q2 2005 saw the segment's financial result growing relative to the analogous quarter of 2004 (up by PLN 62m) on stronger demand for the key petrochemical products.
- **Other Activities:** A 0.7% drop in revenue, accompanied by an 8.2% rise in the segment's costs, had an adverse effect on its financial result. The segment posted a PLN 2m decrease in its profits.
- **Inland Premium:** In Q2 2005, the inland premium went up by PLN 35m (37.9%), year on year.
- **Profit on Sales:** A 16.3% increase in the profit on sales in Q2 2005 in relation to Q2 2004, attributable mainly to positive market trends and efficiency-improvement measures.
- **Operating Profit (EBIT):** Up by 9.1% on Q2 2004; net of growth of business risk provision, the increase is 73.2%.
- **Net Profit:** The Q2 2005 net profit stood at PLN 698m, an improvement of PLN 147m on Q2 2004; net of growth of business risk provision, the increase is PLN 510m, driven chiefly by the high operating profit.
- **Net Operating Cash Flow:** A PLN 399m fall in cash generated in Q2 2005, year on year, following primarily from lower liabilities.
- **CAPEX (expenditure on property, plant and equipment and intangible assets):** A PLN 44m increase in CAPEX in Q2 2005 over Q2 2004, caused mainly by the higher expenditure in the Petrochemicals and Refining (Production + Wholesale) segments.
- **Operating Expenses Reduction Programme:** In Q2 2005, the implementation of the Programme led to PLN 210m cost savings, against PLN 163m in Q2 2004 (relative to the reference value, that is the costs incurred in 2002).
- **Upgrade and Maintenance Shutdowns** – Combined effect of the scheduled upgrade shutdown of the Olefin II petrochemical plant the maintenance shutdown of the HOG plant was PLN 140m (adverse effect on PKN Orlen's operating profit).

*„In Q2 2005, we pressed ahead with our value development strategy announced at the beginning of the year. We are working on a number of initiatives aimed at enhancing the Group's operating efficiency. New projects supporting our core business on the home markets are underway, and opportunities for expansion into new areas and markets are being explored.*

*The Management Board sees it as its priority to integrate the Unipetrol holding in the most efficient way possible. On June 8th 2005, we launched the previously developed new management model for the combined companies. Twenty-four Polish-Czech teams are examining the value-creation potential and, as originally announced, are preparing a business plan, to be presented in late September. We will make a mandatory tender offer for minority shares. The existence of agreements with Agrofert and ConocoPhillips, which has recently been exposed in the media, has not affected the Management Board's positive opinion on PKN's presence on the Czech market. The Management Board believes that a satisfactory return on this investment may be achieved.*

*On June 29th 2005, our shareholders approved an amendment to the Articles of Association concerning the new regional structure of PKN Orlen. The successful restructuring at the regional level will streamline the operational management processes. We are reshaping and optimising our retail network by setting up new locations and centralising the support functions.*

*As part of our restructuring efforts at the Group level, in H1 2005 we disposed of five companies and commenced the process of exiting nine undertakings. We changed composition of the supervisory boards at all of the Group companies and assigned responsibility*

*staff to support the pursuance of our strategy and develop a new business-oriented corporate culture. The system aims at developing a transparent and objective remuneration model for the management staff.*

*We are introducing the best procurement practices using the state-of-the-art technology solutions. We started to hold internet auctions to facilitate purchases on the most favourable terms.*

*In Q2 2005, we also prepared OPTIMA, a new cost-saving scheme for the Group, which will be a continuation and extension of the comprehensive Operating Expenses Reduction Programme. OPTIMA is expected to usher in PLN 1.2bn savings in operating expenses and capital expenditure by 2009.*

*We are participating in the process of disposal of a 51% interest in Tupras, a refining business, by the government of Turkey. With a view to strengthening our position in the retail segment, we are also participating in retail assets disposal processes currently underway in Germany and the Czech Republic.*

*The continued favourable conditions in the oil refining and petrochemical sectors, coupled with the further internal restructuring of PKN ORLEN, enabled us to post good financial results for yet another consecutive quarter. In Q2 2005, sales revenue gained 12.4%, while net profit rose 26.3%, year on year. It is noteworthy that the results would be markedly higher but for the provision related to the disposal of Unipetrol assets. Our ROACE margin was 14%.*

*The growing demand for oil products with the shrinking available capacity in the oil production and refining segments drove the strong growth of the feedstock prices and supported the refining margins at the satisfactory levels. The rising oil prices and continued mismatch in the quality structure of supply and demand led to an enhancement of the differential between high-quality oil (low sulphur content, higher light-product yields) and low-quality feedstock as compared with Q2 2004. For example, the URAL/Brent differential rose by 0.50 USD/bbl. Obviously, such a development is to the benefit of refineries capable of processing lower-quality oil.*

*As previously expected, the favourable climate in the refining sector was accompanied by an upward trend on the petrochemical market. However, in Poland we experienced adverse market conditions for oil refiners, such as the strengthening of the Polish z³oty (up to PLN/USD 3.28 and PLN/EUR 4.13) or the projected economic slowdown which directly affected demand for fuels.*

*As announced at the time of publication of the Q4 2004 results, in connection with the maintenance shutdowns e.g. of the ethylene and propylene plant, planned for the summer months, in Q2 2005 the sales of refining products increased by 9.6% while those of chemical products went down by 13.5% over Q2 2004. The cost savings in all segments grew by PLN 47m in Q2 2005, year on year.*

*Since January 1st 2005, we have applied the International Financial Reporting Standards. The abridged consolidated financial statements contain all the adjustments ensuring a true and fair presentation of the consolidated accounts, except the full adjustments required under IAS 29 and IAS 16 and the valuation of the land perpetual usufruct rights required under IFRS 1. We expect to complete the full implementation of IFRS for statutory reporting purposes by the end of 2005. An important change is the consolidation of BOP, our subsidiary involved in the production and marketing of polyolefins, with the proportionate consolidation method. In 2004, BOP was consolidated with the equity method."*

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**Market Overview**

In the second quarter of 2005, the average price of Brent was USD 51.66/bbl, having gone up by USD 16.31/bbl (48.7%) year on year. The rise went hand in hand with a higher URAL/Brent differential, which moved from USD 3.10/bbl in Q2 2004 to USD 3.60/bbl in Q2 2005. During the second quarter of 2005, the average commodity price of gasoline was USD 515.89/t (a USD 104.40, or 25.4%, increase over Q2 2004). In the same period, a material rise was recorded in the commodity prices of diesel fuel and Ekoterm, by USD 187.84/t and USD 170.58/t, respectively (or by 54.6% and 53.6%). Year on year, the commodity margins for diesel fuel, gas oil and JET A-1 aviation fuel increased substantially, by 83.7%, 91.6% and 67.0%, respectively; the commodity margin for gasoline fell by 13.1%. Growth was also reported for petrochemical commodity margins: in Q2 2005, the margins for ethylene and propylene rose by 16.9% and 34.5%, respectively. The U.S. dollar and the euro weakened against the Polish currency, by 15.7% and 12.0%, respectively (falling from PLN 3.89/USD 1 in Q2 2004 to PLN 3.28/USD 1 in Q2 2005, and from PLN 4.69/EUR 1 in Q2 2004 to PLN 4.13/EUR 1 in Q2 2005).

Based on the GUS (Central Statistics Office) data, in Q2 2005 consumer prices went up by 0.6% over Q1, while in Q2 2004 they grew by 2.0%. Compared with Q2 2004, in Q2 2005 the consumer prices were 2.3% higher. The unemployment rate at the end of Q2 2005 was 18.0%, compared with 19.4% a year before.

Based on market data provided by Samar, approx. 129.5 thousand new automobiles were sold in Poland in H1 2005, which means a nearly 33% drop year on year and is over three times lower than the number of new and pre-owned vehicles imported to Poland by individuals and independent companies. The opening of the borders for privately imported vehicles in May 2004 was yet another factor detrimental to the new automobile market.

| (Production+Wholesale) | (unaudited data) | | (unaudited data) | | (unaudited data) | | (unaudited data) | | 6 months | | 3 m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 |
| Revenue, including: | 10,838,630 | 3,413,312 | 6,000,702 | 1,828,980 | 9,249,297 | 2,398,614 | 5,291,536 | 1,359,558 | 17.2% | 42.3% | 13.4% |
| Revenue sales to third parties | 7,233,595 | 2,278,011 | 4,244,031 | 1,293,557 | 6,086,372 | 1,578,375 | 3,362,235 | 863,861 | 18.8% | 44.3% | 26.2% |
| Revenue on intra-company sales* | 3,605,035 | 1,135,301 | 1,756,671 | 535,424 | 3,162,925 | 820,239 | 1,929,301 | 495,697 | 14.0% | 38.4% | -8.9% |
| Segment's costs | 9,422,241 | 2,967,261 | 5,154,061 | 1,570,929 | 8,140,474 | 2,111,064 | 4,602,747 | 1,182,587 | 15.7% | 40.6% | 12.0% |
| Other operating income | 67,557 | 20,591 | 29,707 | 9,055 | 42,722 | 13,021 | 33,008 | 8,481 | 58.1% | 58.1% | -10.0% |
| Other operating expenses | 127,023 | 38,716 | 98,318 | 29,967 | 169,263 | 51,590 | 158,549 | 40,736 | -25.0% | -25.0% | -38.0% |
| Segment's result ** | **1,356,923** | **446,051** | **778,030** | **237,139** | **982,282** | **248,981** | **563,248** | **144,716** | **38.1%** | **79.2%** | **38.1%** |
| Sales to third parties (thousand tonnes) | 4,422 | | 2,462 | | 4,099 | | 2,166 | | 7.9% | | 13.7% |

**) The revenue includes the following transfers to retail: 6 months 2005 – PLN 1,681,926 thousand, 6 months 2004 – PLN 1,264,488 thousand, 3months 2005 – PLN 973,43( thousand, 3 months 2004 – PLN 726,408 thousand.*

***) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The Q2 2005 result in refining totalled PLN 778,030 thousand, rising from PLN 563,248 thousand in Q2 2004. The increase was driven by higher revenue (up by 13.4%%), while the costs and expenses of the segment grew by 12.0%. The growth of the segment's revenue and profits was a result of positive changes with respect to commodity margins for diesel fuel, Ekoterm and JET A-1 aviation fuel. On the other hand, the increase in costs was caused by such factors as the rising price of oil. The commodity Brent prices in Q2 2005 went up by 46.1% year on year. The rise was accompanied by a 16.1% increase in the URAL/Brent differential, which relatively reduced the segment's costs and boosted its profit.

In Q2 2005, the volume of gasoline and diesel fuel sold to third parties grew by 13.2% and 8.2%, respectively, in comparison with Q2 2004. In the period, growth was also seen in Ekoterm and JET A-1 sales (up by 11.9%, or 40.3 thousand tonnes, and 34.9%, or 31.8 thousand tonnes, respectively, year on year). The volume of light product sales was up by 12.0% (193.5 thousand tonnes).

In Q2 2005, implementation of the comprehensive Operating Expenses Reduction Programme ushered in savings of PLN 79,859 thousand for the segment, that is 20,725 thousand more than in the analogous period of 2004.

As at the end of June 2005, the profit posted by this segment was PLN 1,356,923 thousand, up by 38.1% on year earlier.

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| Refining (Retail) | June 30th 2005 (unaudited data) | | June 30th 2005 (unaudited data) | | June 30th 2004 (unaudited data) | | June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD ' |
| Revenue, including: | 5,844,415 | 1,840,529 | 3,255,945 | 992,394 | 5,515,212 | 1,430,256 | 3,037,697 | 780,478 | 6.0% | 28.7% | 7.2% | 27 |
| Revenue sales to third parties | 5,826,599 | 1,834,918 | 3,247,361 | 989,778 | 5,502,414 | 1,426,938 | 3,029,497 | 778,371 | 5.9% | 28.6% | 7.2% | 27 |
| Revenue on intra-company sales | 17,816 | 5,611 | 8,584 | 2,616 | 12,798 | 3,319 | 8,201 | 2,107 | 39.2% | 69.1% | 4.7% | 24 |
| Segment's costs | 5,775,809 | 1,818,923 | 3,181,906 | 969,827 | 5,505,085 | 1,427,630 | 2,997,662 | 770,191 | 4.9% | 27.4% | 6.1% | 25 |
| Other operating income | 50,118 | 15,276 | 23,060 | 7,029 | 42,788 | 13,042 | 24,525 | 6,301 | 17.1% | 17.1% | -6.0% | 11 |
| Other operating expenses | 54,920 | 16,739 | 35,507 | 10,822 | 80,846 | 24,641 | 76,311 | 19,607 | -32.1% | -32.1% | -53.5% | -44 |
| Segment's result* | **63,804** | **20,142** | **61,592** | **18,773** | **-27,931** | **-8,974** | **-11,750** | **-3,019** | **-328.4%** | **-324.4%** | **-624.2%** | **-721.** |
| Sales to third parties (thousand tonnes) | 1,588 | | 842 | | 1,599 | | 847 | | -0.7% | | -0.6% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In Q2 2005, the segment's revenue increased by PLN 218,248 thousand (7.2%) over Q2 2004, while costs gained PLN 184,245 thousand (6.1%). The stronger growth of revenue over costs is an evidence of enhanced efficiency and cost savings in this area of operations. PKN's German operations attributable to this segment brought profit of PLN 7,675 thousand (PLN 12,087 thousand in Q2 2004). In Q2 2005, the financial result of PKN ORLEN's retail segment was PLN 52,887 thousand, against PLN 45,276 thousand in Q2 2004.

The growth in segment's revenue was accompanied by an 0.6% fall in the volume of the Group's sales. In Q2 2005, the domestic retail sales rose 98.6% year on year in volume terms. In Q2 2005, the fuel margin rose by 8.5% over the corresponding period of 2004. The Group companies' sales revenue on non-fuel goods stood at PLN 211,268 thousand in Q2 2005, representing a 2.0% increase on the analogous period of 2004.

The implementation of the comprehensive Operating Expenses Reduction Programme yielded PLN 47,718 thousand in savings to the segment in Q2 2005 (Q2 2004: PLN 46,526 thousand).

All of the above factors increased the segment's Q2 2005 profit by PLN 61,592 thousand, while in Q2 2004 the loss stood at PLN 11,750 thousand. The loss was driven primarily by the adjustment of net assets of ORLEN Deutschland following from change in disclosure of negative goodwill, which increased segment's other operating expenses by PLN 65,381 thousand.

As at the end of June 2005, the segment's result was PLN 63 804 thousand, as compared with a PLN 27,931 loss in 2004.

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| Results according to IFRS | June 30th 2005 (unaudited data) | | June 30th 2005 (unaudited data) | | June 30th 2004 (unaudited data) | | June 30th 2004 (unaudited data) | | 6 months | | 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | 2,634,662 | 829,710 | 1,139,722 | 347,381 | 2,571,249 | 666,800 | 1,286,660 | 330,582 | 2.5% | 22.1% | -11.4% | 5. |
| Revenue sales to third parties | 1,795,149 | 565,330 | 763,854 | 232,818 | 1,882,567 | 488,205 | 914,655 | 235,003 | -4.6% | 15.8% | -16.5% | -0. |
| Revenue on intra-company sales | 790,183 | 248,845 | 368,937 | 112,450 | 667,441 | 173,087 | 350,764 | 90,122 | 18.4% | 43.8% | 5.2% | 24. |
| Settlement value of hedging transactions | 49,330 | 15,535 | 6,931 | 2,113 | 21,241 | 5,508 | 21,241 | 5,457 | 132.2% | -100.0% | -67.4% | -61. |
| Segment's costs | 2,107,850 | 663,806 | 930,475 | 283,604 | 2,229,441 | 578,160 | 1,143,476 | 293,794 | -5.5% | 14.8% | -18.6% | -3. |
| Other operating income | 10,110 | 3,081 | 7,259 | 2,213 | 10,830 | 3,301 | 6,811 | 1,750 | -6.6% | -6.7% | 6.6% | 26. |
| Other operating expenses | 13,825 | 4,214 | 11,173 | 3,405 | 10,495 | 3,199 | 7,286 | 1,872 | 31.7% | 31.7% | 53.3% | 81. |
| Segment's result * | 523,097 | 165,904 | 205,333 | 62,584 | 342,143 | 88,743 | 142,709 | 36,666 | 52.9% | 69.4% | 43.9% | 70. |
| Sales to third parties (thousand tonnes) | 979 | | 428 | | 1,055 | | 494 | | -7.2% | | -13.4% | |

*)*The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The segment's result for Q2 2005 was PLN 205,333 thousand, while in the corresponding quarter of 2004 it totalled PLN 142,709 thousand. The revenue on petrochemicals dropped by PLN 146,938 thousand (11.4%) with a decline in the volume of sales to external customers (by 13.4%), which was attributable to a maintenance shutdown of Olefin II – PKN ORLEN's main petrochemical (ethylene and propylene) plant. The shutdown was necessary due to the upgrade works which are to result in doubling the plant's capacity. Ethylene and propylene production must be intensified to meet the demand which will be posted by the new polyethylene and polypropylene plants currently being developed by BOP. Q2 2005 saw a decrease in the volume of sales of ethylene – by 47.2% (62.9% in value terms), glycols – by 43.1% (38.2% in value terms) and benzene – 54.9% (44.4% in value terms). PKN ORLEN had a largest contribution to the segment's result; in Q2 2005, the company's operating profit attributable to the segment was PLN 166,416 thousand, up from PLN 88,594 thousand in Q2 2004. The commodity margins were USD 542.4/t for ethylene and USD 491.1/t for propylene, which means an increase by 16.9% and 34.5%, respectively, over Q2 2004. A rise in margins was also recorded for acetone (by 24.4%) and butadiene (by 53.7%).
The implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 9,656 thousand in savings for the segment (PLN 13,303 thousand in Q2 2004).
As at the end of June 2005, the segment's result was PLN 523,097 thousand, up by 52.9% year on year.

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| Other Activities | ended June 30th 2005 (unaudited data) | | ended June 30th 2005 (unaudited data) | | ended June 30th 2004 (unaudited data) | | ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '** |
| Revenue, including: | 690,431 | 217,431 | 318,354 | 97,033 | 717,947 | 186,185 | 320,475 | 82,340 | -3.8% | 16.8% | -0.7% | 17 |
| Revenue sales to third parties | 300,839 | 94,741 | 137,427 | 41,887 | 320,558 | 83,130 | 145,309 | 37,334 | -6.2% | 14.0% | -5.4% | 12 |
| Revenue on intra-company sales | 389,592 | 122,691 | 180,927 | 55,146 | 397,389 | 103,055 | 175,166 | 45,006 | -2.0% | 19.1% | 3.3% | 22 |
| **Segment's costs** | 662,290 | 208,569 | 320,087 | 97,561 | 670,644 | 173,918 | 295,763 | 75,991 | -1.2% | 19.9% | 8.2% | 28 |
| Other operating income | 29,361 | 8,949 | 20,265 | 6,177 | 11,236 | 3,425 | 3,674 | 944 | 161.3% | 161.3% | 451.6% | 554 |
| Other operating expenses | 21,367 | 6,513 | 11,716 | 3,571 | 28,790 | 8,775 | 19,920 | 5,118 | -25.8% | -25.8% | -41.2% | -30 |
| **Segment's result *** | **36,135** | **8,862** | **6,816** | **2,077** | **29,749** | **6,917** | **8,466** | **2,175** | **21.5%** | **28.1%** | **-19.5%** | **-4.** |
| Sales to third parties (thousand tonnes) | 102 | | 51 | | 98 | | 45 | | 4.1% | | 13.3% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In addition to the companies involved in the production of energy and provision of services to PKN ORLEN, the "other activities" segment includes a number of undertakings which were spun off, mainly as part of the Group restructuring.
In Q2 2005, the segment sustained a loss of PLN 6,816 thousand. To compare, the profit earned in Q2 2004 was PLN 8,466 thousand. This adverse change was caused mainly by the growing feedstock cost driven by higher crude prices and the absence of any possibility to transfer the higher costs to the energy prices due to the binding regulations governing the structuring of energy tariffs.
In the period under analysis, the implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 73,149 thousand in savings for the segment, relative to PLN 44,037 thousand in Q2 2004.
As at the end of June 2005, the segment's result was PLN 36,135 thousand, which is an improvement by 21.5% year on year.

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Profit and Loss Account

The profit on sales for Q2 2005 totalled PLN 1,782,611 thousand, rising by PLN 249,631 thousand (16.3%) from the result reported for Q2 2004. The improvement comes from the stronger sales of products (an increase of PLN 900,914 thousand), which was greater than the corresponding rise in cost of sales (an increase of PLN 798,796 thousand). At the same time, in Q2 2005 the Group reported an increase of PLN 25,753 thousand (0.9%) in revenue on sales of goods and materials, and a PLN 121,760 thousand (4.6%) fall in value of the goods and materials sold. In Q2 2005, there was a year-on-year increase in the Group's external sales in Refining (Production + Wholesale), where it grew by PLN 881,796 thousand (26.2%), and in Refining (Retail), where it was higher by PLN 217,865 thousand (7.2%). The rise in the value of external sales in Refining (Production + Wholesale) was accompanied by an increase in the sales volume by 13.7%, and a decrease in the sales volume in Refining (Retail) by 0.6%. The amount of revenue derived from Refining (Production + Wholesale) was affected mainly by the higher market prices of fuel.

The Q2 2005 sales of ORLEN Deutschland stood at PLN 2,240,338 thousand, while in Q2 2004 the sales amounted to PLN 2,245,543 thousand, that is down by 0.2%.

In the second quarter of 2005, the selling costs rose by PLN 17,788 thousand (3.4%) relative to Q2 2004, to amount to PLN 537,113 thousand. In the same period, the general and administrative expenses fell by PLN 34,522 thousand (14.6%) on Q2 2004, to PLN 201,887 thousand.

In Q2 2005, a loss of PLN 403,598 thousand was recorded on other operating activities. Other operating income grew by PLN 13,776 thousand, while other operating expenses gained PLN 226,849 thousand (as a result of a PLN 376,164 thousand increase in a business risk provision, and a PLN 54,187 thousand provision for the second stage of the restructuring process).

In Q2 2005, EBITDA was PLN 920,582 thousand, up by PLN 7,251 thousand on Q2 2004. It would have been PLN 383,415 higher but for the business risk provision. Operating profit (EBIT) was PLN 640,013 thousand and topped the Q2 2004 figure by PLN 53,292 thousand. Net of the increase in business risk provision, the growth would be PLN 429,456 thousand.

Financial income in the second quarter of 2005 was PLN 394,544 thousand, having risen by PLN 253,919 thousand on the Q2 2004 figure. The key driver behind the rise was a PLN 204,532 thousand unrealised discount on the acquired Unipetrol claims and PLN 83,290 thousand dividend paid by Polkomtel SA (in Q1 2004 – PLN 68,220). The Group also reported a PLN 119,422 thousand increase in financial expense over the Q2 2004 figure; the change was caused by such factors as unfavourable changes in foreign exchange losses (which pushed financial expenses up by PLN 95,219 thousand). Consequently, the profit of this segment totalled PLN 234,847 thousand in Q2 2005, while in the analogous period of 2004, the Group posted a profit of PLN 100,350 thousand.

The share of undertakings consolidated with the equity method in the financial result amounted to PLN 8,786 thousand) in Q2 2005, relative to PLN 2,219 thousand in Q2 2004.

The Q2 2005 income tax was PLN 219,471 thousand, which represents a PLN 83,395 thousand increase year on year.

The above factors produced a net profit of PLN 698,108 thousand for Q2 2005, up by PLN 147,557 on Q2 2004. Net of the business risk provision, net profit would have gone up by PLN 509,721 thousand.

As at the end of June 2005, net profit was PLN 1,316,141 thousand, which represents a 49.5% increase year on year. Net of the business risk provision, net profit would have gone up by 89.1%.

***Balance Sheet***

The Company prepared its condensed consolidated financial statements in accordance with the International Financial Reporting Standards in effect as at June 39th 2005, except IFRS 3 with respect to the acquisition of Unipetrol shares. Non-current assets were revalued as at January 1st 2004 by an independent expert. The Company made relevant adjustments in its disclosed accounts; the revaluation covered 90% of net non-current assets subject to valuation.

As at the end of the second quarter of 2005, the total assets amounted to PLN 23,623,570 thousand, up by 15.0% from December 31st 2004. The value of non-current assets rose by PLN 1,902,482 thousand (15.7%) from the December 31st 2004 figure, and amounted to PLN 14,053,149 thousand, chiefly upon a PLN 1,642,755 growth of financial assets in relation to their value as at December 31st 2004 (acquisition of Unipetrol – PLN 1,585,305 thousand). As at the end of Q2 2005, current assets grew from PLN 8,386,983 thousand (as at December 31st 2004) to PLN 9,570,421 thousand, mainly due to an increase in inventories, trade debtors and other receivables by PLN 1,121,629 thousand and PLN 875,304 thousand, respectively. The strong growth of receivables follows from longer payment terms offered to the customers who were building their for the period of the Olefin II plant upgrade shutdown; increase in suspended excise tax, and purchase of Unipetrol claims. Concurrently, the value of short-term securities dropped by PLN 752,052 thousand (acquisition of Unipetrol). Compared with the end of 2004, working capital (current assets less current liabilities) fell from PLN 3,960,663 thousand to PLN 2,627,390 thousand.

At the end of Q2 2005, shareholders' equity stood at PLN 13,357,673 thousand, up by PLN 380,087 thousand (2.9%) in relation to the end of 2004. The main contributing item was a higher retained profit (up by PLN 405,187 thousand). The slower increase of retained profit against net profit followed from the distribution of the 2004 profit (PKN Orlen's dividend of PLN 911,020 thousand).

Non-current liabilities amounted to PLN 3,322,866 thousand, rising by PLN 189,138 thousand in comparison with the end of 2004 in connection with an increase in loans and borrowings (by PLN 69,582 thousand) and provisions (by PLN 96,240 thousand). Current liabilities increased from PLN 4,426,320 thousand as at December 31st 2004 to PLN 6,943,031 thousand as at June 30th 2005. As for current liabilities, trade creditors, other liabilities and deferred income grew significantly, by PLN 1,755,062 thousand, as a result of e.g. rise in oil prices. A major contributor to the growth was also PKN ORLEN's dividend of PLN 91,020 thousand. The Group's total debt (loans, borrowings and securities) reached PLN 2,768,358 thousand as at June 30th 2005, which means an increase of PLN 443,223 thousand as compared with the end of 2004.

***Cash Flow***

The Q2 2005 net operating cash flow stood at PLN 711,819 thousand, having fallen by PLN 398,594 thousand relative to the analogous quarter of 2004. The decrease was attributable mainly to negative trends with respect to liabilities and deferrals (down by PLN 30,327 thousand in Q2 2005, against a PLN 278,726 thousand rise in Q2 2004), and inventories (up by PLN 289,630 thousand in Q2 2005, against a PLN 200,403 thousand rise in Q2 2004). Another factor contributing to the lower Q2 2005 operating cash flow, year on year, was recognition in net profit of significant non-operating items (such as discount of the acquired Unipetrol claims and the Polkomtel dividend), disclosed as financing items.

33,453 thousand in Q2 2004). In Q2 2005, the Group reported a positive balance of the financing cash flow of PLN 173,307 thousand (in Q2 2004, the balance was negative at PLN 340,516 thousand). In Q2 2005, net inflow under loans and borrowings was PLN 212,344 thousand, while in Q2 2004 the outflow was PLN 311,258 thousand.

Net cash at the end of Q2 2005 totalled PLN 837,043 thousand, falling by PLN 84,264 thousand on Q2 2004.

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# SUMMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| | | | | | | |
| Revenue on sales of products | 10,158,647 | 5,587,794 | 8,581,046 | 4,686,880 | 18.4% | 19.2% |
| Revenue on sales of goods and materials for resale | 5,046,865 | 2,811,810 | 5,232,106 | 2,786,057 | -3.5% | 0.9% |
| Cost of sales | 7,230,493 | 4,087,091 | 6,162,616 | 3,288,295 | 17.3% | 24.3% |
| Goods and materials at cost | 4,727,423 | 2,529,902 | 4,911,240 | 2,651,662 | -3.7% | -4.6% |
| **Profit (loss) on sales** | **3,247,596** | **1,782,611** | **2,739,296** | **1,532,980** | **18.6%** | **16.3%** |
| | | | | | | |
| Other operating income | 161,677 | 83,006 | 109,632 | 69,230 | **47.5%** | **19.9%** |
| Selling costs | 1,026,529 | 537,113 | 1,063,396 | 519,325 | -3.5% | 3.4% |
| General and administrative expenses | 400,658 | 201,887 | 422,269 | 236,409 | -5.1% | -14.6% |
| Other operating expenses | 550,748 | 486,604 | 292,793 | 259,755 | 88.1% | 87.3% |
| **Operating profit (loss)** | **1,431,338** | **640,013** | **1,070,470** | **586,721** | **33.7%** | **9.1%** |
| | | | | | | |
| Financial income | 440,723 | 394,544 | 157,101 | 140,625 | 180.5% | 180.6% |
| Financial expenses | 227,120 | 159,697 | 98,259 | 40,275 | 131.1% | 296.5% |
| Share in profit (loss) of undertakings consolidated with equity method | 8,569 | 8,786 | 8,905 | 2,219 | -3.8% | 295.9% |
| Profit (loss) on disposal of all or part of equity interests in subordinated undertakings | 29,395 | 29,395 | 3,795 | 3,795 | 674.6% | 674.6% |
| **Pre-tax profit (loss)** | **1,682,905** | **913,041** | **1,142,012** | **693,085** | **47.4%** | **31.7%** |
| | | | | | | |
| Corporate income tax | 361,130 | 219,471 | 238,196 | 136,076 | 51.6% | 61.3% |
| **Net profit (loss)** | 1,321,775 | 693,570 | 903,816 | 557,009 | 46.2% | 24.5% |
| | | | | | | |
| Profit (loss) attributable to minority interests | -5,634 | 4,538 | -23,576 | -6,458 | -76.1% | -170.3% |
| **Net profit (loss) after minority interest** | **1,316,141** | **698,108** | **880,240** | **550,551** | **49.5%** | **26.8%** |

SEC File
82-5036

# SUMMARY CONSOLIDATED BALANCE SHEETS as at June 30th 2005 and December 31st 2004 (PLN '000)

| ITEM | Jun 30 2005 (unaudited data) | Dec (unauc |
|---|---|---|
| **ASSETS** | | |
| **Non-current (long-term) assets** | | |
| Property, plant and equipment | 11,317,740 | |
| (Negative) goodwill | 20,501 | |
| Intangible assets | 402,053 | |
| Financial assets | 2,154,319 | |
| Shares and equity interests in undertakings consolidated with equity method | 34,331 | |
| Deferred tax assets | 52,280 | |
| Other non-current assets | 71,925 | |
| **Total non-current assets** | **14,053,149** | |
| **Current (short-term) assets** | | |
| Stocks | 4,346,520 | |
| Trade debtors and other receivables | 3,896,883 | |
| Taxes receivable | 3,987 | |
| Short-term securities | 372,103 | |
| Prepayments | 113,708 | |
| Cash and cash equivalents | 837,043 | |
| Other financial assets | 177 | |
| **Total current assets** | **9,570,421** | |
| **Total assets** | **23,623,570** | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | |
| **Shareholders' equity** | | |
| Share capital | 534,636 | |
| Share premium | 1,058,450 | |
| Hedging accounting – cash flows | 29,152 | |
| Currency-translation differences on subsidiary undertakings | -21,129 | |
| (Accumulated loss)/retained profit brought forward | 11,355,939 | |
| **Shareholders' equity attributable to parent undertaking's shareholders** | **12,957,048** | |
| Minority interests | 400,625 | |
| **Total shareholders' equity** | **13,357,673** | |
| **Non-current liabilities** | | |
| Loans and borrowings | 2,153,118 | |
| Provisions | 733,929 | |
| Deferred income tax provisions | 376,461 | |
| Other non-current liabilities | 59,358 | |
| **Total non-current liabilities** | **3,322,866** | |
| **Current liabilities** | | |
| Liabilities and accrued expenses | 5,595,757 | |
| Provisions | 603,248 | |
| Corporate income tax payable | 74,590 | |
| Loans and borrowings | 615,240 | |
| Deferred income | 50,046 | |
| Other financial liabilities | 4,150 | |
| **Total current liabilities** | **6,943,031** | |
| **Total shareholders' equity and liabilities** | **23,623,570** | |

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SEC File
82-5036

# SUMMARY CONSOLIDATED CASH FLOW STATEMENTS
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | Change 6 months | Change 3 months |
|---|---|---|---|---|---|---|
| **Operating cash flow** | | | | | | |
| **Net profit (loss)** | **1,316,141** | **698,108** | **880,240** | **550,551** | **435,901** | **147,557** |
| Total adjustments: | | | | | | |
| Profit (loss) attributable to minority interests | 5,634 | -4,538 | 23,576 | 6,458 | -17,942 | -10,996 |
| Share in profit (loss) of undertakings consolidated with equity method | -8,569 | -8,786 | -8,905 | -2,219 | 336 | -6,567 |
| Depreciation and amortisation | 575,412 | 280,569 | 667,445 | 326,610 | -92,033 | -46,041 |
| Net dividends and interest | -71,374 | -71,191 | -23,158 | 15,619 | -48,216 | -86,810 |
| Corporate income tax as disclosed in profit and loss account | 361,130 | 219,471 | 238,196 | 136,076 | 122,934 | 83,395 |
| (Profit) loss on investment activities | -48,327 | -33,248 | 128,867 | 115,961 | -177,194 | -149,209 |
| Decrease / (increase) in receivables | -409,479 | -37,096 | -654,998 | -246,938 | 245,519 | 209,842 |
| Decrease / (increase) in stocks | -1,144,723 | -289,630 | -310,404 | -200,403 | -834,319 | -89,227 |
| (Decrease) / increase in liabilities and accrued expenses | 774,693 | -30,327 | 763,329 | 278,726 | 11,364 | -309,053 |
| (Decrease) / increase in provisions | 426,710 | 413,729 | 78,541 | 84,350 | 348,169 | 329,379 |
| Other adjustments | -205,157 | -229,882 | 110,490 | 151,599 | -315,647 | -381,481 |
| Corporate income tax paid | -295,869 | -195,360 | -154,777 | -105,977 | -141,092 | -89,383 |
| **Net operating cash flow** | **1,276,222** | **711,819** | **1,738,442** | **1,110,413** | **-462,220** | **-398,594** |
| **Investing cash flow** | | | | | | |
| Acquisition of intangible assets and property, plant and equipment | -841,259 | -464,140 | -806,979 | -373,836 | -34,280 | -90,304 |
| Disposal of property, plant and equipment | 16,113 | 11,883 | 14,910 | 6,913 | 1,203 | 4,970 |
| Acquisition of interests in unconsolidated undertakings | -1,565,992 | -1,564,381 | -27,107 | -15,655 | -1,538,885 | -1,548,726 |
| Acquisition of short-term securities | -81,818 | -42,189 | -293,447 | -207,954 | 211,629 | 165,765 |
| Gain on disposal of short-term securities | 963,546 | 575,361 | 65,286 | 33,453 | 898,260 | 541,908 |
| Dividends and interest received | 123,025 | 103,210 | 84,356 | 81,857 | 38,669 | 21,353 |
| Loans granted/repaid | 558 | -284 | -2,072 | -2,072 | 2,630 | 1,788 |
| Other | -101,027 | -101,106 | 15,712 | -9,969 | -116,739 | -91,137 |
| **Net investing cash outflow** | **-1,486,854** | **-1,481,646** | **-949,341** | **-487,263** | **-537,513** | **-994,383** |
| **Financing cash flow** | | | | | | |
| Increase in long- and short-term loans and borrowings | 601,626 | 338,535 | 748,575 | 80,449 | -146,949 | 258,086 |
| Decrease in long- and short-term loans and borrowings | -218,846 | -126,191 | -1,189,056 | -391,707 | 970,210 | 265,516 |
| Interest paid | -54,527 | -31,258 | -54,921 | -27,198 | 394 | -4,060 |
| Other | -16,110 | -7,779 | -5,168 | -2,060 | -10,942 | -5,719 |
| **Net financing cash inflow/(outflow)** | **312,143** | **173,307** | **-500,570** | **-340,516** | **812,713** | **513,823** |
| **Change in net cash** | **101,511** | **-596,520** | **288,531** | **282,634** | **-187,020** | **-879,154** |
| Foreign-exchange gains/losses | -281 | -6,073 | -1,483 | -1,647 | 1,202 | |
| **Cash at beginning of period** | **735,813** | **1,439,636** | **634,259** | **640,320** | **101,554** | **799,316** |
| **Cash at end of period, including:** | **837,043** | **837,043** | **921,307** | **921,307** | **-84,264** | **-84,264** |
| Restricted cash | 101,397 | 101,397 | 120,346 | 120,346 | -18,949 | -18,949 |

# KEY CONSOLIDATED FINANCIAL DATA BY BUSINESS SEGMENT
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **REVENUE ON SALES TO THIRD PARTIES[1]** | | | | | | |
| Refining (production + wholesale) | 7,233,595 | 4,244,031 | 6,086,372 | 3,362,235 | 18.8% | 26.2% |
| Refining (retail) | 5,826,599 | 3,247,361 | 5,502,414 | 3,029,497 | 5.9% | 7.2% |
| Petrochemicals | 1,844,479 | 770,785 | 1,903,808 | 935,896 | -3.1% | -17.6% |
| Other activities | 300,839 | 137,427 | 320,558 | 145,309 | -6.2% | -5.4% |
| **TOTAL** | **15,205,512** | **8,399,604** | **13,813,152** | **7,472,937** | **10.1%** | **12.4%** |
| **FINANCIAL RESULT[2]** | | | | | | |
| Refining (production + wholesale) | 1,356,923 | 778,030 | 982,282 | 563,248 | 38.1% | 38.1% |
| Refining (retail) | 63,804 | 61,592 | -27,931 | -11,750 | -328.4% | -624.2% |
| Petrochemicals | 523,097 | 205,333 | 342,143 | 142,709 | 52.9% | 43.9% |
| Other activities | 36,135 | 6,816 | 29,749 | 8,466 | 21.5% | -19.5% |
| Exclusions | -90 | 235 | -54 | 140 | | |
| Total of non-attributed items | -548,531 | -411,993 | -255,719 | -116,092 | | |
| **TOTAL** | **1,431,338** | **640,013** | **1,070,470** | **586,721** | **33.7%** | **9.1%** |
| **EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Refining (production + wholesale) | 200,751 | 125,866 | 141,454 | 92,982 | 41.9% | 35.4% |
| Refining (retail) | 130,707 | 48,408 | 119,159 | 73,002 | 9.7% | -33.7% |
| Petrochemicals | 425,892 | 272,116 | 439,415 | 259,416 | -3.1% | 4.9% |
| Other activities | 48,953 | 27,697 | 29,496 | 15,539 | 66.0% | 78.2% |
| Total of non-attributed items | 24,638 | 22,380 | 15,616 | 11,845 | 57.8% | 88.9% |
| **TOTAL** | **830,941** | **496,467** | **745,140** | **452,784** | **11.5%** | **9.6%** |
| **DEPRECIATION AND AMORTISATION** | | | | | | |
| Refining (production + wholesale) | 226,309 | 105,589 | 300,665 | 130,510 | -24.7% | -19.1% |
| Refining (retail) | 107,224 | 57,958 | 113,569 | 71,232 | -5.6% | -18.6% |
| Petrochemicals | 120,625 | 56,772 | 127,397 | 62,752 | -5.3% | -9.5% |
| Other activities | 105,476 | 54,361 | 105,221 | 55,420 | 0.2% | -1.9% |
| Total of non-attributed items | 15,778 | 5,889 | 20,593 | 6,696 | -23.4% | -12.1% |
| **TOTAL** | **575,412** | **280,569** | **667,445** | **326,610** | **-13.8%** | **-14.1%** |

*1. Revenue on sales to third parties represents exclusively sales to undertakings outside of the ORLEN Group.*

*2. Financial result comprises revenue on sales to third parties and transfer to other segments.*

# KEY CONSOLIDATED OPERATING DATA
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (tonnes)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **CRUDE OIL THROUGHPUT ('000 tonnes)** | **6,182** | **3,019** | **5,956** | **3,036** | **3.8%** | **-0.6%** |
| | | | | | | |
| **REFINERY OUTPUT** | | | | | | |
| Gasoline | 1,452,663 | 753,176 | 1,328,828 | 708,145 | 9.3% | 6.4% |
| Diesel fuel | 1,712,704 | 870,588 | 1,663,957 | 885,624 | 2.9% | -1.7% |
| Fuel oil (III) | 354,908 | 206,001 | 276,305 | 155,703 | 28.4% | 32.3% |
| Ekoterm | 773,965 | 316,112 | 742,420 | 300,108 | 4.2% | 5.3% |
| JET A-1 | 191,160 | 103,408 | 134,413 | 87,176 | 42.2% | 18.6% |
| LPG | 124,051 | 65,566 | 95,577 | 48,493 | 29.8% | 35.2% |
| Other refining products | 658,613 | 436,210 | 560,522 | 359,359 | 17.5% | 21.4% |
| **TOTAL** | **5,268,064** | **2,751,061** | **4,802,022** | **2,544,608** | **9.7%** | **8.1%** |
| | | | | | | |
| ***SALES OF REFINING PRODUCTS*** | | | | | | |
| Gasoline | 1,896,319 | 1,023,708 | 1,807,725 | 976,506 | 4.9% | 4.8% |
| Diesel fuel | 1,953,866 | 1,085,199 | 1,889,243 | 1,020,364 | 3.4% | 6.4% |
| Fuel oil (III) | 231,907 | 122,351 | 216,546 | 93,068 | 7.1% | 31.5% |
| Ekoterm | 863,496 | 378,534 | 822,648 | 338,284 | 5.0% | 11.9% |
| JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 | 43.6% | 34.9% |
| LPG | 152,985 | 82,943 | 147,424 | 77,754 | 3.8% | 6.7% |
| Other refining products | 702,603 | 487,410 | 669,936 | 416,167 | 4.9% | 17.1% |
| **TOTAL** | **6,009,119** | **3,303,292** | **5,698,316** | **3,013,441** | **5.5%** | **9.6%** |
| | | | | | | |
| **PETROCHEMICALS OUTPUT** | | | | | | |
| Polyethylene | 26,433 | 7,796 | 34,177 | 4,206 | -22.7% | 85.4% |
| Polypropylene | 34,671 | 15,906 | 30,022 | 12,051 | 15.5% | 32.0% |
| Ethylene | 31,034 | 7,755 | 38,861 | 16,702 | -20.1% | -53.6% |
| Glycol | 40,897 | 11,964 | 50,199 | 22,762 | -18.5% | -47.4% |
| Propylene | 63,381 | 24,563 | 65,322 | 27,241 | -3.0% | -9.8% |
| Ammonium nitrate | 304,173 | 170,848 | 270,701 | 151,864 | 12.4% | 12.5% |
| CANWIL | 166,267 | 59,875 | 153,333 | 72,236 | 8.4% | -17.1% |
| Polyvinyl chloride (PVC) | 79,702 | 27,866 | 105,552 | 45,387 | -24.5% | -38.6% |
| Other petrochemical products | 253,186 | 83,688 | 312,100 | 153,932 | -18.9% | -45.6% |
| **TOTAL** | **999,744** | **410,261** | **1,060,267** | **506,381** | **-5.7%** | **-19.0%** |
| **SALES OF PETROCHEMICAL PRODUCTS** | | | | | | |
| Polyethylene | 32,989 | 14,594 | 49,392 | 21,299 | -33.2% | -31.5% |
| Polypropylene | 37,604 | 18,984 | 43,755 | 19,400 | -14.1% | -2.1% |
| Ethylene | 30,494 | 8,623 | 38,580 | 16,338 | -21.0% | -47.2% |
| Glycol | 44,449 | 14,775 | 51,139 | 25,972 | -13.1% | -43.1% |
| Propylene | 63,417 | 24,878 | 64,660 | 27,230 | -1.9% | -8.6% |
| Ammonium nitrate | 261,803 | 131,334 | 254,945 | 128,289 | 2.7% | 2.4% |
| CANWIL | 167,757 | 75,771 | 143,995 | 58,725 | 16.5% | 29.0% |
| Polyvinyl chloride (PVC) | 88,598 | 43,057 | 108,531 | 50,708 | -18.4% | -15.1% |
| Other petrochemical products | 251,173 | 95,499 | 300,228 | 146,150 | -16.3% | -34.7% |
| **TOTAL** | **978,284** | **427,515** | **1,055,225** | **494,111** | **-7.3%** | **-13.5%** |

**SALES OF KEY PRODUCTS**
**for the periods of 6 and 3 months**
**ended June 30th 2005 and June 30th 2004**
**(tonnes)**

| Sales of light products in the Orlen Group (by volume) | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | ch 3 |
|---|---|---|---|---|---|---|
| **Wholesale of key light products, including:** | **3,402,598** | **1,805,106** | **3,123,091** | **1,611,595** | **8.9%** | |
| - Gasoline | 989,966 | 546,699 | 876,555 | 482,941 | 12.9% | |
| - Diesel fuel | 1,341,319 | 756,776 | 1,279,330 | 699,126 | 4.8% | |
| - JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 | 43.6% | |
| - Ekoterm | 863,370 | 378,484 | 822,412 | 338,230 | 5.0% | |
| **Retail sales of engine fuels, including:** | **1,587,745** | **842,227** | **1,598,454** | **846,875** | **-0.7%** | |
| - Gasoline | 906,353 | 477,009 | 931,170 | 493,565 | -2.7% | |
| - Diesel fuel | 612,547 | 328,423 | 609,913 | 321,238 | 0.4% | |
| - LPG | 68,845 | 36,795 | 57,371 | 32,072 | 20.0% | |
| **Total sales of fuels, including:** | **5,074,609** | **2,693,531** | **4,811,834** | **2,504,206** | **5.5%** | |
| - Engine fuels | 4,211,113 | 2,314,997 | 3,989,186 | 2,165,922 | 5.6% | |

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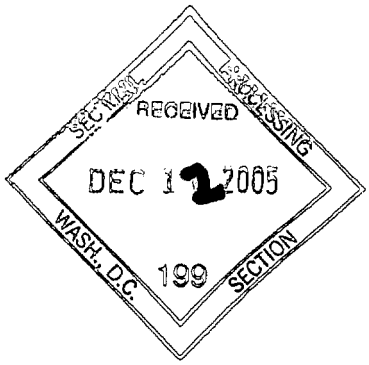
| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Q2'05 prelim finan resultsPt2 |
| **Released** | 10:09 16-Aug-05 |
| **Number** | 1383Q |




RNS Number:1383Q
Polski Koncern Naftowy Orlen S.A.
16 August 2005

PART 2

APPENDIX I

PKN ORLEN

SUMMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS
for the periods of 6 and 3 months
ended June 30th 2005 and June 30th 2004
(PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) |
|---|---|---|---|---|
| Revenue on sales of products | 10,158,647 | 5,587,794 | 8,581,046 | 4,686,880 |
| Revenue on sales of goods and materials for resale | 5,046,865 | 2,811,810 | 5,232,106 | 2,786,057 |
| Cost of sales | 7,230,493 | 4,087,091 | 6,162,616 | 3,288,295 |
| Goods and materials at cost | 4,727,423 | 2,529,902 | 4,911,240 | 2,651,662 |
| Profit (loss) on sales | 3,247,596 | 1,782,611 | 2,739,296 | 1,532,980 |
| Other operating income | 161,677 | 83,006 | 109,632 | 69,230 |
| Selling costs | 1,026,529 | 537,113 | 1,063,396 | 519,325 |
| General and administrative expenses | 400,658 | 201,887 | 422,269 | 236,409 |
| Other operating expenses | 550,748 | 486,604 | 292,793 | 259,755 |
| Operating profit (loss) | 1,431,338 | 640,013 | 1,070,470 | 586,721 |
| Financial income | 440,723 | 394,544 | 157,101 | 140,625 |
| Financial expenses | 227,120 | 159,697 | 98,259 | 40,275 |
| Share in profit (loss) of undertakings consolidated with equity method | 8,569 | 8,786 | 8,905 | 2,219 |
| Profit (loss) on disposal of all or part of equity interests in subordinated undertakings | 29,395 | 29,395 | 3,795 | 3,795 |
| Pre-tax profit (loss) | 1,682,905 | 913,041 | 1,142,012 | 693,085 |
| Corporate income tax | 361,130 | 219,471 | 238,196 | 136,076 |
| Net profit (loss) | 1,321,775 | 693,570 | 903,816 | 557,009 |
| Profit (loss) attributable to minority interests | -5,634 | 4,538 | -23,576 | -6,458 |
| Net profit (loss) after minority interest | 1,316,141 | 698,108 | 880,240 | 550,551 |

APPENDIX II

PKN ORLEN
SUMMARY CONSOLIDATED BALANCE SHEETS

| ITEM | Jun 30 2005 (unaudited data) | Dec 31 2004 (unaudited data) |
|---|---|---|
| ASSETS | | |
| Non-current (long-term) assets | | |
| Property, plant and equipment | 11,317,740 | 11,081,131 |
| (Negative) goodwill | 20,501 | 20,501 |
| Intangible assets | 402,053 | 383,525 |
| Financial assets | 2,154,319 | 511,564 |
| Shares and equity interests in undertakings consolidated with equity method | 34,331 | 118,014 |
| Deferred tax assets | 52,280 | 27,138 |
| Other non-current assets | 71,925 | 8,794 |
| Total non-current assets | 14,053,149 | 12,150,667 |
| Current (short-term) assets | | |
| Stocks | 4,346,520 | 3,224,891 |
| Trade debtors and other receivables | 3,896,883 | 3,021,579 |
| Taxes receivable | 3,987 | 23,309 |
| Short-term securities | 372,103 | 1,124,155 |
| Prepayments | 113,708 | 103,020 |
| Cash and cash equivalents | 837,043 | 735,813 |
| Other financial assets | 177 | 154,216 |
| Total current assets | 9,570,421 | 8,386,983 |
| Total assets | 23,623,570 | 20,537,650 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | |
| Shareholders' equity | | |
| Share capital | 534,636 | 534,636 |
| Share premium | 1,058,450 | 1,058,450 |
| Hedging accounting - cash flows | 29,152 | 59,195 |
| Currency-translation differences on subsidiary undertakings | -21,129 | -9,444 |
| (Accumulated loss)/retained profit brought forward | 11,355,939 | 10,950,752 |
| Shareholders' equity attributable to parent undertaking's shareholders | 12,957,048 | 12,593,589 |
| Minority interests | 400,625 | 384,013 |
| Total shareholders' equity | 13,357,673 | 12,977,602 |
| Non-current liabilities | | |
| Loans and borrowings | 2,153,118 | 2,083,536 |
| Provisions | 733,929 | 637,689 |
| Deferred income tax provisions | 376,461 | 378,248 |
| Other non-current liabilities | 59,358 | 34,255 |
| Total non-current liabilities | 3,322,866 | 3,133,728 |
| Current liabilities | | |
| Liabilities and accrued expenses | 5,595,757 | 3,840,695 |
| Provisions | 603,248 | 283,442 |
| Corporate income tax payable | 74,590 | 1,680 |
| Loans and borrowings | 615,240 | 241,599 |
| Deferred income | 50,046 | 16,912 |
| Other financial liabilities | 4,150 | 41,992 |
| Total current liabilities | 6,943,031 | 4,426,320 |
| Total shareholders' equity and liabilities | 23,623,570 | 20,537,650 |

for the periods of 6 and 3 months
ended June 30th 2005 and June 30th 2004
(PLN '000)



| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) |
|---|---|---|---|---|
| Operating cash flow | | | | |
| Net profit (loss) | 1,316,141 | 698,108 | 880,240 | 550,551 |
| Total adjustments: | | | | |
| Profit (loss) attributable to minority interests | 5,634 | -4,538 | 23,576 | 6,458 |
| Share in profit (loss) of undertakings consolidated with equity method | -8,569 | -8,786 | -8,905 | -2,219 |
| Depreciation and amortisation | 575,412 | 280,569 | 667,445 | 326,610 |
| Net dividends and interest | -71,374 | -71,191 | -23,158 | 15,619 |
| Corporate income tax as disclosed in profit and loss account | 361,130 | 219,471 | 238,196 | 136,076 |
| (Profit) loss on investment activities | -48,327 | -33,248 | 128,867 | 115,961 |
| Decrease / (increase) in receivables | -409,479 | -37,096 | -654,998 | -246,938 |
| Decrease / (increase) in stocks | -1,144,723 | -289,630 | -310,404 | -200,403 |
| (Decrease) / increase in liabilities and accrued expenses | 774,693 | -30,327 | 763,329 | 278,726 |
| (Decrease) / increase in provisions | 426,710 | 413,729 | 78,541 | 84,350 |
| Other adjustments | -205,157 | -229,882 | 110,490 | 151,599 |
| Corporate income tax paid | -295,869 | -195,360 | -154,777 | -105,977 |
| Net operating cash flow | 1,276,222 | 711,819 | 1,738,442 | 1,110,413 |
| | | | | |
| Investing cash flow | | | | |
| Acquisition of intangible assets and property, plant and equipment | -841,259 | -464,140 | -806,979 | -373,836 |
| Disposal of property, plant and equipment | 16,113 | 11,883 | 14,910 | 6,913 |
| Acquisition of interests in unconsolidated undertakings | -1,565,992 | -1,564,381 | -27,107 | -15,655 |
| Acquisition of short-term securities | -81,818 | -42,189 | -293,447 | -207,954 |
| Gain on disposal of short-term securities | 963,546 | 575,361 | 65,286 | 33,453 |
| Dividends and interest received | 123,025 | 103,210 | 84,356 | 81,857 |
| Loans granted/repaid | 558 | -284 | -2,072 | -2,072 |
| Other | -101,027 | -101,106 | 15,712 | -9,969 |
| Net investing cash outflow | -1,486,854 | -1,481,646 | -949,341 | -487,263 |
| | | | | |
| Financing cash flow | | | | |
| Increase in long- and short-term loans and borrowings | 601,626 | 338,535 | 748,575 | 80,449 |
| Decrease in long- and short-term loans and borrowings | -218,846 | -126,191 | -1,189,056 | -391,707 |
| Interest paid | -54,527 | -31,258 | -54,921 | -27,198 |
| Other | -16,110 | -7,779 | -5,168 | -2,060 |
| Net financing cash inflow/(outflow) | 312,143 | 173,307 | -500,570 | -340,516 |
| | | | | |
| Change in net cash | 101,511 | -596,520 | 288,531 | 282,634 |
| Foreign-exchange gains/losses | -281 | -6,073 | -1,483 | -1,647 |
| Cash at beginning of period | 735,813 | 1,439,636 | 634,259 | 640,320 |
| Cash at end of period, including: | 837,043 | 837,043 | 921,307 | 921,307 |
| Restricted cash | 101,397 | 101,397 | 120,346 | 120,346 |

APPENDIX IV

PKN ORLEN
KEY CONSOLIDATED FINANCIAL DATA BY BUSINESS SEGMENT

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % 6 |
|---|---|---|---|---|---|
| REVENUE ON SALES TO THIRD PARTIES1 | | | | | |
| Refining (production + wholesale) | 7,233,595 | 4,244,031 | 6,086,372 | 3,362,235 | |
| Refining (retail) | 5,826,599 | 3,247,361 | 5,502,414 | 3,029,497 | |
| Petrochemicals | 1,844,479 | 770,785 | 1,903,808 | 935,896 | |
| Other activities | 300,839 | 137,427 | 320,558 | 145,309 | |
| TOTAL | 15,205,512 | 8,399,604 | 13,813,152 | 7,472,937 | |
| FINANCIAL RESULT2 | | | | | |
| Refining (production + wholesale) | 1,356,923 | 778,030 | 982,282 | 563,248 | |
| Refining (retail) | 63,804 | 61,592 | -27,931 | -11,750 | - |
| Petrochemicals | 523,097 | 205,333 | 342,143 | 142,709 | |
| Other activities | 36,135 | 6,816 | 29,749 | 8,466 | |
| Exclusions | -90 | 235 | -54 | 140 | |
| Total of non-attributed items | -548,531 | -411,993 | -255,719 | -116,092 | |
| TOTAL | 1,431,338 | 640,013 | 1,070,470 | 586,721 | |
| EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT | | | | | |
| Refining (production + wholesale) | 200,751 | 125,866 | 141,454 | 92,982 | |
| Refining (retail) | 130,707 | 48,408 | 119,159 | 73,002 | |
| Petrochemicals | 425,892 | 272,116 | 439,415 | 259,416 | |
| Other activities | 48,953 | 27,697 | 29,496 | 15,539 | |
| Total of non-attributed items | 24,638 | 22,380 | 15,616 | 11,845 | |
| TOTAL | 830,941 | 496,467 | 745,140 | 452,784 | |
| DEPRECIATION AND AMORTISATION | | | | | |
| Refining (production + wholesale) | 226,309 | 105,589 | 300,665 | 130,510 | |
| Refining (retail) | 107,224 | 57,958 | 113,569 | 71,232 | |
| Petrochemicals | 120,625 | 56,772 | 127,397 | 62,752 | |
| Other activities | 105,476 | 54,361 | 105,221 | 55,420 | |
| Total of non-attributed items | 15,778 | 5,889 | 20,593 | 6,696 | |
| TOTAL | 575,412 | 280,569 | 667,445 | 326,610 | |

1. Revenue on sales to third parties represents exclusively sales to undertakings outside of the ORLEN Group.

2. Financial result comprises revenue on sales to third parties and transfer to other segments.

APPENDIX V

PKN ORLEN
KEY CONSOLIDATED OPERATING DATA
for the periods of 6 and 3 months
ended June 30th 2005 and June 30th 2004
(tonnes)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) |
|---|---|---|---|---|
| CRUDE OIL THROUGHPUT ('000 tonnes) | 6,182 | 3,019 | 5,956 | 3,036 |

| | | | | |
|---|---|---|---|---|
| Diesel fuel | 1,712,704 | 870,588 | 1,663,957 | 885,624 |
| Fuel oil (III) | 354,908 | 206,001 | 276,305 | 155,703 |
| Ekoterm | 773,965 | 316,112 | 742,420 | 300,108 |
| JET A-1 | 191,160 | 103,408 | 134,413 | 87,176 |
| LPG | 124,051 | 65,566 | 95,577 | 48,493 |
| Other refining products | 658,613 | 436,210 | 560,522 | 359,359 |
| TOTAL | 5,268,064 | 2,751,061 | 4,802,022 | 2,544,608 |
| SALES OF REFINING PRODUCTS | | | | |
| Gasoline | 1,896,319 | 1,023,708 | 1,807,725 | 976,506 |
| Diesel fuel | 1,953,866 | 1,085,199 | 1,889,243 | 1,020,364 |
| Fuel oil (III) | 231,907 | 122,351 | 216,546 | 93,068 |
| Ekoterm | 863,496 | 378,534 | 822,648 | 338,284 |
| JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 |
| LPG | 152,985 | 82,943 | 147,424 | 77,754 |
| Other refining products | 702,603 | 487,410 | 669,936 | 416,167 |
| TOTAL | 6,009,119 | 3,303,292 | 5,698,316 | 3,013,441 |
| PETROCHEMICALS OUTPUT | | | | |
| Polyethylene | 26,433 | 7,796 | 34,177 | 4,206 |
| Polypropylene | 34,671 | 15,906 | 30,022 | 12,051 |
| Ethylene | 31,034 | 7,755 | 38,861 | 16,702 |
| Glycol | 40,897 | 11,964 | 50,199 | 22,762 |
| Propylene | 63,381 | 24,563 | 65,322 | 27,241 |
| Ammonium nitrate | 304,173 | 170,848 | 270,701 | 151,864 |
| CANWIL | 166,267 | 59,875 | 153,333 | 72,236 |
| Polyvinyl chloride (PVC) | 79,702 | 27,866 | 105,552 | 45,387 |
| Other petrochemical products | 253,186 | 83,688 | 312,100 | 153,932 |
| TOTAL | 999,744 | 410,261 | 1,060,267 | 506,381 |
| SALES OF PETROCHEMICAL PRODUCTS | | | | |
| Polyethylene | 32,989 | 14,594 | 49,392 | 21,299 |
| Polypropylene | 37,604 | 18,984 | 43,755 | 19,400 |
| Ethylene | 30,494 | 8,623 | 38,580 | 16,338 |
| Glycol | 44,449 | 14,775 | 51,139 | 25,972 |
| Propylene | 63,417 | 24,878 | 64,660 | 27,230 |
| Ammonium nitrate | 261,803 | 131,334 | 254,945 | 128,289 |
| CANWIL | 167,757 | 75,771 | 143,995 | 58,725 |
| Polyvinyl chloride (PVC) | 88,598 | 43,057 | 108,531 | 50,708 |
| Other petrochemical products | 251,173 | 95,499 | 300,228 | 146,150 |
| TOTAL | 978,284 | 427,515 | 1,055,225 | 494,111 |

APPENDIX VI

PKN ORLEN
SALES OF KEY PRODUCTS
for the periods of 6 and 3 months
ended June 30th 2005 and June 30th 2004
(tonnes)

| Sales of light products in the Orlen Group (by volume) | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % |
|---|---|---|---|---|---|
| Wholesale of key light products, including: | 3,402,598 | 1,805,106 | 3,123,091 | 1,611,595 | |
| - Gasoline | 989,966 | 546,699 | 876,555 | 482,941 | |
| - Diesel fuel | 1,341,319 | 756,776 | 1,279,330 | 699,126 | |
| - JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 | |
| - Ekoterm | 863,370 | 378,484 | 822,412 | 338,230 | |
| Retail sales of engine fuels, including: | 1,587,745 | 842,227 | 1,598,454 | 846,875 | |
| - Gasoline | 906,353 | 477,009 | 931,170 | 493,565 | |
| - Diesel fuel | 612,547 | 328,423 | 609,913 | 321,238 | |

| | | | | |
|---|---|---|---|---|
| - Engine fuels | 4,211,113 | 2,314,997 | 3,989,186 | 2,165,922 |

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| **Company** | Polski Koncern Naftowy Orlen S.A. |
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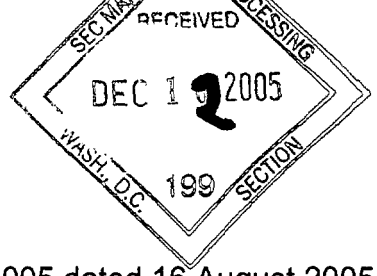
| **Released** | 16:33 07-Dec-05 |
| **Number** | 3110V |

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82-5036

Update of Regulatory Announcement No 53/2005 dated 16 August 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby publishes the updated regulatory announcement No 53/2005 dated 16 August 2005 of a current report containing preliminary condensed consolidated financial statements for the period of two quarters 2005 as required under the Council of Ministers Decree of 21 March 2005 on current and periodical information provided by issuers of securities (Journal of Laws No. 49, item 463) and in compliance with the International Financial Reporting Standards, excluding IFRS 3 with respect to impact of UNIPETROL acquisition. Those financial statements presented preliminary financial data of the PKN ORLEN Group. They did not include the effect of the UNIPETROL Group consolidation. The complete financial statements covering two quarters of 2005 were published on 29 September 2005.

The updated report includes all the parts of the regulatory announcement No 53/2005, dated 16 August 2005, that were missing owing to technical problems that appeared in the release of the announcement via the London Stock Exchange distribution system.

To see the updated report please download the PDF file:

*http://www.rns-pdf.londonstockexchange.com/rns/3110v_pdf-2005-12-7.pdf*

The correct version of the report was also published on the 16th August 2005 on PKN ORLEN's web-site, www.orlen.pl, where it is still available.

END

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**Regulatory Announcement No. 53/2005 dated 16 August 2005**

The Board of Directors of Polski Koncern Naftowy PKN ORLEN S.A. [PKN ORLEN, Company] hereby publishes a regulatory announcement of a current report containing preliminary condensed consolidated financial statements for the period of two quarters 2005 as required under the Council of Ministers Decree of 21 March 2005 on current and periodical information provided by issuers of securities (Journal of Laws No. 49, item 463) and in compliance with the International Financial Reporting Standards, excluding IFRS 3 with respect to impact of UNIPETROL acquisition.

The financial statements present preliminary financial data of the PKN ORLEN Group. They do not include an effect of the UNIPETROL Group consolidation.

The complete financial statements covering two quarters of 2005 will be published on 29 September 2005.

Legal grounds: *Art. 81 section 1 of Public Trading in Securities Law Act of 21 August 1997 (Journal of Laws of 2002 No. 49, item 447, as amended)*

*PKN ORLEN S.A. BOARD OF DIRECTORS*

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POLSKI KONCERN NAFTOWY ORLEN S.A.

# PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS OF 6 AND 3 MONTHS ENDED 30 JUNE 2005 AND 30 JUNE 2004 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

PKN ORLEN SA
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82-5036

## INTRODUCTION

The foregoing current report presented as preliminary condensed consolidated financial statements contains preliminary financial results of the PKN ORLEN Group. The financial data disclosed in these financial statements do not reveal the impact of consolidation of the Unipetrol Group. The PKN ORLEN Group presents herein the acquired Unipetrol Group shares as long term financial investments without impact on the financial result. Beginning from the reports for the second quarter and the first half of 2005 to be published on 29 September 2005, the Unipetrol Group will be subject to full consolidation, i.e. all items of the financial statements will be adjusted by the effect of executed control from the acquisition date of 24 May 2005 to 30 June 2005. An initial estimate of the acquisition effect without fair value valuation according to IFRS 3 results in excess of PLN 1.6 billion of the acquired assets over acquisition cost including related expenses.

The Unipetrol Group will be consolidated basing on the Unipetrol Group financial statements beginning from the report for the second quarter and the first half 2005, which the Company shall publish on 29 September 2005. In order to define the acquisition impact, measurement is being carried out of the acquired Unipetrol assets as required under the first consolidation in accordance with IFRS 3 "Business Combinations".

The acquisition of 62.99% Unipetrol shares is recognised at initial cost as long term financial investments in the foregoing financial statements.

Due to the acquisition agreement, procedures have been initiated to define the final acquisition cost, which comprise audits of financial statements constituting a basis for cost measurement. The final acquisition cost may differ from the currently presented amount.

# POLSKI KONCERN NAFTOWY ORLEN S.A.
# PRELIMINARY CONDENSED CONSOLIDATED BALANCE SHEETS
## as of 30 June 2005, 31 December 2004 and 30 June 2004
## (all amounts in PLN thousand)

PKN ORLEN SEC File 82-5036

| | Note | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| | | | (in thousand of PLN) | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 3.1 | 11 317 740 | 11 081 131 | 10 772 767 |
| Goodwill | 3.5 | 20 501 | 20 501 | 20 133 |
| Intangible assets | | 402 053 | 383 525 | 386 541 |
| Long term financial investments | | 2 154 319 | 511 564 | 515 041 |
| Investments in associates | | 34 331 | 118 014 | 131 550 |
| Deferred tax assets | | 52 280 | 27 138 | 8 860 |
| Other non-current assets | | 71 925 | 8 794 | 10 532 |
| **Total non-current assets** | | **14 053 149** | **12 150 667** | **11 845 424** |
| **Current assets** | | | | |
| Inventory | | 4 346 520 | 3 224 890 | 3 318 227 |
| Trade and other receivables | | 3 896 883 | 3 021 579 | 3 268 624 |
| Income tax receivable | | 3 987 | 23 309 | 1 644 |
| Short-term investments | | 372 103 | 1 124 155 | 297 571 |
| Short-term prepayments | | 113 708 | 103 020 | 162 538 |
| Cash and cash equivalents | 3.2 | 837 043 | 735 813 | 921 307 |
| Other financial assets | | 177 | 154 217 | 90 539 |
| **Total current assets** | | **9 570 421** | **8 386 983** | **8 060 450** |
| **Total assets** | | **23 623 570** | **20 537 650** | **19 905 874** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | | |
| **Equity** | | | | |
| Share capital | | 534 636 | 534 636 | 534 636 |
| Share premium | | 1 058 450 | 1 058 450 | 1 058 450 |
| Hedge accounting - cash flow hedges | | 29 152 | 59 195 | 12 111 |
| Foreign exchange differences on subsidiaries from consolidation | | (21 129) | (9 444) | 42 032 |
| Retained earnings | | 11 355 939 | 10 950 752 | 9 445 952 |
| **Total equity (attributed to shareholders of the parent company)** | | **12 957 048** | **12 593 589** | **11 093 181** |
| Minority interest | | 400 625 | 384 013 | 443 718 |
| **Total equity** | | **13 357 673** | **12 977 602** | **11 536 899** |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | 3.7 | 2 153 118 | 2 083 536 | 1 969 151 |
| Provisions | 3.4 | 733 929 | 637 689 | 600 990 |
| Deferred tax liabilities | 3.4.1 | 376 461 | 378 248 | 425 173 |
| Other non-current liabilities | | 59 358 | 34 255 | 35 801 |
| **Total non-current liabilities** | | **3 322 866** | **3 133 728** | **3 031 115** |
| **Current liabilities** | | | | |
| Trade and other accounts payable and accrued expenses | | 5 595 757 | 3 840 695 | 4 499 480 |
| Provisions | 3.4 | 603 248 | 283 442 | 110 133 |
| Income tax payable | | 74 590 | 1 680 | 30 722 |
| Interest-bearing loans and borrowings | 3.7 | 615 240 | 241 599 | 665 282 |
| Deferred income | | 50 046 | 16 911 | 23 373 |
| Other current financial liabilities | | 4 150 | 41 993 | 8 870 |
| **Total current liabilities** | | **6 943 031** | **4 426 320** | **5 337 860** |
| **Total equity and liabilities** | | **23 623 570** | **20 537 650** | **19 905 874** |

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

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# PRELIMINARY CONDENSED CONSOLIDATED PROFIT AND LOSS STATEMENTS
## for the period of 6 months ended 30 June 2005 and 20 June 2004 and for the period of 3 months ended 31 March 2005 and 31 March 2004
## (all amounts in PLN thousand)

| | Note | for the 6 months ended 30 June 2005 (unaudited) | for the 3 months ended 31 March 2005 (unaudited) | for the 6 months ended 30 June 2004 (unaudited) | for the 3 months ended 31 March 2004 (unaudited) |
|---|---|---|---|---|---|
| | | | (in thousand of PLN) | | |
| **Operating activities** | | | | | |
| **Net sale revenues** | | | | | |
| Net revenues from the sale of finished goods | | 10 158 647 | 4 570 853 | 8 581 046 | 3 894 483 |
| Net revenues from the sale of merchandise and raw materials | | 5 046 865 | 2 235 055 | 5 232 106 | 2 445 732 |
| Cost of finished goods sold | 3.8 | (7 230 493) | (3 143 402) | (6 162 616) | (2 874 321) |
| Cost of merchandise and raw materials sold | 3.8 | (4 727 423) | (2 197 521) | (4 911 240) | (2 259 578) |
| **Gross profit on sales** | | **3 247 596** | **1 464 985** | **2 739 296** | **1 206 316** |
| Other operating income | | 161 677 | 78 671 | 109 632 | 40 402 |
| Distribution expenses | 3.8 | (1 026 529) | (489 416) | (1 063 396) | (544 071) |
| General and administrative expenses | 3.8 | (400 658) | (198 771) | (422 269) | (185 860) |
| Other operating expense | 3.8 | (550 748) | (64 144) | (292 793) | (33 038) |
| **Profit from operations** | | **1 431 338** | **791 325** | **1 070 470** | **483 749** |
| Financial income | 3.9 | 440 723 | 46 179 | 157 101 | 95 642 |
| Financial expense | 3.9 | (227 120) | (67 423) | (98 259) | (137 150) |
| Income (loss) from investments accounted for under equity method | | 8 569 | (217) | 8 905 | 6 686 |
| Profit (loss) on the sale of all or part of shares of related parties | | 29 395 | - | 3 795 | - |
| **Profit before tax** | | **1 682 905** | **769 864** | **1 142 012** | **448 927** |
| Income tax expense | 3.10 | (361 130) | (141 659) | (238 196) | (102 120) |
| **Profit after tax** | | **1 321 775** | **628 205** | **903 816** | **346 807** |
| Minority interest | | (5 634) | (10 172) | (23 576) | (17 118) |
| **Net profit** | | **1 316 141** | **618 033** | **880 240** | **329 689** |
| **Basic and diluted earnings per share in Polish Zloty** | 3.11 | **3,08** | **1,44** | **2,06** | **0,77** |

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

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# PRELIMINARY CONDESNED CONSOLIDATED PROFIT AND LOSS STATEMENTS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | Note | II quarter period from 01/04/2005 to 30/06/2005 (unaudited) | II quarter period from 01/04/2004 to 30/06/2004 (unaudited) |
|---|---|---|---|
| | | (in thousand of PLN) | |
| **Operating activities** | | | |
| **Net sale revenues** | | | |
| Net revenues from the sale of finished goods | | 5 587 794 | 4 686 563 |
| Net revenues from the sale of merchandise and raw materials | | 2 811 810 | 2 786 374 |
| Cost of finished goods sold | 3.8 | (4 087 091) | (3 288 295) |
| Cost of merchandise and raw materials sold | 3.8 | (2 529 902) | (2 651 662) |
| **Gross profit on sales** | | **1 782 611** | **1 532 980** |
| Other operating income | | 83 006 | 69 230 |
| Distribution expenses | 3.8 | (537 113) | (519 325) |
| General and administrative expenses | 3.8 | (201 887) | (236 409) |
| Other operating expense | 3.8 | (486 604) | (259 755) |
| **Profit from operations** | | **640 013** | **586 721** |
| Financial income * | 3.9 | 394 544 | 140 625 |
| Financial expense * | 3.9 | (159 697) | (40 275) |
| Income (loss) from investments accounted for under equity method | | 8 786 | 2 219 |
| Profit (loss) on the sale of all or part of shares of related parties | | 29 395 | 3 795 |
| **Profit before tax** | | **913 041** | **693 085** |
| Income tax expense | 3.10 | (219 471) | (136 076) |
| **Profit after tax** | | **693 570** | **557 009** |
| Minority interest | | 4 538 | (6 458) |
| **Net profit** | | **698 108** | **550 551** |

* the decrease of negative foreign exchange differences in the amount of PLN 54,896 thousand and the decrease of expenses in the amount of PLN 24,270 thousand relate to reclassification of financial instruments in the II quarter of 2004

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# PRELIMINARY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## for the period of 6 months ended 30 June 2005 and 20 June 2004 and for the period of 3 months ended 31 March 2005 and 31 March 2004
## (all amounts in PLN thousand)

| | for the 6 months ended 30 June 2005 | for the 3 months ended 31 March 2005 | for the 6 months ended 30 June 2004 | for the 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | | (in thousand of PLN) | | |
| **Cash flows - operating activities** | | | | |
| Net profit | **1 316 141** | **618 033** | **880 240** | **329 689** |
| Adjustments for: | | | | |
| Minority interest | 5 634 | 10 172 | 23 576 | 17 118 |
| Share in profit (loss) from investments accounted for under equity method | (8 569) | 217 | (8 905) | (6 686) |
| Depreciation and amortisation | 575 412 | 294 843 | 667 445 | 340 835 |
| Interest and dividend income, net | (71 374) | (183) | (23 158) | (38 777) |
| Income tax expense | 361 130 | 141 659 | 238 196 | 102 120 |
| (Profit)/Loss on investing activities | (48 327) | (15 079) | 128 867 | 12 906 |
| (Increase) in receivables | (409 479) | (372 383) | (654 998) | (408 060) |
| (Increase) in inventories | (1 144 723) | (855 093) | (310 404) | (110 001) |
| Increase in liabilities and accruals | 774 693 | 805 020 | 763 329 | 484 603 |
| Increase/(Decrease) in provisions | 426 710 | 12 981 | 78 541 | (5 809) |
| Other | (205 157) | 24 725 | 110 490 | (41 109) |
| Income tax paid | (295 869) | (100 509) | (154 777) | (48 800) |
| **Net cash provided by operating activities** | **1 276 222** | **564 403** | **1 738 442** | **628 029** |
| **Cash flows - investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | (841 259) | (377 119) | (806 979) | (433 143) |
| Proceeds from the sale of property, plant and equipment | 16 113 | 4 230 | 14 910 | 7 997 |
| Acquisition of shares in entities not included in the consolidation | (1 565 992) | (1 611) | (27 107) | (11 452) |
| Acquisition of short-term securities | (81 818) | (39 629) | (293 447) | (85 493) |
| Proceeds from the sale of short-term securities | 963 546 | 388 185 | 65 286 | 31 833 |
| Interest and dividends received | 123 025 | 19 815 | 84 356 | 2 499 |
| Loans (granted) / repaid | 558 | 842 | (2 072) | - |
| Other | (101 027) | 79 | 15 712 | 25 681 |
| **Net cash used in investing activities** | **(1 486 854)** | **(5 208)** | **(949 341)** | **(462 078)** |
| **Cash flows - financing activities** | | | | |
| Proceeds from long- and short-term borrowings | 601 626 | 263 091 | 748 575 | 668 126 |
| Repayment of long- and short-term borrowings | (218 846) | (92 655) | (1 189 056) | (797 349) |
| Interest paid | (54 527) | (23 269) | (54 921) | (27 723) |
| Other | (16 110) | (8 331) | (5 168) | (3 108) |
| **Net cash provided by/(used in) financing activities** | **312 143** | **138 836** | **(500 570)** | **(160 054)** |
| **Net change in cash and cash equivalents** | **101 511** | **698 031** | **288 531** | **5 897** |
| Effect of exchange rate changes | (281) | 5 792 | (1 483) | 164 |
| **Cash and cash equivalents, beginning of period** | **735 813** | **735 813** | **634 259** | **634 259** |
| **Cash and cash equivalents, end of period, incl.** | **837 043** | **1 439 636** | **921 307** | **640 320** |
| Cash and cash equivalents of limited availability | 101 397 | 279 502 | 120 346 | 122 857 |

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

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# PRELIMINARY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | II quarter period from 01/04/2005 to 30/06/2005 | II quarter period from 01/04/2004 to 30/06/2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| | (in thousand of PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **698 108** | **550 551** |
| Adjustments for: | | |
| Minority interest | (4 538) | 6 458 |
| Share in (loss) from investments accounted for under equity method | (8 786) | (2 219) |
| Depreciation and amortisation | 280 569 | 326 610 |
| Interest and dividend income, net | (71 191) | 15 619 |
| Income tax expense | 219 471 | 136 076 |
| (Profit)/Loss on investing activities | (33 248) | 115 961 |
| (Increase) in receivables | (37 096) | (246 938) |
| (Increase) in inventories | (289 630) | (200 403) |
| (Decrease)/Increase in liabilities and accruals | (30 327) | 278 726 |
| Increase in provisions | 413 729 | 84 350 |
| Other | (229 882) | 151 599 |
| Income tax paid | (195 360) | (105 977) |
| **Net cash provided by operating activities** | **711 819** | **1 110 413** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (464 140) | (373 836) |
| Proceeds from the sale of property, plant and equipment | 11 883 | 6 913 |
| Acquisition of shares in entities not included in the consolidation | (1 564 381) | (15 655) |
| Acquisition of short-term securities | (42 189) | (207 954) |
| Proceeds from the sale of short-term securities | 575 361 | 33 453 |
| Interest and dividends received | 103 210 | 81 857 |
| Loans granted | (284) | (2 072) |
| Other | (101 106) | (9 969) |
| **Net cash used in investing activities** | **(1 481 646)** | **(487 263)** |
| **Cash flows - financing activities** | | |
| Proceeds from long- and short-term borrowings | 338 535 | 80 449 |
| Repayment of long- and short-term borrowings | (126 191) | (391 707) |
| Interest paid | (31 258) | (27 198) |
| Other | (7 779) | (2 060) |
| **Net cash provided by/(used in) financing activities** | **173 307** | **(340 516)** |
| **Net change in cash and cash equivalents** | **(596 520)** | **282 634** |
| Effect of exchange rate changes | (6 073) | (1 647) |
| **Cash and cash equivalents, beginning of period** | **1 439 636** | **640 320** |
| **Cash and cash equivalents, end of period, incl.** | **837 043** | **921 307** |
| Cash and cash equivalents of limited availability | 101 397 | 120 346 |

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

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POLSKI KONCERN NAFTOWY ORLEN S.A.
PRELIMINARY CONDENSED STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
as of 30 June 2005, 31 December 2004 and 30 June 2004
(all amounts in PLN thousand)

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Foreign exchange differences on related parties | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | **534 636** | **1 058 450** | **-** | **62 366** | **8 840 317** | **433 859** | **10 929 628** |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (20 334) | - | - | (20 334) |
| Dividends | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 880 240 | - | 880 240 |
| Impairment of assets | - | - | - | - | 3 406 | - | 3 406 |
| Hedge accounting - cash flow hedges | - | - | 12 111 | - | - | - | 12 111 |
| Shares issued | - | - | - | - | - | - | - |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 23 576 | 23 576 |
| Change in the shareholders structure | - | - | - | - | - | (13 717) | (13 717) |
| **30 June 2004** | **534 636** | **1 058 450** | **12 111** | **42 032** | **9 445 952** | **443 718** | **11 536 899** |
| **(unaudited)** | | | | | | | |

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Foreign exchange differences on related parties | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2005** | **534 636** | **1 058 450** | **59 195** | **(9 444)** | **10 950 752** | **384 013** | **12 977 602** |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (11 685) | - | - | (11 685) |
| Dividends | - | - | - | - | (911 020) | - | (911 020) |
| Net profit | - | - | - | - | 1 316 141 | - | 1 316 141 |
| Impairment of assets | - | - | - | - | 66 | - | 66 |
| Hedge accounting - cash flow hedges | - | - | (30 043) | - | - | - | (30 043) |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 5 634 | 5 634 |
| Change in the shareholders structure | - | - | - | - | - | 10 978 | 10 978 |
| **30 June 2005** | **534 636** | **1 058 450** | **29 152** | **(21 129)** | **11 355 939** | **400 625** | **13 357 673** |
| **(unaudited)** | | | | | | | |

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

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**POLSKI KONCERN NAFTOWY ORLEN S.A.**
**PRELIMINARY CONDENSED STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY**
**as of 30 June 2005, 31 December 2004 and 30 June 2004**
**(all amounts in PLN thousand)**

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Foreign exchange differences on related parties | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | **534 636** | **1 058 450** | **-** | **62 366** | **8 840 317** | **433 859** | **10 929 628** |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (71 810) | - | - | (71 810) |
| Dividends | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 2 384 983 | - | 2 384 983 |
| Impairment of assets | - | - | - | - | 3 463 | - | 3 463 |
| Hedge accounting - cash flow hedges | - | - | 59 195 | - | - | - | 59 195 |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | - | - |
| Change in the shareholders structure | - | - | - | - | - | 53 950 | 53 950 |
| Change in the shares structure | - | - | - | - | - | (103 796) | (103 796) |
| **31 December 2004** | **534 636** | **1 058 450** | **59 195** | **(9 444)** | **10 950 752** | **384 013** | **12 977 602** |
| **(unaudited)** | | | | | | | |

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

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# PRELIMINARY STANDALONE CONDENSED BALANSE SHEETS
## as of 30 June 2005, 31 December 2004 and 30 June 2004
## (all amounts in PLN thousand)

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| | | (in thousand of PLN) | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 652 059 | 7 569 696 | 7 532 203 |
| Intangible assets | 61 126 | 54 335 | 55 762 |
| Long term financial investments | 511 975 | 498 963 | 457 769 |
| Investments in associates | 3 227 454 | 1 685 878 | 1 784 160 |
| Other non-current assets | 79 196 | 32 302 | 36 544 |
| **Total non-current assets** | **11 531 810** | **9 841 174** | **9 866 438** |
| **Current assets** | | | |
| Inventory | 3 752 993 | 2 621 975 | 2 815 115 |
| Trade and other receivables | 3 126 371 | 2 331 042 | 2 484 186 |
| Income tax receivable | - | 10 206 | - |
| Short-term investments | 200 415 | 1 261 747 | 136 211 |
| Short-term prepayments | 67 126 | 68 329 | 98 644 |
| Cash and cash equivalents | 320 245 | 291 138 | 312 864 |
| Other financial assets | 131 966 | 154 018 | 154 018 |
| **Total current assets** | **7 599 116** | **6 738 455** | **6 001 038** |
| **Total assets** | **19 130 926** | **16 579 629** | **15 867 476** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Equity** | | | |
| Share capital | 534 636 | 534 636 | 534 636 |
| Share premium | 1 058 450 | 1 058 450 | 1 058 450 |
| Hedge accounting - cash flow hedges | 57 383 | 75 943 | 16 350 |
| Retained earnings | 9 990 655 | 9 583 962 | 8 315 151 |
| **Total equity** | **11 641 124** | **11 252 991** | **9 924 587** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 1 423 613 | 1 407 707 | 1 596 506 |
| Provisions | 545 503 | 498 334 | 554 204 |
| Deffered tax liabilities | 292 179 | 296 879 | 345 408 |
| Other non-current liabilities | 3 193 | - | - |
| **Total non-current liabilities** | **2 264 488** | **2 202 920** | **2 496 118** |
| **Current liabilities** | | | |
| Trade and other accounts payable and accrued expenses | 4 258 995 | 2 855 010 | 3 078 166 |
| Provisions | 553 961 | 235 447 | 79 699 |
| Interest-bearing loans and borrowings | 342 531 | 5 863 | 233 575 |
| Deffered income | 10 330 | 6 048 | 12 052 |
| Income tax payable | 56 028 | - | 25 407 |
| Other current financial liabilities | 3 469 | 21 350 | 17 872 |
| **Total current liabilities** | **5 225 314** | **3 123 718** | **3 446 771** |
| **Total equity and liabilities** | **19 130 926** | **16 579 629** | **15 867 476** |

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

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# PRELIMINARY CONDENSED STANDALONE PROFIT AND LOSS STATEMENTS
## for the periods of 6 months ended 30 June 2005 and 30 June 2004 and for the period of 3 months ended 31 March 2005 and 31 March 2004
## (all amounts in PLN thousand)

| | for the 6 months ended 30 June 2005 | for the 3 months ended 31 March 2005 | for the 6 months ended 30 June 2004 | for the 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | (in thousand of PLN) | | | |
| **Operating activities** | | | | |
| **Net sale revenues** | | | | |
| Net revenues from the sale of finished goods | 8 935 782 | 4 058 384 | 7 362 273 | 3 359 037 |
| Net revenues from the sale of merchandise and raw materials | 813 015 | 364 210 | 746 212 | 356 753 |
| Cost of finished goods sold | (6 450 645) | (2 958 815) | (5 453 043) | (2 533 454) |
| Cost of merchandise and raw materials sold | (620 161) | (262 307) | (591 312) | (283 776) |
| **Gross profit on sales** | **2 677 991** | **1 201 472** | **2 064 130** | **898 560** |
| Other operating income | 69 260 | 34 238 | 48 694 | 19 192 |
| Distribution expenses | (702 616) | (332 368) | (705 447) | (351 607) |
| General and administrative expenses | (245 267) | (124 438) | (260 896) | (110 766) |
| Other operating expense | (454 492) | (49 587) | (139 951) | (26 940) |
| **Profit from operations** | **1 344 876** | **729 317** | **1 006 530** | **428 439** |
| Financial income | 493 687 | 32 366 | 156 206 | 82 943 |
| Financial expense | (177 093) | (45 834) | (56 171) | (110 248) |
| **Profit before tax** | **1 661 470** | **715 849** | **1 106 565** | **401 134** |
| Income tax expense | (343 568) | (134 015) | (214 708) | (86 219) |
| **Net profit** | **1 317 902** | **581 834** | **891 857** | **314 915** |
| **Basic and diluted earnings per share in Polish Zloty** | **3,08** | **1,36** | **2,09** | **0,74** |

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

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# PRELIMINARY CONDENSED STANDALONE PROFIT AND LOSS STATEMENTS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | Note | II quarter period from 01/04/2005 to 30/06/2005 (unaudited) | II quarter period from 01/04/2004 to 30/06/2004 (unaudited) |
|---|---|---|---|
| | | (in thousand of PLN) | |
| **Operating activities** | | | |
| **Net sale revenues** | | | |
| Net revenues from the sale of finished goods | | 5 587 794 | 4 686 563 |
| Net revenues from the sale of merchandise and raw materials | | 2 811 810 | 2 786 374 |
| Cost of finished goods sold | 3.8 | (4 087 091) | (3 288 295) |
| Cost of merchandise and raw materials sold | 3.8 | (2 529 902) | (2 651 662) |
| **Gross profit on sales** | | **1 782 611** | **1 532 980** |
| Other operating income | | 83 006 | 69 230 |
| Distribution expenses | 3.8 | (537 113) | (519 325) |
| General and administrative expenses | 3.8 | (201 887) | (236 409) |
| Other operating expense | 3.8 | (486 604) | (259 755) |
| **Profit from operations** | | **640 013** | **586 721** |
| Financial income * | 3.9 | 394 544 | 140 625 |
| Financial expense * | 3.9 | (159 697) | (40 275) |
| Income (loss) from investments accounted for under equity method | | 8 786 | 2 219 |
| Profit (loss) on the sale of all or part of shares of related parties | | 29 395 | 3 795 |
| **Profit before tax** | | **913 041** | **693 085** |
| Income tax expense | 3.10 | (219 471) | (136 076) |
| **Profit after tax** | | **693 570** | **557 009** |
| Minority interest | | 4 538 | (6 458) |
| **Net profit** | | **698 108** | **550 551** |

* the decrease of negative foreign exchange differences in the amount of PLN 50,324 thousand and the decrease of expenses in the amount of PLN 24,270 thousand relate to reclassification of financial instruments in the II quarter of 2004

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
## PRELIMINARY CONDENSED STANDALONE STATEMENTS OF CASH FLOWS
## for the period of 6 months ended 30 June 2005 and 30 June 2004 and for the period of 3 months ended 31 March 2005 and 31 March 2004
## (all amounts in PLN thousand)

| | for the 6 months ended 30 June 2005 | for the 3 months ended 31 March 2005 | for the 6 months ended 30 June 2004 | for the 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | | (in thousand of PLN) | | |
| **Cash flows - operating activities** | | | | |
| Net profit | **1 317 902** | **581 834** | **891 857** | **314 915** |
| Adjustments for: | | | | |
| Depreciation and amortisation | 393 224 | 199 704 | 487 139 | 245 865 |
| Interest and dividend income, net | (129 400) | (7 342) | (60 502) | (48 349) |
| Income tax expense | 343 568 | 134 015 | 214 708 | 86 219 |
| (Profit)/Loss on investing activities | (48 331) | (1 878) | 48 732 | 17 189 |
| (Increase) in receivables | (412 588) | (509 843) | (586 771) | (329 511) |
| (Increase) in inventories | (1 131 018) | (737 511) | (307 606) | (90 077) |
| Increase in liabilities and accruals | 475 451 | 584 825 | 479 505 | 46 000 |
| Increase in provisions | 370 081 | 14 076 | 43 033 | 2 152 |
| Other | (178 824) | 33 157 | (32 731) | (40 127) |
| Income tax paid | (282 035) | (85 087) | (140 474) | (42 092) |
| **Net cash provided by operating activities** | **718 030** | **205 950** | **1 036 890** | **162 184** |
| **Cash flows - investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | (469 518) | (206 153) | (511 706) | (266 026) |
| Proceeds from the sale of property, plant and equipment | 6 505 | 1 202 | 5 335 | 2 679 |
| Proceeds from the sale of shares | 75 833 | - | 6 111 | 108 |
| Acquisition of subsiriaries | (1 562 335) | - | (12 654) | (950) |
| Proceeds from the sale of short-term securities | 810 977 | 312 122 | - | - |
| Acquisition of short-term securities | - | - | (200 843) | - |
| Interest and dividends received | 128 603 | 17 674 | 93 039 | 313 |
| Repayment of loan by a subsidiary | 240 248 | 240 248 | - | - |
| Return of additional payments to capital | - | - | 230 299 | 230 299 |
| Other | (174 406) | (549) | 8 723 | 25 236 |
| **Net cash provided by/(used in) investing activities** | **(944 093)** | **364 544** | **(381 696)** | **(8 341)** |
| **Cash flows - financing activities** | | | | |
| Proceeds from long- and short-term borrowings | 371 706 | 99 953 | 713 279 | 672 102 |
| Repayment of long- and short-term borrowings | (91 532) | (30 000) | (1 085 502) | (806 888) |
| Interest paid | (24 336) | (11 214) | (30 666) | (17 789) |
| Other | - | - | (124) | (103) |
| **Net cash provided by/(used in) financing activities** | **255 838** | **58 739** | **(403 013)** | **(152 678)** |
| **Net change in cash and cash equivalents** | **29 775** | **629 233** | **252 181** | **1 165** |
| Effect of exchange rate changes | (668) | 5 964 | (2 086) | (1) |
| **Cash and cash equivalents, beginning of period** | **291 138** | **291 138** | **62 769** | **62 769** |
| **Cash and cash equivalents, end of period, incl.** | **320 245** | **926 335** | **312 864** | **63 933** |
| Cash and cash equivalents of limited availability | 7 089 | 186 374 | 7 327 | 9 036 |

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

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
## PRELIMINARY CONDENSED STANDALONE STATEMENTS OF CASH FLOWS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | II quarter period from 01/04/2005 to 30/06/2005 | II quarter period from 01/04/2004 to 30/06/2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| | (in thousand of PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **736 068** | **576 942** |
| Adjustments for: | | |
| Depreciation and amortisation | 193 520 | 241 274 |
| Interest and dividend income, net | (122 058) | (12 153) |
| Income tax expense | 209 553 | 128 489 |
| (Profit)/Loss on investing activities | (46 453) | 31 543 |
| Decrease/(Increase) in receivables | 97 255 | (257 260) |
| (Increase) in inventories | (393 507) | (217 529) |
| (Decrease)/Increase in liabilities and accruals | (109 374) | 433 505 |
| Increase in provisions | 356 005 | 40 881 |
| Other | (211 981) | 7 396 |
| Income tax paid | (196 948) | (98 382) |
| **Net cash provided by operating activities** | **512 080** | **874 706** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (263 365) | (245 680) |
| Proceeds from the sale of property, plant and equipment | 5 303 | 2 656 |
| Proceeds from the sale of shares | 75 833 | 6 003 |
| Acquisition of subsiriaries | (1 562 335) | (11 704) |
| Proceeds from the sale of short-term securities | 498 855 | - |
| Acquisition of short-term securities | - | (200 843) |
| Interest and dividends received | 110 929 | 92 726 |
| Other | (173 857) | (16 513) |
| **Net cash used in investing activities** | **(1 308 637)** | **(373 355)** |
| **Cash flows - financing activities** | | |
| Proceeds from long- and short-term borrowings | 271 753 | 41 177 |
| Repayment of long- and short-term borrowings | (61 532) | (278 614) |
| Interest paid | (13 122) | (12 877) |
| Other | - | (21) |
| **Net cash provided by/(used in) financing activities** | **197 099** | **(250 335)** |
| **Net change in cash and cash equivalents** | **(599 458)** | **251 016** |
| Effect of exchange rate changes | (6 632) | (2 085) |
| **Cash and cash equivalents, beginning of period** | **926 335** | 63 933 |
| **Cash and cash equivalents, end of period, incl.** | **320 245** | **312 864** |
| Cash and cash equivalents of limited availability | 7 089 | 7 327 |

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

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POLSKI KONCERN NAFTOWY ORLEN S.A.
PRELIMINARY CONDENSED STANDALONE STATEMENTS OF CHANGES IN EQUITY
as of 30 June 2005, 31 December 2004 and 30 June 2004
(all amounts in PLN thousand)

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | **534 636** | **1 058 450** | **-** | **7 701 304** | **9 294 390** |
| **(unaudited)** | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividends | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 891 858 | 891 858 |
| Impairment of assets | - | - | - | - | - |
| Hedge accounting - cash flow hedges | - | - | 16 350 | - | 16 350 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **30 June 2004** | **534 636** | **1 058 450** | **16 350** | **8 315 151** | **9 924 587** |
| **(unaudited)** | | | | | |

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2005** | **534 636** | **1 058 450** | **75 943** | **9 583 962** | **11 252 991** |
| **(unaudited)** | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividends | - | - | - | (911 020) | (911 020) |
| Net profit | - | - | - | 1 317 902 | 1 317 902 |
| Impairment of assets | - | - | - | - | - |
| Hedge accounting - cash flow hedges | - | - | (18 560) | - | (18 560) |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| Other | - | - | - | (189) | (189) |
| **30 June 2005** | **534 636** | **1 058 450** | **57 383** | **9 990 655** | **11 641 124** |
| **(unaudited)** | | | | | |

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

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**POLSKI KONCERN NAFTOWY ORLEN S.A.**
**PRELIMINARY CONDENSED STANDALONE STATEMENTS OF CHANGES IN EQUITY**
**as of 30 June 2005, 31 December 2004 and 30 June 2004**
**(all amounts in PLN thousand)**

| | Share capital | Share premium | Hedge accounting - cash flow hedges | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | **534 636** | **1 058 450** | **-** | **7 701 304** | **9 294 390** |
| (unaudited) | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividends | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 2 161 755 | 2 161 755 |
| Impairment of assets | - | - | - | (1 086) | (1 086) |
| Hedge accounting - cash flow hedges | - | - | 75 943 | - | 75 943 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **31 December 2004** | **534 636** | **1 058 450** | **75 943** | **9 583 962** | **11 252 991** |
| (unaudited) | | | | | |

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

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## I. BASIC ACTIVITY OF THE GROUP

The Parent Company of the Polski Koncern Naftowy ORLEN Group ("Group") is Polski Koncern Naftowy ORLEN S.A. seated in Płock, Poland, 7 Chemikow Street ("PKN ORLEN", "Company", "Parent"). The Company was established under the notarial deed of 29 June 1993 as a result of transformation of a state owned enterprise into a joint stock company and registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court of Płock. Effective from 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spółka Akcyjna was incorporated and thus CPN was removed from the commercial register. Effective from 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.
The Company's operations comprise refining of petroleum and manufacture of a wide range of petroleum and petrochemical products, delivery, wholesale and retail sale of those products. Other Group entities are engaged mainly in related activities including manufacture and distribution of refined petroleum products and manufacture and sale of chemical products.

## II. ADOPTED PRINCIPLES FOR THE CONSOLIDATED QUARTERLY STATEMENTS FOR THE SECOND QUARTER OF 2005

Effective from 1 January 2005, the Group companies have been applying accounting standards adopted by the International Accounting Standards Board. In compliance with IFRS 1 "Presentation of Financial Statements", the IFRSs consist of the International Financial Reporting Standards (IFRSs), the International Accounting Standards (IASs) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).
The International Accounting Standards Board issued the International Financial Reporting Standard No. 1 (IFRS 1) "First-time Adoption of International Financial Reporting Standards" which is to be applied at preparation of financial statements for periods beginning on or after 1 January 2004. IFRS 1 concerns, apart from entities preparing their first financial statements in accordance with IFRSs, also entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on incompliance with particular standards. In particular IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognised under the IFRSs. In accordance with IFRS 1, an entity may state its tangible fixed assets at fair value as of the IFRSs adoption date and recognise the fair value as cost of fixed assets as at that date.
As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with the IFRSs adopted by the European Union. The information to be disclosed in these consolidated financial statements is compliant with IAS 34 "Interim Financial Reporting".
As from 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 section 1c of the Accounting Act, wording effective as from 1 January 2005) has been preparing its statutory standalone financial statements in accordance with the IFRSs approved by the European Commission for 2005.
The Company did not complied with IFRS 3 with respect to acquisition of Unipetrol shares.

### 1. Statement of compliance

When preparing these preliminary condensed consolidated financial statements the Group applied the International Financial Reporting Standards (IFRSs) effective as of 30 June 2005, except for IFRS 3 relating to acquisition of Unipertol shares. As of 1 January 2004 the balance sheet value of fixed assets was measured by an independent expert. The Company recognised the effect of the measurement. 90% of net fixed assets was measured in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment" due to the ongoing process aiming at full compliance with the International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and the International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16). The Company

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valued the rights of perpetual usufruct of land but due to lack of clear interpretation the effect of the valuation was not recognised.
In order to comply to the above IFRS 1 requirements, the entity engaged an independent expert to measure tangible fixed assets at fair value as at the IFRSs adoption date and recognised the value as deemed cost as at that date. The Management Board of the Company expects to complete the process yet in 2005, which will ensure application of all IFRSs required for 2005 statutory reporting before the year end. According to the Board, the projected effect of potential adjustments related to compliance with the above requirements will not impact significantly the assets, equity or the Group results for the second quarter 2005.
In accordance with IAS 16, the Group has commenced the process aiming to ensure that all significant items of property, plant and equipment, of different economic useful life or depreciation method, be identified for relevant depreciation rates. The Group plans to conclude the process before the end of 2005.

As at the date of preparation of condensed consolidated financial statements, the Group applied adoption provisions of IFRS 3 "Business Combinations" for conversion of comparative data as at 1 January 2004 (required by IFRS 1), as discussed below. The Group applied also exemptions contained in IFRS 1 for business combinations despite the fact that it did not fully complied with IFRS 1 requirements as at the date of preparation of these financial statements. In accordance with IFRS 3, if IFRS 1 requirements are not complied with in 2005, the Group should apply transitional provisions of IFRS 3 as from 1 January 2005. Consequently, if IFRS 1 requirements are not met before the end of 2005, the Group will make relevant adjustments to its opening balance sheet of 1 January 2005.

Goodwill resulting from business combinations which took place before 1 January 2004 was stated at the amount defined under the previous Generally Accepted Accounting Principles (Polish Accounting Standards, PASs) effective as at the IFRSs adoption date, i.e. on 1 January 2004.

The presented condensed consolidated financial statements are compliant with all IFRS requirements, except for IFRS 3, related to acquisition of Unipetrol shares, and IAS 29 and IAS 16 which are applied to a large extent. Consequently, apart from the above indicated issues, the financial statements present fairly the Group's financial position as at 30 June 2005, 31 December 2004 and 30 June 2004, and the results of its operations and cash flows for the periods of 6 and 3 months ended 30 June 2005, 31 March 2005, and 30 June 2004 and 31 March 2004, in accordance with the IFRS requirements.

The condensed consolidated financial statements were prepared assuming that the Group will continue to operate as going concerns in the foreseeable future. As at the approval date of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as going concerns.

## 2. Format and general principles for preparation of condensed consolidated and standalone balance sheets, condensed consolidated and standalone profit and loss statements, condensed statements of changes in consolidated and standalone equity and condensed consolidated and standalone cash flow statements

The condensed consolidated and standalone quarterly financial statements included in these consolidated quarterly statements were prepared in accordance with the International Financial Reporting Standards and in the scope required under the Regulation of the Council of Ministers of 21 March 2005 on current and periodical information presented by issuers of securities (Journal of Laws no. 49, item 463). The statements comprise the period from 1 January to 30 June 2005 and the comparative period from 1 January to 31 June 2004.
The accounting principles applied by Polski Koncern Naftowy ORLEN S.A. and the PKN ORLEN S.A. Group changed as of 1 January 2005. The foregoing document follows the applied accounting policy.

## 3. Adopted accounting principles and policy

In the presented reporting period the Company and the Group introduced changes to the respective accounting principles applied by the Company and the Group for 2004 statutory reporting. The changes

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concern adoption of the International Financial Reporting Standards as from 1 January 2005 in accordance with the decision of the General Shareholders' Meeting of PKN ORLEN S.A. of 30 December 2004.
The last consolidated annual financial statements prepared by the Company were the annual statements for the period of 12 months ended 31 December 2004 prepared in compliance with the Polish Accounting Standards. The accounting principles applied in these financial statements are discussed below.

An impact on the previously published results, related with the adoption of the IFRSs is presented in Note XVII of these statements.
The Group applied the following exemptions from IFRS 1:
- statement of tangible fixed assets at fair value and use of the fair value as deemed cost defined as at adoption of the IFRSs – the Company included in these statements an initial measurement of tangible fixed assets at fair value as discussed under II.1,
- business combinations – the Company applied the exemption of IFRS 1 for business combinations which had taken place before 1 January 2004, as discussed in detail under II.1.
For comparability of the presented financial data, the 2004 data compliant with the PASs were stated in accordance with the IFRSs.

## A. Accounting principles

### Property Plant and Equipment

Property, plant and equipment, excluding land and immovable property treated as investment, are stated at cost which consists of acquisition cost and direct cost related to bringing the fixed asset for use as well as estimated cost of dismantling, removal of the asset and cost of restoration of the site/land regardless of the fact whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, fixed assets are depreciated and subject to impairment write-offs.

Tangible fixed asset items acquired after 31 December 1996 are stated at acquisition cost less to date depreciation and impairment write-offs.

Fixed assets acquired before 1 January 1997 are stated at fair value defined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment loss. Fixed assets acquired before 1 January 1997 are stated in these condensed consolidated financial statements at acquisition or construction cost considering revaluation and decreased by depreciation and impairment.

The cost of current maintenance of fixed assets impact the financial result for the period when incurred.

Cost of significant repair and regular maintenance programme are regarded as tangible fixed assets and depreciated in accordance with their economic useful life.

Fixed assets are depreciated in accordance with the straight line method over the period reflecting their estimated economic useful life, considering the residual value. Correctness of the applied periods and depreciation rates is verified once a year, and respective adjustments are made to the subsequent periods depreciation. Particular components of fixed assets which value is material for the whole fixed asset are depreciated separately in accordance with their economic useful life.

The Group commenced a process which is to ensure that all essential components of tangible fixed assets, of different useful life or depreciation method, would be identified in order to define relevant depreciation rates in line with component accounting. The Group projects that the above process will have been concluded before the end of 2005.

The Company makes estimates of the residual value of fixed assets. The residual value is a net amount which the Company would currently obtain from disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition at the end of their useful life.
The residual value is not subject to depreciation and is verified once a year.

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The Company applies the following periods of economic useful life of fixed assets:

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machines and equipment | 3-25 years |
| Vehicles and other | 4-17 years |

The assets of the estimated useful life not exceeding one year and of the initial cost not exceeding PLN 3.5 thousand are recognised as cost once at their acceptance for use.

If there have been events or changes which indicate a risk that the carrying amount of fixed assets may not be recovered, the assets are analysed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount. The recoverable amount of fixed assets reflects the higher of net selling cost and useful value.
Impairment write-offs are recognised as operating cost in the profit and loss.

**Finance lease**

A lease contract, under IAS 17, is regarded as finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which comply with the above defined criteria are regarded as fixed assets and recognised at the lower of fair value of the leased asset at commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets are consistent with normal depreciation policy applied for the Company's owned similar assets and recognised depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain a title to the asset before the end of the lease term, a given item is depreciated over the shorter of the lease term and term of economic use.

Assets leased out on the basis of lease, tenancy, rental or similar contracts complying with the above discussed finance lease criteria are treated as long-term receivables and stated at net lease investment value.

**Goodwill**

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by accumulated impairment losses.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortised.

**Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

If the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and measurement of the cost of the combination;
- recognises immediately in the profit or loss any excess remaining after the reassessment in the period in which the combination was carried out.

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**Intangible assets**

Intangible assets are recognised if it is probable that expected future economic benefits that are attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognised at fair value defined at the business combination.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortisation and impairment losses. Intangible assets are amortised by the straight line method over their estimated economic useful life. Correctness of the applied amortisation periods and rates is regularly tested, at least at the end of the reporting year, and potential adjustments to amortisation rates are made in the subsequent periods.

Intangible assets of indefinite useful life are not amortised. Their value is decreased by potential impairment losses.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined in the contract for disposal of the title to the asset;
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful life for amortisation in case of intangible assets are:

| | |
|---|---|
| Acquired licenses, patents, and similar intangible assets | 2-15 years |
| Acquired computer software | 2-10 years |

The Company recognises perpetual usufruct of land obtained under an administrative decision at fair value, which is an estimated cost at acquisition less impairment losses. The process allowed the Company to define the fair value of those rights which amounts to PLN 904,467 thousand. The Company will follow the final interpretation on recognition and presentation of perpetual usufruct of land in the financial statements, after it is obtained.

Except for development, all intangible assets generated by the Company are not recognised as assets and stated in the profit and loss for the period when the related cost has been incurred.

Intangible assets with indefinite useful life and intangible assets which have not been used yet are tested for impairment once a year.
Other intangible assets are tested for impairment only if there are indications that their carrying amount may be irrecoverable. If there are indications for impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or related cash-generating units are revalued to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

**Investment property**

Initially investment property is recognised at acquisition cost considering transaction costs. After initial recognition investment property is presented at fair value. Gains or losses resulting from changes in fair value of investment property are presented in the profit and loss when incurred.

Investment property are derecognised at its disposal or when the property is permanently withdrawn from use and no future economic benefits are expected at its disposal. Any gains or losses arising from derecognition of the investment property are recognised in profit or loss in the period of derecognition. As at the date of preparation of these condensed consolidated financial statements, the Group possessed no investment property.

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**Inventories**

Inventories are measured at the lower of cost and net realisable value, considering any write-downs. The net realisable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated costs necessary to make the sale.
Cost is determined based on weighted average costs formula. In case of finished goods, cost comprises relevant assignment of fixed and variable indirect costs defined for ordinary production level, excluding cost of external financing.

**Trade and other receivables**

Trade receivables are recognised when they arise at the present value of the foreseeable proceeds and stated in the subsequent periods at amortised cost less allowances for doubtful receivables.
Bad debts are stated in the profit and loss when their uncollectibility is established.

**Cash and cash equivalents**

Cash comprises cash on hand and bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less unrepaid loans at current accounts, if they form an integral part of an entity's cash management.

**Revenue from sale**

Revenue from sale is recognised when it is probable that the economic benefits associated with the sale transaction will flow to the entity and the amount of revenue can be measured reliably. The revenue on sale of finished goods and merchandise is recognised after deducting value added tax (VAT), excise tax (finished goods), fuel charges (finished goods) and discounts.

Revenue on sale of goods and merchandise are recognised when the goods are issued and when the related risks and benefits have been transferred. Revenue from settlement of cash flow hedge instruments adjust the revenue on sale.

The revenue is measured at fair value of the received or due payment.

**Revenue from dividends**

Dividends are recognised when the shareholder's right to receive payment is established

**Equity**

Equity is stated in accounting books by kind, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in compliance with the Company's Articles of Association and an entry in the Commercial Register.
The stated yet outstanding contributions to the share capital are recognised as outstanding share capital contributions. Own shares and outstanding contributions to the share capital decrease the Company's equity.

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Share premium is created from surplus of issuance value above their nominal value decreased by the issuance cost.
Issuance costs incurred by setting up stock exchange company or increasing share capital decrease share premium to the amount of surplus of issuance value over nominal value and the remaining part of them is presented in other capital reserves.
Changes of fair value of cash flows hedges in their portion regarded as effective hedge are stated through equity as hedge accounting reserve.

Equity resulting from convertible bonds, liabilities and loans into shares is stated at par value of those financial instruments, liabilities and loans, considering non-amortised discounts or premiums, interest accrued before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve capital, the undistributed income from prior periods and the current period net income are presented in the financial statements as retained earnings.

**Loans and borrowings**

Loans are initially stated at fair value of obtained proceeds less the transaction costs. They are subsequently recognised at amortised acquisition cost in line with the effective interest method. The difference of net proceeds and the buyout amount is recognised as financial revenue or cost over the loan or borrowing term.

**External financing costs**

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are stated when incurred in accordance with a model approach of IAS 23 as profit and loss.

**Retirement benefits and jubilee bonuses**

Under the Group companies' remuneration plans, their employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined period of their employment. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average salary. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group makes a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits belong to post-employment benefit plans. The present amount of those liabilities at each balance sheet date is estimated by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and concern the period before the balance sheet date. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognised in the profit and loss.

**Foreign currency transactions**

Transactions denominated in or requiring settlement in a foreign currency are recognised after their translation to the functional currency, i.e. Polish New Zlotys, at the exchange rate effective on the transaction date. Monetary assets and liabilities expressed in foreign currencies are stated at the National Bank of Poland average foreign exchange rates announced at the balance sheet date. Gains and losses resulting from changes in foreign exchange rates after the transaction date are recognised as financial

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income or costs in the profit and loss. The exchange differences are stated in the profit and loss at their net amount.

**Financial instruments**

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value, the change of which is recognised in the income statement, loans and receivables and financial assets classified as available for sale. Financial assets held to maturity are investments with determined or possible to determine payments and fixed maturity date, which the Company aims and has a possibility to hold to maturity date. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value, the change in which is recognised through income statement.
All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

Financial investments held to maturity are part of long-term assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets at fair value, the change in which is recognised in the income statement, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Acquisition and sale of financial assets are recognised as at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.
Financial assets at fair value, the change of which are recognised through the income statement, are measured at fair value without deduction of the transaction costs and considering their market price as at the balance sheet date. The change in fair value of those financial assets, is recognised as financial revenues and costs.
Financial assets held to maturity are measured at the amortised acquisition cost using the effective interest rate.

Financial assets available for sale are recognised at fair value, without deduction of the transaction costs, and considering their market price as at the balance sheet date. If the financial instruments are not traded on the active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment losses.

Positive and negative differences between fair value and acquisition cost, less deferred tax, of financial assets available for sale are reflected in revaluation reserve, if there is a market price defined on the regulated active market or which fair value may be estimated by some other reliable method. Decrease in value of financial assets available for sale due to impairment losses is charged to financial costs in the income statement.

Granted loans are presented at amortised cost.

Derivatives which are not designated as hedging instruments and are classified as financial assets or liabilities at fair value, which change is recognised through the income statement, are stated at fair value recognising its changes in the income statement.

Derivatives treated as cash flow hedge instruments are stated at fair value, considering its changes, in the following way:
- the portion determined to be effective hedge is recognised directly in equity through the statement on changes in equity;
- the portion determined to be ineffective hedge is recognised in the income statement;
- revenues or expenses on settlement of cash flow hedging instruments adjust revenues on sale when recognised in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives if all of the following conditions are met:

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- 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 realization 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 recognised in net profit or loss.

Embedded derivatives are accounted for in a similar way as separate derivatives which are not designated as hedging instruments.

Financial instruments are not presented in the financial statements if the titles and control resulting from the underlying contracts are lost. It usually takes place at disposal of the financial instrument or when all related cash flows are transferred to a third party.

Derivatives used by the entity in order to hedge against foreign exchange risks comprise mainly forwards. Such instruments are measured at fair value.
Fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.

In hedge accounting, hedges are classified as cash flow hedges against cash flow changes which are attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognised asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined as effective hedge is recognised directly in equity and the ineffective portion of the gain or loss is recognised in income statement.
The gain or loss from re-measuring of the derivative hedging instrument at fair value that do not comply with criteria for hedge accounting is recognised directly in income statement.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such case, total gain or loss on the hedging instrument, previously recognised in equity, is still presented in equity until the forecast transaction date. If the Company no longer expects the forecast transaction will take place, the total recognised net gain or loss are presented in the financial result of the current period.

**Corporate income tax**

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured by balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets on negative temporary differences and unrealized tax losses, are recognised only if it is probable that the future tax base will be sufficient for deduction of those differences.

Deferred tax liabilities are recognised for all temporary tax differences.

Deferred tax assets and liabilities are recognised irrespective of their date of realization.
Deferred tax assets and liabilities are not discounted and they are accounted for as fixed assets or long-term liabilities in the balance sheet.

**Non-current assets classified for disposal/sale**

Non-current assets classified for sale are those which comply with the following criteria:

- its disposal was declared by the Management Board of the Company;

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- assets are available for an immediate sale in their present condition;
- active searching for a potential acquirer has been initiated;
- the sale transaction is highly probable and could be settled over 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets are introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the event. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset at its designation for sale.

Assets designated for sale are measured at the lower of the net carrying amount and fair value less selling cost.

**Earnings per share**

Basic earnings per share for each period are calculated by dividing a net profit for a given period by the weighted average number of shares in that period.

Diluted earnings per share for each period is calculated by dividing net profit for a given period adjusted by changes of the profit resulting from conversion of potential ordinary shares by the weighted average number of shares.

**Provisions**

The Group makes provisions if it has such an obligation, required by law or custom, resulting from prior events and if it is probable that fulfilment of this obligation will cause outflow of resources embodying economic benefits and if the obligation may be reliably measured. The amount of provisions is tested as at the balance sheet date in order to make adjustments to relevant estimates as at that date.
If the effect of time value of money is material, the amount of the provision is the present value of the expenditure expected to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as external financing costs.

**Provisions for environment protection**

The Group makes provisions for future expenses on reclamation of contaminated land or elimination of harmful substances if there is such legal or customary obligation. The amount of the provision for reclamation is reviewed regularly based on reports by independent experts. The Group conducts regular reclamation of contaminated land and related expenditure is offset against the provision.
The created provision reflects potential future expenses predicted to be incurred, estimated and verified periodically according to current prices.

**Government grants and assistance**

The government grants are recognised at fair value if there is reasonable assurance that grant will be obtained or the entity will comply with the conditions attaching to it. If the grant concerns a given cost item it is recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. If the grant concerns assets, its fair value is recognised as deferred income and subsequently on a systematic basis reduced in the profit and loss over the estimated useful life of the underlying asset.

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**Contingent liabilities and receivables**

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognised in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired by a business combination are recognised as liabilities in the balance sheet.

Contingent receivables are not recognised in the balance sheet however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

**Company's Board estimates**

The preparation of financial statements in accordance with the IFRSs requires the Management Board of the Company to make relevant estimates and assumptions that affect the amounts reported in the financial statements and the explanatory notes to these financial statements. Actual results may differ from those estimations.

**Application of accounting principles**

The above accounting principles are applicable to comparative data, except for those applied to assets classified as held for sale, which have been effective from 1 January 2005.

## B. Consolidation methods

**Subsidiaries**

The Group consolidated financial statements comprise Polski Koncern Naftowy ORLEN S.A. and entities under its control. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of votes in a certain entity or is able to govern the financial and operating policies of the enterprise so as to benefit from the results of its activity. The share attributable to minority interest is recognised in equity. The net profit attributable to the minority interest is presented in the profit and loss.
The acquisition method is applied at acquisition of shares in business entities. Entities acquired or disposed during the reporting year are presented in the consolidated financial statements from the acquisition date or to the date of disposal respectively.

**Investments in associated entities**

Investments in associated entities (overall 20% to 50% of an entity's share capital) where the Group executes significant influence are accounted for under equity method. An assessment of the carrying value of investments in associates is performed when there is an indication that impairment loss occurred or the impairment losses recognized in prior years are no longer required.

**Investments in jointly controlled entities**

Investments in jointly controlled entities, where joint control is exercised by the Group, are accounted for under proportionate consolidation method whereby proportional share in assets, liabilities, income and expenses of a jointly controlled entity, after elimination of effects of mutual transactions and settlements, is presented position after position with similar positions in the consolidated financial statements.

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## 4. Methods adopted for translation of financial data into EURO

Financial records denominated in EURO were translated in accordance with the following method:

- particular assets and liabilities – at the National Bank of Poland average PLN/EURO exchange rate for 30 June 2005, i.e. PLN 4.0401/ 1 EURO; and for 31 December 2004 at PLN 4.0790/ 1 EURO;
- particular profit and loss and cash flow positions – at the average of all exchange rates defined by the National Bank of Poland as at the last day of each month in the period from 1 January 2005 to 30 June 2005, i. e. PLN 4.0805/ 1 EURO. For the period from 1 January 2004 to 30 June 2004 the rate was PLN 4.7311/ 1 EURO.

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## III. SELECTED EXPLANATORY NOTES

### 3.1. Property, plant and equipment

| | 30 June 2005 (unaudited) | 31 December * 2004 (unaudited) | 30 June* 2004 (unaudited) |
|---|---|---|---|
| Land | 360,951 | 389,074 | 395,141 |
| Buildings and constructions | 5,388,993 | 5,404,153 | 5,423,079 |
| Machinery and equipment | 3,050,934 | 3,000,651 | 3,215,331 |
| Vehicles and other | 426,179 | 338,974 | 341,783 |
| Construction in progress | 2,090,683 | 1,948,279 | 1,397,433 |
| **Total** | **11,317,740** | **11,081,131** | **10,772,767** |

*The data were changed with respect to previously published records due to changes introduced to accounting principles and policy as a result of adoption of the IASs as from 1 January 2005:

| | 31 December 2004 | 30 June 2004 |
|---|---|---|
| Previously published information on consolidated tangible fixed assets in accordance with the PASs | 9,367,686 | 9,318,167 |
| Valuation of fixed assets at fair value | 1,119,045 | 1,201,526 |
| Change of the BOP consolidation method from equity method to proportionate method | 603,057 | 345,336 |
| Reclassification of catalysts | 71,343 | 79,751 |
| Reclassification of precious metals | 59,205 | 54,211 |
| Reclassification of fitout cost of dealer-owned stations network | 53,553 | 59,193 |
| Reclassification of prepayments for fixed assets | (27,915) | (122,957) |
| Recognition of perpetual usufruct of land as intangible assets | (35,717) | (28,991) |
| Derecognition of capitalised financial expenses | (63,745) | (68,088) |
| Impairment loss recognized on ORLEN Deutschland AG fixed assets | (65,381) | (65,381) |
| Consolidated fixed assets in accordance with IFRS | 11,081,131 | 10,772,767 |

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The impact of the above described adjustments on the depreciation

| | For 12 months ended 31 December 2004 | For 6 months ended 30 June 2004 |
|---|---|---|
| Previously published consolidated information on depreciation in accordance with the PASs | 1,116,658 | 570,676 |
| Valuation of fixed assets at fair value | 168,783 | 77,901 |
| Change of the BOP consolidation method from equity method to proportionate method | 32,731 | 16,345 |
| Reclassification of fitout cost of dealer-owned stations network | 13,055 | 7,415 |
| Recognition of perpetual usufruct of land as intangible assets | (9,840) | (4,892) |
| Adjussted depreciation presented in consolidated comparative data in accordance with IFRS | 1,321,387 | 667,445 |

Due to the unfinalized process of fair value measurement at tangible fixed assets acquired before 1 January 1997, a complete fixed assets movements schedule with relevant adjustments will be presented in the financial statements for the 1st half of 2005.
Basing on an initial valuation report prepared by an independent expert, these preliminary condensed consolidated financial statements present adjusted tangible fixed assets in the reporting period and in comparative periods. Valuation covered 90 % of the Group of net fixed assets and was carried out in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment".

### 3.2. Short-term investments

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Cash on hand and in bank | 738,193 | 676,737 | 807,948 |
| Other short-term investments | 98,850 | 59,076 | 113,359 |
| **Total** | **837,043** | **735,813** | **921,307** |

As at 30 June 2005, 31 December 2004 and 30 June 2004 cash on hand and in bank denominated in foreign currencies amounts to PLN 445,064 thousand, PLN 482,142 thousand and PLN 651,398 thousand respectively.

The concentration of credit risk related to cash and cash equivalents is limited as the Group invests its cash at recognised financial institutions.

In accordance with the Polish law, the Group entities registered in Poland manage the entity's Social Fund on behalf of their employees. The contributions paid to the Social Fund are deposited in separate bank accounts and cannot be used for their operating activity. As at 30 June 2005, 31 December 2004, and 30 June 2004 cash relating to the Social Fund account amounted to PLN 31,023 thousand, PLN 28,979 thousand and PLN 35,105 thousand, respectively. The receivables related to borrowings from the Social Fund drawn by employees as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 21,195 thousand, PLN 23,886 thousand and PLN 26,777 thousand, respectively. Liabilities related to the Social Fund as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 45,688 thousand, PLN 35,245 thousand and PLN 45,195 thousand, respectively and were recognised as a part of trade and other liabilities.

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Apart from the above presented amounts related to the Social Fund, cash and cash equivalents, which availability is limited as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 70,374 thousand, PLN 247,263 thousand and PLN 85,241 thousand respectively.

### 3.3. Impairment of assets

#### 3.3.1. Impairment of tangible fixed assets

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 216,870 | 98,273 |
| Additions in 1 April – 30 June | - | 11,841 |
| Disposals in 1 April – 30 June | (4,788) | (6,645) |
| Closing balance as at 30 June | 212,082 | 103,469 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 235,825 | 89,823 |
| Additions in 1 January – 30 June | 3,056 | 25,060 |
| Disposals in 1 January – 30 June | (26,799) | (11,414) |
| Balance as at 30 June | 212,082 | 103,469 |

#### 3.3.2. Impairment of construction in progress

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 42,712 | 40,748 |
| Additions in 1 April – 30 June | - | 7,897 |
| Disposals in 1 April – 30 June | (354) | (4) |
| Closing balance as at 30 June | 42,358 | 48,641 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 46,526 | 45,246 |
| Additions in 1 January – 30 June | - | 7,897 |
| Disposals in 1 January – 30 June | (4,168) | (4,502) |
| Closing balance as at 30 June | 42,358 | 48,641 |

#### 3.3.3 Impairment of intangible assets

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 8,034 | 201 |
| Additions in 1 April – 30 June | 285 | - |
| Disposals in 1 April – 30 June | (225) | - |
| Closing balance as at 30 June | 8,094 | 201 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 8,292 | 196 |
| Additions in 1 January – 30 June | 285 | 5 |
| Disposals in 1 January – 30 June | (483) | - |
| Closing balance as at 30 June | 8,094 | 201 |

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### 3.3.4. Impairment of long-term financial assets (shares)

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 78,404 | 71,174 |
| Additions in 1 April – 30 June | - | 5,714 |
| Disposals in 1 April – 30 June | (5,672) | (406) |
| Closing balance as at 30 June | 72,732 | 76,482 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 78,370 | 71,389 |
| Additions in 1 January – 30 June | 63 | 5,714 |
| Disposals in 1 January – 30 June | (5,701) | (621) |
| Closing balance as at 30 June | 72,732 | 76,482 |

### 3.3.5. Receivables allowances

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 475,078 | 312,313 |
| Additions in 1 April – 30 June | 32,502 | 22,115 |
| Disposals in 1 April – 30 June | (32,922) | (17,254) |
| Closing balance as at 30 June | 474,658 | 317,174 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 474,235 | 317,072 |
| Additions in 1 January – 30 June | 52,859 | 31,329 |
| Disposals in 1 January – 30 June | (52,436) | (31,227) |
| Closing balance as at 30 June | 474,658 | 317,174 |

### 3.3.6. Inventory allowances

In the 2nd quarter 2005 the Group reduced the inventory allowances by PLN 1,151 thousand, cumulative in two quarters of 2005 the inventory allowance was reduced by PLN 5,302 thousand. In the 2nd quarter 2004 the Group increased the inventory allowances by PLN 5,088 thousand, and cumulative in the two quarters of 2004 by PLN 7,359 thousand.

### 3.4. Provisions

### 3.4.1. Deferred tax liabilities

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 370,332 | 462,440 |
| Additions in 1 April – 30 June | 127,461 | 2,654 |
| Disposals in 1 April – 30 June | (121,332) | (39,921) |
| Closing balance as at 30 June | 376,461 | 425,173 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 378,248 | 464,439 |
| Additions in 1 January – 30 June | 159,428 | 55,659 |
| Disposals in 1 January – 30 June | (161,215) | (94,925) |
| Closing balance as at 30 June | 376,461 | 425,173 |

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### 3.4.2. Jubilee and retirement provision

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 197,924 | 160,512 |
| Additions in 1 April – 30 June | 7,750 | 24,786 |
| Disposals in 1 April – 30 June | (8,595) | (12,627) |
| Closing balance as at 30 June | 197,079 | 172,671 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 197,446 | 160,843 |
| Additions in 1 January – 30 June | 8,977 | 28,294 |
| Disposals in 1 January – 30 June | (9,344) | (16,466) |
| Closing balance as at 30 June | 197,079 | 172,671 |

### 3.4.3. Other

| Data for 2nd quarter 2005 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.04.2005 | 493,497 | 70,000 | 89,805 | 80,525 | 733,787 |
| Increase in 1.04.2005 – 30.06.2005 | 362 | 54,187 | 376,164* | 16,262 | 446,975 |
| Decrease in 1.04.2005 – 30.06.2005 | (10,567) | - | (1,610) | (28,487) | (40,664) |
| Balance as at 30.06.2005 | 483,252 | 124,187 | 464,359 | 68,300 | 1,140,098 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

| Cumulative data for two quarters 2005 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2005 | 496,665 | 70,000 | 87,982 | 69,038 | 723,685 |
| Increase in 1.01.2005 – 30.06.2005 | 362 | 54,187 | 378,864* | 28,114 | 461,527 |
| Decrease in 1.01.2004 – 30.06.2005 | (13,775) | - | (2,487) | (28,852) | (45,114) |
| Balance as at 30.06.2005 | 483,252 | 124,187 | 464,359 | 68,300 | 1,140,098 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

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| Data for 2nd quarter 2004 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.04.2004 | 410,915 | - | 21,659 | 41,121 | 473,695 |
| Increase in 1.04.2004 – 30.06.2004 | 36,560 | - | 32,507 | 6,906 | 75,973 |
| Decrease in 1.04.2004 – 30.06.2004 | (4,413) | - | - | (6,803) | (11,216) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

| Cumulative data for two quarters 2004 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2004 | 411,848 | - | 21,812 | 41,288 | 474,948 |
| Increase in 1.01.2004 – 30.06.2004 | 36,574 | - | 32,507 | 7,087 | 76,168 |
| Decrease in 1.01.2004 – 30.06.2004 | (5,360) | - | (153) | (7,151) | (12,664) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

### 3.5. Goodwill

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| ORLEN PetroTank Sp. z o.o. | 11,298 | 11,298 | 11,298 |
| Ship Service S.A. | 6,645 | 6,645 | 6,645 |
| PetroProfit Sp. z o.o. | 1,175 | 1,175 | 1,175 |
| Other | 1,383 | 1,383 | 1,015 |
| **Total** | **20,501** | **20,501** | **20,133** |

As at 1 January 2004 excess of fair value of identifiable assets, liabilities and contingent liabilities over the acquisition cost in comparative data was derecognised from liabilities simultaneously increasing the opening balance of the retained earnings in the amount of PLN 301,369 thousand.

### 3.6. Dividends

On 29 June 2005, the Company's General Shareholders' Meeting adopted a resolution to pay a dividend from the net profit of 2004 in the amount of PLN 911,020,299.91. The date of payment was defined in the following way:
- the first instalment of PLN 457,648,695.27, giving PLN 1.07 per share, will be paid on 1 September 2005;
- the second instalment of PLN 453,371,604.64, giving PLN 1.06 per share, will be paid on 1 December 2005.

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### 3.7. Loans and borrowings

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Bank loans | 2,749,556 | 2,300,971 | 2,529,479 |
| Other loans and borrowings | 18,802 | 24,164 | 30,212 |
| Short-term debenture | - | - | 74,742 |
| Total including: | 2,768,358 | 2,325,135 | 2,634,433 |
| Short-term | 615,240 | 241,599 | 665,282 |
| Long-term | 2,153,118 | 2,083,536 | 1,969,151 |

The value of loans and borrowings drawn by the Group increased net by PLN 443 million in the period of 6 months ended 30 June 2005.
The change in indebtedness level results mainly from:

- loans drawn in PLN:
  103,044 thousand from Societe Generale Bank Consortium as a Leading entity
  169,081 thousand from Bank Pekao S.A.
  143,578 thousand from PKO BP S.A.
  17,587 thousand from BPH PBK S.A.
  149,768 thousand from BH w Warszawie S.A.
  7,555 thousand from BRE Bank S.A.
  3,019 thousand from Kredyt Bank
- PLN 72,401 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- repayment of loans in PLN:
  51,835 thousand to PKO BP S.A.
  36,716 thousand to BPH PBK S.A.
  17,064 thousand to BH SA.
  75,898 thousand to ING Bank Śląski S.A.
- PLN 9,360 thousand resulting from foreign exchange differences at BOP
- repayment of loans to German entities:
  EUR 2,640 thousand.

### 3.8. Cost by kind

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Materials and energy | 6,868,544 | 3,599,780 | 5,562,217 | 2,967,171 |
| Cost of merchandise and materials sold | 4,727,423 | 2,529,902 | 4,911,240 | 2,651,662 |
| External services | 820,455 | 450,682 | 860,955 | 470,896 |
| Payroll, social security and other employee benefits | 506,417 | 248,919 | 560,753 | 300,519 |
| Depreciation* | 575,412 | 280,569 | 667,445 | 326,610 |
| Taxes and charges | 158,774 | 67,026 | 125,239 | 41,028 |
| Other | 689,803 | 584,934 | 435,126 | 366,223 |
| | 14,346,828 | 7,761,812 | 13,122,975 | 7,124,109 |

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| | | | | |
|---|---|---|---|---|
| Adjustments: | | | | |
| Change in inventory and prepayments | (341,707) | 130,029 | (239,510) | (159,645) |
| Cost of products and services for own use | (69,270) | (49,244) | (31,151) | (9,018) |
| Operating costs | 13,935,851 | 7,842,597 | 12,852,314 | 6,955,446 |

* The decrease of depreciation cost for the 6 months ended 30 June 2005 as compared to the same period of 2004 is attributable to the extending of depreciation periods of tangible fixed assets starting from 1 January 2005, as a result of revision of previously assigned useful lives.

### 3.9. Net financial revenues and expenses

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Interest paid | (60,599) | (37,433) | (61,240) | (28,805) |
| Negative foreign exchange surplus | (130,687) | (95,219) | (19,074) | - |
| Interest received | 62,842 | 29,195 | 15,761 | 9,191 |
| Positive foreign exchange surplus | 8,818 | 1,414 | 55,212 | 105,649 |
| Gains on trade in shares and other securities | 32,957 | 32,692 | 7,711 | 6,676 |
| Dividends received | 90,427 | 85,934 | 68,216 | - |
| Other* | 239,240 | 247,659 | (3,949) | 11,434 |
| **Total** | **242,998** | **264,242** | **62,637** | **104,145** |

*including unrealized discount on purchased receivables due from Unipetrol Group companies of PLN 204,532 thousand

### 3.10. Corporate Income Tax

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Current tax | (377,757) | (212,915) | (261,556) | (165,414) |
| Deferred tax | 16,627 | (6,556) | 23,360 | 29,338 |
| **Total** | **(361,130)** | **(219,471)** | **(238,196)** | **(136,076)** |

The PKN ORLEN Group is not a tax group, and therefore each of the entity in the PKN Orlen group settles separately its corporate income tax.

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### 3.11. Basic and diluted earnings per share

| | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Weighted average amount of issued ordinary shares | 427,709,061 | 427,709,061 | 427,709,061 | 427,709,061 |
| Net earnings per share (in PLN) for the period | 3.08 | 1.63 | 2.06 | 1.29 |

There is no difference between basic earnings per share and diluted earnings per share.

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## IV. CIRCUMSTANCES AND EVENTS, IN PARTICULAR OF NON-STATDARD NATURE, WHICH HAVE SIGNIFICANT IMPACT ON FINANCIAL RESULTS

During the six-month period ended 30 June 2005 the following significant events influencing the information presented in these preliminary condensed consolidated financial statements:

### 1. Acquisition of Unipetrol

On 24 May 2005 PKN ORLEN acquired 114,224,038 bearer shares in Unipetrol a.s., which is about 62.99% of all issued and existing Unipertol a.s. shares.

Effect on acquisition of 62.99 % of UNIPETROL shares

| | |
|---|---|
| Initial acquisition price (increased by acquisition cost) before the final settlement of the transaction in PLN billion | 1.6 |
| Value of 62.99 % of equity as of 30 May 2005 after conversion to PLN billion at the exchange rate effective for that date* | 3.2 |
| Excess value of acquired assets over total acquisition price in PLN billion | 1.6 |

*Net equity of consolidated equity of the Unipetrol Group measured in accordance with the Unipetrol Group balance sheet prepared in line with IFRSs without considering fair value of acquired assets

The total excess value of the acquired assets over acquisition price, to be established in the course of the initiated measurement processes, will be recognised in the income of the period when the acquisition was concluded.

On 24 May 2005 PKN ORLEN acquired receivables of certain entities of the Unipetrol Group ("Receivables") which nominal value as at 1 April 2004 amounted to ca. CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition price of Receivables amounted to CZK 1.7 billion (ca. PLN 234,940,000 as at 23 May 2005).
The accompanying financial statements presents the effect of the unrealised discount of the acquired Receivables of PLN 204 million and 33 million of realised financial revenue as a discount and accrued interest.

Receivables were acquired under contracts concluded by PKN ORLEN on 4 June 2004 with Ceska Konsolidacni Agentura ("CKA"). Receivables were acquired as a result of contracts concluded on 24 May 2005.

### 2. Recognition of Unipetrol acquisition in the consolidated financial statements

The Unipetrol Group will be consolidated starting from the 2nd quarter and 1st half of 2005 reports, which the Company shall publish on 29 September 2005. Currently, for the first consolidation purposes, Unipetrol assets are being valued in order to define the acquisition impact in accordance with IFRS 3 "Business combinations".
These financial statements disclose the acquisition 62.99% Unipetrol shares as financial assets at the initial acquisition price.
Under the acquisition contract, certain procedures are being carried out to establish the final acquisition price, which involve audits of financial statements aiming at determination of the acquisition price of Unipetrol shares. The final acquisition price may differ from the currently presented.

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### 3. Assets and liabilities sales agreement relating to Unipetrol shares acquisition

In 2003-2004, the former PKN ORLEN Board concluded a number of agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. relating to assets and liabilities sales of Unipetrol Group.
The present Managemennt Board of the Company, having analysed all consequences resulting from the above agreements and having consulted recognised independent experts, adopted and presented to the Supervisory Board a strategy assuming minimum negative impact for shareholders and Company related to execution of the agreements. As a consequence Management Board is exchanging formal correspondence with Agrofert Holding a.s. and ConocoPhillips and Unipetrol concerning the way of executing of the agreements obligations. Therefore the Management Board of PKN Orlen cannot disclose detailed information concerning the agreements.
As a consequence of the above mentioned agreements, PKN ORLEN created provisions to cover potential negative financial effects related to execution of the agreements.

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**POLSKI KONCERN NAFTOWY ORLEN S.A.**
**NOTES TO PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004**
**(all amounts in PLN thousand)**

## V. SEGMENT DATA

| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Adjustments | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | period of | | | | period of | | | | period of | | | | period of | | | | period of | | | |
| | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 |
| Revenues | | | | | | | | | | | | | | | | | | | | |
| External sales | 13 060 104 | 7 491 392 | 11 584 786 | 6 391 732 | 1 795 149 | 763 854 | 1 382 567 | 914 655 | 300 839 | 137 427 | 320 558 | 145 309 | | | | | 15 156 182 | 8 392 673 | 13 291 911 | 7 451 696 |
| Intra-segment sales | 1 940 926 | 701 819 | 1 933 235 | 1 281 094 | 790 183 | 366 937 | 667 441 | 350 764 | 349 592 | 180 927 | 397 389 | 175 166 | -3 120 701 | -1 341 683 | -2 976 065 | -1 737 024 | 0 | 0 | 0 | 0 |
| Settlement of hedging transactions | | | | | 49 330 | 6 931 | 21 241 | 21 241 | | | | | | | | | 49 330 | 6 931 | 21 241 | 21 241 |
| Total revenues | 15 001 120 | 8 283 211 | 13 518 021 | 7 672 826 | 2 634 662 | 1 137 722 | 2 371 249 | 1 286 660 | 650 431 | 318 354 | 717 947 | 320 475 | -3 120 701 | -1 341 683 | -2 976 065 | -1 737 024 | 15 205 512 | 8 399 604 | 13 313 152 | 7 472 937 |
| Total operating cost | -13 516 126 | -7 363 531 | -12 381 869 | -6 874 008 | -2 187 850 | -930 475 | -2 229 441 | -1 143 476 | -662 290 | -320 087 | -670 644 | -295 763 | 3 120 611 | 1 341 918 | 2 976 011 | 1 737 164 | -13 185 654 | -7 271 175 | -12 305 143 | -6 576 075 |
| Other operating revenues | 112 675 | 52 767 | 85 509 | 57 533 | 10 110 | 7 259 | 10 830 | 6 811 | 29 361 | 20 265 | 11 236 | 3 674 | | | | | 157 146 | 80 291 | 107 575 | 68 018 |
| Other operating costs | -161 947 | -133 425 | -259 110 | -234 461 | -13 825 | -11 173 | -10 495 | -7 246 | -21 367 | -11 716 | -26 790 | -19 920 | | | | | -217 139 | -136 314 | -296 395 | -262 067 |
| Result | | | | | | | | | | | | | | | | | | | | |
| Segment result | 1 420 727 | 939 622 | 954 331 | 551 498 | 523 057 | 205 333 | 342 143 | 142 709 | 36 135 | 6 816 | 29 749 | 8 466 | -99 | 235 | -54 | 140 | 1 979 869 | 1 052 006 | 1 326 139 | 702 813 |
| Non-assigned Group revenue | | | | | | | | | | | | | | | | | 4 531 | 2 715 | 2 057 | 1 212 |
| Non-assigned Group cost | | | | | | | | | | | | | | | | | -553 062 | -414 708 | -257 776 | -117 304 |
| Operating profit | | | | | | | | | | | | | | | | | 1 431 338 | 640 013 | 1 070 470 | 586 721 |
| Financial revenues | | | | | | | | | | | | | | | | | 440 723 | 394 544 | 157 101 | 140 625 |
| Financial costs | | | | | | | | | | | | | | | | | -227 120 | -159 697 | -94 259 | -40 235 |
| Share in financial result of entities consolidated by equity method | 7 257 | 7 386 | -64 | -128 | 1 312 | 1 400 | 887 | 846 | 0 | 0 | 8 082 | 1 501 | | | | | 8 569 | 8 786 | 8 905 | 2 219 |
| Profit (loss) on the sale of all or part of shares in subsidiaries entities | | | | | | | | | | | | | | | | | 29 395 | 29 395 | 3 795 | 3 795 |
| Gross profit | | | | | | | | | | | | | | | | | 1 682 905 | 913 041 | 1 141 012 | 653 085 |
| Income tax | | | | | | | | | | | | | | | | | -361 130 | -219 471 | -238 196 | -136 026 |
| Minority profit | | | | | | | | | | | | | | | | | -5 634 | -4 538 | -23 576 | -6 508 |
| Net profit | | | | | | | | | | | | | | | | | 1 316 141 | 695 108 | 880 240 | 550 551 |

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

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POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO PRELIMINARY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004
(all amounts in PLN thousand)

| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Adjustments | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | period of | | | | period of | | | | period of | | | | period of | | | | period of | | | |
| | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | |
| Expenditure on tangible fixed assets and intangibles | 331 458 | 174 274 | 260 613 | 165 984 | 425 892 | 272 116 | 439 415 | 259 416 | 48 953 | 27 697 | 29 496 | 15 539 | | | | | 806 303 | 474 087 | 729 524 | 440 939 |
| Expenditure on non-assigned to segments tangible fixed assets and intangibles | | | | | | | | | | | | | | | | | 24 638 | 22 380 | 15 616 | 11 845 |
| **Total expenditure on tangible fixed assets and intangibles** | | | | | | | | | | | | | | | | | **830 941** | **496 467** | **745 140** | **452 784** |
| Segment depreciation | 333 533 | 163 547 | 414 234 | 201 742 | 120 625 | 56 772 | 127 397 | 62 752 | 105 476 | 54 361 | 105 221 | 55 420 | | | | | 559 634 | 274 680 | 646 852 | 319 914 |
| Depreciation of non-assigned Group assets | | | | | | | | | | | | | | | | | 15 778 | 5 889 | 20 593 | 6 696 |
| Total depreciation | | | | | | | | | | | | | | | | | 575 412 | 280 569 | 667 445 | 326 610 |
| Non-monetary assets other than depreciation | 123 415 | 86 839 | 74 301 | 64 346 | 1 033 | 377 | 7 450 | 6 826 | 74 455 | 63 923 | 13 619 | 5 825 | | | | | 198 903 | 151 139 | 95 370 | 76 997 |

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

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## Geographical segments

The below table presents the Group consolidated sales by geographical segments for the period of 6 and 3 months ended 30 June 2005 and 30 June 2004.

| | Sales revenues by geographical segments | | | |
|---|---|---|---|---|
| | period of | | | |
| | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | |
| Poland | 9 824 263 | 5 437 842 | 8 719 163 | 4 736 278 |
| Germany | 4 372 264 | 2 336 075 | 4 418 350 | 2 372 747 |
| Czech Republic | 267 577 | 193 432 | 288 504 | 245 319 |
| Other countries | 741 408 | 432 255 | 387 135 | 118 593 |
| **Sales revenues by geographical segments** | **15 205 512** | **8 399 604** | **13 813 152** | **7 472 937** |

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## VI. CONTINGENT ASSETS AND LIABILITIES

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| **1. Contingent assets** | **10,232** | **-** | **-** |
| 1.1. related parties | - | - | - |
| 1.2. other parties | 10,232 | - | - |
| **2. Contingent liabilities** | **1,974,293** | **1,360,697** | **1,534,299** |
| 2.1. related parties, ncluding | 1,536,705 | 1,232,941 | 1,412,127 |
| - consolidated entities | 993,322 | 915,231 | 1,098,719 |
| 2.2. other parties | 437,588 | 127,756 | 131,172 |
| **3. Other** | **62,730** | **76,687** | **14,940** |
| | --- | --- | --- |
| **TOTAL** | **2,047,255** | **1,437,384** | **1,558,239** |
| | ═══ | ═══ | ═══ |

Additional information concerning significant proceedings in front of the court, body appropriate for arbitrage proceedings or in front of public administration bodies and on other risks of the Company and its related parties are presented in Note X.

## VII. SIGNIFICANT EVENTS IN THE PERIOD FROM 1 APRIL 2005 TO THE DATE OF THIS REPORT, PRESENTED IN CURRENT REPORTS

1. On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "Przyjaźń" S.A. ("PERN"), the buyer, for sale of 24 shares in the nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which constituted as at the agreement date 30.77% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych "Naftoport" Sp. z o.o. ("Naftoport").

After the sale of shares PKN ORLEN holds 17.95% in Naftoport share capital. Other shares are held by:

a. PERN "Przyjaźń" S.A. 67.95%
b. Grupa LOTOS S.A. 8.97%
c. Port Północny 3.85%
d. J & S Services Ltd. 1.28%

2. PKN ORLEN announced that on 24 May 2005 it acquired:

1) 114,224,038 bearer shares at Unipetrol a.s., of nominal value of CZK 100 each ("Unipetrol Shares"), which is about 62.99% of all issued and existing Unipetrol a.s ("Unipetrol") stock. The total acquisition cost of Unipetrol Shares amounted to CZK 11,303,886,660 (about PLN 1,562,197,136 as at 23 May 2005);

2) 745,000 bearer shares at Spolana a.s. of nominal value of CZK 655 each ("Spolana Shares"), which is 9.76% of the share capital of Spolana a.s. The total acquisition cost of Spolana Shares amounted to CZK 1.0 million (about PLN 138,200 as at 23 May 2005);

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3) receivables from some of the Unipetrol Group entities ("Receivables"), which approximate nominal value as at 1 April 2004 amounted to CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of Receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).

The acquisition of Unipertol Shares, Spolana Shares and Receivables are financed in 90% by PKN ORLEN own financial resources and in 10% from available credit limits.

Acquisition of Unipertol and Spolana Shares is PKN ORLEN's long-term investment.

The transaction will strengthen PKN ORLEN market position as one of the largest companies of the oil and petrochemical sector in the Central and Eastern Europe. Moreover, it places PKN ORLEN as one of the consolidation leaders in the region.

After acquisition of Unipetrol Shares, under the law of the Czech Republic, PKN ORLEN shall make a mandatory public call for minority shareholders in Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.).

PKN ORLEN intends to restructure the Unipetrol Group. The general assumptions underlying the projected restructuring were announced in the current report no. 41/2004 of 4 June 2004.

3. On 24 May 2005 PKN ORLEN was informed that FMR Corp. with direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited with direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, which is 5.01% of the share capital, and gives title to 21,436,944 votes at the general meeting and 5.01% of the total votes at PKN ORLEN General Meeting.

4. On 1 June 2005 the District Court in Warsaw, XV Commercial Department, dismissed a suit, acting in the case Bengodi Finance Spółka Akcyjna against PKN ORLEN, on invalidity of the resolution no. 14 of 5 August 2004, adopted by the Extraordinary General Meeting of PKN ORLEN, appointing Mr Jacek Bartkiewicz as President of PKN ORLEN Supervisory Board.

5. On 9 June 2005 the District Court in Warsaw, XV Commercial Department, acting in the case no. XV GC 378/04, acknowledged the suit Bengodi Finance Spółka Akcyjna and other plaintiffs against PKN ORLEN S.A. on invalidity of the resolution no. 1 of the General Meeting of PKN ORLEN S.A. of 28 June 2004 which amended the provision in Article 7 section 11 of the Company's Articles of Association concerning limitation of some shareholders' voting rights. The Court ruled the resolution was invalid. The judgement of the first instance court is not binding.

6. On 14 June 2005 PKN ORLEN issued corporate guarantees to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH for the total amount of EUR 64 million and a letter of collateral to Bayerische-Hypo und Vereinsbank AG for EUR 25 million in order to secure liabilities of its German subsidiary ORLEN Deutschland A.G. resulting from trade in fuel (total about PLN 359 million). The guarantees provided to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH shall replace the existing security granted by the Issuer on 4 January 2005 (*cf. Current report of 5 January 2005).* The guarantees and security are valid till 31 January 2006.

7. The Ordinary General Meeting of Polski Koncern Naftowy ORLEN Spółka Akcyjna, at the sitting on 29 June 2005 appointed to the Supervisory Board:

1. Mr Adam Sęk
2. Mr Andrzej Olechowski.

8. PKN ORLEN Supervisory Board at its sitting on 19 July 2005, acting upon a motion from the Minister of Treasury, in accordance with § 9 section 1 para. 3 of the Company's Articles of Association, as from 1 August 2005 appointed Mr Dariusz Witkowski as PKN ORLEN Board Member.

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9. On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

Due to acquisition, on 24 May 2005, of shares entitling PKN ORLEN to 62.99% of votes at UNIPETROL, a.s. and 9.76% of votes at SPOLANA, a.s., PKN ORLEN is required to make mandatory public calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. ("Mandatory Calls").

PKN ORLEN authorised Patria Finance, a.s. to make the Mandatory Calls.
As in accordance with the Czech regulations, conditions for Mandatory Calls are subject to approval from the CSEC, the respective application was filed at the CSEC within the required period on 30 June 2005.

The prices offered by PKN ORLEN were: CZK 103 per one share of UNIPETROL, a.s., CZK 701 per one share of PARAMO, a.s. and CZK 100 per one share of SPOLANA, a.s.; the pricing was based on the DCF method, and performed by an independent Czech expert, NS Group.
The CSEC justified its decision claiming that the application was rejected mainly due to incorrect share pricing of the Czech expert, selected in September last year by PKN ORLEN in accordance with the Czech law.

Under the Czech law, PKN ORLEN should make calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. within the period ending 25 July 2005.
The Company will face the following consequences if the calls are not made within the above period:

1. Within 6 months from 25 July 2005 the minority shareholders may present PKN ORLEN with a bid for their shares at the price defined by the respective regulations.
2. After 25 July 2005 to the date of Mandatory Calls, PKN ORLEN and people authorised by it may not execute their title to vote resulting from their shares in UNIPETROL, a.s. and SPOLANA, a.s. Moreover, in the discussed period the CSEC may issue a ban for PKN ORLEN preventing it to benefit from any other rights to which it is entitled due to the held shares.
3. If the CSEC regards it necessary for protection of other shareholders, lenders or employees, it may decide to prohibit PKN ORLEN to execute its title to vote for one year.
4. The CESC may impose a fine on PKN ORLEN.

PKN ORLEN does not intend to appeal against the decision, yet to prepare a new application acknowledging recommendations contained in the CSEC decision. PKN ORLEN is also going to refer to the CSEC to withhold the ban on title to vote resulting from ownership of UNIPETROL and SPOLANA shares.

10. PKN ORLEN Board announces that on 12 August 2005 the Company reapplied to the Czech Securities and Exchange Commission for a permit to make Mandatory Calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s.

The prices offered by PKN ORLEN are: CZK 135 for 1 UNIPETROL share, CZK 978 per one share of PARAMO, a.s. and CZK 155 per one share of SPOLANA, a.s.

The previously filed applications were rejected by the CSEC due to an improper pricing method adopted by a independent Czech expert, NS Group. PKN ORLEN, acting in accordance with the best transparency standards, did all it could to prepare the new applications with due care and diligence and hopes that offered prices reflect the pricing methods required by the CSEC.

The CSEC issues its decisions within 8-13 working days form the application filing date.

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## VIII. SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY VIA RELATED PARTIES AT LEAST 5% OF THE TOTAL VOTES AT THE PARENT'S GENERAL MEETING AS AT THE DATE OF FILING THE REPORT

| Shareholder | % of votes at the GSM at the prior quarter report filing date * | Number of shares at the prior quarter report filing date * | Change of % in the period 15 April 2005 – 1 August 2005 | % of votes at GSM at the report filing date ** | Number of shares at the report filing date ** |
|---|---|---|---|---|---|
| Nafta Polska S.A. | 17.32% | 74,076,299 | - | 17.32% | 74,076,299 |
| State Treasury | 10.20% | 43,633,897 | - | 10.20% | 43,633,897 |
| The Bank of New York (holders of GDRs) | 12.28% | 52,516,140 | 0.12 | 12.40% | 53,034,562 |
| Other | 60.20% | 257,482,725 | (0.12) | 60.08% | 256,964,303 |
| Total | 100% | 427,709,061 | - | 100% | 427,709,061 |

* Data as at 15 April 2005
** Data as at 1 August 2005

In accordance with the current report no. 54/2003 filed on 4 July 2003, Commercial Union OFE BPH CU WBK as at 1 July 2003 held 21,533,539 shares of PKN ORLEN S.A., which is 5.035% (considering increase of PKN ORLEN S.A. share capital of 20 November 2003) of the total votes at the General Shareholders' Meeting of PKN ORLEN S.A.
In compliance with the current report no. 19/2005 filed on 7 March 2005, Commercial Union OFE BPH CU WBK on 2 March 2005 held 21,040,915 shares of PKN ORLENS.A., which is 4.92% of PKN ORLEN S.A. share capital.
In accordance with the current report no. 33/2005, filed on 25 May 2005, FMR Corp. with direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited with direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, which is 5.01% of the share capital, and gives title to 21,436,944 votes at the general meeting and 5.01% of the total votes at PKN ORLEN General Meeting.
The percentage participation of the above shareholders in the Company's share capital is compatible with the percentage of votes at the General Shareholders' Meeting as at this report filing date.

## IX. CHANGES IN THE NUMBER OF THE COMPANY'S SHARES HELD BY THE BOARD OF DIRECTORS AND SUPERVISORY BOARD IN ACCORDANCE WITH THE COMPANY'S RECORDS

**The number of shares held by the Board of Directors and Supervisory Board in the second quarter 2005:**

| | Number of shares, options as of the date of the prior quarter report filing * | Acquisition | Disposal | Increase due to changes in composition | Decrease due to changes in composition | Number of shares as at the date of report filing ** |
|---|---|---|---|---|---|---|
| Board of Directors | - | - | - | - | - | - |
| Supervisory Board | 2,950 | - | - | - | | 2,950 |

* Data as at 15 April 2005
** Data as at 1 August 2005

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## X. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF THE COURT, BODY APPROPRIATE FOR ARBITRAGE PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION BODIES AND ON OTHER RISKS OF THE COMPANY AND ITS RELATED PARTIES

1. On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-June 2004 at about PLN 60 million. According to the Board of Directors of Rafineria Trzebinia S.A., the company possesses all necessary expertises confirming correctness of the applied classification of goods taxed with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and to suspend execution of the decision until the date of settling the matter in the court of second instance.
   On 5 May 2005, in reply to its motion, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.
   On 9 May 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.
   On 28 July 2005 the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary legal opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.
   On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and a motion to suspend execution of the decisions until the case would be decided by the second instance authority.
   As at the date of preparation of these preliminary condensed consolidated financial statements, the outcome of the above appeal was not known.

   Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorisation from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003.
   As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods were not known.

   On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and tax settlement to be summarised in "Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.". The 2000-2004 tax audit was completed and its results presented to the Supervisory Board.
   On 22 April 2005, having received the first stage report on control procedures, the Supervisory Board of Rafineria Trzebinia ordered the second detailed stage of the "Report on agreed upon procedures" which would involve an analysis of transactions in the selected areas of the company's activity. As at the date of these preliminary condensed consolidated financial statements the final outcome of the second stage control was not yet known.

2. In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in exchange for receivables from Tankpol. On 30 October 2003, a suit was filed at court against PKN ORLEN for compensation of PLN 69.898 thousand or return of the transferred shares. On 26 January 2004 Tankpol modified its claim and demanded PLN 36.383 thousand or return the transferred shares. Tankpol supported the suit with a new valuation of Petrotank for PLN 232.147 thousand. As a result of the proceedings, on 22 March 2005 the Court dismissed Tankpol Sp. z o.o. suit against which Tankpol appealed. In the view of the Management Board, based on an independent legal opinion, the final result of the dispute should not have a material impact on the presented financial results or settlements' balances.

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3. On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111.5 million and was calculated as a sum of par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.
On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. The Company provided an allowance for receivable in the amount of PLN 111.5 million presented in the financial statements for the year 2004.
On 20 May 2005 the Company filed a complaint at the District Court in Warsaw for quash the above judgement of the arbitration court and applied for suspending the execution of the court sentence.
On 26 June 2005, the District Court rejected the application for suspending of execution of the arbitration court judgement.
On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111.5 million.
On 8 August 2005 PKN ORLEN received PSE letter where PSE stated it was not bound to settle the penalty.
On 5 August 2005 PKN ORLEN filed at the Arbitration Court at the Polish Chamber of Commerce in Warsaw a suit for adjudication of the contractual penalty of PLN 111.5 million.
Up to the date of these financial statements the Arbitration Court at the PCC did not issue its judgement on PKN ORLEN suit.

4. According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Journal of Law No 1 dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of power transfer fee settlement has been allowed. Following the decision of the Chairmen of the Electricity Regulation Office the electricity sale agreement between Zaklad Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zaklad Energetyczny Plock S.A. called on PKN ORLEN S.A. to compromise agreement, as the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zaklad Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zaklad Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for business risks was inceased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings.

5. As at the date of the report, the Company was a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office for Protection of Competition and Consumer ("OPCC") from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Plock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of gasoline Universal 95 through an unanimous decision to give up production and distribution of gasoline Universal 95 and eliminating the competition on the domestic sale market of gasoline Universal 95 as well as excluding the risk of the market take-over by the competition. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by OPCC. Answers to the further questions made by OPCC were sent on 5 May 2005.
The proceedings to take evidence are pending. They are prolonged due to motions filed by PKN ORLEN in order to limit access rights to evidence and due to respective decisions which are to be issued in this respect

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by the President of the OPCC and which may be sued at the Consumer and Competition Court. As the proceedings are at their earliest stage, it is difficult to assess the risk that PKN ORLEN may be fined.
On 21 March 2005, the Company received a letter in which the Chairman of the OPCC requested information on monoethylene glycol and "Petrygo" radiator liquid market in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators "Petrygo" and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the negative decision of OPCC. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OPCC, which accused PKN ORLEN of applying monopolistic practice, annulling at the same time the cash penalty. Consequently in 2001 due to this fact the provision was fully released. OPCC applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court from 13 August 2001. The case was conducted again by District Court in Warsaw and Anti-Trust Court, which on the hearing on 21 July 2004 pronounced the judgement again revoking the complaint decision of OPCC.
Due to the received letter PKN ORLEN S.A. answered the questions of OPCC on 11 April 2005. Simultaneously OPCC approved prolongation of the period for giving answers up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining adequate geographical market of monoethylene glycol was sent to OPCC on 6 May 2005. Upon the OPCC's request, additional information was provided on 18 May 2005.
The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN and the petitioner in order to limit access rights to evidence and due to respective decisions that need to be issued in this respect by the President of the OPCC and which may be sued at the Consumer and Competition Court.
As the above proceedings are at their initial stage it is difficult to assess the risk of a fine which might again be imposed on PKN ORLEN. Due to elapse of time and considerable changes in the business environment where PKN ORLEN operates, the risk of a fine is still insignificant.
In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Board.
The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management, supported by an independent legal opinion, risk that the Company would be charged with a fine is limited.

6. On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in "Report on agreed upon procedures concerning review of control procedures at Orlen Oil Sp. z o.o." As at the date of preparation of these condensed consolidated financial statements, the tax audit did not reveal any material risks.

7. On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, which would verify correctness of the Company's procedures and tax settlements and be summarised in "Report on agreed upon procedures concerning review of control procedures at Rafineria Nafty Jedlicze S.A." As at the date of preparation of these condensed consolidated financial statements, the tax audit did not disclose risks which estimated value would have a significant impact on the company's operations.

8. According to the Management Board, the pending proceedings do not provide grounds to claim that they concern issues which could have a material impact on true and fair view of the condensed consolidated financial statements of the Group for the period ended 30 June 2005. The proceedings are not instituted against the Company.

9. In accordance with the Decree on Investment Expenditure and in line with article 18a of the Corporate Income Tax Act (in force till 31 December 1999) and article 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000), the taxpayer is entitled to deduct investment expenditures from the tax base in a given tax year and in the following tax year half of the previously deducted amount, i.e. the so-called investment premium. In the years 1998-2003, the Group companies benefited from their entitlement to the following investment relieves and premiums (amounts deducted from income):

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| PKN Group | Investment Relief | Investment premium |
|---|---|---|
| 2001 | 98,927 | 43,750 |
| 2002 | 14,234 | 49,222 |
| 2003 | - | 6,923 |
| Total | 113,161 | 99,895 |

The relieves and premiums are conditional. The Corporate Income Tax Act assumes the loss of entitlement to investment relieves if any of the following events occurs within three years from the end of the tax year when the relief has been exercised:

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

2) taxpayers transfer – in any form – ownership title to assets to which income deductions or tax exemptions relate; this does not refer to transfer of ownership resulting from a change in the legal personality, business combinations or separation of business entities carried out in compliance with the Commercial Code's regulations'

3) there are no longer grounds for recognition as the taxpayer's assets those fixed assets which have been adopted for chargeable use under tenancy, lease or similar agreements,

4) the taxpayer is subject to liquidation proceedings or its bankruptcy has been declared,

5) the taxpayer receives any form of reimbursement of investment expenditure.

Tax authorities may also deny a claim to tax allowances if the tax payer has been charged with outstanding tax liabilities at the moment in which the tax incentives deduction were recognized.

In accordance with the Amendment of 20 November 1998 to the Corporate Income Tax Act (Journal of Laws No. 144, item 931) when the title to deductions made under Art.18a of the Corporate Income Tax Act (in force till 31 December 1999) and Art. 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000) no longer exists due to circumstances discussed under paragraph 1) above, it is assumed that the title is not lost if the taxpayer makes adjustments to its tax return and settles the tax arrears with accrued interest or settles the arrears with interest within 14 days from the decision of the first instance authority defining the tax liability.

10. Poland has currently a number of regulations in force concerning value added tax, excise duty, corporate income tax and social security. The tax law is often amended, which results in unclearness and inconsistencies. The frequent discrepancies in tax law interpretations provided by state authorities and taxpayers generate uncertainty and conflicts concerning the interpreted issues. Tax settlements and other regulated areas of activity (for instance customs and foreign exchange control) are controlled by the respective authorities which are entitled by law to impose high fines, penalties and related interest. Due to the above, the tax risk in Poland is substantially higher than typical for countries with better developed taxation systems.

    There are no formal procedures in Poland for determining the final taxation charge. Tax settlements may be subject to tax control over five years since the end of the calendar year when the tax liability reached its maturity. There is a risk that respective authorities adopt a different interpretation of the tax law than the Group companies, which could have a significant impact on their tax liabilities.

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## XI. INFORMATION ABOUT CURRENT PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE PARENT COMPANY AND RELATED PARTIES OF THE TOTAL VALUE EXCEEDING 10% OF THE COMPANY'S EQUITY

During the period from 1 January to 30 June 2005, the Parent Company was not a party in proceedings concerning liabilities or receivables of the Parent Company or related entities, of the value exceeding 10% of the Company's equity.

## XII. RELATED PARTIES

### 1. Information about unusual related parties transactions

During the period from 1 January to 30 June 2005, there were no unusual related party transactions concluded between related parties within the Group, where the transaction would exceed EUR 500 thousand, except for a short-term EUR 60 million loan granted to ORLEN Deutschland on 23 December 2004. The repayment was made on 14 February 2005 and interest was paid on 24 February 2005.
The transactions concluded within the Group were trade transactions resulting from the type of activity of the particular Group's entities.

### 2. Information on significant related party transactions

#### a) Transactions with Members of the Company's Board of Directors and Supervisory Board, their spouses, siblings, ascendant relatives, descendants or their other relatives

In the periods of 6 months ended 30 June 2005 and 30 June 2004, there were no significant transactions identified with Members of the Company's Board of Directors and Supervisory Board, their spouses, siblings, ascendant relatives, descendants or their other relatives.

#### b) Transactions of the Company's Supervisory Personnel with the related parties

In the second quarter of 2005 the Company obtained statements of related party transactions in a more extensive scope as required under the new IAS 24 "Related Party Disclosures".

| | Sales | Purchases | Receivables | Liabilities | Dividend paid |
|---|---|---|---|---|---|
| **Legal persons *** | 12,598 | 24,242 | - | - | - |
| **Natural persons **** | 443 | - | - | - | - |

* Transactions in the period of activity of members of the Company's supervisory bodies
** During the period covered by the condensed consolidated financial statements the concluded transactions did not equal or exceed EUR 500 thousand.

#### c) Transactions of the Company's key management personnel with related parties

In the second quarter of 2005 members of the Company's key management did not conclude significant transactions with related parties as provided for in IAS 24 "Related Party Disclosures".

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**d) Transactions of the Company with related parties in the period from 1 January to 30 June 2005 and the settlement balances as at 30 June 2005**

| | PKN ORLEN GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Consolidated subsidiaries 1) | Consolidated associates 2) | Non-consolidated subsidiaries 1) | Non-consolidated associates 2) | Consolidated jointly controlled entities 3) | Total related parties |
| Sales | 1.539.978 | 1.142 | 34.828 | 36 | 361.764 | 1.937.748 |
| Purchases | 361.458 | 31.688 | 41.718 | 137 | 3.071 | 438.072 |
| Financial revenues from interest | 3.627 | 11 | 1 | - | 39 | 3.678 |
| Financial expenses on interest | (39) | - | 2 | - | - | (37) |
| Gross short-term receivables | 507.849 | 4.892 | 405.247 | 57 | 76.053 | 994.098 |
| Short-term liabilities | 76.922 | 7.332 | 10.291 | 97 | 144 | 94.786 |
| Gross long-term receivables | 30.850 | - | 47.830 | - | - | 78.680 |
| Long-term liabilities | - | - | - | - | - | - |

1) Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members
2) Parent Company executes considerable control in supervisory bodies via its representatives
3) Parent Company executes a joint control over the entities under the deed of association

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### 3. Remuneration, including bonuses from profit paid to the Management Board, Supervisory Board and the key executive personnel in accordance with IAS 24

Management Board remuneration includes salaries, bonuses, annual bonus and equivalent for unused annual holiday.

The remuneration paid to the Board of Directors, Supervisory Board and key executive personnel amounted to:

| | for 6 months ended 30 June 2005 (unaudited) | for 6 months ended 30 June 2004 (unaudited) |
|---|---|---|
| Parent's Board of Directors* | 11,490 | 11,375 |
| Parent's Supervisory Board | 400 | 436 |
| Parent's key executive personnel ** | 8,680 | 5,998 |
| Group entities' key executive personnel *** | 18,884 | 20,337 |
| **Total** | **39,454** | **38,146** |

* In the period of 6 months ended 30 June 2005 the remuneration to former Board members amounted to PLN 7.008 thousand.
** In the period of 6 months ended 30 June 2004 the remuneration was paid to 27 members of key executive personnel and in the period of 6 months ended 30 June 2005 to 34 members
*** Management Boards, Supervisory Boards and key executive personnel of the Group companies

## XIII. LOAN SECURITY, GUARANTEES AND COLLATERALS OF AT LEAST 10% OF THE COMPANY'S EQUITY GRANTED BY PARENT COMPANY OR ITS SUBSIDIARIES TO A THIRD ENTITY OR ITS SUBSIDIARY

In the period from 1 January to 30 June 2005 the Company and its subsidiaries within the Group did not grant loan security, or guarantees to another entity or its subsidiary, where the value of security or guarantee would constitute at least 10% of the Company's equity, except collaterals provided by PKN ORLEN under the share pledge agreement of 19 December 2003, securing Basell ORLEN Polyolefins Sp. z o.o. repayment of current and future claims to which the pledgee is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.

## XIV. SEASONAL OR CYCLICAL CHARACTER OF THE ISSUER'S OPERATIONS IN THE PRESENTED PERIOD

The PKN ORLEN Group does not report any material seasonal or cyclical character of its operations.

## XV. EVENTS AFTER THE BALANCE SHEET DATE

### a) Changes in the Parent's Board of Directors and Supervisory Board

Changes in the Parent's Board of Directors and Supervisory Board are discussed in detail under Note VII.

## XVI. IMPACT ON PRIOR RESULTS

Due to the fact that beginning from 1 January 2005 the Group for statutory purposes has been preparing its consolidated financial statements in accordance with the IFRSs, the below differences concern mainly those identified and reported by the Group between the IFRSs and the PASs with respect to changes in the equity opening balance as at 1 January 2005 and net profit comparative data for the period ended 31 December 2004. Section II also presents the differences which have been identified by the Group, as discussed in detail in that section, but they were not presented in these condensed consolidated financial statements.

| | Net profit for 12 months period ended 31 December 2004 (unaudited) | Net profit for 6 months ended 30 June 2004 (unaudited) | Net profit for 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|
| Consolidated according to PASs | 2,588,981 | 1,028,855 | 647,088 |
| Withdrawing of capitalised borrowing costs | 8,011 | 3,667 | 1,511 |
| Deferred tax on capitalised financial expenses | (1,522) | (697) | (287) |
| Measurement of fixed assets at fair value | (155,004) | (69,078) | (26,698) |
| Deferred tax on remeasurement of fixed assets at fair value | 30,413 | 13,549 | 6,741 |
| Alternative treatment of surplus of fair value of identifiable assets, liabilities and contingent liabilities over purchases price | (27,758) | (17,728) | (10,626) |
| Withdrawing of goodwill's write-offs | 5,765 | 2,814 | 1,341 |
| Impairment of ORLEN Deutschland AG fixed assets | (65,381) | (65,381) | (65,381) |
| Distribution of profit other than dividends | (4,176) | (4,176) | (4,176) |
| Other | 5,654 | (11,585) | 1,038 |
| **Consolidated according to IFRSs** | **2,384,983** | **880,240** | **550,551** |

| | Net assets as at 31 December 2004 (unaudited) | Net assets as at 30 June 2004 (unaudited) | Net assets as at 1 January 2004 (unaudited) |
|---|---|---|---|
| Consolidated in accordance with PASs | 11,826,556 | 10,330,621 | 9,581,948 |
| Withdrawing of capitalised borrowing costs | (63,745) | (68,088) | (71,755) |
| Deferred tax on capitalised financial expenses | 12,111 | 12,937 | 13,633 |
| Measurement of fixed assets at fair value | 1,122,628 | 1,208,403 | 1,278,183 |
| Deferred tax on remeasurement of fixed assets at fair value | (204,506) | (221,372) | (234,920) |
| Alternative treatment of surplus of fair value of identifiable assets, liabilities and contingent liabilities over purchases price | 273,611 | 283,641 | 301,369 |
| Withdrawing of goodwill's write-offs | 5,765 | 2,814 | - |
| Impairment of ORLEN Deutschland AG fixed assets | (65,381) | (65,381) | - |
| Other | 70,563 | 53,324 | 61,170 |
| **Consolidated according to IFRSs** | **12,977,602** | **11,536,899** | **10,929,628** |

### a. Withdrawing of capitalised borrowing costs

In accordance with the PASs financial expenses resulting from investment loans were stated as investment expenditure. Other financial expenses were recognised in the profit and loss when incurred. In financial statements prepared in compliance with the IFRSs, cost of loans and borrowings, including foreign exchange

differences related to loans and borrowings in foreign currencies, are recognised in the profit and loss statement in the period to which they refer.

**b. Alternative treatment of surplus of fair value of identifiable assets, liabilities and contingent liabilities over purchase price**

In accordance with the PASs the Company stated as revenues the excess of fair value of identifiable assets, liabilities and contingent liabilities above purchase cost over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities above purchase price was recognised as retained earnings.

**c. Withdrawing of goodwill's write offs**

In accordance with the PASs goodwill was depreciated by straight line method over the period no longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in compliance with IFRSs, goodwill was not depreciated but decreased by impairment losses.

**d. Impairment of ORLEN Deutschland AG fixed assets**

Due to the change in the policy discussed in detail under b) above, as at 1 January 2005 ORLEN Deutschland AG recognised as equity an excess of net fair value for identifiable assets, liabilities and contingent liabilities above acquisition cost. Consequently, for the purpose of consolidated annual financial statements the allowance for ORLEN Deutschland AG fixed assets was increased by the amount reflecting the above change in the accounting principles and recognised in 2004 financial result.

**e. Consolidation of BOP by proportionate method**

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise, Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.
In accordance with the records presented for the second quarter of 2004 and the second quarter of 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods the company was presented in line with the equity method.
As at 30 June 2005 and 31 December 2004 and for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

| | 30 June 2005 | 31 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Current assets | 152,996 | 168,681 |
| Fixed assets | 929,818 | 860,901 |
| Short-term liabilities | 90,370 | 152,590 |
| Long-term liabilities | 459,799 | 346,785 |

| | 6 months ended 30 June 2005 | 3 months ended 30 June 2005 | 6 months ended 30 June 2004 | 3 months ended 30 June 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | 253,802 | 116,551 | 240,067 | 116,398 |
| Cost of goods and materials sold | (223,618) | (110,318) | (209,690) | (103,717) |
| Management overheads | (4,321) | (2,546) | (3,526) | (1,892) |
| Financial costs | (13,925) | (7,559) | (5,936) | 5,610 |
| Profit before tax | 12,032 | 1,017 | 22,487 | 17,651 |
| Statutory liabilities | (2,094) | 276 | (4,318) | (1,524) |
| Net profit | 9,939 | (700) | 18,170 | 16,129 |

## XVII. SUPPLEMENTARY INFORMATION

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### a) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN OIL participate in the Project of "Restructuring of southern assets of the PKN ORLEN S.A. Group". The Project aims at optimisation and consolidation of manufacture and sale of fuel, motor and lubricating oils and paraffin at the PKN ORLEN S.A. Group.
On 5 July 2005 the Board of Directors adopted "Restructuring plan for southern assets" thus accepting the restructuring objectives.

### b) Polkomtel S.A.

Polish shareholders of Polkomtel S.A. agreed as at 17 December 2004 that Polkomtel S.A. shares should be publicly listed. During this reporting period all mentioned above parties cooperated in equity restructuring of Polkomtel S.A. Financial and legal advisors made relevant analyses and estimates of different options for public quote of Polkomtel S.A. shares, in particular by sale of all or a portion of the shares to Vodafone and TDC.
KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded "Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital." Negotiations with foreign shareholders are being carried out in order to define conditions for obtaining the optimum value of Polkomtel S.A. shares.

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## VIII. The capital Group performance within Q2 2005 including factors and events materially influencing the recorded financial results

**Financial Highlights**

| ORLEN Group | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Sales revenue | 15,205,512 | 4,788,534 | 8,399,604 | 2,560,152 | 13,813,152 | 3,582,156 | 7,472,937 | 1,920,027 | 10.1% | 33.7% | 12.4% | 33.3% |
| EBITDA[2] | 2,006,750 | 631,968 | 920,582 | 280,588 | 1,737,915 | 450,692 | 913,331 | 234,663 | 15.5% | 40.2% | 0.8% | 19.6% |
| Operating profit/(loss) | 1,431,338 | 450,758 | 640,013 | 195,072 | 1,070,470 | 277,604 | 586,721 | 150,747 | 33.7% | 62.4% | 9.1% | 29.4% |
| Financial expenses | 227,120 | 71,525 | 159,697 | 48,675 | 98,259 | 25,481 | 35,703 | 9,173 | 131.1% | 180.7% | 347.3% | 430.6 % |
| Net profit (loss) | 1,316,141 | 414,480 | 698,108 | 212,779 | 880,240 | 228,272 | 550,551 | 141,453 | 49.5% | 81.6% | 26.8% | 50.4% |
| Net profit (loss) according to LIFO method | 764,049 | 240,615 | 369,192 | 112,528 | 636,819 | 165,146 | 397,702 | 102,182 | 20.0% | 45.7% | -7.2% | 10.1% |
| Operating cash flow | 1,276,222 | 401,909 | 711,819 | 216,958 | 1,738,442 | 450,829 | 1,110,413 | 285,299 | -26.6% | -10.9% | -35.9% | 24.0% |

*(1) The following average exchange rates were used for the conversion of the amounts denominated in USD: 6 months 2005 – PLN 3.1754, 6 months 2004 – PLN 3.8561, 3 months 2005 – PLN 3.2809, 3 months 2004 – PLN 3.8921.*

*(2) EBITDA = OPERATING PROFIT + AMORTISATION/DEPRECIATION*

- **Refining (Production + Wholesale):** In Q2 2005, the segment's financial result gained PLN 215m year on year, chiefly as a result of such factors as an increase in commodity margins on refinery products, a higher URAL/Brent differential, and lower operating expenses. The rising oil prices favourably affected the result computed with the weighted average method (effect of the LIFO method on EBIT: (-)PLN 406m).
- **Refining (Retail):** A PLN 73m improvement of the segment's financial performance in Q2 2005 year on year, foremost driven by disclosing in Q2 2004 a PLN 65m provision created by ORLEN Deutschland.
- **Petrochemicals:** Q2 2005 saw the segment's financial result growing relative to the analogous quarter of 2004 (up by PLN 62m) on stronger demand for the key petrochemical products.
- **Other Activities:** A 0.7% drop in revenue, accompanied by an 8.2% rise in the segment's costs, had an adverse effect on its financial result. The segment posted a PLN 2m decrease in its profits.
- **Inland Premium:** In Q2 2005, the inland premium went up by PLN 35m (37.9%), year on year.
- **Profit on Sales:** A 16.3% increase in the profit on sales in Q2 2005 in relation to Q2 2004, attributable mainly to positive market trends and efficiency-improvement measures.
- **Operating Profit (EBIT):** Up by 9.1% on Q2 2004; net of growth of business risk provision, the increase is 73.2%.
- **Net Profit:** The Q2 2005 net profit stood at PLN 698m, an improvement of PLN 147m on Q2 2004; net of growth of business risk provision, the increase is PLN 510m, driven chiefly by the high operating profit.
- **Net Operating Cash Flow:** A PLN 399m fall in cash generated in Q2 2005, year on year, following primarily from lower liabilities.
- **CAPEX (expenditure on property, plant and equipment and intangible assets):** A PLN 44m increase in CAPEX in Q2 2005 over Q2 2004, caused mainly by the higher expenditure in the Petrochemicals and Refining (Production + Wholesale) segments.
- **Operating Expenses Reduction Programme:** In Q2 2005, the implementation of the Programme led to PLN 210m cost savings, against PLN 163m in Q2 2004 (relative to the reference value, that is the costs incurred in 2002).

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- **Upgrade and Maintenance Shutdowns** – Combined effect of the scheduled upgrade shutdown of the Olefin II petrochemical plant the maintenance shutdown of the HOG plant was PLN 140m (adverse effect on PKN Orlen's operating profit).

*„In Q2 2005, we pressed ahead with our value development strategy announced at the beginning of the year. We are working on a number of initiatives aimed at enhancing the Group's operating efficiency. New projects supporting our core business on the home markets are underway, and opportunities for expansion into new areas and markets are being explored.*

*The Management Board sees it as its priority to integrate the Unipetrol holding in the most efficient way possible. On June 8th 2005, we launched the previously developed new management model for the combined companies. Twenty-four Polish-Czech teams are examining the value-creation potential and, as originally announced, are preparing a business plan, to be presented in late September. We will make a mandatory tender offer for minority shares. The existence of agreements with Agrofert and ConocoPhillips, which has recently been exposed in the media, has not affected the Management Board's positive opinion on PKN's presence on the Czech market. The Management Board believes that a satisfactory return on this investment may be achieved.*

*On June 29th 2005, our shareholders approved an amendment to the Articles of Association concerning the new regional structure of PKN Orlen. The successful restructuring at the regional level will streamline the operational management processes. We are reshaping and optimising our retail network by setting up new locations and centralising the support functions.*

*As part of our restructuring efforts at the Group level, in H1 2005 we disposed of five companies and commenced the process of exiting nine undertakings. We changed composition of the supervisory boards at all of the Group companies and assigned responsibility for the undertakings to particular business segments at the PKN Orlen level. We also assessed members of the companies' management boards using the assessment centre and personnel audit methods.*

*On August 1st, we implemented the Management by Objectives system, a new assessment and incentive scheme for our executive staff to support the pursuance of our strategy and develop a new business-oriented corporate culture. The system aims at developing a transparent and objective remuneration model for the management staff.*

*We are introducing the best procurement practices using the state-of-the-art technology solutions. We started to hold internet auctions to facilitate purchases on the most favourable terms.*

*In Q2 2005, we also prepared OPTIMA, a new cost-saving scheme for the Group, which will be a continuation and extension of the comprehensive Operating Expenses Reduction Programme. OPTIMA is expected to usher in PLN 1.2bn savings in operating expenses and capital expenditure by 2009.*

*We are participating in the process of disposal of a 51% interest in Tupras, a refining business, by the government of Turkey. With a view to strengthening our position in the retail segment, we are also participating in retail assets disposal processes currently underway in Germany and the Czech Republic.*

*The continued favourable conditions in the oil refining and petrochemical sectors, coupled with the further internal restructuring of PKN ORLEN, enabled us to post good financial results for yet another consecutive quarter. In Q2 2005, sales revenue gained 12.4%, while net profit rose 26.3%, year on year. It is noteworthy that the results would be markedly higher but for the provision related to the disposal of Unipetrol assets. Our ROACE margin was 14%.*

*The growing demand for oil products with the shrinking available capacity in the oil production and refining segments drove the strong growth of the feedstock prices and supported the refining margins at the satisfactory levels. The rising oil prices and continued mismatch in the quality structure of supply and demand led to an enhancement of the differential between high-quality oil (low sulphur content, higher light-product yields) and low-quality feedstock as compared with Q2 2004. For example, the URAL/Brent differential rose by 0.50 USD/bbl. Obviously, such a development is to the benefit of refineries capable of processing lower-quality oil.*

*As previously expected, the favourable climate in the refining sector was accompanied by an upward trend on the petrochemical market. However, in Poland we experienced adverse market conditions for oil refiners, such as the strengthening of the Polish złoty (up to PLN/USD 3.28 and PLN/EUR 4.13) or the projected economic slowdown which directly affected demand for fuels.*

*As announced at the time of publication of the Q4 2004 results, in connection with the maintenance shutdowns e.g. of the ethylene and propylene plant, planned for the summer months, in Q2 2005 the sales of refining products increased by 9.6% while those of chemical products went down by 13.5% over Q2 2004. The cost savings in all segments grew by PLN 47m in Q2 2005, year on year.*

*Since January 1st 2005, we have applied the International Financial Reporting Standards. The abridged consolidated financial statements contain all the adjustments ensuring a true and fair presentation of the consolidated accounts, except the full adjustments required under IAS 29 and IAS 16 and the valuation of the*

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*land perpetual usufruct rights required under IFRS 1. We expect to complete the full implementation of IFRS for statutory reporting purposes by the end of 2005. An important change is the consolidation of BOP, our subsidiary involved in the production and marketing of polyolefins, with the proportionate consolidation method. In 2004, BOP was consolidated with the equity method."*

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# Financials by Area of Activity

### Market Overview

In the second quarter of 2005, the average price of Brent was USD 51.66/bbl, having gone up by USD 16.31/bbl (48.7%) year on year. The rise went hand in hand with a higher URAL/Brent differential, which moved from USD 3.10/bbl in Q2 2004 to USD 3.60/bbl in Q2 2005. During the second quarter of 2005, the average commodity price of gasoline was USD 515.89/t (a USD 104.40, or 25.4%, increase over Q2 2004). In the same period, a material rise was recorded in the commodity prices of diesel fuel and Ekoterm, by USD 187.84/t and USD 170.58/t, respectively (or by 54.6% and 53.6%). Year on year, the commodity margins for diesel fuel, gas oil and JET A-1 aviation fuel increased substantially, by 83.7%, 91.6% and 67.0%, respectively; the commodity margin for gasoline fell by 13.1%. Growth was also reported for petrochemical commodity margins: in Q2 2005, the margins for ethylene and propylene rose by 16.9% and 34.5%, respectively. The U.S. dollar and the euro weakened against the Polish currency, by 15.7% and 12.0%, respectively (falling from PLN 3.89/USD 1 in Q2 2004 to PLN 3.28/USD 1 in Q2 2005, and from PLN 4.69/EUR 1 in Q2 2004 to PLN 4.13/EUR 1 in Q2 2005).

Based on the GUS (Central Statistics Office) data, in Q2 2005 consumer prices went up by 0.6% over Q1, while in Q2 2004 they grew by 2.0%. Compared with Q2 2004, in Q2 2005 the consumer prices were 2.3% higher. The unemployment rate at the end of Q2 2005 was 18.0%, compared with 19.4% a year before.

Based on market data provided by Samar, approx. 129.5 thousand new automobiles were sold in Poland in H1 2005, which means a nearly 33% drop year on year and is over three times lower than the number of new and pre-owned vehicles imported to Poland by individuals and independent companies. The opening of the borders for privately imported vehicles in May 2004 was yet another factor detrimental to the new automobile market.

***Refining (Production + Wholesale)***

| Refining (Production+Wholesale) | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | 10,838,630 | 3,413,312 | 6,000,702 | 1,828,980 | 9,249,297 | 2,398,614 | 5,291,536 | 1,359,558 | 17.2% | 42.3% | 13.4% | 34.5% |
| Revenue sales to third parties | 7,233,595 | 2,278,011 | 4,244,031 | 1,293,557 | 6,086,372 | 1,578,375 | 3,362,235 | 863,861 | 18.8% | 44.3% | 26.2% | 49.7% |
| Revenue on intra-company sales* | 3,605,035 | 1,135,301 | 1,756,671 | 535,424 | 3,162,925 | 820,239 | 1,929,301 | 495,697 | 14.0% | 38.4% | -8.9% | 8.0% |
| Segment's costs | 9,422,241 | 2,967,261 | 5,154,061 | 1,570,929 | 8,140,474 | 2,111,064 | 4,602,747 | 1,182,587 | 15.7% | 40.6% | 12.0% | 32.8% |
| Other operating income | 67,557 | 20,591 | 29,707 | 9,055 | 42,722 | 13,021 | 33,008 | 8,481 | 58.1% | 58.1% | -10.0% | 6.8% |
| Other operating expenses | 127,023 | 38,716 | 98,318 | 29,967 | 169,263 | 51,590 | 158,549 | 40,736 | -25.0% | -25.0% | -38.0% | -26.4% |
| Segment's result ** | **1,356,923** | **446,051** | **778,030** | **237,139** | **982,282** | **248,981** | **563,248** | **144,716** | **38.1%** | **79.2%** | **38.1%** | **63.9%** |
| Sales to third parties (thousand tonnes) | 4,422 | | 2,462 | | 4,099 | | 2,166 | | 7.9% | | 13.7% | |

**) The revenue includes the following transfers to retail: 6 months 2005 – PLN 1,681,926 thousand, 6 months 2004 – PLN 1,264,488 thousand, 3months 2005 – PLN 973,436 thousand, 3 months 2004 – PLN 726,408 thousand.*

***) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The Q2 2005 result in refining totalled PLN 778,030 thousand, rising from PLN 563,248 thousand in Q2 2004. The increase was driven by higher revenue (up by 13.4%%), while the costs and expenses of the segment grew by 12.0%. The growth of the segment's revenue and profits was a result of positive changes with respect to commodity margins for diesel fuel, Ekoterm and JET A-1 aviation fuel. On the other hand, the increase in costs was caused by such factors as the rising price of oil. The commodity Brent prices in Q2 2005 went up by 46.1% year on year. The rise was accompanied by a 16.1% increase in the URAL/Brent differential, which relatively reduced the segment's costs and boosted its profit.

In Q2 2005, the volume of gasoline and diesel fuel sold to third parties grew by 13.2% and 8.2%, respectively, in comparison with Q2 2004. In the period, growth was also seen in Ekoterm and JET A-1 sales (up by 11.9%, or 40.3 thousand tonnes, and 34.9%, or 31.8 thousand tonnes, respectively, year on year). The volume of light product sales was up by 12.0% (193.5 thousand tonnes).

In Q2 2005, implementation of the comprehensive Operating Expenses Reduction Programme ushered in savings of PLN 79,859 thousand for the segment, that is 20,725 thousand more than in the analogous period of 2004.

As at the end of June 2005, the profit posted by this segment was PLN 1,356,923 thousand, up by 38.1% on year earlier.

*Refining (Retail)*

| Refining (Retail) | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | 5,844,415 | 1,840,529 | 3,255,945 | 992,394 | 5,515,212 | 1,430,256 | 3,037,697 | 780,478 | 6.0% | 28.7% | 7.2% | 27.2% |
| Revenue sales to third parties | 5,826,599 | 1,834,918 | 3,247,361 | 989,778 | 5,502,414 | 1,426,938 | 3,029,497 | 778,371 | 5.9% | 28.6% | 7.2% | 27.2% |
| Revenue on intra-company sales | 17,816 | 5,611 | 8,584 | 2,616 | 12,798 | 3,319 | 8,201 | 2,107 | 39.2% | 69.1% | 4.7% | 24.2% |
| Segment's costs | 5,775,809 | 1,818,923 | 3,181,906 | 969,827 | 5,505,085 | 1,427,630 | 2,997,662 | 770,191 | 4.9% | 27.4% | 6.1% | 25.9% |
| Other operating income | 50,118 | 15,276 | 23,060 | 7,029 | 42,788 | 13,042 | 24,525 | 6,301 | 17.1% | 17.1% | -6.0% | 11.6% |
| Other operating expenses | 54,920 | 16,739 | 35,507 | 10,822 | 80,846 | 24,641 | 76,311 | 19,607 | -32.1% | -32.1% | -53.5% | -44.8% |
| Segment's result* | **63,804** | **20,142** | **61,592** | **18,773** | **-27,931** | **-8,974** | **-11,750** | **-3,019** | **-328.4%** | **-324.4%** | **-624.2%** | **-721.8%** |
| Sales to third parties (thousand tonnes) | 1,588 | | 842 | | 1,599 | | 847 | | -0.7% | | -0.6% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In Q2 2005, the segment's revenue increased by PLN 218,248 thousand (7.2%) over Q2 2004, while costs gained PLN 184,245 thousand (6.1%). The stronger growth of revenue over costs is an evidence of enhanced efficiency and cost savings in this area of operations. PKN's German operations attributable to this segment brought profit of PLN 7,675 thousand (PLN 12,087 thousand in Q2 2004). In Q2 2005, the financial result of PKN ORLEN's retail segment was PLN 52,887 thousand, against PLN 45,276 thousand in Q2 2004.

The growth in segment's revenue was accompanied by an 0.6% fall in the volume of the Group's sales. In Q2 2005, the domestic retail sales rose 98.6% year on year in volume terms. In Q2 2005, the fuel margin rose by 8.5% over the corresponding period of 2004. The Group companies' sales revenue on non-fuel goods stood at PLN 211,268 thousand in Q2 2005, representing a 2.0% increase on the analogous period of 2004.

The implementation of the comprehensive Operating Expenses Reduction Programme yielded PLN 47,718 thousand in savings to the segment in Q2 2005 (Q2 2004: PLN 46,526 thousand).

All of the above factors increased the segment's Q2 2005 profit by PLN 61,592 thousand, while in Q2 2004 the loss stood at PLN 11,750 thousand. The loss was driven primarily by the adjustment of net assets of ORLEN Deutschland following from change in disclosure of negative goodwill, which increased segment's other operating expenses by PLN 65,381 thousand.

As at the end of June 2005, the segment's result was PLN 63 804 thousand, as compared with a PLN 27,931 loss in 2004.

## Petrochemicals

| Petrochemicals | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | 2,634,662 | 829,710 | 1,139,722 | 347,381 | 2,571,249 | 666,800 | 1,286,660 | 330,582 | 2.5% | 22.1% | -11.4% | 5.1% |
| Revenue sales to third parties | 1,795,149 | 565,330 | 763,854 | 232,818 | 1,882,567 | 488,205 | 914,655 | 235,003 | -4.6% | 15.8% | -16.5% | -0.9% |
| Revenue on intra-company sales | 790,183 | 248,845 | 368,937 | 112,450 | 667,441 | 173,087 | 350,764 | 90,122 | 18.4% | 43.8% | 5.2% | 24.8% |
| Settlement value of hedging transactions | 49,330 | 15,535 | 6,931 | 2,113 | 21,241 | 5,508 | 21,241 | 5,457 | 132.2% | -100.0% | -67.4% | -61.3% |
| Segment's costs | 2,107,850 | 663,806 | 930,475 | 283,604 | 2,229,441 | 578,160 | 1,143,476 | 293,794 | -5.5% | 14.8% | -18.6% | -3.5% |
| Other operating income | 10,110 | 3,081 | 7,259 | 2,213 | 10,830 | 3,301 | 6,811 | 1,750 | -6.6% | -6.7% | 6.6% | 26.5% |
| Other operating expenses | 13,825 | 4,214 | 11,173 | 3,405 | 10,495 | 3,199 | 7,286 | 1,872 | 31.7% | 31.7% | 53.3% | 81.9% |
| Segment's result * | 523,097 | 165,904 | 205,333 | 62,584 | 342,143 | 88,743 | 142,709 | 36,666 | 52.9% | 69.4% | 43.9% | 70.7% |
| Sales to third parties (thousand tonnes) | 979 | | 428 | | 1,055 | | 494 | | -7.2% | | -13.4% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The segment's result for Q2 2005 was PLN 205,333 thousand, while in the corresponding quarter of 2004 it totalled PLN 142,709 thousand. The revenue on petrochemicals dropped by PLN 146,938 thousand (11.4%) with a decline in the volume of sales to external customers (by 13.4%), which was attributable to a maintenance shutdown of Olefin II – PKN ORLEN's main petrochemical (ethylene and propylene) plant. The shutdown was necessary due to the upgrade works which are to result in doubling the plant's capacity. Ethylene and propylene production must be intensified to meet the demand which will be posted by the new polyethylene and polypropylene plants currently being developed by BOP. Q2 2005 saw a decrease in the volume of sales of ethylene – by 47.2% (62.9% in value terms), glycols – by 43.1% (38.2% in value terms) and benzene – 54.9% (44.4% in value terms). PKN ORLEN had a largest contribution to the segment's result; in Q2 2005, the company's operating profit attributable to the segment was PLN 166,416 thousand, up from PLN 88,594 thousand in Q2 2004. The commodity margins were USD 542.4/t for ethylene and USD 491.1/t for propylene, which means an increase by 16.9% and 34.5%, respectively, over Q2 2004. A rise in margins was also recorded for acetone (by 24.4%) and butadiene (by 53.7%).

The implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 9,656 thousand in savings for the segment (PLN 13,303 thousand in Q2 2004).

As at the end of June 2005, the segment's result was PLN 523,097 thousand, up by 52.9% year on year.

## *Other Activities*

| Other Activities | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | 690,431 | 217,431 | 318,354 | 97,033 | 717,947 | 186,185 | 320,475 | 82,340 | -3.8% | 16.8% | -0.7% | 17.8% |
| Revenue sales to third parties | 300,839 | 94,741 | 137,427 | 41,887 | 320,558 | 83,130 | 145,309 | 37,334 | -6.2% | 14.0% | -5.4% | 12.2% |
| Revenue on intra-company sales | 389,592 | 122,691 | 180,927 | 55,146 | 397,389 | 103,055 | 175,166 | 45,006 | -2.0% | 19.1% | 3.3% | 22.5% |
| **Segment's costs** | 662,290 | 208,569 | 320,087 | 97,561 | 670,644 | 173,918 | 295,763 | 75,991 | -1.2% | 19.9% | 8.2% | 28.4% |
| Other operating income | 29,361 | 8,949 | 20,265 | 6,177 | 11,236 | 3,425 | 3,674 | 944 | 161.3% | 161.3% | 451.6% | 554.3% |
| Other operating expenses | 21,367 | 6,513 | 11,716 | 3,571 | 28,790 | 8,775 | 19,920 | 5,118 | -25.8% | -25.8% | -41.2% | -30.2% |
| **Segment's result*** | **36,135** | **8,862** | **6,816** | **2,077** | **29,749** | **6,917** | **8,466** | **2,175** | **21.5%** | **28.1%** | **-19.5%** | **-4.5%** |
| Sales to third parties (thousand tonnes) | 102 | | 51 | | 98 | | 45 | | 4.1% | | 13.3% | |

**) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In addition to the companies involved in the production of energy and provision of services to PKN ORLEN, the "other activities" segment includes a number of undertakings which were spun off, mainly as part of the Group restructuring.

In Q2 2005, the segment sustained a loss of PLN 6,816 thousand. To compare, the profit earned in Q2 2004 was PLN 8,466 thousand. This adverse change was caused mainly by the growing feedstock cost driven by higher crude prices and the absence of any possibility to transfer the higher costs to the energy prices due to the binding regulations governing the structuring of energy tariffs.

In the period under analysis, the implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 73,149 thousand in savings for the segment, relative to PLN 44,037 thousand in Q2 2004.

As at the end of June 2005, the segment's result was PLN 36,135 thousand, which is an improvement by 21.5% year on year.

# Financial Review

Profit and Loss Account

The profit on sales for Q2 2005 totalled PLN 1,782,611 thousand, rising by PLN 249,631 thousand (16.3%) from the result reported for Q2 2004. The improvement comes from the stronger sales of products (an increase of PLN 900,914 thousand), which was greater than the corresponding rise in cost of sales (an increase of PLN 798,796 thousand). At the same time, in Q2 2005 the Group reported an increase of PLN 25,753 thousand (0.9%) in revenue on sales of goods and materials, and a PLN 121,760 thousand (4.6%) fall in value of the goods and materials sold. In Q2 2005, there was a year-on-year increase in the Group's external sales in Refining (Production + Wholesale), where it grew by PLN 881,796 thousand (26.2%), and in Refining (Retail), where it was higher by PLN 217,865 thousand (7.2%). The rise in the value of external sales in Refining (Production + Wholesale) was accompanied by an increase in the sales volume by 13.7%, and a decrease in the sales volume in Refining (Retail) by 0.6%. The amount of revenue derived from Refining (Production + Wholesale) was affected mainly by the higher market prices of fuel.

The Q2 2005 sales of ORLEN Deutschland stood at PLN 2,240,338 thousand, while in Q2 2004 the sales amounted to PLN 2,245,543 thousand, that is down by 0.2%.

In the second quarter of 2005, the selling costs rose by PLN 17,788 thousand (3.4%) relative to Q2 2004, to amount to PLN 537,113 thousand. In the same period, the general and administrative expenses fell by PLN 34,522 thousand (14.6%) on Q2 2004, to PLN 201,887 thousand.

In Q2 2005, a loss of PLN 403,598 thousand was recorded on other operating activities. Other operating income grew by PLN 13,776 thousand, while other operating expenses gained PLN 226,849 thousand (as a result of a PLN 376,164 thousand increase in a business risk provision, and a PLN 54,187 thousand provision for the second stage of the restructuring process).

In Q2 2005, EBITDA was PLN 920,582 thousand, up by PLN 7,251 thousand on Q2 2004. It would have been PLN 383,415 higher but for the business risk provision. Operating profit (EBIT) was PLN 640,013 thousand and topped the Q2 2004 figure by PLN 53,292 thousand. Net of the increase in business risk provision, the growth would be PLN 429,456 thousand.

Financial income in the second quarter of 2005 was PLN 394,544 thousand, having risen by PLN 253,919 thousand on the Q2 2004 figure. The key driver behind the rise was a PLN 204,532 thousand unrealised discount on the acquired Unipetrol claims and PLN 83,290 thousand dividend paid by Polkomtel SA (in Q1 2004 – PLN 68,220). The Group also reported a PLN 119,422 thousand increase in financial expense over the Q2 2004 figure; the change was caused by such factors as unfavourable changes in foreign exchange losses (which pushed financial expenses up by PLN 95,219 thousand). Consequently, the profit of this segment totalled PLN 234,847 thousand in Q2 2005, while in the analogous period of 2004, the Group posted a profit of PLN 100,350 thousand.

The share of undertakings consolidated with the equity method in the financial result amounted to PLN 8,786 thousand) in Q2 2005, relative to PLN 2,219 thousand in Q2 2004.

The Q2 2005 income tax was PLN 219,471 thousand, which represents a PLN 83,395 thousand increase year on year.

The above factors produced a net profit of PLN 698,108 thousand for Q2 2005, up by PLN 147,557 on Q2 2004. Net of the business risk provision, net profit would have gone up by PLN 509,721 thousand.

As at the end of June 2005, net profit was PLN 1,316,141 thousand, which represents a 49.5% increase year on year. Net of the business risk provision, net profit would have gone up by 89.1%.

***Balance Sheet***

The Company prepared its condensed consolidated financial statements in accordance with the International Financial Reporting Standards in effect as at June 39th 2005, except IFRS 3 with respect to the acquisition of Unipetrol shares. Non-current assets were revalued as at January 1st 2004 by an independent expert. The Company made relevant adjustments in its disclosed accounts; the revaluation covered 90% of net non-current assets subject to valuation.

As at the end of the second quarter of 2005, the total assets amounted to PLN 23,623,570 thousand, up by 15.0% from December 31st 2004. The value of non-current assets rose by PLN 1,902,482 thousand (15.7%) from the December 31st 2004 figure, and amounted to PLN 14,053,149 thousand, chiefly upon a PLN 1,642,755 growth of financial assets in relation to their value as at December 31st 2004 (acquisition of Unipetrol – PLN 1,585,305 thousand). As at the end of Q2 2005, current assets grew from PLN 8,386,983 thousand (as at December 31st 2004) to PLN 9,570,421 thousand, mainly due to an increase in inventories, trade debtors and other receivables

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by PLN 1,121,629 thousand and PLN 875,304 thousand, respectively. The strong growth of receivables follows from longer payment terms offered to the customers who were building their for the period of the Olefin II plant upgrade shutdown; increase in suspended excise tax, and purchase of Unipetrol claims. Concurrently, the value of short-term securities dropped by PLN 752,052 thousand (acquisition of Unipetrol). Compared with the end of 2004, working capital (current assets less current liabilities) fell from PLN 3,960,663 thousand to PLN 2,627,390 thousand.

At the end of Q2 2005, shareholders' equity stood at PLN 13,357,673 thousand, up by PLN 380,087 thousand (2.9%) in relation to the end of 2004. The main contributing item was a higher retained profit (up by PLN 405,187 thousand). The slower increase of retained profit against net profit followed from the distribution of the 2004 profit (PKN Orlen's dividend of PLN 911,020 thousand).

Non-current liabilities amounted to PLN 3,322,866 thousand, rising by PLN 189,138 thousand in comparison with the end of 2004 in connection with an increase in loans and borrowings (by PLN 69,582 thousand) and provisions (by PLN 96,240 thousand). Current liabilities increased from PLN 4,426,320 thousand as at December 31st 2004 to PLN 6,943,031 thousand as at June 30th 2005. As for current liabilities, trade creditors, other liabilities and deferred income grew significantly, by PLN 1,755,062 thousand, as a result of e.g. rise in oil prices. A major contributor to the growth was also PKN ORLEN's dividend of PLN 91,020 thousand. The Group's total debt (loans, borrowings and securities) reached PLN 2,768,358 thousand as at June 30th 2005, which means an increase of PLN 443,223 thousand as compared with the end of 2004.

***Cash Flow***

The Q2 2005 net operating cash flow stood at PLN 711,819 thousand, having fallen by PLN 398,594 thousand relative to the analogous quarter of 2004. The decrease was attributable mainly to negative trends with respect to liabilities and deferrals (down by PLN 30,327 thousand in Q2 2005, against a PLN 278,726 thousand rise in Q2 2004), and inventories (up by PLN 289,630 thousand in Q2 2005, against a PLN 200,403 thousand rise in Q2 2004). Another factor contributing to the lower Q2 2005 operating cash flow, year on year, was recognition in net profit of significant non-operating items (such as discount of the acquired Unipetrol claims and the Polkomtel dividend), disclosed as financing items.

In Q2 2005, the investing cash outflow was PLN 1,481,646 thousand, that is up on the Q2 2004 figure by PLN 994,383 thousand. This increase follows mainly from the acquisition of shares in unconsolidated undertakings (PLN 1,564,381 thousand; in Q2 2004 – PLN 15,655 thousand). Concurrently, proceeds from disposal of short-term securities also grew (PLN 575,361 thousand versus PLN 33,453 thousand in Q2 2004). In Q2 2005, the Group reported a positive balance of the financing cash flow of PLN 173,307 thousand (in Q2 2004, the balance was negative at PLN 340,516 thousand). In Q2 2005, net inflow under loans and borrowings was PLN 212,344 thousand, while in Q2 2004 the outflow was PLN 311,258 thousand.

Net cash at the end of Q2 2005 totalled PLN 837,043 thousand, falling by PLN 84,264 thousand on Q2 2004.

## APPENDIX I

# PKN ORLEN
# SUMMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| Revenue on sales of products | 10,158,647 | 5,587,794 | 8,581,046 | 4,686,880 | 18.4% | 19.2% |
| Revenue on sales of goods and materials for resale | 5,046,865 | 2,811,810 | 5,232,106 | 2,786,057 | -3.5% | 0.9% |
| Cost of sales | 7,230,493 | 4,087,091 | 6,162,616 | 3,288,295 | 17.3% | 24.3% |
| Goods and materials at cost | 4,727,423 | 2,529,902 | 4,911,240 | 2,651,662 | -3.7% | -4.6% |
| **Profit (loss) on sales** | **3,247,596** | **1,782,611** | **2,739,296** | **1,532,980** | **18.6%** | **16.3%** |
| Other operating income | 161,677 | 83,006 | 109,632 | 69,230 | **47.5%** | **19.9%** |
| Selling costs | 1,026,529 | 537,113 | 1,063,396 | 519,325 | -3.5% | 3.4% |
| General and administrative expenses | 400,658 | 201,887 | 422,269 | 236,409 | -5.1% | -14.6% |
| Other operating expenses | 550,748 | 486,604 | 292,793 | 259,755 | 88.1% | 87.3% |
| **Operating profit (loss)** | **1,431,338** | **640,013** | **1,070,470** | **586,721** | **33.7%** | **9.1%** |
| Financial income | 440,723 | 394,544 | 157,101 | 140,625 | 180.5% | 180.6% |
| Financial expenses | 227,120 | 159,697 | 98,259 | 40,275 | 131.1% | 296.5% |
| Share in profit (loss) of undertakings consolidated with equity method | 8,569 | 8,786 | 8,905 | 2,219 | -3.8% | 295.9% |
| Profit (loss) on disposal of all or part of equity interests in subordinated undertakings | 29,395 | 29,395 | 3,795 | 3,795 | 674.6% | 674.6% |
| **Pre-tax profit (loss)** | **1,682,905** | **913,041** | **1,142,012** | **693,085** | **47.4%** | **31.7%** |
| Corporate income tax | 361,130 | 219,471 | 238,196 | 136,076 | 51.6% | 61.3% |
| **Net profit (loss)** | 1,321,775 | 693,570 | 903,816 | 557,009 | 46.2% | 24.5% |
| Profit (loss) attributable to minority interests | -5,634 | 4,538 | -23,576 | -6,458 | -76.1% | -170.3% |
| **Net profit (loss) after minority interest** | **1,316,141** | **698,108** | **880,240** | **550,551** | **49.5%** | **26.8%** |

## APPENDIX II

# PKN ORLEN
# SUMMARY CONSOLIDATED BALANCE SHEETS
# as at June 30th 2005 and December 31st 2004
# (PLN '000)

| ITEM | Jun 30 2005 (unaudited data) | Dec 31 2004 (unaudited data) | % change |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current (long-term) assets** | | | |
| Property, plant and equipment | 11,317,740 | 11,081,131 | 2.1% |
| (Negative) goodwill | 20,501 | 20,501 | 0.0% |
| Intangible assets | 402,053 | 383,525 | 4.8% |
| Financial assets | 2,154,319 | 511,564 | 321.1% |
| Shares and equity interests in undertakings consolidated with equity method | 34,331 | 118,014 | -70.9% |
| Deferred tax assets | 52,280 | 27,138 | 92.6% |
| Other non-current assets | 71,925 | 8,794 | 717.9% |
| **Total non-current assets** | **14,053,149** | **12,150,667** | 15.7% |
| **Current (short-term) assets** | | | |
| Stocks | 4,346,520 | 3,224,891 | 34.8% |
| Trade debtors and other receivables | 3,896,883 | 3,021,579 | 29.0% |
| Taxes receivable | 3,987 | 23,309 | -82.9% |
| Short-term securities | 372,103 | 1,124,155 | -66.9% |
| Prepayments | 113,708 | 103,020 | 10.4% |
| Cash and cash equivalents | 837,043 | 735,813 | 13.8% |
| Other financial assets | 177 | 154,216 | -99.9% |
| **Total current assets** | **9,570,421** | **8,386,983** | 14.1% |
| **Total assets** | **23,623,570** | **20,537,650** | 15.0% |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 534,636 | 534,636 | 0.0% |
| Share premium | 1,058,450 | 1,058,450 | 0.0% |
| Hedging accounting – cash flows | 29,152 | 59,195 | -50.8% |
| Currency-translation differences on subsidiary undertakings | -21,129 | -9,444 | 123.7% |
| (Accumulated loss)/retained profit brought forward | 11,355,939 | 10,950,752 | 3.7% |
| **Shareholders' equity attributable to parent undertaking's shareholders** | **12,957,048** | **12,593,589** | 2.9% |
| Minority interests | 400,625 | 384,013 | 4.3% |
| **Total shareholders' equity** | **13,357,673** | **12,977,602** | 2.9% |
| **Non-current liabilities** | | | |
| Loans and borrowings | 2,153,118 | 2,083,536 | 3.3% |
| Provisions | 733,929 | 637,689 | 15.1% |
| Deferred income tax provisions | 376,461 | 378,248 | -0.5% |
| Other non-current liabilities | 59,358 | 34,255 | 73.3% |
| **Total non-current liabilities** | **3,322,866** | **3,133,728** | 6.0% |

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| | | | |
|---|---|---|---|
| **Current liabilities** | | | |
| Liabilities and accrued expenses | 5,595,757 | 3,840,695 | 45.7% |
| Provisions | 603,248 | 283,442 | 112.8% |
| Corporate income tax payable | 74,590 | 1,680 | 4339.9% |
| Loans and borrowings | 615,240 | 241,599 | 154.7% |
| Deferred income | 50,046 | 16,912 | 195.9% |
| Other financial liabilities | 4,150 | 41,992 | -90.1% |
| **Total current liabilities** | **6,943,031** | **4,426,320** | 56.9% |
| | | | |
| **Total shareholders' equity and liabilities** | **23,623,570** | **20,537,650** | 15.0% |

## APPENDIX III

# PKN ORLEN
# SUMMARY CONSOLIDATED CASH FLOW STATEMENTS
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004 (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | Change 6 months | Change 3 months |
|---|---|---|---|---|---|---|
| **Operating cash flow** | | | | | | |
| **Net profit (loss)** | **1,316,141** | **698,108** | **880,240** | **550,551** | **435,901** | **147,557** |
| Total adjustments: | | | | | | |
| Profit (loss) attributable to minority interests | 5,634 | -4,538 | 23,576 | 6,458 | -17,942 | -10,996 |
| Share in profit (loss) of undertakings consolidated with equity method | -8,569 | -8,786 | -8,905 | -2,219 | 336 | -6,567 |
| Depreciation and amortisation | 575,412 | 280,569 | 667,445 | 326,610 | -92,033 | -46,041 |
| Net dividends and interest | -71,374 | -71,191 | -23,158 | 15,619 | -48,216 | -86,810 |
| Corporate income tax as disclosed in profit and loss account | 361,130 | 219,471 | 238,196 | 136,076 | 122,934 | 83,395 |
| (Profit) loss on investment activities | -48,327 | -33,248 | 128,867 | 115,961 | -177,194 | -149,209 |
| Decrease / (increase) in receivables | -409,479 | -37,096 | -654,998 | -246,938 | 245,519 | 209,842 |
| Decrease / (increase) in stocks | -1,144,723 | -289,630 | -310,404 | -200,403 | -834,319 | -89,227 |
| (Decrease) / increase in liabilities and accrued expenses | 774,693 | -30,327 | 763,329 | 278,726 | 11,364 | -309,053 |
| (Decrease) / increase in provisions | 426,710 | 413,729 | 78,541 | 84,350 | 348,169 | 329,379 |
| Other adjustments | -205,157 | -229,882 | 110,490 | 151,599 | -315,647 | -381,481 |
| Corporate income tax paid | -295,869 | -195,360 | -154,777 | -105,977 | -141,092 | -89,383 |
| **Net operating cash flow** | **1,276,222** | **711,819** | **1,738,442** | **1,110,413** | **-462,220** | **-398,594** |
| **Investing cash flow** | | | | | | |
| Acquisition of intangible assets and property, plant and equipment | -841,259 | -464,140 | -806,979 | -373,836 | -34,280 | -90,304 |
| Disposal of property, plant and equipment | 16,113 | 11,883 | 14,910 | 6,913 | 1,203 | 4,970 |
| Acquisition of interests in unconsolidated undertakings | -1,565,992 | -1,564,381 | -27,107 | -15,655 | -1,538,885 | -1,548,726 |
| Acquisition of short-term securities | -81,818 | -42,189 | -293,447 | -207,954 | 211,629 | 165,765 |
| Gain on disposal of short-term securities | 963,546 | 575,361 | 65,286 | 33,453 | 898,260 | 541,908 |
| Dividends and interest received | 123,025 | 103,210 | 84,356 | 81,857 | 38,669 | 21,353 |
| Loans granted/repaid | 558 | -284 | -2,072 | -2,072 | 2,630 | 1,788 |
| Other | -101,027 | -101,106 | 15,712 | -9,969 | -116,739 | -91,137 |
| **Net investing cash outflow** | **-1,486,854** | **-1,481,646** | **-949,341** | **-487,263** | **-537,513** | **-994,383** |
| **Financing cash flow** | | | | | | |
| Increase in long- and short-term loans and borrowings | 601,626 | 338,535 | 748,575 | 80,449 | -146,949 | 258,086 |
| Decrease in long- and short-term loans and borrowings | -218,846 | -126,191 | -1,189,056 | -391,707 | 970,210 | 265,516 |
| Interest paid | -54,527 | -31,258 | -54,921 | -27,198 | 394 | -4,060 |
| Other | -16,110 | -7,779 | -5,168 | -2,060 | -10,942 | -5,719 |
| **Net financing cash inflow/(outflow)** | **312,143** | **173,307** | **-500,570** | **-340,516** | **812,713** | **513,823** |
| **Change in net cash** | **101,511** | **-596,520** | **288,531** | **282,634** | **-187,020** | **-879,154** |
| Foreign-exchange gains/losses | -281 | -6,073 | -1,483 | -1,647 | 1,202 | |
| **Cash at beginning of period** | **735,813** | **1,439,636** | **634,259** | **640,320** | **101,554** | **799,316** |
| **Cash at end of period, including:** | **837,043** | **837,043** | **921,307** | **921,307** | **-84,264** | **-84,264** |
| Restricted cash | 101,397 | 101,397 | 120,346 | 120,346 | -18,949 | -18,949 |

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82-5036

## APPENDIX IV

## PKN ORLEN
## KEY CONSOLIDATED FINANCIAL DATA BY BUSINESS SEGMENT
### for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
### (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **REVENUE ON SALES TO THIRD PARTIES[1]** | | | | | | |
| Refining (production + wholesale) | 7,233,595 | 4,244,031 | 6,086,372 | 3,362,235 | 18.8% | 26.2% |
| Refining (retail) | 5,826,599 | 3,247,361 | 5,502,414 | 3,029,497 | 5.9% | 7.2% |
| Petrochemicals | 1,844,479 | 770,785 | 1,903,808 | 935,896 | -3.1% | -17.6% |
| Other activities | 300,839 | 137,427 | 320,558 | 145,309 | -6.2% | -5.4% |
| **TOTAL** | **15,205,512** | **8,399,604** | **13,813,152** | **7,472,937** | **10.1%** | **12.4%** |
| **FINANCIAL RESULT[2]** | | | | | | |
| Refining (production + wholesale) | 1,356,923 | 778,030 | 982,282 | 563,248 | 38.1% | 38.1% |
| Refining (retail) | 63,804 | 61,592 | -27,931 | -11,750 | -328.4% | -624.2% |
| Petrochemicals | 523,097 | 205,333 | 342,143 | 142,709 | 52.9% | 43.9% |
| Other activities | 36,135 | 6,816 | 29,749 | 8,466 | 21.5% | -19.5% |
| Exclusions | -90 | 235 | -54 | 140 | | |
| Total of non-attributed items | -548,531 | -411,993 | -255,719 | -116,092 | | |
| **TOTAL** | **1,431,338** | **640,013** | **1,070,470** | **586,721** | **33.7%** | **9.1%** |
| **EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Refining (production + wholesale) | 200,751 | 125,866 | 141,454 | 92,982 | 41.9% | 35.4% |
| Refining (retail) | 130,707 | 48,408 | 119,159 | 73,002 | 9.7% | -33.7% |
| Petrochemicals | 425,892 | 272,116 | 439,415 | 259,416 | -3.1% | 4.9% |
| Other activities | 48,953 | 27,697 | 29,496 | 15,539 | 66.0% | 78.2% |
| Total of non-attributed items | 24,638 | 22,380 | 15,616 | 11,845 | 57.8% | 88.9% |
| **TOTAL** | **830,941** | **496,467** | **745,140** | **452,784** | **11.5%** | **9.6%** |
| **DEPRECIATION AND AMORTISATION** | | | | | | |
| Refining (production + wholesale) | 226,309 | 105,589 | 300,665 | 130,510 | -24.7% | -19.1% |
| Refining (retail) | 107,224 | 57,958 | 113,569 | 71,232 | -5.6% | -18.6% |
| Petrochemicals | 120,625 | 56,772 | 127,397 | 62,752 | -5.3% | -9.5% |
| Other activities | 105,476 | 54,361 | 105,221 | 55,420 | 0.2% | -1.9% |
| Total of non-attributed items | 15,778 | 5,889 | 20,593 | 6,696 | -23.4% | -12.1% |
| **TOTAL** | **575,412** | **280,569** | **667,445** | **326,610** | **-13.8%** | **-14.1%** |

*1. Revenue on sales to third parties represents exclusively sales to undertakings outside of the ORLEN Group.*
*2. Financial result comprises revenue on sales to third parties and transfer to other segments.*

APPENDIX V

# PKN ORLEN
# KEY CONSOLIDATED OPERATING DATA
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (tonnes)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **CRUDE OIL THROUGHPUT ('000 tonnes)** | **6,182** | **3,019** | **5,956** | **3,036** | **3.8%** | **-0.6%** |
| **REFINERY OUTPUT** | | | | | | |
| Gasoline | 1,452,663 | 753,176 | 1,328,828 | 708,145 | 9.3% | 6.4% |
| Diesel fuel | 1,712,704 | 870,588 | 1,663,957 | 885,624 | 2.9% | -1.7% |
| Fuel oil (III) | 354,908 | 206,001 | 276,305 | 155,703 | 28.4% | 32.3% |
| Ekoterm | 773,965 | 316,112 | 742,420 | 300,108 | 4.2% | 5.3% |
| JET A-1 | 191,160 | 103,408 | 134,413 | 87,176 | 42.2% | 18.6% |
| LPG | 124,051 | 65,566 | 95,577 | 48,493 | 29.8% | 35.2% |
| Other refining products | 658,613 | 436,210 | 560,522 | 359,359 | 17.5% | 21.4% |
| **TOTAL** | **5,268,064** | **2,751,061** | **4,802,022** | **2,544,608** | **9.7%** | **8.1%** |
| ***SALES OF REFINING PRODUCTS*** | | | | | | |
| Gasoline | 1,896,319 | 1,023,708 | 1,807,725 | 976,506 | 4.9% | 4.8% |
| Diesel fuel | 1,953,866 | 1,085,199 | 1,889,243 | 1,020,364 | 3.4% | 6.4% |
| Fuel oil (III) | 231,907 | 122,351 | 216,546 | 93,068 | 7.1% | 31.5% |
| Ekoterm | 863,496 | 378,534 | 822,648 | 338,284 | 5.0% | 11.9% |
| JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 | 43.6% | 34.9% |
| LPG | 152,985 | 82,943 | 147,424 | 77,754 | 3.8% | 6.7% |
| Other refining products | 702,603 | 487,410 | 669,936 | 416,167 | 4.9% | 17.1% |
| **TOTAL** | **6,009,119** | **3,303,292** | **5,698,316** | **3,013,441** | **5.5%** | **9.6%** |
| **PETROCHEMICALS OUTPUT** | | | | | | |
| Polyethylene | 26,433 | 7,796 | 34,177 | 4,206 | -22.7% | 85.4% |
| Polypropylene | 34,671 | 15,906 | 30,022 | 12,051 | 15.5% | 32.0% |
| Ethylene | 31,034 | 7,755 | 38,861 | 16,702 | -20.1% | -53.6% |
| Glycol | 40,897 | 11,964 | 50,199 | 22,762 | -18.5% | -47.4% |
| Propylene | 63,381 | 24,563 | 65,322 | 27,241 | -3.0% | -9.8% |
| Ammonium nitrate | 304,173 | 170,848 | 270,701 | 151,864 | 12.4% | 12.5% |
| CANWIL | 166,267 | 59,875 | 153,333 | 72,236 | 8.4% | -17.1% |
| Polyvinyl chloride (PVC) | 79,702 | 27,866 | 105,552 | 45,387 | -24.5% | -38.6% |
| Other petrochemical products | 253,186 | 83,688 | 312,100 | 153,932 | -18.9% | -45.6% |
| **TOTAL** | **999,744** | **410,261** | **1,060,267** | **506,381** | **-5.7%** | **-19.0%** |
| **SALES OF PETROCHEMICAL PRODUCTS** | | | | | | |
| Polyethylene | 32,989 | 14,594 | 49,392 | 21,299 | -33.2% | -31.5% |
| Polypropylene | 37,604 | 18,984 | 43,755 | 19,400 | -14.1% | -2.1% |
| Ethylene | 30,494 | 8,623 | 38,580 | 16,338 | -21.0% | -47.2% |
| Glycol | 44,449 | 14,775 | 51,139 | 25,972 | -13.1% | -43.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Propylene | 63,417 | 24,878 | 64,660 | 27,230 | -1.9% | -8.6% |
| Ammonium nitrate | 261,803 | 131,334 | 254,945 | 128,289 | 2.7% | 2.4% |
| CANWIL | 167,757 | 75,771 | 143,995 | 58,725 | 16.5% | 29.0% |
| Polyvinyl chloride (PVC) | 88,598 | 43,057 | 108,531 | 50,708 | -18.4% | -15.1% |
| Other petrochemical products | 251,173 | 95,499 | 300,228 | 146,150 | -16.3% | -34.7% |
| **TOTAL** | **978,284** | **427,515** | **1,055,225** | **494,111** | **-7.3%** | **-13.5%** |

PKN ORLEN SA
SEC File
82-5036



## APPENDIX VI

# PKN ORLEN
# SALES OF KEY PRODUCTS
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004
## (tonnes)

| Sales of light products in the Orlen Group (by volume) | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **Wholesale of key light products, including:** | **3,402,598** | **1,805,106** | **3,123,091** | **1,611,595** | **8.9%** | **12.0%** |
| - Gasoline | 989,966 | 546,699 | 876,555 | 482,941 | 12.9% | 13.2% |
| - Diesel fuel | 1,341,319 | 756,776 | 1,279,330 | 699,126 | 4.8% | 8.2% |
| - JET A-1 | 207,943 | 123,147 | 144,794 | 91,298 | 43.6% | 34.9% |
| - Ekoterm | 863,370 | 378,484 | 822,412 | 338,230 | 5.0% | 11.9% |
| **Retail sales of engine fuels, including:** | **1,587,745** | **842,227** | **1,598,454** | **846,875** | **-0.7%** | **-0.5%** |
| - Gasoline | 906,353 | 477,009 | 931,170 | 493,565 | -2.7% | -3.4% |
| - Diesel fuel | 612,547 | 328,423 | 609,913 | 321,238 | 0.4% | 2.2% |
| - LPG | 68,845 | 36,795 | 57,371 | 32,072 | 20.0% | 14.7% |
| **Total sales of fuels, including:** | **5,074,609** | **2,693,531** | **4,811,834** | **2,504,206** | **5.5%** | **7.6%** |
| - Engine fuels | 4,211,113 | 2,314,997 | 3,989,186 | 2,165,922 | 5.6% | 6.9% |

| | |
|---|---|
| Company | Polski Koncern Naftowy Orlen S.A. |
| TIDM | POKD |
| Headline | Lifo Q2'05 |
| Released | 10:10 16-Aug-05 |
| Number | 1346Q |

**Regulatory announcement no 54/2005 dated 16 August 2005**

Impact of LIFO valuation of inventories

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, would like to outline the impact of LIFO valuation of inventories on the unconsolidated financial results of PKN ORLEN and the consolidated financial results of the PKN ORLEN Capital Group for Q2 2005 and post Q2 2005.

Estimates of gross income and net income (after deferred taxation), assuming LIFO valuation of inventories, of PKN ORLEN and of PKN ORLEN Capital Group under International Financial Reporting Standards (IFRS) are as follows (PLN m):

| | Q2 2005 | After Q2 2005 | Q2 2004 | After Q2 2004 |
|---|---|---|---|---|
| Unconsolidated gross profit | 539,552 | 979,875 | 516,729 | 806,045 |
| Unconsolidated net profit | 407,152 | 765,810 | 424,093 | 648,436 |
| Consolidated gross profit | 512,388 | 1,007,441 | 495,607 | 831,175 |
| Consolidated net profit | 373,579 | 769,015 | 390,594 | 628,462 |

PKN ORLEN and the PKN ORLEN Capital Group apply a method of inventory valuation according to the weighted average manufacturing cost or purchase price. Such a valuation method causes a delay in transferring the effects of oil price increases or decreases to the prices of the final products. The valuation is positively effected when crude oil prices increase and a negative effect when oil prices decrease. The application of the LIFO method to inventory valuation causes the current production to be valued on the basis of the current price of purchased crude oil. In light of the above a market trend of increasing crude oil prices this has a negative effect, and a market trend of downward crude oil prices a positive one on the results compared to when the weighted average method is applied. These trends mostly appear when crude oil prices show significant movement. The crude oil price increase during Q2 2005 was significantly higher than in Q2 2004. In addition, there was a significant increase in crude oil inventories. Therefore the correction due to the LIFO valuation (in minus) is clearly higher.

The assumptions used for the above LIFO estimates are the same as used for previously published LIFO estimates. These assumptions were published in the current report no 29, dated 21st May 2001.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | PKN ORLEN loan for subsidiary |
| **Released** | 07:00 26-Aug-05 |
| **Number** | 5146Q |

PKN ORLEN SA
SEC File
82-5036

## Regulatory announcement 55/2005 dated 25 August 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, announces that on 24 August 2005 it signed a long term loan agreement for the amount of PLN 2.7m with ORLEN Transport Krakow Sp z o.o. ("ORLEN Transport Krakow"). The term of the loan runs from 24 August 2005 to 31 July 2009.

The debt facility will be used to repay the liabilities of ORLEN Transport Krakow Sp. z o. o. owed to other subsidiaries of PKN ORLEN Capital Group and for the financing of current activity.

The loan will be repaid over 48 months in equal monthly instalments. Interests will be calculated according to the floating exchange rate.

PKN ORLEN holds a 98.41% stake in ORLEN Transport Krakow.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | MTO Application revised |
| **Released** | 16:21 26-Aug-05 |
| **Number** | 5552Q |

**PKN ORLEN SA**
**SEC File**
**82-5036**

## Regulatory announcement 56/2005 dated 26 August 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, announces it has applied to the Czech Securities Commission (the "SC") for consent to tender mandatory offers for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s. The revised applications include all additional information required by the SC.

All questions asked by the SC on 23 and 24 August 2005 were immediately forwarded to the independent expert responsible for the share valuation. The share valuation report includes a new proposed price for Unipetrol shares as a result of the expert's advice and instructions from the SC referring to shares valuation,

The price proposed by PKN ORLEN is CZK 139 per Unipetrol share. The prices proposed by PKN ORLEN for Paramo and Spolana shares remained unchanged and amounts to CZK 978 per one Paramo share and CZK 155 per one Spolana share.

The new higher price is a result of additional remarks from the SC referring to the methodology used in share valuation report.

On 24 August 2005 the SC set the date for the final decision for 31 August 2005.

*(see also: Regulatory Announcement dated 12 August 2005)*

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re: Czech SC approval for MTO |
| **Released** | 07:00 30-Aug-05 |
| **Number** | 5654Q |

PKN ORLEN SA
SEC File
82-5036

**Regulatory announcement no 57/2005 dated 26 August 2005**

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, announces that it has received from the Czech Securities Commission (the "SC") the consent to propose mandatory tender offers ("MTOs") for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s.

Finally, the SC has approved the applications and prices respectively: CZK 139 per UNIPETROL share, CZK 978 per PARAMO share and CZK 155 per SPOLANA share.

The MTOs will be valid from the moment of their publication in newspapers as required by UNIPETROL's Articles of Association. PKN ORLEN intends to publish the MTOs until the end of next week. Voting rights at UNIPETROL and SPOLANA will be restored by the force of law when the MTOs are published.

*(Refer also to regulatory announcements dated 19 July 2005, 26 July 2005, 12 August 2005 and 26 August 2005)*

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Re.: Mr Osiecki resigned |
| **Released** | 15:41 07-Sep-05 |
| **Number** | 9712Q |

PKN ORLEN SA
SEC File
82-5036

## Regulatory announcement No 58/2005 dated 7th September 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, announces that on 6th September 2005 it received a note informing it that Mr Piotr Osiecki will resign from his position as a member of the Supervisory Board of PKN ORLEN. The resignation will be valid from the date of the next General Meeting of Shareholders of PKN ORLEN, and follows his appointment to the position of Vice-President of the Management Board of PZU Asset Management S.A.

Mr Piotr Osiecki was appointed to the Supervisory Bard of PKN ORLEN on 5th August 2004. He is a member of the Audit Committee and Corporate Governance Committee.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | EGM Statement |
| **Released** | 15:49 13-Sep-05 |
| **Number** | 2182R |

DEC 1 0 2005
WASH, D.C. 199 SECTION

PKN ORLEN SA
SEC File
82-5036

Regulatory announcement 59/2005 dated 13 September 2005

**Agenda for the Extraordinary General Meeting of PKN ORLEN shareholders**

Polski Koncern Naftowy ORLEN Spolka Akcyjna ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby publishes the Agenda of the Extraordinary General Meeting of PKN ORLEN shareholders, to be held on 14 October 2005. The Meeting shall commence at 10.00 CET in Plock (Poland) at the following address:

**Centrum Edukacji Grupa ORLEN**
**ul. Kobylinskiego 25**
**Hall B**

Agenda of the Extraordinary General Meeting of Shareholders:

1. Opening
2. Election of the Chairman of the Meeting
3. Affirmation of the legality of the Meeting and ability to pass resolutions
4. Election of the Vote Counting Commission
5. Approval of the Agenda
6. Voting on a resolution regarding the number of members of the Supervisory Board
7. Voting on a resolution concerning changes to the composition of the Supervisory Board of PKN ORLEN
8. Closure of the General Meeting of Shareholders

Participation in the Extraordinary General Meeting of Shareholders is permitted for those holding certificates. The certificates must be issued by a brokerage house or a bank managing a securities account, state the number of shares owned and confirm that the shares will have been deposited in the account by the end of the Meeting.

Participation in the Meeting is permitted on condition that the certificates mentioned above will be submitted by 6 October 2005 inclusive at the Legal Office - room 110, Company Headquarters in Plock, Chemikow St. 7, between 8.00 a.m. and 4.00 p.m.

An agenda including other issues to be discussed at the Meeting will be made available no earlier than a week before the Meeting in the Company's Headquarters at the reception desk from 8 am till 3 pm.

The list of shareholders entitled to participate in the Meeting will be made available in the Company's Headquarters for three days before the Meeting.

Registration of shareholders and distribution of voting cards will begin at 9.00 a.m. at the front of the meeting hall.

END

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Draft EGM resolutions |
| **Released** | 16:33 23-Sep-05 |
| **Number** | 7092R |

PKN ORLEN SA
SEC File
82-5036

**Regulatory announcement no 60/2005 dated September 23rd , 2005**

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, hereby announces the draft resolutions to be passed by the Extraordinary General Meeting of Shareholders of PKN ORLEN as of 14th October 2005.

**RESOLUTION No ...**
**OF**
**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**
**OF**
**POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA**

**dated 14 October 2005**

**regarding the appointment of the Chairman of the Extraordinary General Meeting of Shareholders**

**§ 1**

Acting under Article 409, § 1 sentence 1 of the Code of Commercial Companies and with respect to § 5 of the Regulations of the General Meeting of Shareholders of PKN ORLEN S.A., the Extraordinary General Meeting of Shareholders of PKN ORLEN S.A. hereby elects Mr / Mrs..... to the position of the Chairman of the Extraordinary General Meeting of Shareholders.

**§ 2**

The resolution takes immediate effect.
The resolution was passed in a secret ballot.

ORLEN SA
SEC File
82-5036

**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**
**OF**
**POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA**

**dated 14 October 2005**

**regarding the Agenda of the Extraordinary General Meeting of Shareholders**

**§ 1**

The Extraordinary General Meeting of Shareholders of PKN ORLEN hereby approves the following Agenda of the Meeting:

1. Opening.
2. Election of the Chairman of the Meeting.
3. Affirmation of the legality of the Meeting and ability to pass resolutions.
4. Approval of the Agenda.
5. Election of the Vote Counting Commission.
6. Passing of a resolution regarding the establishment of the number of members of the Supervisory Board.
7. Passing of resolution concerning changes to the composition of the Supervisory Board of PKN ORLEN.
8. Closure of the General Meeting of Shareholders.

**§ 2**

The resolution takes immediate effect.

**OF**

**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**
**OF**
**POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA**

PKN ORLEN SA
SEC File
82-5036

**dated 14 October 2005**

**regarding the election of the Vote Counting Commission**

**§ 1**

Acting under § 8 of the Regulations of the General Meeting of Shareholders of PKN ORLEN, the Extraordinary General Meeting of Shareholders of PKN ORLEN hereby appoints the following members of the Vote Counting Commission:

- .....
- .....
- .....

**§ 2**

The resolution takes immediate effect.
The resolution was passed in a secret ballot.

PKN ORLEN SA
SEC File
82-5036

**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**
**OF**
**POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA**

**dated 14 October 2005**

**regarding the establishment of the number of members of the Supervisory Board of PKN ORLEN**

**§ 1**

Under § 14, item 1 of the Regulations of the General Meeting of Shareholders of PKN ORLEN, the Extraordinary General Meeting of Shareholders of PKN ORLEN establishes 9 - member composition of the Supervisory Board of PKN ORLEN within at least 2 independent members fulfilling requirements defined in § 8 item 5 of the Company's Articles of Association.

**OF**
**EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS**
**OF**
**POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA**

PKN ORLEN SA
SEC File
82-5036

**dated 14 October 2005**

**regarding appointment to the Supervisory Board of PKN ORLEN**

**§ 1**

Under § 8 item 2 point 2 of the Company's Articles of Association, the Extraordinary General Meeting of Shareholders of PKN ORLEN decided to appoint Mr/ Mrs ..... to the Supervisory Board of PKN ORLEN.

**§ 2**

The resolution takes immediate effect.
The resolution was passed in a secret ballot.

END

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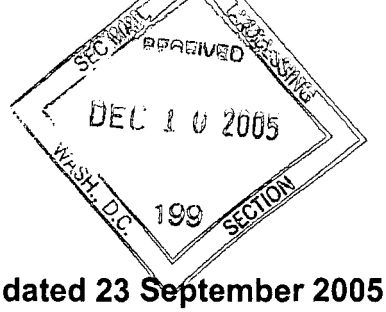
| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Subsidiary capital increase |
| **Released** | 16:46 23-Sep-05 |
| **Number** | 7108R |




PKN ORLEN SA
SEC File
82-5036

## Regulatory announcement no 61/2005 dated 23 September 2005

Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN"), Central Europe's largest downstream oil company, informs of the registration on 12 September 2005 of an increase in the initial capital of Plocki Park Przemyslowo – Technologiczny Spolka Akcyjna („PPPT") by a District Court in Warsaw (Poland).

The initial capital of PPPT was increased by PLN 7,230,430.00 from PLN 1,000,000.00 to PLN 8,230,430.00. This was covered by a private placement of 723,043 registered series "B" shares having preference to 2 votes per one share, owned by the shareholder-founder "Miasto Plock" (municipal borough Plock).

Series no: series "B"
Nominal value of one share amounts to PLN 10.00

Value of newly issued shares covered by cash contribution: PLN 2,441,196.00
Value of newly issued shares covered by non-cash contribution: PLN 4,789,234.00

After an initial capital increase, the capital structure of PPPT comprises of:
Shareholder - founder Miasto Plock – PLN 7,730,430.00 – 94%
Shareholder - founder PKN ORLEN – PLN 500,000.00 – 6%

After the changes in initial capital, the total number of votes of the General Meeting of Shareholders of PPPT in relation to the total number of shares issued amounts to 1,646,086.

At the same time the Extraordinary General Meeting of PPPT, held on 23 August 2005 in Plock (motion no 1/3/2005), decided to increase the initial capital of PPPT by PLN 7.230.430,00, to PLN 15.460.860,00, by a private placement of 723,043 registered series "C" shares, having preference to 2 votes per one share, of nominal value PLN 10.00 per one share. The new issue will be owned by shareholder-founder PKN ORLEN. The registration process is on track and when it will be concluded, the capital structure of PPPT will comprise of:
Shareholder - founder Miasto Plock – PLN 7,730,430.00 – 50%
Shareholder - founder PKN ORLEN – PLN 7,730,430.00 – 50%.

END

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| | |
|---|---|
| Company | Polski Koncern Naftowy Orlen S.A. |
| TIDM | POKD |
| Headline | 2Q2005 RESULTS |
| Released | 07:01 29-Sep-05 |
| Number | 9260R |

SEC File
82-5036

SEC MAIL PROCESSING
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DEC 12 2005
WASH. D.C. 199 SECTION

**The Company has announced its results for the Second Quarter of 2005. The full details of the announcement can be viewed by following the link below;**
http://www.rns-pdf.londonstockexchange.com/rns/9260r_-2005-9-29.pdf

## 2Q2005 Segments Comments

### Financial Highlights

| ORLEN Group Results according to IFRS | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % chan 6 montl | |
|---|---|---|---|---|---|---|---|---|---|---|
| | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | U: |
| Sales revenue | 16,760,956 | 5,278,376 | 9,955,048 | 3,034,243 | 13,813,152 | 3,582,156 | 7,472,937 | 1,920,027 | 21.3% | |
| EBITDA[2] | 4,124,124 | 1,298,773 | 3,037,956 | 925,952 | 1,737,915 | 450,692 | 913,331 | 234,663 | 137.3% | |
| Operating profit/(loss) | 3,499,979 | 1,102,217 | 2,708,654 | 825,583 | 1,070,470 | 277,604 | 586,721 | 150,747 | 227.0% | |
| Financial expenses | -244,869 | -77,114 | -177,446 | -54,085 | -98,259 | -25,481 | -40,275 | -10,348 | 149.2% | |
| Net profit (loss) | 3,336,098 | 1,050,607 | 2,718,065 | 828,451 | 880,240 | 228,272 | 550,551 | 141,453 | 279.0% | |
| Net profit (loss) according to LIFO method | 2,788,972 | 878,306 | 2,393,536 | 729,536 | 628,462 | 162,979 | 390,594 | 100,356 | 343.8% | |
| Operating cash flow | 1,648,153 | 519,038 | 1,083,750 | 330,321 | 1,738,442 | 450,829 | 1,110,413 | 285,299 | -5.2% | |

*(1) The following average exchange rates were used for the conversion of the amounts denominated in USD: 6 months 2005 – PLN 3.1754, 6 months 2004 – PLN 3.85 2005 – PLN 3.2809, 3 months 2004 – PLN 3.8921.*
*(2) EBITDA = OPERATING PROFIT + AMORTISATION/DEPRECIATION*
*(3) Excluding the LIFO effect at Unipetrol a.s.*

- **Refining (Production + Wholesale):** In Q2 2005, the segment's financial result gained PLN 928m year on year, chiefly as a result of such factors as an increase in commodity margins on refinery products, a higher URAL/Brent differential and, most importantly, the disclosure in Q2 2005 of a PLN 663m excess of fair value of acquired net assets over their acquisition cost. This segment's proportionate share in Unipetrol's profit was PLN 50m.
- **Refining (Retail):** The PLN 224m segment profit posted for Q2 2005 was foremost driven by the disclosure in Q2 2005 of a PLN 161m excess of fair value of acquired net assets over their acquisition cost.
- **Petrochemicals:** Q2 2005 saw the segment's financial result growing relative to the analogous quarter of 2004 (up by PLN 1,154m) upon the disclosure of a PLN 1,077m excess of fair value of acquired net assets over their acquisition cost. Unipetrol's profit attributable to the segment totalled PLN 14m.
- **Other Activities:** A PLN 275m excess of fair value of acquired net assets over their acquisition cost made a decisive contribution to the segment's robust performance.
- **Inland Premium:** In Q2 2005, the inland premium went up by PLN 35m (37.9%), year on year.
- **Profit on Sales:** A 22.9% increase in the profit on sales in Q2 2005 in relation to Q2 2004, attributable mainly to positive market trends and efficiency-improvement measures.
- **Operating Profit (EBIT):** The clear upward swing in Q2 2005 profit (by PLN 2,122m) was a consequence of the disclosure of the excess of fair value of acquired net assets over their acquisition cost under Q2 2005 other operating income (PLN 2,005m).
- **Net Profit:** The Q2 2005 net profit stood at PLN 2,718m, an improvement of PLN 2,168m on Q2 2004, driven chiefly by the high operating profit.

Q2 2004, caused mainly by the higher expenditure in the Petrochemicals and Refining (Production + Wholesale) segments.

- **Operating Expenses Reduction Programme:** In Q2 2005, the implementation of the Programme led to PLN 210m cost savings, against PLN 163m in Q2 2004 (relative to the reference value, that is the costs incurred in 2002).

- **Upgrade and Maintenance Shutdowns** – Combined effect of the scheduled upgrade shutdown of the Olefin II petrochemical plant and the maintenance shutdown of the HOG plant was PLN 140m (adverse effect on PKN Orlen's operating profit) .

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*markets are underway, and opportunities for expansion into new areas and markets are being explored.*

*The Management Board sees it as its priority to integrate the Unipetrol holding in the most efficient way possible. On June 8th 2005, we launched the previously developed new management model for the combined companies. Twenty-four Polish-Czech teams are examining the value-creation potential and, as originally announced, are preparing a business plan, to be presented in October. We have announced a mandatory tender offer for minority interests at Unipetrol a.s., Paramo a.s. and Spolana a.s. The existence of agreements with Agrofert and ConocoPhillips, which has recently been exposed in the media, has not affected the Management Board's positive opinion on PKN's presence on the Czech market. The Management Board believes that a satisfactory return on this investment may be achieved.*

*On June 29th 2005, our shareholders approved an amendment to the Articles of Association concerning the new regional structure of PKN Orlen. The successful restructuring at the regional level will streamline the operational management processes. We are reshaping and optimising our retail network by setting up new locations and centralising the support functions.*

*As part of our restructuring efforts at the Group level, in H1 2005 we disposed of five companies and commenced the process of exiting nine undertakings. We changed composition of the supervisory boards at all of the Group companies and assigned responsibility for the undertakings to particular business segments at the PKN Orlen level. We also assessed members of the companies' management boards using the assessment centre and personnel audit methods.*

*On August 1st, we implemented the Management by Objectives system, a new assessment and incentive scheme for our executive staff to support the pursuance of our strategy and develop a new business-oriented corporate culture. The system aims at developing a transparent and objective remuneration model for the management staff.*

*We are introducing the best procurement practices using the state-of-the-art technology solutions. We started to hold internet auctions to facilitate purchases on the most favourable terms.*

*In Q2 2005, we also prepared OPTIMA, a new cost-saving scheme for the Group, which will be a continuation and extension of the comprehensive Operating Expenses Reduction Programme. OPTIMA is expected to usher in PLN 1.2bn savings in operating expenses and capital expenditure by 2009.*

*With a view to strengthening our position in the retail segment, we are also participating in retail assets disposal processes currently underway in the Czech Republic.*

*The continued favourable conditions in the oil refining and petrochemical sectors, coupled with the further internal restructuring of PKN ORLEN, enabled us to post good financial results for yet another consecutive quarter. In Q2 2005, revenue on sales of products gained 38.0%, while net profit rose 393.7%, year on year. It is noteworthy that the results would be markedly higher but for the provision related to the disposal of Unipetrol assets. Our ROACE margin was 50.7%.*

*The growing demand for oil products with the shrinking available capacity in the oil production and refining segments drove the strong growth of the feedstock prices and supported the refining margins at the satisfactory levels. The rising oil prices and continued mismatch in the quality structure of supply and demand led to an enhancement of the differential between high-quality oil (low sulphur content, higher light-product yields) and low-quality feedstock as compared with Q2 2004. For example, the URAL/Brent differential rose by 0.50 USD/bbl. Obviously, such a development is to the benefit of refineries capable of processing lower-quality oil.*

*As previously expected, the favourable climate in the refining sector was accompanied by an upward trend on the petrochemical market. However, in Poland we experienced adverse market conditions for oil refiners, such as the strengthening of the Polish zloty (up to PLN/USD 3.28 and PLN/EUR 4.13) or the projected economic slowdown which directly affected demand for fuels.*

*In Q2 2005 the volume of sales of refining products increased by 19.2% and those of chemical products by 29.7% over Q2 2004. The cost savings in all segments grew by PLN 47m in Q2 2005, year on year.*

*Since January 1st 2005, we have applied the International Financial Reporting Standards. We expect to complete the full implementation of IFRS for statutory reporting purposes by the end of 2005. An important change is the consolidation of BOP, our subsidiary involved in the production and marketing of polyolefins, with the proportionate consolidation method. In 2004, BOP was consolidated with the equity method."*

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In the second quarter of 2005, the average price of Brent was USD 51.66/bbl, having gone up by USD 16.31/bbl (46.1%) year on year. The rise went hand in hand with a higher URAL/Brent differential, which moved from USD 3.10/bbl in Q2 2004 to USD 3.60/bbl in Q2 2005. During the second quarter of 2005, the average commodity price of gasoline was USD 515.89/t (a USD 104.40, or 25.4%, increase over Q2 2004). In the same period, a material rise was recorded in the commodity prices of diesel fuel and Ekoterm, by USD 187.84/t and USD 170.58/t, respectively (or by 54.6% and 53.6%). Year on year, the commodity margins for diesel fuel, gas oil and JET A-1 aviation fuel increased substantially, by 83.7%, 91.6% and 67.0%, respectively; the commodity margin for gasoline fell by 13.1%. Growth was also reported for petrochemical commodity margins: in Q2 2005, the margins for ethylene and propylene rose by 16.9% and 34.5%, respectively. The U.S. dollar and the euro weakened against the Polish currency, by 15.7% and 12.0%, respectively (falling from PLN 3.89/USD 1 in Q2 2004 to PLN 3.28/USD 1 in Q2 2005, and from PLN 4.69/EUR 1 in Q2 2004 to PLN 4.13/EUR 1 in Q2 2005).
Based on the GUS (Central Statistics Office) data, in Q2 2005 consumer prices went up by 0.6% over Q1, while in Q2 2004 they grew by 2.0%. Compared with Q2 2004, in Q2 2005 the consumer prices were 2.3% higher. The unemployment rate at the end of Q2 2005 was 18.0%, compared with 19.4% a year before.

Based on market data provided by Samar, approx. 129.5 thousand new automobiles were sold in Poland in H1 2005, which means a nearly 33% drop year on year and is over three times lower than the number of new and pre-owned vehicles imported to Poland by individuals and independent companies. The opening of the borders for privately imported vehicles in May 2004 was yet another factor detrimental to the new automobile market.

| Refining (Production+Wholesale) | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | **11,814,446** | **3,720,617** | **6,976,519** | **2,126,404** | **9,249,297** | **2,398,614** | **5,291,536** | **1,359,558** | **27.7%** | **55.1%** | **31.8%** | **56.4%** |
| Third-party sales | 7,873,230 | 2,479,445 | 4,883,666 | 1,488,514 | 6,086,372 | 1,578,375 | 3,362,235 | 863,861 | 29.4% | 57.1% | 45.3% | 72.3% |
| Intra-company sales* | 3,941,216 | 1,241,172 | 2,092,853 | 637,890 | 3,162,925 | 820,239 | 1,929,301 | 495,697 | 24.6% | 51.3% | 8.5% | 28.7% |
| Segment's costs | **10,349,570** | **3,259,296** | **6,081,390** | **1,853,574** | **8,140,474** | **2,111,064** | **4,602,747** | **1,182,587** | **27.1%** | **54.4%** | **32.1%** | **56.7%** |
| Other operating income | 69,930 | 21,314 | 32,081 | 9,778 | 42,722 | 13,021 | 33,008 | 8,481 | 63.7% | 63.7% | -2.8% | 15.3% |
| Other operating expenses | -127,529 | -38,870 | -98,825 | -30,121 | -169,263 | -51,590 | -158,549 | -40,736 | -24.7% | -24.7% | -37.7% | -26.1% |
| Excess of fair value over acquisition cost of net assets | 662,538 | 201,938 | 662,538 | 201,938 | | | | | | | | |
| **Segment's result **** | **2,069,815** | **645,702** | **1,490,923** | **454,425** | **982,282** | **248,981** | **563,248** | **144,716** | **110.7%** | **159.3%** | **164.7%** | **214.0%** |
| Sales to third parties (thousand tonnes) | 4,674 | | 2,714 | | 4,099 | | 2,166 | | 14.0% | | 25.3% | |

**) The revenue includes the following transfers to retail: 6 months 2005 – PLN 1,621,590 thousand, 6 months 2004 – PLN 1,264,488 thousand, 3 months 2005 – PLN thousand, 3 months 2004 – PLN 726,408 thousand.*

***) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The Q2 2005 result in refining totalled PLN 1,490,923 thousand, rising from PLN 563,248 thousand in Q2 2004. The increase was driven by excess of fair value of acquired net assets over their acquisition cost, disclosed in Q2 2005 at PLN 662,538 thousand. The segment's proportionate share in Unipetrol's profit totalled PLN 50,354.6 thousand. The segment's revenues expanded by 31.8%, while its costs and expenses grew by 32.1%. The growth of the segment's revenue was a result of positive changes with respect to commodity margins for diesel fuel, Ekoterm and JET A-1 aviation fuel. On the other hand, the increase in costs was caused by such factors as the rising price of oil. The commodity Brent prices in Q2 2005 went up by 46.1% year on year. The rise was accompanied by a 16.1% increase in the URAL/Brent differential.

In Q2 2005, the volume of gasoline and diesel fuel sold to third parties grew by 23.9% and 25.1%, respectively, in comparison with Q2 2004. In the period, growth was also seen in Ekoterm and JET A-1 sales (up by 12.1%, or 40.8 thousand tonnes, and 41.1%, or 37.6 thousand tonnes, respectively, year on year). The volume of light product sales was up by 22.9% (368.9 thousand tonnes).

In Q2 2005, implementation of the comprehensive Operating Expenses Reduction Programme ushered in savings of PLN 79,859 thousand for the segment, that is 20,725 thousand more than in the analogous period of 2004.

As at the end of June 2005, the profit posted by this segment was PLN 2,069,815 thousand, up by 110.7% on year earlier.

| (Retail) | June 30th 2005 (unaudited data) | | June 30th 2005 (unaudited data) | | June 30th 2004 (unaudited data) | | June 30th 2004 (unaudited data) | | 6 months | | 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | **5,983,885** | **1,884,451** | **3,395,413** | **1,034,903** | **5,515,212** | **1,430,256** | **3,037,698** | **780,478** | **8.5%** | **31.8%** | **11.8%** | **32.6%** |
| Third-party sales | 5,961,188 | 1,877,303 | 3,381,950 | 1,030,799 | 5,502,414 | 1,426,938 | 3,029,497 | 778,371 | 8.3% | 31.6% | 11.6% | 32.4% |
| Intra-company sales | 22,697 | 7,148 | 13,463 | 4,103 | 12,798 | 3,319 | 8,201 | 2,107 | 77.3% | 115.4% | 64.2% | 94.7% |
| Segment's costs | **-5,914,059** | **-1,862,461** | **-3,320,154** | **-1,011,964** | **-5,505,085** | **-1,427,630** | **-2,997,662** | **-770,191** | **7.4%** | **30.5%** | **10.8%** | **31.4%** |
| Other operating income | 50,442 | 15,374 | 23,383 | 7,127 | 42,788 | 13,042 | 24,525 | 6,301 | 17.9% | 17.9% | -4.7% | 13.1% |
| Other operating expenses | -55,389 | -16,882 | -35,976 | -10,965 | -80,846 | -24,641 | -76,311 | -19,607 | -31.5% | -31.5% | -52.9% | -44.1% |
| Excess of fair value over acquisition cost of net assets | 161,382 | 49,188 | 161,382 | 49,188 | | | | | | | | |
| **Segment's result *** | **226,261** | **69,670** | **224,048** | **68,289** | **-27,931** | **-8,974** | **-11,750** | **-3,019** | **-910.1%** | **-876.4%** | **-2006.8%** | **-2362.0%** |
| Sales to third parties (thousand tonnes) | 1,625 | | 879 | | 1,599 | | 847 | | 1.6% | | 3.8% | |

**) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In Q2 2005, the segment's revenue increased by PLN 357,715 thousand (11.8%) over Q2 2004, while costs gained PLN 322,492 thousand (10.8%). The stronger growth of revenue over costs is an evidence of enhanced efficiency and cost savings in this area of operations. PKN's German operations attributable to this segment brought profit of PLN 7,675 thousand (PLN 12,087 thousand in Q2 2004), another PLN 1,073.6 thousand was contributed to the segment by Unipetrol AS, representing the segment's proportionate share in the company's profit. Unipetrol's performance was greatly impacted by the price wars fought among service stations operated by supermarkets. It could not realise 100% of the retail margin on fuels and had to align its prices to those charged at competing service stations. In Q2 2005, the financial result of PKN ORLEN's retail segment was PLN 52,887 thousand, against PLN 45,276 thousand in Q2 2004.

The growth in segment's revenue was accompanied by a 3.7% increase in the volume of the Group's sales. In Q2 2005, the domestic retail sales rose 98.6% year on year in volume terms. In Q2 2005, the fuel margin rose by 8.5% over the corresponding period of 2004. The Group companies' sales revenue on non-fuel goods stood at PLN 219,284 thousand in Q2 2005, representing a 5.8% increase on the analogous period of 2004.

The implementation of the comprehensive Operating Expenses Reduction Programme yielded PLN 47,718 thousand in savings to the segment in Q2 2005 (Q2 2004: PLN 46,526 thousand).

The segment's profit was fortified by the excess of fair value of acquired net assets over their acquisition cost, disclosed in Q2 2005 in the amount of PLN 161,382 thousand.

All of the above factors increased the segment's Q2 2005 profit by PLN 224,048 thousand, while in Q2 2004 the loss stood at PLN 11,750 thousand. The loss was driven primarily by the adjustment of net assets of ORLEN Deutschland following from change in disclosure of negative goodwill, which increased segment's other operating expenses by PLN 65,381 thousand.

As at the end of June 2005, the segment's result was PLN 226,261 thousand, as compared with a PLN 27,931 loss in 2004.

| Petrochemicals | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | **3,451,538** | **1,086,962** | **1,956,598** | **596,360** | **2,571,249** | **666,800** | **1,286,660** | **330,582** | **34.2%** | **63.0%** | **52.1%** | **80.4%** |
| Third-party sales | 2,569,516 | 809,194 | 1,538,221 | 468,841 | 1,882,567 | 488,205 | 914,655 | 235,003 | 36.5% | 65.7% | 68.2% | 99.5% |
| Intra-company sales | 832,692 | 262,232 | 411,446 | 125,406 | 667,441 | 173,087 | 350,764 | 90,122 | 24.8% | 51.5% | 17.3% | 39.2% |
| Settlement value of hedging transactions | 49,330 | 15,535 | 6,931 | 2,113 | 21,241 | 5,508 | 21,241 | 5,457 | 132.2% | 182.0% | -67.4% | -61.3% |
| Segment's costs | **-2,902,386** | **-914,022** | **-1,725,011** | **-525,774** | **-2,229,441** | **-578,160** | **-1,143,476** | **-293,794** | **30.2%** | **58.1%** | **50.9%** | **79.0%** |
| Other operating income | 16,686 | 5,086 | 13,835 | 4,217 | 10,830 | 3,301 | 6,811 | 1,750 | 54.1% | 54.1% | 103.1% | 141.0% |
| Other operating expenses | -28,394 | -8,654 | -25,742 | -7,846 | -10,495 | -3,199 | -7,286 | -1,872 | 170.5% | 170.5% | 253.3% | 319.1% |
| Excess of fair value over acquisition cost of net assets | 1,076,642 | 328,154 | 1,076,642 | 328,154 | | | | | | | | |
| **Segment's result *** | **1,614,086** | **497,525** | **1,296,322** | **395,112** | **342,143** | **88,743** | **142,709** | **36,666** | **371.8%** | **460.6%** | **808.4%** | **977.6%** |
| Sales to third parties (thousand tonnes) | 1,192 | | 641 | | 1,055 | | 494 | | 13.0% | | 29.8% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The segment's result for Q2 2005 was PLN 1,296,322 thousand, while in the corresponding quarter of 2004 it totalled PLN 142,709 thousand. The revenue on petrochemicals rose by PLN 669,938 thousand (52.1%) including an increase of 29.7% in the volume of sales to external customers, achieved despite the maintenance shutdown in effect at Olefin II – PKN ORLEN's main petrochemical (ethylene and propylene) plant. The shutdown has been necessary due to the upgrade works which are to result in doubling the plant's capacity. Ethylene and propylene production must be intensified to meet the demand which will be posted by the new polyethylene and polypropylene plants currently being developed by BOP. Q2 2005 saw a decrease in the volume of sales of ethylene – by 3.3% (28.8% in value terms), glycols – by 42.9% (38.0% in value terms) and benzene – 21.6% (18.1% in value terms). The segment's performance was boosted by the segment's proportionate share in Unipetrol's profit, in the amount of PLN 14,349.4 thousand. Demand for petrochemicals on part of the Czech Republic seemed to slump as a result of high prices of raw materials and cheaper imports from Asia. Nevertheless, the prices of Unipetrol's petrochemical products remained relatively stable. The company's performance was helped further still by the continually robust margins on petrochemicals.

The disclosure in Q2 2005, of PLN 1,076,642 thousand in excess of fair value of acquired net assets over their acquisition cost was the single most important factor to improve the segment's results. The segment's performance was also powered by PKN ORLEN; in Q2 2005, the company's operating profit attributable to the segment was PLN 166,416 thousand, up from PLN 88,594 thousand in Q2 2004. The commodity margins were USD 542.4/t for ethylene and USD 491.1/t for propylene, which means an increase by 16.9% and 34.5%, respectively, over Q2 2004. A rise in margins was also recorded for acetone (by 24.4%) and butadiene (by 53.7%).

The implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 9,656 thousand in savings for the segment (PLN 13,303 thousand in Q2 2004).

As at the end of June 2005, the segment's result was PLN 1,614,086 thousand, PLN 1,271,943 thousand more year on year.

| Other Activities | ended June 30th 2005 (unaudited data) | | ended June 30th 2005 (unaudited data) | | ended June 30th 2004 (unaudited data) | | ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including:: | **717,733** | **226,029** | **345,656** | **105,354** | **717,947** | **186,185** | **320,475** | **82,340** | **0.0%** | **21.4%** | **7.9%** | **27.9%** |
| Third-party sales | 307,692 | 96,899 | 144,280 | 43,976 | 320,558 | 83,130 | 145,309 | 37,334 | -4.0% | 16.6% | -0.7% | 17.8% |
| Intra-company sales | 410,041 | 129,131 | 201,376 | 61,378 | 397,389 | 103,055 | 175,166 | 45,006 | 3.2% | 25.3% | 15.0% | 36.4% |
| **Segment's costs** | **-691,793** | **-217,860** | **-349,590** | **-106,553** | **-670,644** | **-173,918** | **-295,763** | **-75,991** | **3.2%** | **25.3%** | **18.2%** | **40.2%** |
| Other operating income | 29,922 | 9,120 | 20,826 | 6,348 | 11,236 | 3,425 | 3,674 | 944 | 166.3% | 166.3% | 466.8% | 572.5% |
| Other operating expenses | -21,891 | -6,672 | -12,240 | -3,731 | -28,790 | -8,775 | -19,920 | -5,118 | -24.0% | -24.0% | -38.6% | -27.1% |
| Excess of fair value over acquisition cost of net assets | 274,541 | 83,679 | 274,541 | 83,679 | | | | | | | | |
| **Segment's result *** | **308,512** | **94,295** | **279,193** | **85,096** | **29,749** | **6,917** | **8,466** | **2,175** | **937.0%** | **1,263.2%** | **3,197.8%** | **3,812.5%** |
| Sales to third parties (thousand tonnes) | 103 | | 52 | | 98 | | 45 | | 5.1% | | 15.6% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In addition to the companies involved in the production of energy and provision of services to PKN ORLEN, the "other activities" segment includes a number of undertakings which were spun off, mainly as part of the Group restructuring.

In Q2 2005, the segment posted a profit of PLN 279,193 thousand. To compare, the profit earned in Q2 2004 was PLN 8,466 thousand. This increase was generated mainly through the disclosure in Q2 2005 of PLN 274,541 thousand in excess of fair value of acquired net assets over their acquisition cost. At the same time, there were a number of factors which stifled the segment's performance, including growing feedstock cost driven by higher crude prices and the absence of any possibility to transfer the higher costs to the energy prices due to the binding regulations governing the structuring of energy tariffs.

In the period under analysis, the implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 73,149 thousand in savings for the segment, relative to PLN 44,037 thousand in Q2 2004.

As at the end of June 2005, the segment's result was PLN 308,512 thousand, which is PLN 278,763 thousand more than a year earlier.

*Profit and Loss Account*

The profit on sales for Q2 2005 totalled PLN 1,884,463 thousand, rising by PLN 351,483 thousand (22.9%) from the result reported for Q2 2004. The improvement comes from an increase of PLN 700,589 thousand (25.1%) in revenue on sales of goods and materials, and a mere PLN 255,946 thousand (9.7%) increase in value of the goods and materials sold. At the same time, in Q2 2005 the Group reported the stronger net sales of products excluding the excise tax, an increase of PLN 1,781,522 thousand, (by 38.0%), with an increase of cost of sales of PLN 1,874,682 thousand, (by 57.0%). In Q2 2005, there was a year-on-year increase in the Group's external sales in Refining (Production + Wholesale), where it grew by PLN 1,521,431 thousand (45.3%), and in Refining (Retail), where it was higher by PLN 352,453 thousand (11.6%), and in Petrochemicals where external sales expanded by PLN 623,566 thousand (68.2%). The rise in the value of external sales was accompanied by an increase in the sales volume by 25.3%, 3.8%, and 29.8%, respectively. The amount of revenue derived from Refining (Production + Wholesale) was affected mainly by the higher market prices of fuel.

In the second quarter of 2005, the selling costs rose by PLN 27,646 thousand (5.3%) relative to Q2 2004, to amount to PLN 546,971 thousand. In the same period, the general and administrative expenses fell by PLN 12,375 thousand (5.2%) on Q2 2004, to PLN 224,034 thousand.

In Q2 2005, a profit of PLN 1,595,196 thousand was recorded on other operating activities, following the disclosure of PLN 2,005,028 thousand in excess of fair value of acquired net assets over their acquisition cost under Q2 2005 other operating income which, as a result, grew by PLN 2,028,638 thousand. Meanwhile, other operating expenses gained PLN 242,917 thousand (as a result of a PLN 366,351 thousand increase in a business risk provision).

In Q2 2005, EBITDA was PLN 3,037,956 thousand, up by PLN 2,124,625 thousand on Q2 2004. Operating profit (EBIT) was PLN 2,708,654 thousand and topped the Q2 2004 figure by PLN 2,121,933 thousand.

Financial income in the second quarter of 2005 was PLN 405,871 thousand, having risen by PLN 265,246 thousand on the Q2 2004 figure. The key driver behind the rise was a PLN 204,532 thousand unrealised discount on the acquired Unipetrol claims and PLN 83,290 thousand dividend paid by Polkomtel SA (in Q1 2004 – PLN 68,220). The Group also reported a PLN 137,171 thousand increase in financial expense over the Q2 2004 figure; the change was caused by such factors as unfavourable changes in foreign exchange losses (which pushed financial expenses up by PLN 104,392.6 thousand). Consequently, the profit of this segment totalled PLN 228,425 thousand in Q2 2005, while in the analogous period of 2004, the Group posted a profit of PLN 100,350 thousand.

The share of undertakings consolidated with the equity method in the financial result amounted to PLN 7,924 thousand) in Q2 2005, relative to PLN 2,219 thousand in Q2 2004.

The Q2 2005 income tax was PLN 252,539 thousand, which represents a PLN 116,463 thousand increase year on year.

The above factors produced a net profit of PLN 2,718,065 thousand for Q2 2005, PLN 2,167,514 thousand more than in Q2 2004.

As at the end of June 2005, net profit was PLN 3,336,098 thousand, which represents a PLN 2,167,514 thousand increase.

*Balance Sheet*

As at the end of the second quarter of 2005, the total assets amounted to PLN 32,976,560 thousand, up by 63.9% from December 31st 2004. The value of non-current assets rose by PLN 8,234,874 thousand (67.8%) from the December 31st 2004 figure, and amounted to PLN 20,386,470 thousand, chiefly upon a PLN 7,206,329 thousand growth of property, plant and equipment in relation to their value as at December 31st 2004 (acquisition of Unipetrol – PLN 1,585,305 thousand). As at the end of Q2 2005, current assets grew from PLN 7,963,275 thousand (as at December 31st 2004) to PLN 12,567,398 thousand, mainly due to an increase in inventories, trade debtors and other receivables by PLN 2,407,873 thousand and PLN 2,406,688 thousand, respectively. The strong growth of receivables follows from longer payment terms offered to the customers who were building their for the period of the Olefin II plant upgrade shutdown; increase in suspended excise tax, and purchase of Unipetrol claims. Concurrently, the value of short-term securities dropped by PLN 884,018 thousand (acquisition of Unipetrol). Compared with the end of 2004, working capital (current assets less current liabilities) fell from PLN 3,959,734 thousand to PLN 2,448,817 thousand.

At the end of Q2 2005, total shareholders' equity stood at PLN 17,583,174 thousand, up by PLN 4,605,572 thousand (35.5%) in relation to the end of 2004. The main contributing item were increases is retained profit and shareholders' equity attributable to minority interests, by PLN 2,422,650 thousand and PLN 2,246,189 thousand, respectively.

Non-current liabilities amounted to PLN 5,274,805 thousand, rising by PLN 2,141,077 thousand in comparison with the end of 2004 in connection with an increase in loans and borrowings (by PLN 1,179,913 thousand) and total provisions (by PLN 844,348 thousand). Current liabilities increased from PLN 4,003,541 thousand as at December 31st 2004 to PLN 10,118,581 thousand as at June 30th 2005. As for current liabilities, trade creditors, other liabilities and deferred income grew significantly, by PLN 4,324,858 thousand, as a result of e.g. rise in oil prices. A major contributor to the growth was also PKN ORLEN's dividend of PLN 911,020 thousand. The Group's total debt (loans, borrowings and securities) reached PLN 4,778,912 thousand as at June 30th 2005, which means an increase of PLN 2,453,777

PLN 2,302,092 thousand.

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***Cash Flow***

The Q2 2005 net operating cash flow stood at PLN 1,083,750 thousand, having fallen by PLN 26,663 thousand relative to the analogous quarter of 2004. The decrease was attributable mainly to negative trends with respect to inventories (up by PLN 444,193 thousand in Q2 2005, against a PLN 200,403 thousand rise in Q2 2004). Concurrently, Q2 2005 operating cash flow grew year on year as a result of an increase in provisions which pushed the value of operating cash by PLN 407,829 thousand while a year earlier they had contributed only PLN 84,350 thousand towards the cash balance . Following the disclosure of the excess of fair value of acquired net assets over their acquisition cost under other operating income (under net profit), the item was derecognised from under other adjustments, in the amount of PLN 2,005,028.0 thousand.

In Q2 2005, the investing cash outflow was PLN 1,308,267 thousand, that is up on the Q2 2004 figure by PLN 821,004 thousand. This increase follows mainly from the acquisition of shares in unconsolidated undertakings (PLN 1,345,575 thousand; in Q2 2004 – PLN 15,655 thousand). Concurrently, proceeds from disposal of short-term securities also grew by PLN 541,909 thousand. In Q2 2005, the Group reported a positive balance of the financing cash flow of PLN 175,188 thousand (in Q2 2004, the balance was negative at PLN 340,516 thousand). In Q2 2005, net inflow under loans and borrowings was PLN 218,958 thousand, while in Q2 2004 the outflow was PLN 311,258 thousand.

Net cash at the end of Q2 2005 totalled PLN 1,384,234 thousand, PLN 462,927 thousand more than in Q2 2004.

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# SUMMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004

## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months |
|---|---|---|---|---|---|
| | | | | | |
| Gross revenue on sales of products | 16,160,344 | 9,228,478 | 13,479,918 | 7,273,499 | 19.9% |
| Excise tax and other charges | -5,121,406 | -2,760,393 | -4,898,872 | -2,586,936 | 4.5% |
| **Net revenue on sales of products** | **11,038,938** | **6,468,085** | **8,581,046** | **4,686,563** | **28.6%** |
| Revenue on sales of goods and materials for resale | 5,722,018 | 3,486,963 | 5,232,106 | 2,786,374 | 9.4% |
| Cost of sales | -8,306,379 | -5,162,977 | -6,162,616 | -3,288,295 | 34.8% |
| Goods and materials at cost | -5,105,129 | -2,907,608 | -4,911,240 | -2,651,662 | 3.9% |
| **Profit (loss) on sales** | **3,349,448** | **1,884,463** | **2,739,296** | **1,532,980** | **22.3%** |
| | | | | | |
| Other operating income | 2,176,539 | 2,097,868 | 109,632 | 69,230 | **1,885.3%** |
| Selling costs | -1,036,387 | -546,971 | -1,063,396 | -519,325 | -2.5% |
| General and administrative expenses | -422,805 | -224,034 | -422,269 | -236,409 | 0.1% |
| Other operating expenses | -566,816 | -502,672 | -292,793 | -259,755 | 93.6% |
| **Operating profit (loss)** | **3,499,979** | **2,708,654** | **1,070,470** | **586,721** | **227.0%** |
| | | | | | |
| Financial income | 452,050 | 405,871 | 157,101 | 140,625 | 187.7% |
| Financial expenses | -244,869 | -177,446 | -98,259 | -40,275 | 149.2% |
| Share in profit (loss) of undertakings consolidated with equity method | 7,707 | 7,924 | 8,905 | 2,219 | -13.5% |
| Profit (loss) on disposal of all or part of equity interests in subordinated undertakings | 29,395 | 29,395 | 3,795 | 3,795 | 674.6% |
| **Pre-tax profit (loss)** | **3,744,262** | **2,974,398** | **1,142,012** | **693,085** | **227.9%** |
| | | | | | |
| Corporate income tax | -394,198 | -252,539 | -238,196 | -136,076 | 65.5% |
| **Net profit (loss)** | 3,350,064 | 2,721,859 | 903,816 | 557,009 | 270.7% |
| | | | | | |
| Profit (loss) attributable to minority interests | -13,966 | -3,794 | -23,576 | -6,458 | -40.8% |
| **Net profit (loss) after minority interest** | **3,336,098** | **2,718,065** | **880,240** | **550,551** | **279.0%** |

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# SUMMARY CONSOLIDATED BALANCE SHEETS
## as at June 30th 2005 and December 31st 2004
## (PLN '000)

| ITEM | Jun 30 2005 (unaudited data) | Dec 31 2004 (unaudited data) | % change |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current (long-term) assets** | | | |
| Property, plant and equipment | 18,287,460 | 11,081,131 | 65.0% |
| (Negative) goodwill | 20,501 | 20,501 | 0.0% |
| Intangible assets | 767,424 | 344,431 | 122.8% |
| Financial assets | 624,886 | 511,564 | 22.2% |
| Shares and equity interests in undertakings consolidated with equity method | 511,043 | 118,014 | 333.0% |
| Deferred tax assets | 60,811 | 27,138 | 124.1% |
| Other non-current assets | 31,791 | 8,794 | 261.5% |
| Perpetual usufruct rights | 64,901 | 40,023 | 62.2% |
| Property investments | 17,653 | - | - |
| **Total non-current assets** | **20,386,470** | **12,151,596** | **67.8%** |
| **Current (short-term) assets** | | | |
| Stocks | 5,632,763 | 3,224,890 | 74.7% |
| Trade debtors and other receivables | 5,005,488 | 2,598,800 | 92.6% |
| Taxes receivable | 8,152 | 23,309 | -65.0% |
| Short-term securities | 240,137 | 1,124,155 | -78.6% |
| Prepayments | 164,026 | 102,091 | 60.7% |
| Cash and cash equivalents | 1,384,234 | 735,813 | 88.1% |
| Other financial assets | 132,598 | 154,217 | -14.0% |
| **Total current assets** | **12,567,398** | **7,963,275** | **57.8%** |
| **Non-current assets classified as held for sale** | 22,692 | 0 | - |
| **Total assets** | **32,976,560** | **20,114,871** | **63.9%** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 534,636 | 534,636 | 0.0% |
| Capital revaluation adjustment | 691,802 | 522,999 | 0.0% |
| Share premium | 1,058,450 | 1,058,450 | 0.0% |
| Share premium revaluation adjustement | 168,803 | 168,803 | 0.0% |
| Hedging accounting – cash flows | 30,016 | 59,195 | -49.3% |
| Currency-translation differences on subsidiary undertakings | -43,532 | -9,444 | 360.9% |
| (Accumulated loss)/retained profit brought forward | 12,681,600 | 10,258,950 | 23.6% |
| **Shareholders' equity attributable to parent undertaking's shareholders** | **14,952,972** | **12,593,589** | **18.7%** |
| Minority interests | 2,630,202 | 384,013 | 584.9% |
| **Total shareholders' equity** | **17,583,174** | **12,977,602** | **35.5%** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 3,263,449 | 2,083,536 | 56.6% |
| Provisions | 773,269 | 637,689 | 21.3% |
| Deferred income tax provisions | 1,087,016 | 378,248 | 187.4% |
| Other non-current liabilities | 151,071 | 34,255 | 341.0% |
| **Total non-current liabilities** | **5,274,805** | **3,133,728** | **68.3%** |
| **Current liabilities** | | | |
| Liabilities and accrued expenses | 7,742,774 | 3,417,916 | 126.5% |
| Provisions | 700,717 | 283,442 | 147.2% |
| Corporate income tax payable | 102,542 | 1,680 | 6003.7% |
| Loans and borrowings | 1,515,463 | 241,599 | 527.3% |
| Deferred income | 52,634 | 16,911 | 211.2% |
| Other financial liabilities | 4,451 | 41,993 | -89.4% |
| **Total current liabilities** | **10,118,581** | **4,003,541** | **152.7%** |

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# SUMMARY CONSOLIDATED CASH FLOW STATEMENTS
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004
## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | Change 6 months | Change 3 months |
|---|---|---|---|---|---|---|
| **Operating cash flow** | | | | | | |
| **Net profit (loss)** | **3,336,098** | **2,718,065** | **880,240** | **550,551** | **2,455,858** | **2,167,514** |
| Total adjustments: | | | | | | |
| Profit (loss) attributable to minority interests | 13,966 | 3,794 | 23,576 | 6,458 | -9,610 | -2,664 |
| Share in profit (loss) of undertakings consolidated with equity method | -7,707 | -7,924 | -8,905 | -2,219 | 1,198 | -5,705 |
| Depreciation and amortisation | 624,145 | 329,302 | 667,445 | 326,610 | -43,300 | 2,692 |
| Net dividends and interest | -62,712 | -62,529 | -23,158 | 15,619 | -39,554 | -78,148 |
| Corporate income tax as disclosed in profit and loss account | 394,198 | 252,539 | 238,196 | 136,076 | 156,002 | 116,463 |
| (Profit) loss on investment activities | -46,671 | -31,592 | 128,867 | 115,961 | -175,538 | -147,553 |
| Decrease / (increase) in receivables | -336,399 | 35,984 | -654,998 | -246,938 | 318,599 | 282,922 |
| Decrease / (increase) in stocks | -1,299,286 | -444,193 | -310,404 | -200,403 | -988,882 | -243,790 |
| (Decrease) / increase in liabilities and accrued expenses | 1,196,151 | 391,131 | 763,329 | 278,726 | 432,822 | 112,405 |
| (Decrease) / increase in provisions | 420,810 | 407,829 | 78,541 | 84,350 | 342,269 | 323,479 |
| Other adjustments* | -2,240,153 | -2,264,878 | 110,490 | 151,599 | -2,350,643 | -2,416,477 |
| Corporate income tax paid | -344,287 | -243,778 | -154,777 | -105,977 | -189,510 | -137,801 |
| **Net operating cash flow** | **1,648,153** | **1,083,750** | **1,738,442** | **1,110,413** | **-90,289** | **-26,663** |
| **Investing cash flow** | | | | | | |
| Acquisition of intangible assets and property, plant and equipment | -889,194 | -512,075 | -806,979 | -373,836 | -82,215 | -138,239 |
| Disposal of property, plant and equipment | 19,559 | 15,329 | 14,910 | 6,913 | 4,649 | 8,416 |
| Disposal of shares | 76,305 | 76,305 | | -383 | | |
| Acquisition of interests in unconsolidated undertakings** | -1,347,186 | -1,345,575 | -27,107 | -15,655 | -1,320,079 | -1,329,920 |
| Acquisition of short-term securities | -81,818 | -42,189 | -293,447 | -207,954 | 211,629 | 165,765 |
| Gain on disposal of short-term securities | 963,547 | 575,362 | 65,286 | 33,453 | 898,261 | 541,909 |
| Dividends and interest received | 124,135 | 104,320 | 84,356 | 81,857 | 39,779 | 22,463 |
| Loans granted/repaid | 558 | -284 | -2,072 | -2,072 | 2,630 | 1,788 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Financing cash flow** | | | | | | |
| Increase in long- and short-term loans and borrowings | 929,876 | 666,785 | 748,575 | 80,449 | 181,301 | 586,336 |
| Decrease in long- and short-term loans and borrowings | -540,482 | -447,827 | -1,189,056 | -391,707 | 648,574 | -56,120 |
| Interest paid | -59,261 | -35,992 | -54,921 | -27,198 | -4,340 | -8,794 |
| Other | -16,109 | -7,778 | -5,168 | -2,060 | -10,941 | -5,718 |
| **Net financing cash inflow/(outflow)** | **314,024** | **175,188** | **-500,570** | **-340,516** | **814,594** | **515,704** |
| | | | | | | |
| **Change in net cash** | **648,702** | **-49,329** | **288,531** | **282,634** | **360,171** | **-331,963** |
| Foreign-exchange gains/losses | -281 | -6,073 | -1,483 | -1,647 | 1,202 | |
| **Cash at beginning of period** | **735,813** | **1,439,636** | **634,259** | **640,320** | **101,554** | **799,316** |
| **Cash at end of period, including:** | **1,384,234** | **1,384,234** | **921,307** | **921,307** | **462,927** | **462,927** |
| Restricted cash | 109,467 | 109,467 | 120,346 | 120,346 | -10,879 | -10,879 |

***including negative goodwill of Unipetrol consolidation at the level of PLN 2,005,028 thousands**
**** including Unipetrol acquisition (PLN 1,562,335 thousands) decreased by PLN 218,806 thousands cash.**
***** including Unipetrol liabilities acquisition (PLN 178,804 thousands)**

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# PKN ORLEN
# KEY CONSOLIDATED FINANCIAL DATA BY BUSINESS SEGMENT
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004

## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **REVENUE ON SALES TO THIRD PARTIES[1]** | | | | | | |
| Refining (production + wholesale) | 7,873,230 | 4,883,666 | 6,086,372 | 3,362,235 | 29.4% | 45.3% |
| Refining (retail) | 5,961,188 | 3,381,950 | 5,502,414 | 3,029,497 | 8.3% | 11.6% |
| Petrochemicals | 2,618,846 | 1,545,152 | 1,903,808 | 935,896 | 37.6% | 65.1% |
| Other activities | 307,692 | 144,280 | 320,558 | 145,309 | -4.0% | -0.7% |
| **TOTAL** | **16,760,956** | **9,955,048** | **13,813,152** | **7,472,937** | **21.3%** | **33.2%** |
| **FINANCIAL RESULT[2]** | | | | | | |
| Refining (production + wholesale) | 2,069,815 | 1,490,923 | 982,282 | 563,248 | 110.7% | 164.7% |
| Refining (retail) | 226,261 | 224,048 | -27,931 | -11,750 | -910.1% | -2,006.8% |
| Petrochemicals | 1,614,086 | 1,296,322 | 342,143 | 142,709 | 371.8% | 808.4% |
| Other activities | 308,512 | 279,193 | 29,749 | 8,466 | 937.0% | 3,197.8% |
| Exclusions | -263,581 | -263,256 | -54 | 140 | | |
| Total of non-attributed items | -455,115 | -318,577 | -255,719 | -116,092 | | |
| **TOTAL** | **3,499,979** | **2,708,654** | **1,070,470** | **586,721** | **227.0%** | **361.7%** |
| **EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Refining (production + wholesale) | 203,826 | 128,941 | 141,454 | 92,982 | 44.1% | 38.7% |
| Refining (retail) | 134,790 | 52,491 | 119,159 | 73,002 | 13.1% | -28.1% |
| Petrochemicals | 437,246 | 283,470 | 439,415 | 259,416 | -0.5% | 9.3% |
| Other activities | 53,909 | 32,653 | 29,496 | 15,539 | 82.8% | 110.1% |
| Total of non-attributed items | 24,638 | 22,380 | 15,616 | 11,845 | 57.8% | 88.9% |
| **TOTAL** | **854,409** | **519,935** | **745,140** | **452,784** | **14.7%** | **14.8%** |
| **DEPRECIATION AND AMORTISATION** | | | | | | |
| Refining (production + wholesale) | 238,419 | 117,699 | 300,665 | 130,510 | -20.7% | -9.8% |
| Refining (retail) | 111,647 | 62,381 | 113,569 | 71,232 | -1.7% | -12.4% |
| Petrochemicals | 151,448 | 87,595 | 127,397 | 62,752 | 18.9% | 39.6% |
| Other activities | 106,853 | 55,738 | 105,221 | 55,420 | 1.6% | 0.6% |
| Total of non-attributed items | 15,778 | 5,889 | 20,593 | 6,696 | -23.4% | -12.1% |
| **TOTAL** | **624,145** | **329,302** | **667,445** | **326,610** | **-6.5%** | **0.8%** |

*1. Revenue on sales to third parties represents exclusively sales to undertakings outside of the ORLEN Group.*
*2. Financial result comprises revenue on sales to third parties and transfer to other segments.*

SEC File 82-5036

# KEY CONSOLIDATED OPERATING DATA
## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004

(tonnes)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **CRUDE OIL THROUGHPUT ('000 tonnes)** | **6,548** | **3,385** | **5,956** | **3,036** | **9.9%** | **11.5%** |
| **REFINERY OUTPUT** | | | | | | |
| Gasoline | 1,501,548 | 802,061 | 1,328,828 | 708,145 | 13.0% | 13.3% |
| Diesel fuel | 1,839,482 | 997,366 | 1,663,957 | 885,624 | 10.5% | 12.6% |
| Fuel oil (III) | 383,555 | 234,648 | 276,305 | 155,703 | 38.8% | 50.7% |
| Ekoterm | 778,781 | 320,928 | 742,420 | 300,108 | 4.9% | 6.9% |
| JET A-1 | 197,120 | 109,368 | 134,413 | 87,176 | 46.7% | 25.5% |
| LPG | 134,351 | 75,866 | 95,577 | 48,493 | 40.6% | 56.4% |
| Other refining products | 897,919 | 675,516 | 560,522 | 359,359 | 60.2% | 88.0% |
| **TOTAL** | **5,732,756** | **3,215,753** | **4,802,022** | **2,544,608** | **19.4%** | **26.4%** |
| **SALES OF REFINING PRODUCTS** | | | | | | |
| Gasoline | 1,964,002 | 1,091,391 | 1,807,725 | 976,506 | 8.6% | 11.8% |
| Diesel fuel | 2,086,034 | 1,217,367 | 1,889,243 | 1,020,364 | 10.4% | 19.3% |
| Fuel oil (III) | 252,993 | 143,437 | 216,546 | 93,068 | 16.8% | 54.1% |
| Ekoterm | 864,024 | 379,062 | 822,648 | 338,284 | 5.0% | 12.1% |
| JET A-1 | 213,651 | 128,855 | 144,794 | 91,298 | 47.6% | 41.1% |
| LPG | 159,796 | 89,754 | 147,424 | 77,754 | 8.4% | 15.4% |
| Other refining products | 757,546 | 542,353 | 669,936 | 416,167 | 13.1% | 30.3% |
| **TOTAL** | **6,298,046** | **3,592,219** | **5,698,316** | **3,013,441** | **10.5%** | **19.2%** |
| **PETROCHEMICALS OUTPUT** | | | | | | |
| Polyethylene | 56,752 | 38,114 | 34,177 | 4,206 | 66.1% | 806.2% |
| Polypropylene | 53,050 | 34,285 | 30,022 | 12,051 | 76.7% | 184.5% |
| Ethylene | 43,001 | 19,722 | 38,861 | 16,702 | 10.7% | 18.1% |
| Glycol | 40,897 | 11,964 | 50,199 | 22,762 | -18.5% | -47.4% |
| Propylene | 66,556 | 27,738 | 65,322 | 27,241 | 1.9% | 1.8% |
| Ammonium nitrate | 304,173 | 170,848 | 270,701 | 151,864 | 12.4% | 12.5% |
| CANWIL | 166,267 | 59,875 | 153,333 | 72,236 | 8.4% | -17.1% |
| Polyvinyl chloride (PVC) | 79,702 | 27,866 | 105,552 | 45,387 | -24.5% | -38.6% |
| Other petrochemical products | 385,596 | 216,098 | 312,100 | 153,932 | 23.5% | 40.4% |
| **TOTAL** | **1,195,994** | **606,510** | **1,060,267** | **506,381** | **12.8%** | **19.8%** |
| **SALES OF PETROCHEMICAL PRODUCTS** | | | | | | |
| Polyethylene | 81,714 | 63,319 | 49,392 | 21,299 | 65.4% | 197.3% |
| Polypropylene | 61,389 | 42,769 | 43,755 | 19,400 | 40.3% | 120.5% |
| Ethylene | 37,668 | 15,797 | 38,580 | 16,338 | -2.4% | -3.3% |
| Glycol | 44,504 | 14,830 | 51,139 | 25,972 | -13.0% | -42.9% |
| Propylene | 65,451 | 26,912 | 64,660 | 27,230 | 1.2% | -1.2% |
| Ammonium nitrate | 262,127 | 131,658 | 254,945 | 128,289 | 2.8% | 2.6% |
| CANWIL | 167,964 | 75,978 | 143,995 | 58,725 | 16.6% | 29.4% |
| Polyvinyl chloride (PVC) | 105,979 | 60,438 | 108,531 | 50,708 | -2.4% | 19.2% |
| Other petrochemical products | 365,017 | 209,343 | 300,228 | 146,150 | 21.6% | 43.2% |
| **TOTAL** | **1,191,813** | **641,044** | **1,055,225** | **494,111** | **12.9%** | **29.7%** |

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# SALES OF KEY PRODUCTS
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004
## (tonnes)

| les of light products in the Orlen Group (by volume) | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **ılesale of key light lucts, including:** | **3,577,973** | **1,980,481** | **3,123,091** | **1,611,595** | **14.6%** | **22.9%** |
| ısoline | 1,041,612 | 598,345 | 876,555 | 482,941 | 18.8% | 23.9% |
| esel fuel | 1,458,812 | 874,269 | 1,279,330 | 699,126 | 14.0% | 25.1% |
| T A-1 | 213,651 | 128,855 | 144,794 | 91,298 | 47.6% | 41.1% |
| :oterm | 863,898 | 379,012 | 822,412 | 338,230 | 5.0% | 12.1% |
| **ıil sales of engine fuels, ıding:** | **1,618,493** | **872,975** | **1,598,454** | **846,875** | **1.3%** | **3.1%** |
| ısoline | 922,390 | 493,046 | 931,170 | 493,565 | -0.9% | -0.1% |
| esel fuel | 627,222 | 343,098 | 609,913 | 321,238 | 2.8% | 6.8% |
| 'G | 68,881 | 36,831 | 57,371 | 32,072 | 20.1% | 14.8% |
| **ıl sales of fuels, ıding:** | **5,287,507** | **2,906,429** | **4,811,834** | **2,504,206** | **9.9%** | **16.1%** |
| gine fuels | 4,423,483 | 2,527,367 | 3,989,186 | 2,165,922 | 10.9% | 16.7% |

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**POLSKI KONCERN NAFTOWY ORLEN S.A.**

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS OF 6 AND 3 MONTHS ENDED 30 JUNE 2005 AND 30 JUNE 2004 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

PKN ORLEN SA
SEC File
82-5036

# SECURITIES AND EXCHANGE COMMISSION

## Consolidated quarterly report QS II quarter/ 2005

quarter/(current year)

(in accordance with § 93 section 2 and § 94 section 1 of the Council of Ministers' Decree of 21 March 2005, Journal of Laws No. 49, item 463)

**(for issuers of securities whose business activity embraces manufacture, construction, trade and services)**

for the II quarter of the reporting year 2005, that is for the period from 1 January 2005 to 30 June 2005
and for the II quarter of the reporting year 2004, that is for the period from 1 January 2004 to 30 June 2004

which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)
and condensed financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)

on 29 September 2005
(submission date)

| | | |
|---|---|---|
| *POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA* | | |
| (full name of the issuer) | | |
| *PKN ORLEN S.A.* | *CHEMICAL* | |
| (abbreviated name of the issuer) | (industrial sector in line with classification of Warsaw Stock Exchange) | |
| ***09-411*** | ***PŁOCK*** | |
| (zip code) | (location) | |
| ***CHEMIKÓW*** | | *7* |
| (street) | | (number) |
| **48 24 365 28 95** (telephone) | **48 24 365 40 40** (fax) | **media@orlen.pl** (e-mail) |
| **774-00-01-454** (NIP) | **610188201** (REGON) | **www.orlen.pl** (www) |

**KPMG AUDYT SP. Z O.O.**
(entity authorized to conduct audit)

# POLSKI KONCERN NAFTOWY ORLEN S.A.
# SELECTED FINANCAIL DATA

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| SELECTED FINANCIAL DATA | thousand PLN | | thousand EUR | |
|---|---|---|---|---|
| | II quarter 2005 (cummulative data) | II quarter 2004 (cummulative date) | II quarter 2005 (cummulative data) | II quarter 2004 (cummulative date) |
| **Data in respect of MSSF consolidated financial statement** | | | | |
| I. Net revenues from sale of finished goods, merchandise and raw materials | 16 760 956 | 13 813 152 | 4 107 574 | 3 385 162 |
| II. Profit / (Loss) on operations | 3 499 979 | 1 070 470 | 857 733 | 262 338 |
| III. Gross profit | 3 744 262 | 1 142 012 | 917 599 | 279 871 |
| IV. Net profit | 3 336 098 | 880 240 | 817 571 | 215 719 |
| V. Net cash provided by operating activities | 1 648 153 | 1 738 442 | 403 910 | 426 037 |
| VI. Net cash used in investing activities | (1 313 475) | (949 341) | (321 891) | (232 653) |
| VII. Net cash provided by / (used in) financing activities | 314 024 | (500 570) | 76 957 | (122 674) |
| VIII. Net change in cash and cash equivalents | 648 702 | 288 531 | 158 976 | 70 710 |
| IX. Profit (loss) per ordinary share for 6 months (in PLN/EUR) | 7,80 | 2,06 | 1,91 | 0,50 |
| | as of 30.06.2005 | as of 30.06.2004 | as of 30.06.2005 | as of 30.06.2004 |
| X. Non-current assets | 20 386 470 | 11 855 621 | 5 046 031 | 2 934 487 |
| XI. Current assets | 12 567 398 | 7 610 656 | 3 110 665 | 1 883 779 |
| XII. Total assets | 32 976 560 | 19 466 277 | 8 162 313 | 4 818 266 |
| XIII. Long-term liabilities | 5 274 805 | 3 031 115 | 1 305 612 | 750 257 |
| XIV. Short-term liabilities | 10 118 581 | 4 898 263 | 2 504 537 | 1 212 411 |
| XV. Equity | 17 583 174 | 11 536 899 | 4 352 163 | 2 855 597 |
| XVI. Share capital | 1 057 635 | 1 057 635 | 261 784 | 261 784 |
| XVII. Number of issued ordinary shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| XVIII. Book value per share (in PLN/EUR) | 41,11 | 26,97 | 10,18 | 6,68 |
| **Data in respect of MSSF condensed standalone financial statement** | | | | |
| | II quarter 2005 (cummulative data) | II quarter 2004 (cummulative date) | II quarter 2005 (cummulative data) | II quarter 2004 (cummulative date) |
| I. Net revenues from sale of finished goods, merchandise and raw materials | 9 748 797 | 8 108 485 | 2 389 118 | 1 987 130 |
| II. Profit / (Loss) on operations | 1 344 876 | 1 006 530 | 329 586 | 246 668 |
| III. Gross profit | 1 661 470 | 1 106 565 | 407 173 | 271 184 |
| IV. Net profit | 1 317 902 | 891 857 | 322 976 | 218 566 |
| V. Net cash provided by operating activities | 718 030 | 1 036 890 | 175 966 | 254 109 |
| VI. Net cash used in investing activities | (944 093) | (381 696) | (231 367) | (93 541) |
| VII. Net cash provided by / (used in) financing activities | 255 838 | (403 013) | 62 698 | (98 766) |
| VIII. Net change in cash and cash equivalents | 29 775 | 252 181 | 7 297 | 61 802 |
| IX. Profit (loss) per ordinary share for 6 months (in PLN/EUR) | 3,08 | 2,09 | 0,76 | 0,51 |
| | as of 30.06.2005 | as of 30.06.2004 | as of 30.06.2005 | as of 30.06.2004 |
| X. Non-current assets | 11 760 301 | 9 874 706 | 2 910 894 | 2 444 174 |
| XI. Current assets | 7 004 506 | 5 553 173 | 1 733 746 | 1 374 514 |
| XII. Total assets | 18 764 807 | 15 427 879 | 4 644 639 | 3 818 687 |
| XIII. Long-term liabilities | 2 264 488 | 2 416 418 | 560 503 | 598 108 |
| XIV. Short-term liabilities | 4 859 196 | 3 086 874 | 1 202 742 | 764 059 |
| XV. Equity | 11 641 123 | 9 924 587 | 2 881 395 | 2 456 520 |
| XVI. Share capital | 1 057 635 | 1 057 635 | 261 784 | 261 784 |
| XVII. Number of issued ordinary shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| XVIII. Book value per share (in PLN/EUR) | 27,22 | 23,20 | 6,74 | 5,74 |

The above financial data were converted to EUR in line with the following methods:

- particular assets and liabilities – in accordance with the average exchange rate announced for 30 June 2005 – PLN 4.0401 / EUR,
- particular profit and loss items and positions of the statement of cash flows – in accordance with the exchange rate being the arithmetic average of the average exchange rates announced by the National Bank of Poland as at the last day of each complete month of the reporting period (from 1 January to 30 June 2005) – PLN 4.0805 / EUR.

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# CONDENSED CONSOLIDATED BALANCE SHEETS
## as at 30 June 2005, 31 December 2004 and 30 June 2004
## (all amounts in PLN thousand)

| | Notes | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| | | | (in thousand PLN) | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 3.1 | 18 287 460 | 11 063 238 | 10 754 636 |
| Goodwill | 3.5 | 20 501 | 20 501 | 20 133 |
| Intangible assets | | 767 424 | 344 431 | 353 956 |
| Long-term financial investments | | 624 886 | 511 564 | 515 041 |
| Investments in associates | | 511 043 | 118 014 | 131 550 |
| Deferred tax assets | | 60 811 | 27 138 | 8 860 |
| Other non-current assets | | 31 791 | 8 794 | 10 532 |
| Perpetual usufruct of land | | 64 901 | 40 023 | 42 782 |
| Investment property | | 17 653 | 17 893 | 18 131 |
| **Total non-current assets** | | **20 386 470** | **12 151 596** | **11 855 621** |
| **Current assets** | | | | |
| Inventory | | 5 632 763 | 3 224 890 | 3 318 227 |
| Trade and other receivables | | 5 005 488 | 2 598 800 | 2 829 027 |
| Income tax receivable | | 8 152 | 23 309 | 1 644 |
| Short-term investments | | 240 137 | 1 124 155 | 297 571 |
| Short-term prepayments | | 164 026 | 102 091 | 152 341 |
| Cash and cash equivalents | 3.2 | 1 384 234 | 735 813 | 921 307 |
| Other financial assets | | 132 598 | 154 217 | 90 539 |
| **Total current assets** | | **12 567 398** | **7 963 275** | **7 610 656** |
| **Total assets** | | **32 976 560** | **20 114 871** | **19 466 277** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | | |
| **Equity** | | | | |
| Share capital | | 534 636 | 534 636 | 534 636 |
| Share capital revaluation adjustment | | 522 999 | 522 999 | 522 999 |
| Share premium | | 1 058 450 | 1 058 450 | 1 058 450 |
| Share premium revaluation adjustment | | 168 803 | 168 803 | 168 803 |
| Hedging reserve | | 30 016 | 59 195 | 12 111 |
| Foreign exchange differences on subsidiaries from consolidation | | (43 532) | (9 444) | 42 032 |
| Retained earnings | | 12 681 600 | 10 258 950 | 8 754 150 |
| **Total equity (attributed to shareholders of the parent company)** | | **14 952 972** | **12 593 589** | **11 093 181** |
| Minority interest | | 2 630 202 | 384 013 | 443 718 |
| **Total equity** | | **17 583 174** | **12 977 602** | **11 536 899** |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | 3.7 | 3 263 449 | 2 083 536 | 1 969 151 |
| Provisions | | 773 269 | 637 689 | 600 990 |
| Deferred tax liabilities | 3.4.1 | 1 087 016 | 378 248 | 425 173 |
| Other non-current liabilities | | 151 071 | 34 255 | 35 801 |
| **Total non-current liabilities** | | **5 274 805** | **3 133 728** | **3 031 115** |
| **Current liabilities** | | | | |
| Trade and other liabilities and accrued expenses | | 7 742 774 | 3 417 916 | 4 059 883 |
| Provisions | | 700 717 | 283 442 | 110 133 |
| Income tax liability | | 102 542 | 1 680 | 30 722 |
| Interest-bearing loans and borrowings | 3.7 | 1 515 463 | 241 599 | 665 282 |
| Deferred income | | 52 634 | 16 911 | 23 373 |
| Other current financial liabilities | | 4 451 | 41 993 | 8 870 |
| **Total current liabilities** | | **10 118 581** | **4 003 541** | **4 898 263** |
| **Total equity and liabilities** | | **32 976 560** | **20 114 871** | **19 466 277** |

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

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# CONDENSED CONSOLIDATED PROFIT AND LOSS STATEMENTS
## For the period of 6 months ended 30 June 2005 and 30 June 2004
## and for the period of 3 months ended 31March 2005 and 31March 2004
## (all amounts in PLN thousand)

| | Notes | for the period of 6 months ended 30 June 2005 (unaudited) | for the period of 3 months ended 31 March 2005 (unaudited) | for the period of 6 months ended 30 June 2004 (unaudited) | for the period of 3 months ended 31 March 2004 (unaudited) |
|---|---|---|---|---|---|
| | | | (in thousand PLN) | | |
| **Operating activities** | | | | | |
| **Net sale revenues** | | | | | |
| Revenues from sale of finished goods | | 16 160 344 | 6 931 866 | 13 479 918 | 6 206 419 |
| Excise tax and other charges | | (5 121 406) | (2 361 013) | (4 898 872) | (2 311 936) |
| Net revenues from sale of finished goods | | 11 038 938 | 4 570 853 | 8 581 046 | 3 894 483 |
| Net revenues from sale of merchandise and raw | | 5 722 018 | 2 235 055 | 5 232 106 | 2 445 732 |
| Total net sale revenues | | **16 760 956** | **6 805 908** | **13 813 152** | **6 340 215** |
| Cost of finished goods sold | 3.8 | (8 306 379) | (3 143 402) | (6 162 616) | (2 874 321) |
| Cost of merchandise and raw materials sold | 3.8 | (5 105 129) | (2 197 521) | (4 911 240) | (2 259 578) |
| **Gross profit on sales** | | **3 349 448** | **1 464 985** | **2 739 296** | **1 206 316** |
| Other operating income * | | 2 176 539 | 78 671 | 109 632 | 40 402 |
| Distribution expenses | 3.8 | (1 036 387) | (489 416) | (1 063 396) | (544 071) |
| General and administrative expenses | 3.8 | (422 805) | (198 771) | (422 269) | (185 860) |
| Other operating expenses | 3.8 | (566 816) | (64 144) | (292 793) | (33 038) |
| **Profit from operations** | | **3 499 979** | **791 325** | **1 070 470** | **483 749** |
| Financial income | 3.9 | 452 050 | 46 179 | 157 101 | 95 642 |
| Financial expenses | 3.9 | (244 869) | (67 423) | (98 259) | (137 150) |
| Net financial revenues and expenses | | **207 181** | **(21 244)** | **58 842** | **(41 508)** |
| Share in profit from investments accounted for under equity method | | 7 707 | (217) | 8 905 | 6 686 |
| Profit on the sale of all or part of shares of related parties | | 29 395 | - | 3 795 | - |
| **Profit before tax** | | **3 744 262** | **769 864** | **1 142 012** | **448 927** |
| Income tax expense | 3.10 | (394 198) | (141 659) | (238 196) | (102 120) |
| **Profit after tax** | | **3 350 064** | **628 205** | **903 816** | **346 807** |
| Minority interest | | (13 966) | (10 172) | (23 576) | (17 118) |
| **Net profit** | | **3 336 098** | **618 033** | **880 240** | **329 689** |
| **Basic and diluted earnings per share in Polish Zloty** | | **7,80** | **1,44** | **2,06** | **0,77** |

* Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price

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| | Notes | II quarter period from 1.04.2005 to 30.06.2005 (unaudited) | II quarter period from 1.04.2004 to 30.06.2004 (unaudited) |
|---|---|---|---|
| | | (in thousand PLN) | |
| **Operating activities** | | | |
| **Net sale revenues** | | | |
| Revenues from sale of finished goods | | 9 228 478 | 7 273 499 |
| Excise tax and other charges | | (2 760 393) | (2 586 936) |
| Net revenues from sale of finished goods | | 6 468 085 | 4 686 563 |
| Net revenues from sale of merchandise and raw materials | | 3 486 963 | 2 786 374 |
| Total net sale revenues | | **9 955 048** | **7 472 937** |
| Cost of finished goods sold | 3.8 | (5 162 977) | (3 288 295) |
| Cost of merchandise and raw materials sold | 3.8 | (2 907 608) | (2 651 662) |
| **Gross profit on sales** | | **1 884 463** | **1 532 980** |
| Other operating income ** | | 2 097 868 | 69 230 |
| Distribution expenses | 3.8 | (546 971) | (519 325) |
| General and administrative expenses | 3.8 | (224 034) | (236 409) |
| Other operating expenses | 3.8 | (502 672) | (259 755) |
| **Profit from operations** | | **2 708 654** | **586 721** |
| Financial income * | 3.9 | 405 871 | 140 625 |
| Financial expenses * | 3.9 | (177 446) | (40 275) |
| Net financial revenues and expenses | | **228 425** | **100 350** |
| Share in profit from investments accounted for under equity method | | 7 924 | 2 219 |
| Profit on the sale of all or part of shares of related parties | | 29 395 | 3 795 |
| **Profit before tax** | | **2 974 398** | **693 085** |
| Income tax expense | 3.10 | (252 539) | (136 076) |
| **Profit after tax** | | **2 721 859** | **557 009** |
| Minority interest | | (3 794) | (6 458) |
| **Net profit** | | **2 718 065** | **550 551** |

* The decrease in negative foreign exchange differences in the amount of PLN 54,896 thousand and decrease in expenses in the amount of PLN 24,270 thousand relate to reclassification of financial instruments in the second quarter of 2004.
** Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price

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# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## For the period of 6 months ended 30 June 2005 and 30 June 2004 and for the period of 3 months ended 31March 2005 and 31Merch 2004 (all amounts in PLN thousand)

| | for the period of 6 months ended 30 June 2005 | for the period of 3 months ended 31 March 2005 | for the period of 6 months ended 30 June 2004 | for the period of 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (nie badane) |
| | | (in thousand PLN) | | |
| **Cash flows - operating activities** | | | | |
| Net profit | **3 336 098** | **618 033** | **880 240** | **329 689** |
| Adjustments for: | | | | |
| Minority interest | 13 966 | 10 172 | 23 576 | 17 118 |
| Share in profit from investments accounted for under equity method | (7 707) | 217 | (8 905) | (6 686) |
| Depreciation | 624 145 | 294 843 | 667 445 | 340 835 |
| Interest and dividend income, net | (62 712) | (183) | (23 158) | (38 777) |
| Income tax expense | 394 198 | 141 659 | 238 196 | 102 120 |
| (Profit) / loss on investing activities | (46 671) | (15 079) | 128 867 | 12 906 |
| (Increase) in receivables | (336 399) | (372 383) | (654 998) | (408 060) |
| (Increase) in inventories | (1 299 286) | (855 093) | (310 404) | (110 001) |
| Increase in liabilities and accruals | 1 196 151 | 805 020 | 763 329 | 484 603 |
| Increase / (decrease) in provisions | 420 810 | 12 981 | 78 541 | (5 809) |
| Other* | (2 240 153) | 24 725 | 110 490 | (41 109) |
| Income tax paid | (344 287) | (100 509) | (154 777) | (48 800) |
| **Net cash provided by operating activities** | **1 648 153** | **564 403** | **1 738 442** | **628 029** |
| **Cash flows - investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | (889 194) | (377 119) | (806 979) | (433 143) |
| Proceeds from the sale of property, plant and equipment | 19 559 | 4 230 | 14 910 | 7 997 |
| Proceeds from the sale of shares | 76 305 | - | - | 383 |
| Acquisition of shares** | (1 347 186) | (1 611) | (27 107) | (11 452) |
| Acquisition of short-term securities | (81 818) | (39 629) | (293 447) | (85 493) |
| Proceeds from the sale of short-term securities | 963 547 | 388 185 | 65 286 | 31 833 |
| Interest and dividends received | 124 135 | 19 815 | 84 356 | 2 499 |
| Loans (granted) / repaid | 558 | 842 | (2 072) | - |
| Other*** | (179 381) | 79 | 15 712 | 25 298 |
| **Net cash used in investing activities** | **(1 313 475)** | **(5 208)** | **(949 341)** | **(462 078)** |
| **Cash flow - financing activities** | | | | |
| Proceeds from long and short-term borrowings | 929 876 | 263 091 | 748 575 | 668 126 |
| Repayment of long and short-term borrowings | (540 482) | (92 655) | (1 189 056) | (797 349) |
| Interest paid | (59 261) | (23 269) | (54 921) | (27 723) |
| Other | (16 109) | (8 331) | (5 168) | (3 108) |
| **Net cash provided by / (used in) financing activities** | **314 024** | **138 836** | **(500 570)** | **(160 054)** |
| **Net change in cash and cash equivalents** | **648 702** | **698 031** | **288 531** | **5 897** |
| Effect of exchange rate changes | (281) | 5 792 | (1 483) | 164 |
| **Cash and cash equivalents, beginning of the period** | **735 813** | **735 813** | **634 259** | **634 259** |
| **Cash and cash equivalents, end of period, incl.** | **1 384 234** | **1 439 636** | **921 307** | **640 320** |
| Cash and cash equivalents not available for use | 109 467 | 279 502 | 120 346 | 122 857 |

* Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price - PLN 2,005,028 thousand.

** Incl. in 2005 the acquisition of the Unipetrol Group for PLN 1,562,335 thousand, decreased by acquired cash of PLN 220,107 thousand.

*** Incl. in 2005 the acquisition of liabilities of the Unipetrol Group of PLN 178,804 thousand.

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | II quarter period from 1.04.2005 to 30.06.2005 (unaudited) | II quarter period from 1.04.2004 to 30.06.2004 (unaudited) |
|---|---|---|
| | (in thousand PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **2 718 065** | **550 551** |
| Adjustments for: | | |
| Minority interest | 3 794 | 6 458 |
| Share in profit from investments accounted for under equity method | (7 924) | (2 219) |
| Depreciation | 329 302 | 326 610 |
| Interest and dividend income, net | (62 529) | 15 619 |
| Income tax expense | 252 539 | 136 076 |
| (Profit) / loss on investing activities | (31 592) | 115 961 |
| (Increase) / decrease in receivables | 35 984 | (246 938) |
| (Increase) in inventories | (444 193) | (200 403) |
| Increase in liabilities and accruals | 391 131 | 278 726 |
| Increase in provisions | 407 829 | 84 350 |
| Other* | (2 264 878) | 151 599 |
| Income tax paid | (243 778) | (105 977) |
| **Net cash provided by operating activities** | **1 083 750** | **1 110 413** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (512 075) | (373 836) |
| Proceeds from the sale of property, plant and equipment | 15 329 | 6 913 |
| Proceeds from the sale of shares | 76 305 | (383) |
| Acquisition of shares** | (1 345 575) | (15 655) |
| Acquisition of short-term securities | (42 189) | (207 954) |
| Proceeds from the sale of short-term securities | 575 362 | 33 453 |
| Interest and dividends received | 104 320 | 81 857 |
| Loans (granted) | (284) | (2 072) |
| Other*** | (179 460) | (9 586) |
| **Net cash used in investing activities** | **(1 308 267)** | **(487 263)** |
| **Cash flow - financing activities** | | |
| Proceeds from long and short-term borrowings | 666 785 | 80 449 |
| Repayment of long and short-term borrowings | (447 827) | (391 707) |
| Interest paid | (35 992) | (27 198) |
| Other | (7 778) | (2 060) |
| **Net cash provided by / (used in) financing activities** | **175 188** | **(340 516)** |
| **Net change in cash and cash equivalents** | **(49 329)** | **282 634** |
| Effect of exchange rate changes | (6 073) | (1 647) |
| **Cash and cash equivalents, beginning of the period** | **1 439 636** | **640 320** |
| **Cash and cash equivalents, end of period, incl.** | **1 384 234** | **921 307** |
| Cash and cash equivalents not available for use | 109 467 | 120 346 |

* Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price - PLN 2,005,028 thousand.

** Incl. in 2005 the acquisition of the Unipetrol Group for PLN 1,562,335 thousand, decreased by acquired cash of PLN 220,107 thousand.

*** Incl. in 2005 the acquisition of liabilities of the Unipetrol Group of PLN 178,804 thousand.

## CONDENSED STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
## As At 30 June 2005, 31 December 2004 and 30 June 2004
## (all amounts in PLN thousand)

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| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 62 366 | 8 148 515 | 433 859 | 10 929 628 |
| (unaudited) | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (20 334) | - | - | (20 334) |
| Dividend | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 880 240 | - | 880 240 |
| Impairment of non-current assets | - | - | - | - | 3 406 | - | 3 406 |
| Hedge accounting - cash flow hedges | - | - | 12 111 | - | - | - | 12 111 |
| Shares issued | - | - | - | - | - | - | - |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 23 576 | 23 576 |
| Change in shareholders structure | - | - | - | - | - | (13 717) | (13 717) |
| **30 June 2004** | 1 057 635 | 1 227 253 | 12 111 | 42 032 | 8 754 150 | 443 718 | 11 536 899 |
| (unaudited) | | | | | | | |

| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2005** | 1 057 635 | 1 227 253 | 59 195 | (9 444) | 10 258 950 | 384 013 | 12 977 602 |
| (unaudited) | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (34 088) | - | - | (34 088) |
| Dividend | - | - | - | - | (911 020) | - | (911 020) |
| Net profit | - | - | - | - | 3 336 098 | - | 3 336 098 |
| Impairment of non-current assets | - | - | - | - | (2 428) | - | (2 428) |
| Hedge accounting - cash flow hedges | - | - | (29 179) | - | - | - | (29 179) |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 13 967 | 13 967 |
| Change in shareholders structure | - | - | - | - | - | 2 232 222 | 2 232 222 |
| Other | - | - | - | - | - | - | - |
| **30 June 2005** | 1 057 635 | 1 227 253 | 30 016 | (43 532) | 12 681 600 | 2 630 202 | 17 583 174 |
| (unaudited) | | | | | | | |

| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 62 366 | 8 148 515 | 433 859 | 10 929 628 |
| (unaudited) | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (71 810) | - | - | (71 810) |
| Dividend | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 2 384 983 | - | 2 384 983 |
| Impairment of non-current assets | - | - | - | - | 3 463 | - | 3 463 |
| Hedge accounting - cash flow hedges | - | - | 59 195 | - | - | - | 59 195 |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | - | - |
| Change in shareholders structure | - | - | - | - | - | 53 950 | 53 950 |
| Change in the share structure | - | - | - | - | - | (103 796) | (103 796) |
| **31 December 2004** | 1 057 635 | 1 227 253 | 59 195 | (9 444) | 10 258 950 | 384 013 | 12 977 602 |
| (unaudited) | | | | | | | |

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

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# STAND-ALONE CONDENSED BALANCE SHEETS
## as at 30 June 2005, 31 December 2004 and 30 June 2004
## (all amounts in PLN thousand)

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| | | (in thousand PLN) | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 652 059 | 7 569 696 | 7 532 203 |
| Intangible assets | 31 110 | 29 404 | 34 978 |
| Long-term financial investments | 511 975 | 498 963 | 457 769 |
| Investments in associates | 3 448 749 | 1 685 878 | 1 784 160 |
| Other non-current assets | 79 196 | 32 302 | 36 544 |
| Perpetual usufruct of land | 37 212 | 24 931 | 29 052 |
| **Total non-current assets** | **11 760 301** | **9 841 174** | **9 874 706** |
| **Current assets** | | | |
| Inventory | 3 752 993 | 2 621 975 | 2 815 115 |
| Trade and other receivables | 2 538 957 | 1 908 263 | 2 044 589 |
| Income tax receivable | - | 10 206 | - |
| Short-term investments | 200 415 | 1 261 747 | 200 843 |
| Short-term prepayments | 59 930 | 68 329 | 90 376 |
| Cash and cash equivalents | 320 245 | 291 138 | 312 864 |
| Other financial assets | 131 966 | 154 018 | 89 386 |
| **Total current assets** | **7 004 506** | **6 315 676** | **5 553 173** |
| **Total assets** | **18 764 807** | **16 156 850** | **15 427 879** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | |
| **Equity** | | | |
| Share capital | 534 636 | 534 636 | 534 636 |
| Share capital revaluation adjustment | 522 999 | 522 999 | 522 999 |
| Share premium | 1 058 450 | 1 058 450 | 1 058 450 |
| Share premium revaluation adjustment | 168 803 | 168 803 | 168 803 |
| Hedging reserve | 57 383 | 75 943 | 16 350 |
| Retained earnings | 9 298 852 | 8 892 160 | 7 623 349 |
| **Total equity** | **11 641 123** | **11 252 991** | **9 924 587** |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 1 423 613 | 1 407 707 | 1 596 506 |
| Provisions | 545 503 | 498 334 | 474 504 |
| Deferred tax liabilities | 292 179 | 296 878 | 345 408 |
| Other non-current liabilities | 3 193 | - | - |
| **Total non-current liabilities** | **2 264 488** | **2 202 919** | **2 416 418** |
| **Current liabilities** | | | |
| Trade and other liabilities and accrued expenses | 3 892 877 | 2 432 232 | 2 718 269 |
| Provisions | 553 961 | 235 447 | 79 699 |
| Interest-bearing loans and borrowings | 342 531 | 5 863 | 233 575 |
| Deferred income | 10 330 | 6 048 | 12 052 |
| Income tax liability | 56 028 | - | 25 407 |
| Other current financial liabilities | 3 469 | 21 350 | 17 872 |
| **Total current liabilities** | **4 859 196** | **2 700 940** | **3 086 874** |
| **Total equity and liabilities** | **18 764 807** | **16 156 850** | **15 427 879** |

# STAND-ALONE CONDENSED PROFIT AND LOSS SATTEMENTS
## for the period of 6 months ended 30 June 2005 and 30 June 2004
## And for the period of 3 months ended 31Merch 2005 and 31March 2004
## (all amounts in PLN thousand)

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| | for the period of 6 months ended 30 June 2005 | for the period of 3 months ended 31 March 2005 | for the period of 6 months ended 30 June 2004 | for the period of 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | (in thousand PLN) | | | |
| **Operating activities** | | | | |
| **Net sale revenues** | | | | |
| Revenues from sale of finished goods | 13 903 293 | 6 367 977 | 12 210 769 | 5 652 634 |
| Excise tax and other charges | (4 967 511) | (2 309 593) | (4 848 496) | (2 293 597) |
| Net revenues from sale of finished goods | 8 935 782 | 4 058 384 | 7 362 273 | 3 359 037 |
| Net revenues from sale of merchandise and raw | 813 015 | 364 210 | 746 212 | 356 753 |
| Total net sale revenues | **9 748 797** | **4 422 594** | **8 108 485** | **3 715 790** |
| Cost of finished goods sold | (6 450 645) | (2 958 815) | (5 453 043) | (2 533 454) |
| Cost of merchandise and raw materials sold | (620 161) | (262 307) | (591 312) | (283 776) |
| **Gross profit on sales** | **2 677 991** | **1 201 472** | **2 064 130** | **898 560** |
| Other operating income * | 69 260 | 34 238 | 48 694 | 19 192 |
| Distribution expenses | (702 616) | (332 368) | (705 447) | (351 607) |
| General and administrative expenses | (245 267) | (124 438) | (260 896) | (110 766) |
| Other operating expenses | (454 492) | (49 587) | (139 951) | (26 940) |
| **Profit from operations** | **1 344 876** | **729 317** | **1 006 530** | **428 439** |
| Financial income | 493 687 | 32 366 | 156 206 | 82 943 |
| Financial expenses | (177 093) | (45 834) | (56 171) | (110 248) |
| Net financial revenues and expenses | **316 594** | **(13 468)** | **100 035** | **(27 305)** |
| **Profit before tax** | **1 661 470** | **715 849** | **1 106 565** | **401 134** |
| Income tax expense | (343 568) | (134 015) | (214 708) | (86 219) |
| **Net profit** | **1 317 902** | **581 834** | **891 857** | **314 915** |
| **Basic and diluted earnings per share in Polish Zloty** | **3,08** | **1,36** | **2,09** | **0,74** |

# POLSKI KONCERN NAFTOWY ORLEN S.A.
# STAND-ALONE CONDENSED PROFIT AND LOSS STATEMENTS
## for the period of 3 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

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| | II quarter period from 1.04.2005 to 30.06.2005 | II quarter period from 1.04.2004 to 30.06.2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| | (in thousand PLN) | |
| **Operating activities** | | |
| **Net sale revenues** | | |
| Revenues from sale of finished goods | 7 535 316 | 6 558 135 |
| Excise tax and other charges | (2 657 918) | (2 554 899) |
| Net revenues from sale of finished goods | 4 877 398 | 4 003 236 |
| Net revenues from sale of merchandise and raw | 448 805 | 389 459 |
| Total net sale revenues | **5 326 203** | **4 392 695** |
| Cost of finished goods sold | (3 491 830) | (2 919 589) |
| Cost of merchandise and raw materials sold | (357 854) | (307 536) |
| **Gross profit on sales** | **1 476 519** | **1 165 570** |
| Other operating income * | 35 022 | 29 502 |
| Distribution expenses | (370 248) | (353 840) |
| General and administrative expenses | (120 829) | (150 130) |
| Other operating expenses | (404 905) | (113 011) |
| **Profit from operations** | **615 559** | **578 091** |
| Financial income * | 461 321 | 147 857 |
| Financial expenses * | (131 259) | (20 517) |
| Net financial revenues and expenses | **330 062** | **127 340** |
| **Profit before tax** | **945 621** | **705 431** |
| Income tax expense | (209 553) | (128 489) |
| **Net profit** | **736 068** | **576 942** |

* The decrease in negative foreign exchange differences in the amount of PLN 50,324 thousand and decrease in expenses in the amount of PLN 24,270 thousand relate to reclassification of financial instruments in the second quarter of 2004.

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# STAND-ALONE CONDENSED STATEMENTS OF CASH FLOWS
## For the period of 6 months ended 30 June 2005 and 30 June 2004
## And for the period of 3 months ended 31March 2005 and 31March 2004
## (all amounts in PLN thousand)

| | for the period of 6 months ended 30 June 2005 | for the period of 3 months ended 31 March 2005 | for the period of 6 months ended 30 June 2004 | for the period of 3 months ended 31 March 2004 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | | (in thousand PLN) | | |
| **Cash flows - operating activities** | | | | |
| Net profit | **1 317 902** | **581 834** | **891 857** | **314 915** |
| Adjustments for: | | | | |
| Depreciation | 393 224 | 199 704 | 487 139 | 245 865 |
| Interest and dividend income, net | (129 400) | (7 342) | (60 502) | (48 349) |
| Income tax expense | 343 568 | 134 015 | 214 708 | 86 219 |
| (Profit) / loss on investing activities | (48 331) | (1 878) | 43 738 | 17 189 |
| (Increase) in receivables | (247 953) | (292 617) | (147 174) | (329 511) |
| (Increase) in inventories | (1 131 018) | (737 511) | (302 612) | (90 077) |
| Increase in liabilities and accruals | 310 816 | 367 599 | 39 908 | 46 000 |
| Increase in provisions | 370 081 | 14 076 | 43 033 | 2 152 |
| Other | (178 824) | 33 157 | (32 731) | (40 127) |
| Income tax paid | (282 035) | (85 087) | (140 474) | (42 092) |
| **Net cash provided by operating activities** | **718 030** | **205 950** | **1 036 890** | **162 184** |
| **Cash flows - investing activities** | | | | |
| Acquisition of property, plant and equipment and intangible assets | (469 518) | (206 153) | (511 706) | (266 026) |
| Proceeds from the sale of property, plant and equipment | 6 505 | 1 202 | 5 335 | 2 679 |
| Proceeds from the sale of shares in Naftoport | 67 692 | - | - | - |
| Proceeds from the sale of subsidiaries | 8 141 | - | 6 111 | 108 |
| Acquisition of shares * | (1 562 335) | - | (12 654) | (950) |
| Proceeds from the sale of short-term securities | 810 977 | 312 122 | - | - |
| Acquisition of short-term securities | - | - | (200 843) | - |
| Interest and dividends received | 128 603 | 17 674 | 93 039 | 313 |
| Proceeds from repayment of loan granted to subsidiary | 240 248 | 240 248 | - | - |
| Proceeds from return of additional payments to subsidiaries' equity | - | - | 230 299 | 230 299 |
| Other | (174 406) | (549) | 8 723 | 25 236 |
| **Net cash used in investing activities** | **(944 093)** | **364 544** | **(381 696)** | **(8 341)** |
| **Cash flow - financing activities** | | | | |
| Proceeds from long and short-term borrowings | 371 706 | 99 953 | 713 279 | 672 102 |
| Repayment of long and short-term borrowings | (91 532) | (30 000) | (1 085 502) | (806 888) |
| Interest paid | (24 336) | (11 214) | (30 666) | (17 789) |
| Other | - | - | (124) | (103) |
| **Net cash provided by / (used in) financing activities** | **255 838** | **58 739** | **(403 013)** | **(152 678)** |
| **Net change in cash and cash equivalents** | **29 775** | **629 233** | **252 181** | **1 165** |
| Effect of exchange rate changes | (668) | 5 964 | (2 086) | (1) |
| **Cash and cash equivalents, beginning of the period** | **291 138** | **291 138** | **62 769** | **62 769** |
| **Cash and cash equivalents, end of period, incl.** | **320 245** | **926 335** | **312 864** | **63 933** |
| Cash and cash equivalents not available for use | 7 089 | 186 374 | 7 327 | 9 036 |

* Incl. in 2005 the entire amount relates to acquisition of the Unipetrol Group

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| | II quarter period from 1.04.2005 to 30.06.2005 (unaudited) | II quarter period from 1.04.2004 to 30.06.2004 (unaudited) |
|---|---|---|
| | (in thousand PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **736 068** | **576 942** |
| Adjustments for: | | |
| Depreciation | 193 520 | 241 274 |
| Interest and dividend income, net | (122 058) | (12 153) |
| Income tax expense | 209 553 | 128 489 |
| (Profit) / loss on investing activities | (46 453) | 26 549 |
| Decrease in receivables | 44 664 | 182 337 |
| (Increase) in inventories | (393 507) | (212 535) |
| (Decrease) in liabilities and accruals | (56 783) | (6 092) |
| Increase in provisions | 356 005 | 40 881 |
| Other | (211 981) | 7 396 |
| Income tax paid | (196 948) | (98 382) |
| **Net cash provided by operating activities** | **512 080** | **874 706** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (263 365) | (245 680) |
| Proceeds from the sale of property, plant and equipment | 5 303 | 2 656 |
| Proceeds from the sale of shares in Naftoport | 67 692 | - |
| Proceeds from the sale of subsidiaries | 8 141 | 6 003 |
| Acquisition of shares * | (1 562 335) | (11 704) |
| Proceeds from the sale of short-term securities | 498 855 | - |
| Acquisition of short-term securities | - | (200 843) |
| Interest and dividends received | 110 929 | 92 726 |
| Other | (173 857) | (16 513) |
| **Net cash used in investing activities** | **(1 308 637)** | **(373 355)** |
| **Cash flow - financing activities** | | |
| Proceeds from long and short-term borrowings | 271 753 | 41 177 |
| Repayment of long and short-term borrowings | (61 532) | (278 614) |
| Interest paid | (13 122) | (12 877) |
| Other | - | (21) |
| **Net cash provided by / (used in) financing activities** | **197 099** | **(250 335)** |
| **Net change in cash and cash equivalents** | **(599 458)** | **251 016** |
| Effect of exchange rate changes | (6 632) | (2 085) |
| **Cash and cash equivalents, beginning of the period** | **926 335** | **63 933** |
| **Cash and cash equivalents, end of period, incl.** | **320 245** | **312 864** |
| Cash and cash equivalents not available for use | 7 089 | 7 327 |

* Incl. in 2005 the entire amount relates to acquisition of the Unipetrol Group

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| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | **1 057 635** | **1 227 253** | **-** | **7 009 503** | **9 294 391** |
| **(unaudited)** | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 891 857 | 891 857 |
| Impairment of non-current assets | - | - | - | - | - |
| Hedge accounting - cash flow hedges | - | - | 16 350 | - | 16 350 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **30 June 2004** | **1 057 635** | **1 227 253** | **16 350** | **7 623 349** | **9 924 587** |
| **(unaudited)** | | | | | |

| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2005** | **1 057 635** | **1 227 253** | **75 943** | **8 892 160** | **11 252 991** |
| **(unaudited)** | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (911 020) | (911 020) |
| Net profit | - | - | - | 1 317 902 | 1 317 902 |
| Impairment of non-current assets | - | - | - | (190) | (190) |
| Hedge accounting - cash flow hedges | - | - | (18 560) | - | (18 560) |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| Other | - | - | - | - | - |
| **30 June 2005** | **1 057 635** | **1 227 253** | **57 383** | **9 298 852** | **11 641 123** |
| **(unaudited)** | | | | | |

| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | **1 057 635** | **1 227 253** | **-** | **7 009 503** | **9 294 391** |
| **(unaudited)** | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 2 161 754 | 2 161 754 |
| Impairment of non-current assets | - | - | - | (1 086) | (1 086) |
| Hedge accounting - cash flow hedges | - | - | 75 943 | - | 75 943 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **31 December 2004** | **1 057 635** | **1 227 253** | **75 943** | **8 892 160** | **11 252 991** |
| **(unaudited)** | | | | | |

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## I. PRINCIPAL ACTIVITIES OF THE GROUP

The Parent Company of the Polski Koncern Naftowy ORLEN Group ("Group") is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent"), seated in Płock, Poland, 7 Chemikow Street.
The Company was established under the notarial deed of 29 June 1993 as a result of the transformation of a state owned enterprise into a joint-stock company registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court of Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spółka Akcyjna was incorporated and thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

The Group's operations comprise of refining of petroleum and manufacture of a wide range of petroleum products, chemical and petrochemical products, delivery as well as wholesale and retail sale of those products.

Before the date of the second public offering completed in July 2000, the Group had been directly and indirectly owned by the Polish State Treasury, the minority shares being held by employees and other parties. The State Treasury supervised the Group by executing control over the ultimate Parent Company, Nafta Polska S.A. As at 16 September 2005, Nafta Polska S.A. held directly or indirectly 17.32% shares in PKN ORLEN SA, the Polish State Treasury 10.2%, Bank of New York (as a depositor) 12.29%, and other shareholders 60.19% of the Company's shares.
On 4 July 2003, the Company announced that Commercial Union OFE BPH CU WBK held 21,533,539 of PKN ORLEN shares, which accounted for 5.035% of votes at the General Shareholders' Meeting. On 2 March 2005 the stake of PKN ORLEN's shares held by Commercial Union OFE BPH CU WBK decreased and amounted to 21,040,915 shares, which constituted 4.92 % of voting rights at the General Shareholders' Meeting.
FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,436,944 PKN ORLEN shares as at 24 May 2005, which is 5.01% of the share capital and gives title to 21,436,944 votes at the General Shareholders' Meeting and 5.01% of the total votes at the General Meeting of PKN ORLEN.

## II. PRINCIPLES ADOPTED FOR PREPARATION OF THE CONSOLIDATED QUARTERLY STATEMENTS FOR THE SECOND QUARTER OF 2005

As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") adopted by the European Union. The information disclosed in these consolidated financial statements is compliant with IAS 34 'Interim Financial Reporting'. As at the day of preparation of these consolidated financial statements the scope of standards adopted by the International Accounting Standards Board and the standards adopted by the European Union differ with respect to some issues of IAS 39 "Financial Instruments: Recognition and Measurement". The above differences do not concern these consolidated financial statements.
The International Accounting Standards Board issued International Financial Reporting Standard No. 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognized under IFRSs. In accordance with IFRS 1, an entity may state its tangible fixed assets at fair value as of IFRSs adoption date and recognize the fair value as the cost of the fixed assets as at that date.
From 1 January 2005 the Group has prepared its consolidated financial statements first time in compliance with IFRS 1 as it complies with conditions defined in that standard.
From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory stand-alone financial statements in accordance with IFRSs approved by the European Commission for 2005.

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The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value, which change is recognised in the profit and loss, financial assets available for sale, and investments property stated at fair value.

## 1. Statement of compliance

As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with the IFRSs adopted by the European Union. The information disclosed in these consolidated financial statements is compliant with IAS 34 "Interim Financial Reporting". As at the date of preparation of these consolidated financial statements the scope of standards adopted by the International Accounting Standards Board and the standards adopted by the European Union differ with respect to some issues of IAS 39 "Financilal Instruments: Recognition and Measurement". The above differences do not affect these consolidated financial statements.

The International Accounting Standards Board issued International Financial Reporting Standard No. 1 (IFRS 1) "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognised under the IFRSs. In accordance with IFRS 1, an entity may state its property, plant and equipment at fair value as of the IFRSs adoption date and recognise the fair value as the cost of the property, plant and equipment as at that date.

The Group, as at 1 January 2005, prepares consolidated financial statements for the first time in the compliance with IFRS 1, fulfilling conditions defined in this standard.

From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. on 30 December 2004 (adopted in compliance with Art. 45 section 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory standalone financial statements in accordance with the IFRSs approved by the European Commission for 2005.

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value, which change is recognised in the profit and loss (the Company applies the hedge accounting), financial assets available for disposal, and investments property stated at fair value.

## 2. Format and general principles for preparation of condensed consolidated and stand-alone balance sheet, condensed consolidated and stand-alone profit and loss statement, condensed statement of changes in consolidated and stand-alone equity and condensed consolidated and stand-alone cash flow statement

The condensed consolidated and stand-alone quarterly financial statements included in these consolidated quarterly report were prepared in accordance with the International Financial Reporting Standards and in the scope required under the Regulation of the Council of Ministers of 21 March 2005 on current and periodical information presented by issuers of securities (Journal of Laws no. 49, item 463). The statements comprise the period from 1 January to 30 June 2005 and the comparative period from 1 January to 30 June 2004.

## 3. Adopted accounting principles and policy

In the presented reporting period the Company and the Group introduced changes to the respective accounting principles applied by the Company and the Group for 2004 statutory reporting. The changes concern adoption of the International Financial Reporting Standards from 1 January 2005 in accordance with the decision of the General Shareholders' Meeting of PKN ORLEN S.A. of 30 December 2004.

The last consolidated annual financial statements prepared by the Company were the annual statements for the period of 12 months ended 31 December 2004 prepared in compliance with the Polish Accounting Standards. The accounting principles applied in these financial statements are discussed below.

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An impact on the previously published results, related to the adoption of the IFRSs is presented in Note XVII of these statements.
The Group applied the following exemptions from IFRS 1:
- valuation of property, plant and equipment at fair value and use of the fair value as deemed cost defined as at adoption of IFRSs – the Company included in these statements an initial valuation of property, plant and equipment at fair value as discussed under II.1,
- business combinations – the Company applied the exemption of IFRS 1 for business combinations which had taken place before 1 January 2004, as discussed in detail under II.1.
For comparability of the presented financial data, the 2004 data compliant with the PASs were stated in accordance with the IFRSs.

## A. Accounting principles

### Property Plant and Equipment

Property, plant and equipment, excluding investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the fixed asset into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, fixed assets are depreciated and subject to impairment write-offs.

Tangible fixed asset items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment write-offs.

Fixed assets acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment losses. In order to comply with the above requirements, in accordance with IFRS 1, the Group commissioned an independent expert to perform a preliminary revaluation of fixed assets to fair value as at the date of application of IFRS 1 and recognized the value as deemed cost as at that date. The Parent Company's Management Board expects that the revaluation process will be concluded in 2005, which will ensure application of all IFRS principles required in 2005 for statutory reporting by the end of that year. According to the Board, the estimated result of recognition of potential adjustments resulting from the above requirements will not impact significantly the Group assets, equity or financial results for the first half of 2005.

The cost of significant repairs and regular maintenance programmes are regarded as tangible fixed assets and depreciated in accordance with their economic useful life.

The cost of significant repairs and regular maintenance programmes is recognised as tangible fixed assets and depreciated in accordance with their economic useful lives.

Fixed assets are depreciated on a straight line basis over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified once a year, and respective adjustments are made to the subsequent periods of depreciation. Components of fixed assets which are material for the whole fixed asset are depreciated separately in accordance with their economic useful life.

In the first half of 2005, the Company has not implemented the component accounting. The Company commenced the process to ensure that all material components of tangible fixed assets with different useful lives or depreciation methods would be identified in order to calculate relevant depreciation. The Company expects that this process will be concluded by the end of 2005.

The Group estimates the residual value of fixed assets. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life.
The residual value is not subject to depreciation and is reviewed once a year.

The following useful lives are used for property, plant and equipment:

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machines and equipment | 3-25 years |
| Vehicles and other | 4-17 years |

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Assets with an estimated useful life not exceeding one year and with an initial cost not exceeding PLN 3.5 thousand are expensed when accepted for use.

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analysed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount. The recoverable amount of fixed assets reflects the higher of net selling cost and value in use.
Impairment write-offs are recognised as operating costs in the profit and loss.

**Finance lease**

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the above defined criteria are regarded as fixed assets and recognised at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are treated as long-term receivables and stated at the net lease investment value.

**Goodwill**

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment losses.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortised.

**Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognises immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

**Intangible assets**

Intangible assets are recognised if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognised at fair value as defined at the business combination date.

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After initial recognition, intangible assets are measured at acquisition or construction cost less amortisation and impairment losses. Intangible assets are amortised using the straight line method over their estimated economic useful life. Appropriateness of the applied amortisation periods and rates is regularly reviewed, at least at the end of the reporting year, and potential adjustments to amortisation rates are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortised. Their value is decreased by impairment losses.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful lives for amortisation of intangible assets are:

| | |
|---|---|
| Acquired licenses, patents, and similar intangible assets | 2-15 years |
| Acquired computer software | 2-10 years |

Except for development costs, all intangible assets generated by the Group are not recognised as assets and are recorded in the profit and loss for the period when the related cost has been incurred.

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.
Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units are is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

**Investment property**

Investment property is initially recognised at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is derecognised when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from derecognition of the investment property are recognised in the profit and loss in the period of derecognition.

**Inventories**

Inventories are measured at the lower of cost and net realisable value, considering any inventory allowances. The net realisable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.

Cost is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding cost of external financing.

**Receivables**

Trade receivables are recognised when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortised cost using the effective interest method less allowances for doubtful receivables.
Bad debts are stated in the profit and loss when it is determined that they are not collectable.

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**Cash and cash equivalents**

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of an entity's cash management.

**Revenue from sale**

Revenue from sales is recognised when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. The revenue from the sale of finished goods and merchandise is recognised after deducting value added tax (VAT), excise tax (finished goods), fuel charges (finished goods) and discounts.

Revenue from the sale of goods and merchandise is recognised when the goods are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjust the sales revenue.

The revenue is measured at the fair value of the received or due payment.

**Revenue from dividends**

Dividends are recognised when the shareholder's right to receive payment is established.

**Equity**

Equity is stated in the accounting books by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.
The stated outstanding share capital contributions are recognised as outstanding share capital contributions. Own shares and outstanding contributions to the share capital decrease the Company's equity.
Share premium is created by the surplus of the issuance value in excess of the nominal value decreased by issuance costs.
Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value, and the remaining portion is presented in other capital reserves.

Changes in the fair value of cash flows hedges related to the portion regarded as an effective hedge are included in equity as hedge accounting reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortised discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve capital, the undistributed income from prior periods and the current period net income are presented in the financial statements as retained earnings.

**Loans and borrowings**

Loans are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognised at amortised cost in line with the effective interest rate method. The difference between the net proceeds and the buyout amount is recognised as financial revenue or cost over the term of the loan or borrowing.

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**External financing costs**

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

**Retirement benefits and jubilee bonuses**

Under the Group companies' remuneration plans, their employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group makes a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present amount of those liabilities at each balance sheet date is estimated by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period before the balance sheet date. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognised in the profit and loss.

**Foreign currency transactions**

Transactions denominated in foreign currencies are recognised after their translation to the functional currency, i.e. Polish New Zloty, at the exchange rate effective on the transaction date. Monetary assets and liabilities expressed in foreign currencies are stated at the National Bank of Poland average foreign exchange rates announced at the balance sheet date. Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognised as financial income or cost in the profit and loss statement. The exchange differences are stated in the profit and loss at their net amount.

**Financial instruments**

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets classified as available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Company intends and has the ability to hold to the maturity date. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.
All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

Financial investments held to maturity are part of long-term assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets at fair value, the change in which is recognised in the profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognised at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market price as at the balance sheet date. The change in fair value of those financial assets is recognised as financial income or costs.
Financial assets held to maturity are measured at the amortised cost using the effective interest rate.

Financial assets available for sale are recognised at fair value, without deduction of the transaction costs, and considering their market price at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment losses.

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Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decreases in the value of financial assets available for sale due to impairment losses is charged to financial costs in the profit and loss.

Granted loans are presented at amortised cost.

Derivatives which are not designated as hedging instruments and are classified as financial assets or liabilities at fair value are stated at fair value through profit and loss.

Derivatives treated as cash flow hedge instruments are carried at fair value with changes in value accounted for in the following way:
- the portion determined to be an effective hedge is recognised directly in equity through the statement of changes in equity;
- the portion determined to be an ineffective hedge is recognised in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognised in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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 realization terms as the embedded derivative would meet the definition of a derivative;
- is not the hybrid (combined) instrument

The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the net profit and loss.

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

Financial instruments are not presented in the financial statements if the title and control resulting from the underlying contract is lost which usually takes place on disposal of the financial instrument or when all related cash flows are transferred to a third party.

Derivatives used by the Company in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.
When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognised asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion of the gain or loss is recognised in the profit and loss.
The gain or loss from the re-measurement of the derivative hedging instruments at fair value that do not comply with the hedge accounting criteria are recognised directly in the profit and loss.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such case, total gain or loss on the hedging instrument, previously recognised in equity, is recognised in equity until the forecast transaction takes place. If the Company no longer expects the forecast transaction to take place, the total net gain or loss recognised in equity is presented in the financial result of the current period.

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**Corporate income tax**

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognised for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognised for all temporary tax differences.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to be realised. Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

**Non-current assets classified for disposal/sale**

Non-current assets classified for sale are those which comply with the following criteria:

- a decision was made by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active search for a potential buyer has been initiated;
- the sale transaction is highly probable and could be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets designated for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

**Earnings per share**

Basic earnings per share for each period are calculated by dividing the net profit for a given period 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 a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

**Provisions and liabilities**

The Group makes provisions if it has such a legal or constructive obligation as a result of past events and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When the effect of the time value of money is material, the amount of the provision and liability is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financing costs.

**Environmental provisions**

The Group makes provisions for future liabilities for reclamation of contaminated land or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provisions for reclamation are

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periodically reviewed based on reports prepared by independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

The created provision reflects potential future expenses predicted to be incurred, estimated and verified periodically according to current prices.

**Government grants and assistance**

The government grants are recognised at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognised as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognised as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

**Contingent liabilities and receivables**

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognised in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognised as provisions in the balance sheet .

Contingent receivables are not recognised in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

**Company's Board estimates**

The preparation of financial statements in accordance with IFRSs requires that the Company's Board makes relevant estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Actual results may differ from those estimations.

In the matters of considerable weight, the Company's Board bases its estimates on opinions of independent experts.

**Business segments**

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

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

- The Chemical Segment includes production and sale of petrochemical products by PKN ORLEN and fertilizers and PCW by Anwil S.A.

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

Segment profit and assets have been determined before making intersegment adjustments as appropriate. Selling prices between business segments are similar to market values. Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated Group expenses, reconciling total segment results to profit from operations.

**Adjustments from consolidation**

Internal balances between the Group companies, transactions concluded within the Group and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements depending on the Group's share in those entities.

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Unrealized losses are excluded from the consolidated financial statements based on the same rationale as in case of unrealized gains, until there are indications of impairment.

**Application of the accounting principles**

The above principles are applicable for comparative data, except principles concerning treatment of assets designated for sale, which have been applied since 1 January 2005.

**Composition of the Company's Management Board**

As at 30 June 2005, the Company's Management Board consisted of:

Igor Chalupec – President of the Board, General Executive Officer
Wojciech Heydel – Vice-President of the Board, Retail and Commercial Sales
Jan Maciejewicz – Vice-President of the Board, Cost Management and Information Technology
Cezary Smorszczewski – Vice-President of the Board, Chief Investment Officer
Paweł Szymański – Member of the Board, Chief Finance Officer

Upon the motion of the Polish Minister of State Treasury, PKN ORLEN Supervisory Board at the sitting on 19 July 2005, appointed Dariusz Witkowski as PKN ORLEN Board Member responsible for Organisation, effective 1 August 2005.

## B. Principles of consolidation

**Subsidiaries**

The Group consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority shareholders' interest is recognised in equity. Net profit attributable to minority shareholders is shown in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

**Investments in associates**

Investments in associated companies (overall investments ranging from 20% to 50% in a company's equity) where the Group exercises significant financial and operating influence, yet does not have control over them, are accounted for by the equity method. Assessment of the recovering value of investments in associates is performed when there are indications that the asset has been impaired or the impairment losses recognised in prior years are no longer required.

**Investments in jointly controlled entities**

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, having deducted an impact of mutual transactions and settlements, is presented position by position with similar items in the consolidated financial statements.

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## 4. Measurement and reporting currency

The financial data denominated in EUR were converted in line with the following methods:

- particular assets and liabilities – at the average exchange rate of the National Bank of Poland announced for 30 June 2005 – PLN 4.0401 / EUR, and for 31 December 2004 – PLN 4.0790 / EUR
- particular profit and loss items and positions of the statement of cash flows – at the arithmetic average of the average exchange rates announced by the National Bank of Poland as at the last day of each complete month of the reporting period from 1 January 2005 to 30 June 2005 – PLN 4.0805 / EUR; for the period from 1 January 2004 to 30 June 2004 the rate was PLN 4.7311 / EUR.

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## III. SELECTED EXPLANATORY NOTES

### 3.1. Property plant and equipment

| | 30 June 2005 (unaudited) | 31 December * 2004 (unaudited) | 30 June* 2004 (unaudited) |
|---|---|---|---|
| Land | 789,050 | 349,077 | 355,212 |
| Buildings and constructions | 7,456,974 | 5,349,691 | 5,401,646 |
| Machinery and equipment | 7,231,931 | 3,015,940 | 3,205,991 |
| Vehicles and other | 581,888 | 401,282 | 395,997 |
| Construction in progress | 2,227,617 | 1,947,248 | 1,395,790 |
| **Total** | **18,287,460** | **11,063,238** | **10,754,636** |

* The data was restated with respect to previously published records due to changes introduced to accounting principles and policies as a result of adoption of IFRS as from 1 January 2005:

| | 31 December 2004 | 30 June 2004 |
|---|---|---|
| Previously published information on consolidated property, plant and equipment in accordance with PASs | 9,367,686 | 9,318,167 |
| Valuation of property, plant and equipment at fair value | 1,119,045 | 1,201,526 |
| Change of the BOP consolidation method from equity method to proportionate method | 603,057 | 345,336 |
| Reclassification of catalysts | 71,343 | 79,751 |
| Reclassification of precious metals | 59,205 | 54,211 |
| Reclassification of outfit costs of dealer-owned stations network | 53,553 | 59,193 |
| Reclassification of prepayments for property, plant and equipment | (27,915) | (122,957) |
| Recognition of perpetual usufruct of land as intangible assets | (35,717) | (28,991) |
| Derecognition of capitalised financial expenses | (63,745) | (68,088) |
| Impairment loss recognized on ORLEN Deutschland property, plant and equipment | (65,381) | (65,381) |
| Reclassification of social-office building for hire to investment property | (17,893) | (18,131) |
| Consolidated property, plant and equipment in accordance with IFRS | 11,063,238 | 10,754,636 |

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The impact of the above described adjustments on the depreciation:

| | For 12 months ended 31 December 2004 | For 6 months ended 30 June 2004 |
|---|---|---|
| Previously published consolidated information on depreciation in accordance with PASs | 1,116,658 | 570,676 |
| Valuation of property, plant and equipment at fair value | 168,783 | 77,901 |
| Change of the BOP consolidation method from equity method to proportionate method | 32,731 | 16,345 |
| Reclassification of fitout costs of dealer-owned stations network | 13,055 | 7,415 |
| Derecognition of perpetual usufruct of land as intangible assets | (9,840) | (4,892) |
| Adjusted depreciation presented in consolidated comparative data in accordance with IFRS | 1,321,387 | 667,445 |

A complete property, plant and equipment movements schedule with above adjustments is presented in the financial statements for the 1st half of 2005.
Based on an initial valuation report prepared by an independent expert, these condensed consolidated financial statements present adjusted property, plant and equipment in the reporting period and in comparative periods. Valuations covered 90 % of net property, plant and equipment under revaluation in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment".

### 3.2. Cash and cash equivalents

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Cash on hand and in bank | 907,374 | 676,738 | 807,948 |
| Other cash | 100,997 | 59,027 | 113,323 |
| Other monetary assets | 375,863 | 48 | 36 |
| **Total** | **1,384,234** | **735,813** | **921,307** |

As at 30 June 2005, 31 December 2004 and 30 June 2004 the Group total cash denominated in foreign currencies amounts to PLN 992,255 thousand, PLN 482,142 thousand and PLN 651,398 thousand respectively.
Taking into account cooperation of the Group companies mainly with well-established Polish and international banks, the risk related to depositing cash and cash equivalents is considerably limited.
In accordance with the Polish law, the Group companies registered in Poland manage the Company's Social Fund on behalf of their employees. The contributions paid to the Social Fund are deposited in separate bank accounts of the Group companies and cannot be used for operating activity. As at 30 June 2005, 31 December 2004, and 30 June 2004 cash relating to the Social Fund account amounted to PLN 20,025 thousand, PLN 28,979 thousand and PLN 35,105 thousand respectively. The receivables related to borrowings from the Social Fund drawn by employees as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 21,195 thousand, PLN 23,886 thousand and PLN 26,777 thousand respectively. Liabilities related to the Social Fund as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 47,464 thousand, PLN 35,245 thousand and PLN 45,195 thousand respectively and are included in deferred liabilities.
Apart from the above presented amounts related to the Social Fund, cash and cash equivalents for which availability is limited as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 89,442 thousand, PLN 247,263 thousand and PLN 85,241 thousand respectively.

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### 3.3. Impairment of assets

#### 3.3.1. Impairment of property, plant and equipment

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 216,870 | 98,273 |
| Additions during the period 1 April – 30 June | 163,462 | 137,685 |
| Disposals during the period 1 April – 30 June | (9,468) | (6,740) |
| Closing balance as at 30 June | 370,864 | 229,218 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 235,825 | 129,147 |
| Additions during the period 1 January – 30 June | 166,782 | 111,581 |
| Disposals during the period 1 January – 30 June | (31,743) | (11,509) |
| Balance as at 30 June | 370,864 | 229,218 |

#### 3.3.2. Impairment of construction in progress

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 42,712 | 40,747 |
| Additions during the period 1 April – 30 June | 3,695 | 23,045 |
| Disposals during the period 1 April – 30 June | (360) | (4) |
| Closing balance as at 30 June | 46,047 | 63,788 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 46,526 | 45,245 |
| Additions during the period 1 January – 30 June | 3,695 | 23,045 |
| Disposals during the period 1 January – 30 June | (4,174) | (4,502) |
| Closing balance as at 30 June | 46,047 | 63,788 |

#### 3.3.3. Impairment of intangible assets

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 8,034 | 201 |
| Additions during the period 1 April – 30 June | 555 | 93 |
| Disposals during the period 1 April – 30 June | (246) | - |
| Closing balance as at 30 June | 8,343 | 294 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 8,292 | 289 |
| Additions during the period 1 January – 30 June | 555 | 5 |
| Disposals during the period 1 January – 30 June | (504) | - |
| Closing balance as at 30 June | 8,343 | 294 |

#### 3.3.4. Impairment of long-term financial assets (shares)

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 78,404 | 71,174 |
| Additions during the period 1 April – 30 June | 6,778 | 5,714 |
| Disposals during the period 1 April – 30 June | (5,672) | (406) |
| Closing balance as at 30 June | 79,510 | 76,482 |

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| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 78,370 | 71,389 |
| Additions during the period 1 January – 30 June | 6,841 | 5,714 |
| Disposals during the period 1 January – 30 June | (5,701) | (621) |
| Closing balance as at 30 June | 79,510 | 76,482 |

### 3.3.5. Receivables allowances

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 475,078 | 312,313 |
| Additions during the period 1 April – 30 June | 275,443 | 22,115 |
| Disposals during the period 1 April – 30 June | (33,327) | (17,254) |
| Closing balance as at 30 June | 717,194 | 317,174 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 473,886 | 317,072 |
| Additions during the period 1 January – 30 June | 295,830 | 31,329 |
| Disposals during the period 1 January – 30 June | (52,522) | (31,227) |
| Closing balance as at 30 June | 717,194 | 317,174 |

### 3.3.6. Inventory allowances

In the 2nd quarter of 2005 the Group increased the inventory allowances by PLN 4,202 thousand, and cumulatively for the two quarters of 2005 by PLN 10,654 thousand. In the 2nd quarter of 2004 the Group increased the inventory allowances by PLN 5,088 thousand, and cumulatively in the two quarters of 2004 by PLN 7,359 thousand.

### 3.4. Provisions

### 3.4.1. Deferred tax liabilities

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 370,332 | 462,440 |
| Additions during the period 1 April – 30 June | 838,015 | 2,654 |
| Disposals during the period 1 April – 30 June | (121,331) | (39,921) |
| Closing balance as at 30 June | 1,087,016 | 425,173 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 378,248 | 464,439 |
| Additions during the period 1 January – 30 June | 869,982 | 55,659 |
| Disposals during the period 1 January – 30 June | (161,214) | (94,925) |
| Closing balance as at 30 June | 1,087,016 | 425,173 |

### 3.4.2. Jubilee and retirement provision

| Data for 2nd quarter | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 April | 197,924 | 160,512 |
| Additions during the period 1 April – 30 June | 16,121 | 24,786 |
| Disposals during the period 1 April – 30 June | (7,633) | (12,627) |
| Closing balance as at 30 June | 206,412 | 172,671 |

| Cumulative data for 2 quarters | 2005 | 2004 |
|---|---|---|
| Opening balance as at 1 January | 197,446 | 160,843 |
| Additions during the period 1 January – 30 June | 17,348 | 28,294 |
| Disposals during the period 1 January – 30 June | (8,382) | (16,466) |
| Closing balance as at 30 June | 206,412 | 172,671 |

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### 3.4.3. Other

| Data for 2nd quarter 2005 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.04.2005 | 493,457 | 70,000 | 89,805 | 80,525 | 733,787 |
| Increase during the period 1.04.2005 – 30.06.2005 | 61,497 | 54,187 | 376,210* | 82,411 | 574,305 |
| Decrease during the period 1.04.2005 – 30.06.2005 | (9,470) | - | (1,612) | (29,463) | (40,518) |
| Balance as at 30.06.2005 | 545,484 | 124,187 | 464,403 | 133,500 | 1,267,574 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

| Cumulative data for two quarters 2005 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2005 | 496,665 | 70,000 | 87,982 | 69,038 | 723,685 |
| Increase during the period 1.01.2005 – 30.06.2005 | 61,497 | 54,187 | 378,909* | 94,263 | 588,856 |
| Decrease during the period 1.01.2004 – 30.06.2005 | (12,678) | - | (2,488) | (29,801) | (44,967) |
| Balance as at 30.06.2005 | 545,484 | 124,187 | 464,403 | 133,500 | 1,267,574 |

* including the provision for possible negative outcome of contracts relating to sale of part of Unipetrol Group assets

| Data for 2nd quarter 2004 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.04.2004 | 410,915 | - | 21,659 | 41,121 | 473,695 |
| Increase during the period 1.04.2004 – 30.06.2004 | 36,560 | - | 32,507 | 7,246 | 76,313 |
| Decrease during the period 1.04.2004 – 30.06.2004 | (4,413) | - | - | (7,143) | (11,556) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

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| Cumulative data for two quarters 2004 | Land reclamation provision | Shield programmes provisions | Business risk provision | Other provisions | Total other provisions |
|---|---|---|---|---|---|
| Balance as at 1.01.2004 | 411,848 | - | 21,812 | 41,288 | 474,948 |
| Increase during the period 1.01.2004 – 30.06.2004 | 36,574 | - | 32,507 | 7,426 | 76,507 |
| Decrease during the period 1.01.2004 – 30.06.2004 | (5,360) | - | (153) | (7,490) | (13,003) |
| Balance as at 30.06.2004 | 443,062 | - | 54,166 | 41,224 | 538,452 |

### 3.5. Goodwill

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| ORLEN PetroTank Sp. z o.o. | 11,298 | 11,298 | 11,298 |
| Ship-Service S.A. | 6,645 | 6,645 | 6,645 |
| PetroProfit Sp. z o.o. | 1,175 | 1,175 | 1,175 |
| Other | 1,383 | 1,383 | 1,015 |
| **Total** | **20,501** | **20,501** | **20,133** |

As at 1 January 2004 the excess of the fair value of identifiable assets, liabilities and contingent liabilities over the acquisition cost in comparative data was derecognised from liabilities simultaneously increasing the opening balance of the retained earnings in the amount of PLN 301,369 thousand.

### 3.6. Dividends

On 29 June 2005, the Company's General Shareholders' Meeting adopted a resolution to pay a dividend from the net profit of 2004 in the amount of PLN 911,020,299.91. The date of payment was defined in the following way:
- the first instalment of PLN 457,648,695.27, giving PLN 1.07 per share, was paid on 1 September 2005;
- the second instalment of PLN 453,371,604.64, giving PLN 1.06 per share, to be paid on 1 December 2005.

### 3.7. Loans and borrowings

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Bank loans | 4,283,637 | 2,300,971 | 2,529,479 |
| Other loans and borrowings | 18,802 | 24,164 | 30,212 |
| Debt securities | 476,473 | - | 74,742 |
| Total including: | 4,778,912 | 2,325,135 | 2,634,433 |
| Short-term | 1,515,463 | 241,599 | 665,282 |
| Long-term | 3,263,449 | 2,083,536 | 1,969,151 |

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The value of loans and borrowings drawn by the Group increased net by PLN 2,453,777 thousand for the 6 months ended 30 June 2005.
The change in indebtedness level results mainly from:

- drawing loans translated to PLN:
  103,044 thousand (including EUR 24,590 thousand) in Societe Generale Bank Consortium as the Leading entity
  169,081 thousand in Bank Pekao S.A.
  143,578 thousand (including CZK 750,000 thousand) in PKO BP S.A.
  17,587 thousand in BPH PBK S.A.
  149,768 thousand (including CZK 750,000 thousand) in BH w Warszawie S.A.
  7,555 thousand in BRE Bank S.A.
  3,019 thousand in Kredyt Bank
- loans drawn by the Unipetrol a.s. Group of PLN 1,534,081 thousand (CZK 11,405,808 thousand)
- issue of bonds of PLN 476,473 thousand
- PLN 72,401 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- repayment of loans translated to PLN:
  75,898 thousand (including USD 18,411 thousand) in ING Bank Śląski S.A.
  51,835 thousand in PKO BP S.A.
  36,716 thousand in BPH PBK S.A.
  17,064 thousand in BH SA.
  6,746 thousand in BNP PARIBAS POLSKA
  9,360 thousand resulting from foreign exchange differences at BOP
- repayment of loans in German entities:
  EUR 2,640 thousand.

### 3.8. Cost by kind

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Materials and energy | 7,796,586 | 4,527,822 | 5,562,217 | 2,967,171 |
| Cost of merchandise and materials sold | 5,105,129 | 2,907,608 | 4,911,240 | 2,651,662 |
| External services | 906,498 | 536,725 | 860,955 | 470,896 |
| Payroll, social security and other employee benefits | 546,178 | 288,680 | 560,753 | 300,519 |
| Depreciation* | 624,145 | 329,302 | 667,445 | 326,610 |
| Taxes and charges | 160,701 | 68,953 | 125,239 | 41,028 |
| Other | 711,881 | 607,012 | 435,126 | 366,223 |
| | 15,851,118 | 9,266,102 | 13,122,975 | 7,124,109 |
| Adjustments: | | | | |
| Change in inventory position and prepayments | (343,238) | 128,498 | (239,510) | (159,645) |
| Cost of products and services for own use | (70,364) | (50,338) | (31,151) | (9,018) |
| Operating expenses | 15,437,516 | 9,344,262 | 12,852,314 | 6,955,446 |

* The decrease of depreciation costs for the 6 months ended 30 June 2005 as compared to the same period of 2004 is attributable to the extension of depreciation periods of property, plant and equipment starting from 1 January 2005 as a result of a revision of the previously determined useful lives.

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### 3.9. Net financial revenues and expenses

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Interest paid | (68,017) | (44,849) | (61,240) | (28,805) |
| Negative foreign exchange | (139,861) | (104,393) | (19,074) | - |
| Interest received | 62,431 | 28,784 | 15,761 | 9,191 |
| Positive foreign exchange | 20,516 | 13,112 | 55,212 | 105,649 |
| Gains on trade in shares and other securities | 3,071 | 2,805 | 3,916 | 2,881 |
| Dividends received | 90,872 | 86,379 | 68,216 | - |
| Unrealized premium of the acquired receivables of the Unipetrol Group | 204,532 | 204,532 | - | - |
| Other | 33,637 | 42,055 | (3,949) | 11,434 |
| **Total** | **207,181** | **228,425** | **58,842** | **100,350** |

### 3.10. Corporate income tax

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Current tax | (384,076) | (243,136) | (261,556) | (165,414) |
| Deferred tax | 10,122 | (9,403) | 23,360 | 29,338 |
| **Total** | **(394,198)** | **(252,539)** | **(238,196)** | **(136,076)** |

The PKN ORLEN Group does not form a tax group under Polish regulations. Therefore, each Group company is a separate taxpayer.

### 3.11. Basic and diluted earnings per share

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Weighted average number of issued ordinary shares | 427,709,061 | 427,709,061 | 427,709,061 | 427,709,061 |
| Net earnings per share (in PLN) for the period | 7.8 | 1.44 | 2.06 | 1.29 |

There is no difference between the basic earnings per share and the diluted earnings per share.

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## IV. GROUP ACHIEVEMENTS IN THE 2ND QUARTER OF 2005 TOGETHER WITH CIRCUMSTANCES AND EVENTS WHICH HAVE SIGNIFICANT IMPACT ON FINANCIAL RESULTS

As at the end of 2nd quarter of 2005 PKN ORLEN S.A. had direct or indirect shares in following entities, over which it executes control, joint control or exercises significant influence:

- 130 subsidiaries,
- 4 jointly controlled companies,
- 22 associate companies.

As compared to the end of 2nd quarter 2004 the number of subsidiaries, jointly controlled companies and associates increased from 111 to 156. 125 companies were consolidated as compared to 75 in the 2nd quarter of 2004. The increase of total number of related companies and consolidated companies results from acquisition of Unipetrol a.s. holding and including financial results of Czech companies in the consolidated financial statements of PKN ORLEN S.A. Group.

The most significant factors influencing Group's operating results for 2nd quarter 2005, as compared to results for 2nd quarter of 2004 consist of the following (change: 2nd quarter of 2005 versus 2nd quarter of 2004, if not otherwise stated):

- the increase of margins (crack) for diesel fuel from 77.00 to 141.43 USD/t (by 83.7%) and Ekoterm form 51.60 to 98.84 USD/t (by 91.6%) and Jet A1 aviation fuel from 99.33 to 165.85 USD/t (by 67.0%).
- the increase in average commodity price for Brent from 35.35 to 51.66 USD/bbl (by 46.1%),
- the increase for Ural/Brent differencial from /-3.10/ to /-3.60/ USD/bbl (by 16.1%),
- the increase of margins (crack) for ethylene from 464.03 to 542.36 USD/t (by 16.9%) and propylene from 365.24 to 491.11 USD/t (by 34.5%)
- the increase in the volume of gasoline and diesel fuel sold by 11.8% and 19.3%, respectively,
- the increase in the volume of LPG sold by 15.4%,
- the increase in the crude oil throughput by 11.5%,
- purchase of Unipetrol a.s.
- the decrease of commodity margins (crack) for gasoline from 144.57 to 125.56 USD/t (by 13.1%)
- U.S dollar weakened against the Polish currency falling from PLN 3.89/USD to PLN 3.28/USD (by 15.7%),
- euro weakened against the Polish currency falling from PLN 4.69/EUR to PLN 4.13/EUR (by 12.0%).

In 2nd 2005, the volume of wholesale and retail sale of engine fuel (gasoline, diesel fuel, LPG, Jet A1) and light fuel oil (Ekoterm) in the Group amounted to 2,906,429 tonnes and was higher from sales in 2nd 2004 by 402,223 tonnes (by 16.1%). In two quarters of 2005 sales of those products amounted to 5,287,507 tonnes and increased by 475,673 tonnes (by 9.9%) as compared to prior year. During second quarter of 2005 total sales of finished goods (refining, chemicals and others) amounted to 4,285,139 tonnes and was higher than in second quarter of prior year by 732,519 tonnes (by 20.6%), total above sales for two quarters of 2005 amounted 7,593,092 tonnes and was higher compared to prior year by 742,646 tonnes (by 10.8%). During second quarter of 2005, retail sales of engine fuel (gasoline, diesel fuel, LPG) amounted to 872,975 tonnes and was higher that sales in comparable period of prior year by 26,100 tonnes (by 3.1%), total retail sales for two quarters of 2005 increased by 1.3% to 1,618,493 tonnes.

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Sales tendencies in main products are presented in the below table:

| Sales of Ligot pproducts in the PKN ORLEN S.A. Gropu (by volume) | 2nd quarter 2004 | | 2nd quarter 2005 | | Change (%) 2nd quarter 2005/ 2nd quarter 2004 |
|---|---|---|---|---|---|
| Wholesale of key Ligot products, including: | | 1 611 595 | | 1 980 481 | 122.9 |
| - gasoline (tonnes) | | 482 941 | | 598 345 | 123.9 |
| - diesel fuel (tonnes) | | 699 126 | | 874 269 | 125.1 |
| - Ekoterm (tonnes) | | 338 230 | | 379 012 | 112.1 |
| Retail sales of engine fuels, including: | 1 090 959 | 846 875 | 1 124 610 | 872 975 | 103,1 |
| - gasoline (th.of litres) / (tonnes) | 653 728 | 493 565 | 653 041 | 493 046 | 99,9 |
| - diesel fues (th. of litres) / (tonnes) | 380 163 | 321 238 | 406 033 | 343 098 | 106,8 |
| - LPG (th. of litres) / (tones) | 57 068 | 32 072 | 65 536 | 36 831 | 114,8 |
| Total sales of fuels (tonnes) | | 2 504 206 | | 2 906 429 | 116.1 |
| - including engine fuels (tonnes) | | 2 165 922 | | 2 527 367 | 116.7 |

*) sales of fuels including merchandise (gasoline, diesel oil, LPG, Jet A-1) realized by Unipetrol a.s. in June 2005 amounted 236,915 tonnes

| Sales of Ligot pproducts in the PKN ORLEN S.A. Gropu (by volume) | 2 quarters of 2004 | | 2 quarters of 2005 | | Change (%) 2 quarters 2005/ 2 quarters 2004 |
|---|---|---|---|---|---|
| Wholesale of key Ligot products, including: | | 3 123 091 | | 3 577 973 | 114.6 |
| - gasoline (tonnes) | | 876 555 | | 1 041 612 | 118.8 |
| - diesel fuel (tonnes) | | 1 279 330 | | 1 458 812 | 114.0 |
| - Ekoterm (tonnes) | | 822 412 | | 863 898 | 105.0 |
| Retail sales of engine fuels, including: | 2 057 213 | 1 598 454 | 2 048 086 | 1 618 493 | 101,3 |
| - gasoline (th.of litres) / (tonnes) | 1 233 338 | 931 170 | 1 200 592 | 922 390 | 99,1 |
| - diesel fues (th. of litres) / (tonnes) | 721 791 | 609 913 | 724 982 | 627 222 | 102,8 |
| - LPG (th. of litres) / (tones) | 102 084 | 57 371 | 122 512 | 68 881 | 120,1 |
| Total sales of fuels (tonnes) | | 4 811 834 | | 5 287 507 | 109.9 |
| - including engine fuels (tonnes) | | 3 989 186 | | 4 423 483 | 110.9 |

Significant increase in operating results of Parent Company and the Group as compared to parallel period in prior year was determined by a number of factors, including:

- high commodity margins for key refinery and petrochemical products maintained in second quarter of 2004,
- high Brent/Ural differencial,
- measurable outcomes of restructuring and operating cost reduction programms (PLN 210 million in 2nd Quarter compared with PLN 163 million in 2nd quarter in prior year, computed to basis defined as 2002 costs),
- including the financial results of Czech Unipetrol a.s. in consolidated financial statements of the Group (since June 2005).

The results of Parent Company in comparison to the Group were as follows:

in thousands PLN

| Item | 2nd quarter 2004 | | Share of PKN in Group | 2nd quarter 2005 | | Share of PKN in Group |
|---|---|---|---|---|---|---|
| | Group | PKN | (%) | Group | PKN | (%) |
| Crude oil throughput ('000 tonnes) | 3 036 | 2 902 | 95.6 | 3 385 | 2 953 | 87.2 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| Net revenues from sales | 7 472 937 | 4 392 695 | 58.8 | 9 955 048 | 5 326 203 | 53.5 |
| Gross profit on sales | 1 532 980 | 1 165 570 | 76.0 | 1 884 463 | 1 476 519 | 78.4 |
| Profit from operations | 586 721 | 578 091 | 98.5 | 2 708 654 | 615 559 | 22.7 |
| Profit before tax | 693 085 | 705 431 | 101.8 | 2 974 398 | 945 621 | 31.8 |
| Profit after tax | 550 551 | 576 942 | 104.8 | 2 718 065 | 736 068 | 27.1 |

in thousands PLN

| Item | 2 quarters of 2004 | | Share of PKN in Group | 2 quarters of 2005 | | Share of PKN in Group |
|---|---|---|---|---|---|---|
| | Group | PKN | (%) | Group | PKN | (%) |
| Crude oil throughput ('000 tonnes) | 5 956 | 5 698 | 95.7 | 6 548 | 6 048 | 92.4 |
| Net revenues from sales | 13 813 152 | 8 108 485 | 58.7 | 16 760 956 | 9 748 797 | 58.2 |
| Gross profit on sales | 2 739 296 | 2 064 130 | 75.4 | 3 349 448 | 2 677 991 | 80.0 |
| Profit from operations | 1 070 470 | 1 006 530 | 94.0 | 3 499 979 | 1 344 876 | 38.4 |
| Profit before tax | 1 142 012 | 1 106 565 | 96.9 | 3 744 262 | 1 661 470 | 44.4 |
| Profit after tax | 880 240 | 891 857 | 101.3 | 3 336 098 | 1 317 902 | 39.5 |

In the second quarter of 2005 PKN ORLEN S.A. Group's refinery throughput amounted to 3,385 thousand tonnes of crude oil and in two quarters – 6,548 thousand tonnes. Achieved level of throughput in second quarter of 2005 is by 11.5% higher than in analogous period in prior year, for 2 quarters of 2005 – by 9.9%. Crude oil throughput in Unipetrol a.s. in June 2005 amounted to 366 thousand tonnes compared to 283 thousand tonnes in June 2004.

In second quarter 2005 Group's profit from operations amounted PLN 2,709 million, compared to PLN 587 million in comparative period in 2004. Profit from operations for 2 quarters of 2005 amounted to PLN 3,500 million and was by 227.0% higher that in comparative period in 2004. Considerably high profit is a result of purchase of Unipetrol a.s. and including the difference between net value of consolidated assets and purchase price. The amount resulting from the transaction (PLN 2.005 million) increased other operating income.

In second quarter of 2005 Group's net profit amounted PLN 2,718 million and was five times higher as net profit earned in second quarter of prior year. For two quarters of 2005 net profit amounted PLN 3,336 million and was by 279.0% higher than profit in comparative period of prior year.

Consolidated financial data by business segment are as follows:

in thousand PLN

| Item | 2nd quarter 2004 | | | | | 2nd quarter 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Refining Segment | Chemical Segment | Other operations | Adj | Total | Refining Segment | Chemical Segment | Other operations | Adj. | Total |
| Segment result | 551 498 | 142 709 | 8 466 | 140 | 702 813 | 1 714 971 | 1 296 322 | 279 193 | -263 256 | 3 027 231 |
| Unallocated revenues of the Group | | | | | 1 212 | | | | | 96 131 |
| Unallocated costs of the Group | | | | | -117 304 | | | | | -414 708 |
| Profit from operations | | | | | 586 721 | | | | | 2 708 654 |

| Item | two quarters 2004 | | | | | two quarters 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Refining Segment | Chemical Segment | Other operations | Adj | Total | Refining Segment | Chemical Segment | Other operations | Adj | Total |
| Segment result | 954 351 | 342 143 | 29 749 | -54 | 1 326 189 | 2 296 076 | 1 614 086 | 308 512 | -263 581 | 3 955 094 |
| Unallocated revenues of the Group | | | | | 2 057 | | | | | 97 947 |
| Unallocated costs of the Group | | | | | -257 776 | | | | | -553 062 |
| Profit from opeartions | | | | | 1 070 470 | | | | | 3 499 979 |

In second quarter of 2005, as compared to analogous period of prior year, total profit from business segments operations increased by 361.7%. Growth of refinery segment (by 211.0%), connected with maintaining very high commodity margins on refinery products, the effect of the estimated excess of the fair value of acquired net assets over the acquisition price (PLN 823,920 thousand) and including results of Unipetrol a.s. (PLN 51,428 thousand) in this segment, considerably contributed to the increase. Chemical segment increased by 808.4% as compared to second quarter of 2004, as a result of very good prosperity for petrochemical products, in particular for polyethylene and polypropylene and the excess of the fair value of acquired net assets over the acquisition price (PLN 1,076,642 thousand) and results of Czech holding in chemical segment (PLN 14,349 thousand). In second quarter of 2005, as compared to analogous period in prior year, a decrease of share in total result of refinery segment was noted. At the same time the share of chemical segment in total result increased.

During 2 quarters of 2005, compared to analogous period of prior year, total profit on operating segment activities increased by 227.0%. It is a result of the increase of refinery segment by 140.6% (high crack margins in 2005) and the increase of chemical segment by 371.8%.

In second quarter of 2005 Parent Company did not issue any securities in connection with Bond Issuance Programme.

## V. CIRCUMSTANCES AND EVENTS, IN PARTICULAR OF A NON-STANDARD NATURE, WHICH HAVE SIGNIFICANT IMPACT ON FINANCIAL RESULTS

During the six-month period ended 30 June 2005 the following significant events influencing the information presented in these condensed consolidated financial statements occurred.

### 1. Purchase of Unipetrol shares

On 24 May 2005, the Company acquired 114,224,038 bearer shares in UNIPETROL a.s., which is approximately 62.99% of all issued Unipetrol a.s shares. The acquisition was made under the agreement concluded by PKN ORLEN on 4 June 2004 with the National Property Fund of the Czech Republic.
Unipetrol is a group of companies operating in the chemical sector in the Czech Republic, mainly in activities related to processing of crude oil, fuel distribution, production of fertilizers and petrochemicals. In all those activities Unipetrol is a main representative of the industry sector in the Czech Republic and Central Europe. The Unipetrol Group consists mainly of the following companies:

- Česka Rafinerska (a joint venture, combined with: AgipPetroli, Conoco and Shell) and Paramo – the largest manufacturer of fuels, bitumin and other products related to refining of the crude oil;
- Chemopetrol, Kaučuk and Spolana – manufacturers of mainly petrochemical products and plastics;
- Benzina – the largest network of petrol stations in the Czech Republic.

The Unipetrol Group has the following associates: Lovochemie – an important manufacturer of industrial fertilizers and other non-organic chemical products, Aliachem – a group of enterprises engaged in organic and non-organic chemical products, plastics production, and a few entities operating in the area of distribution, research and services.

As a result of the transaction of the purchase of Unipetrol the Company acquired the following categories of assets, liabilities and contingent liabilities of the acquired company and settled the transaction as follows using the purchase method:

| Initial fair value of assets and liabilities by main categories: | |
|---|---|
| Cash and cash equivalents | 220,107 |
| Property, plant and equipment* | 7,008,720 |
| Inventories | 1,138,412 |
| Receivables | 1,912,516 |
| Other assets | 1,096,804 |
| Provisions | (143,558) |
| Long-term liabilities | (1,266,024) |
| Short-term liabilities | (3,006,451) |
| Contingent liabilities | (63,927) |

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| | |
|---|---|
| Other liabilities** | (845,436) |
| Net assets of Unipetrol at fair value | 6,051,163 |
| Share of PKN ORLEN in the net assets of Unipetrol | 3,811,628 |
| Purchase price | 1,562,197 |
| Adjustment of purchase price according to the price formula included in the agreement | 221,295 |
| Acquisition costs*** | 23,108 |
| The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income | 2,005,028 |

| | |
|---|---|
| Share of PKN ORLEN in the net assets of Unipetrol | 3,811,628 |
| The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income | (2,005,028) |
| Total outflow of cash | 1,806,600 |
| Adjustment of purchase price, unpaid as at the balance sheet date | (221,295) |
| Acquisition costs | (23,108) |
| Cash outflow relating to purchase of Unipetrol Group until 30 June 2005 | 1,562,197 |

* Including initial fair value valuation in the amount of PLN 1,358,615 thousand.
** Including deferred tax on initial fair value valuation in the amount of PLN 353,240 thousand (calculated using the 26% tax rate, valid in the Czech Republic)
*** The acquisition costs comprise advisory services expenses, business travel etc.

PKN ORLEN intends to conduct the restructuring of the UNIPETROL Group.

Due to a large number of the acquired assets and liabilities PKN Orlen is currently engaged in the process of their valuation to fair value. The Group recognised a preliminary effect of the valuation of the acquired net property, plant and equipment except for the assets of Česka Rafinerska. The lack of Česka Rafinerska valuation resulted from the limitation of access to the relevant data since, according to the Česka Rafinerska's Company Act, financial data may only be made available to shareholders upon a resolution of General Shareholder's Meeting. PKN Orlen was granted with a limited access to the relevant data which disabled conducting of valuation process according to the schedule set afore.
Simultaneously, the process of defining the final acquisition price is at the final stage. The Management Board of PKN ORLEN and the National Property Fund of the Czech Republic are obliged either to approve the newly established price or announce any reservations to the pricing. Consequently, the initial value of the acquired assets and liabilities, the purchase price and the excess of the share in consolidated net assets over the acquisition cost may diverge from the final valuation. The final settlement of the transaction may also be influenced by the increase in acquisition costs relating to the pending valuation processes aimed at final settlement of the transaction and restructuring of the acquired assets. Upon completion of all the relevant processes, the calculation of the excess of the share in net consolidated assets over the acquisition cost may differ significantly from the one presented above.

According to the Management Board, the final settlement of the transaction should be performed by the end of 2005.

PKN ORLEN has been consolidating the Unipetrol Group using the full method since the acquisition date.

In accordance with IFRS 3 'Business Combinations', the below table presents the consolidated revenues and financial result of the PKN ORLEN Group (including consolidated financial data of Unipetrol for the period from 1 January 2005 to 30 June 2005, as if the acquisition date coincided with the beginning of the period.

| | For the first half of 2005 |
|---|---|
| Revenues from sale | 22 030 438 |
| Operating revenues | 2 257 684 |
| Financial revenues | 500 554 |
| Financial result | 3 561 787 |

## 2. Agreements for disposal of a portion of assets and liabilities related to purchase of Unipertol shares

In 2003-2004, the former Management Board of PKN Orlen concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of Unipetrol Group companies. The present Management Board of the Company, having analysed the consequences resulting from the above agreements and having consulted with recognised independent experts, adopted and presented to the Supervisory Board a proceeding strategy, taking into account the best interest of the Company and its shareholders related to execution of the agreements. As a consequence the Management Board is proceeding with formal correspondence with Agrofert Holding a.s., and ConocoPhillips and Unipetrol in respect of the signed agreements. Therefore the Management Board of PKN Orlen cannot disclose detailed information concerning the conducted negotiations.

As a consequence of the above mentioned agreements, PKN ORLEN created provisions to cover the potential negative financial effects related to execution of the agreements.

PKN ORLEN addressed Agrofert Holding with a suggestion of disclosing particulars of the agreements a number of times, yet as at the date of publication of these statements it did not obtain a consent for disclosing their full content. Agrofert agreed to disclose only portions of the agreements which it also presented at the press conference on 13 September 2005. PKN ORLEN SA still highlights its readiness to publish the agreements in their full wording yet after it obtains the relevant consent from Agrofert.

## 3. Agreement with DEZA a.s.

The Management Board of Unipetrol a.s. informed on 2 September 2005, that on 22 August 2005, it received letters from DEZA a.s. (one of Agrobohemie a.s. shareholders) requesting to enable execution of call option for 50% of shares in Agrobohemie a.s., accordingly to the agreements signed between Unipetrol and DEZA on 12 October 2000. Having analysed available documents and received letters, the Management Board concluded, that the agreements contain vital legal faults (and additionally are not compliant with best market practice). Enumerated factors did not allow the Management Board of UNIPETROL a.s. to accept the request of DEZA a.s. As a consequence on 1 September 2005 the Management Board of Unipertol offered DEZA a.s. to modify those documents in order to ensure complance with the binding Czech law, accepted standards and best market practice.

## VI. SEGMENT DATA

| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Adjustments | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | for the period | | | | for the period | | | | for the period | | | | for the period | | | | for the period | | | |
| | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | |
| **Revenues** | | | | | | | | | | | | | | | | | | | | |
| Sales to external customers | 13 834 418 | 8 265 616 | 11 588 786 | 6 391 732 | 2 569 516 | 1 538 221 | 1 882 567 | 914 655 | 307 692 | 144 280 | 320 558 | 145 309 | | | | | 16 711 626 | 9 948 117 | 13 791 911 | 7 451 696 |
| Transactions with other segments | 2 342 322 | 1 193 215 | 1 911 235 | 1 211 094 | 832 692 | 411 446 | 667 441 | 350 764 | 410 041 | 201 376 | 397 389 | 175 166 | -3 585 055 | -1 806 037 | -2 976 065 | -1 737 024 | 0 | 0 | 0 | 0 |
| Settlement of hedging transactions | | | | | 49 330 | 6 931 | 21 241 | 21 241 | | | | | | | | | 49 330 | 6 931 | 21 241 | 21 241 |
| **Total revenues** | 16 176 740 | 9 458 831 | 13 500 021 | 7 602 826 | 3 451 538 | 1 956 598 | 2 571 249 | 1 286 660 | 717 733 | 345 656 | 717 947 | 320 475 | -3 585 055 | -1 806 037 | -2 976 065 | -1 737 024 | 16 760 956 | 9 955 048 | 13 813 152 | 7 472 937 |
| **Total operating cost** | -14 642 038 | -8 488 444 | -12 381 069 | -6 874 000 | -2 902 386 | -1 725 011 | -2 229 441 | -1 143 476 | -691 793 | -349 590 | -670 644 | -295 763 | 3 584 966 | 1 806 273 | 2 976 011 | 1 737 164 | -14 651 251 | -8 756 772 | -12 305 143 | -6 576 075 |
| Other operating income | 120 372 | 55 464 | 85 509 | 57 533 | 16 686 | 13 835 | 10 830 | 6 811 | 29 922 | 20 826 | 11 236 | 3 674 | | | | | 166 980 | 90 125 | 107 575 | 68 018 |
| Other operating expenses | -182 918 | -134 800 | -250 110 | -234 861 | -28 394 | -25 742 | -10 495 | -7 286 | -21 891 | -12 240 | -28 790 | -19 920 | | | | | -233 203 | -172 782 | -289 395 | -262 067 |
| The excess of the fair value of acquired net assets over the acquisition price | 823 920 | 823 920 | 0 | 0 | 1 076 642 | 1 076 642 | 0 | 0 | 274 541 | 274 541 | 0 | 0 | -263 492 | -263 492 | 0 | 0 | 1 911 612 | 1 911 612 | 0 | 0 |
| **Result** | | | | | | | | | | | | | | | | | | | | |
| Segment result | 2 296 076 | 1 714 971 | 954 351 | 551 498 | 1 614 086 | 1 296 322 | 342 143 | 142 709 | 308 512 | 279 193 | 29 749 | 8 466 | -263 581 | -263 256 | -54 | 140 | 3 955 094 | 3 027 231 | 1 326 189 | 702 813 |
| Unallocated revenues of the Group | | | | | | | | | | | | | | | | | 4 532 | 2 716 | 2 057 | 1 212 |
| Unallocated excess of the fair value of acquired net assets over the acquisition price | | | | | | | | | | | | | | | | | 93 415 | 93 415 | 0 | 0 |
| Unallocated costs of the Group | | | | | | | | | | | | | | | | | -553 062 | -414 708 | -257 776 | -117 304 |
| **Profit from operations** | | | | | | | | | | | | | | | | | 3 499 979 | 2 708 654 | 1 070 470 | 586 721 |
| Financial income | | | | | | | | | | | | | | | | | 452 050 | 405 871 | 157 101 | 140 625 |
| Financial expenses | | | | | | | | | | | | | | | | | -244 869 | -177 446 | -98 259 | -40 275 |
| Share in profit from investments accounted for under equity method | 7 629 | 7 758 | -64 | -128 | 78 | 166 | 887 | 846 | 0 | 0 | 8 082 | 1 501 | | | | | 7 707 | 7 924 | 8 905 | 2 219 |
| Profit on the sale of all or part of shares of related parties | | | | | | | | | | | | | | | | | 29 395 | 29 395 | 3 795 | 3 795 |
| **Gross profit** | | | | | | | | | | | | | | | | | 3 744 262 | 2 974 398 | 1 142 012 | 693 085 |
| Income tax expense | | | | | | | | | | | | | | | | | -394 198 | -252 539 | -238 196 | -136 076 |
| Minority interest | | | | | | | | | | | | | | | | | -13 966 | -3 794 | -23 576 | -6 458 |
| **Net profit** | | | | | | | | | | | | | | | | | 3 336 098 | 2 718 065 | 880 240 | 550 551 |



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| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Adjustments | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | for the period | | | | for the period | | | | for the period | | | | for the period | | | | for the period | | | |
| | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | |
| Cost incurred to acquire segment property, plant and equipment and intangible assets | 338 616 | 181 432 | 260 613 | 165 984 | 437 246 | 283 470 | 439 415 | 259 416 | 53 909 | 32 653 | 29 496 | 15 539 | | | | | 829 771 | 497 555 | 729 524 | 440 939 |
| Unallocated cost incurred to acquire property, plant and equipment and intangible assets | | | | | | | | | | | | | | | | | 24 638 | 22 380 | 15 616 | 11 845 |
| **Total cost incurred to acquire property, plant and equipment and intangible assets** | | | | | | | | | | | | | | | | | 854 409 | 519 935 | 745 140 | 452 784 |
| Segment depreciation | 350 066 | 180 080 | 414 234 | 201 742 | 151 448 | 87 595 | 127 397 | 62 752 | 106 853 | 55 738 | 105 221 | 55 420 | | | | | 608 367 | 323 413 | 646 852 | 319 914 |
| Depreciation of unallocated assets | | | | | | | | | | | | | | | | | 15 778 | 5 889 | 20 593 | 6 696 |
| **Total depreciation** | | | | | | | | | | | | | | | | | 624 145 | 329 302 | 667 445 | 326 610 |
| **Non-cash expenses other than depreciation** | 123 771 | 87 195 | 74 301 | 64 346 | 2 286 | 1 630 | 7 450 | 6 826 | 74 542 | 64 010 | 13 619 | 5 825 | | | | | 200 599 | 152 835 | 95 370 | 76 997 |



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## Geographical segments

The table presents consolidated sales of the Capital Group by geographical segments for the period of 6 and 3 months ended 30 June 2005 and 30 June 2004.

| | Revenues from sale by geographical area for the period | | | |
|---|---|---|---|---|
| | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | |
| Poland | 10 214 260 | 5 827 839 | 8 719 163 | 4 736 278 |
| Germany | 4 457 298 | 2 421 109 | 4 418 350 | 2 372 747 |
| Czech Republic | 1 152 155 | 1 078 010 | 288 504 | 245 319 |
| Other countries | 937 243 | 628 090 | 387 135 | 118 593 |
| **Total revenues from sale by geographical area** | **16 760 956** | **9 955 048** | **13 813 152** | **7 472 937** |

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## VII. CONTINGENT LIABILITIES

| Entity | Type of relation with the issuer | Name of entity (company) to which a guarantee / surety was granted | Subject of guarantee | Amount of guarantee/surety | Period for which the guarantee / surety was granted (expiration of the liability) |
|---|---|---|---|---|---|
| Anwil S.A. | other entities | Unb GmbH | guarantee connected with investment in chlorine production technology change | 37 552 | till 09.08.2006 |
| ORLEN PetroTank Sp z o.o. | | "LOCUM"company | 3 agreements on return tease guarantee (lease of compartments) (at the moment at notice stage) | 24 299 | till 26.06.2012 |
| ORLEN Oil Sp z o.o. | | Bank Handlowy w Warszawie S.A. | Guarantee for obligations of Clients connected with Paylink Cards Usage Agreement. This amount gives 7.5% of Programme Amount (agreement on financing trade liabilities for Paylink-connected with Regional Sales Center) | 2 655 | till 31.03.2007 |
| Zakład Budowy Aparatury S.A | | ALSTOM POWER | performance bond | 2 160 | till 15.07.2007 |
| Inowrocławskie Kopalnie Soli "SOLINO" Sp z o.o. | | Urząd Miasta w Inowrocławiu (Municipal Office of Inowrocław) | guarantee of loan for waste-water treatment plant for the town | 700 | till 20.12.2006 |
| Zakład Budowy Aparatury S.A | | LURGI BIPRONAFT | warranty | 333 | till 21.01.2006 |
| Zakład Budowy Aparatury S.A | | ALSTOM POWER | guarantee of proper defect removal | 78 | till 30.05.2007 |
| | | | | **67 777** | |
| Anwil S.A. | **unconsolidated subsidiaries** | Agro-Azoty II Sp z o.o.Włocławek | guarantee of overdraft and investment credit repayment | 83 | till 20.09.2005 |
| | | | | **83** | |
| PKN ORLEN S.A. | **consolidated subsidiaries** | ORLEN PetroTank Sp z o.o., Rafineria Jedlicze S.A., Orlen Transport Kędzierzyn-Koźle, Orlen Dautschland, Basell Orlen Polyolefins Sp z o.o. | | 1 295 923 | from 31.12.2005 till 31.12.2013 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of working capital credit | 13 500 | till 31.01.2009 |
| Rafineria Trzebinia S.A. | | NaftoWax Sp z o.o. | guarantee of overdraft repayment | 12 000 | till 31.03.2009 |
| Rafineria Trzebinia S.A. | | NaftoWax Sp z o.o. | guarantee of overdraft repayment | 12 000 | till 31.05.2008 |

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| | | | | | |
|---|---|---|---|---|---|
| Rafineria Trzebinia S.A. | | Orlen Asfalt Sp z o.o. | guarantee of overdraft repayment | 7 200 | till 09.07.2005 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of overdraft repayment | 5 250 | till 30.04.2009 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of overdraft repayment | 4 800 | till 31.07.2006 |
| Rafineria Trzebinia S.A | | Energomedia Sp z o.o. | guarantee of overdraft repayment | 1 100 | till 30.06.2006 |
| Ship-Service S.A. | | SHIP SERVICE AGRO Sp z o.o. | guarantee of credit | 1 000 | till 31.03.2007 |
| Ship-Service S.A. | | SHIP SERVICE AGRO Sp z o.o. | guarantee of credit | 800 | till 31.03.2006 |
| Rafineria Trzebinia S.A | | Energomedia Sp z o.o. | guarantee of trade liabilities | 500 | till the liabilities repayment date |
| Ship-Service S.A. | | BOR-FARM SP. Z O.O. | guarantee of credit | 100 | till 30.09.2005 |
| | | | | **1 354 173** | |
| Zakład Budowy Aparatury S.A | **parent company** | PKN ORLEN S.A. | performance bond (AROMAS) | 854 | do 25.11.2006 |
| Zakład Budowy Aparatury S.A | | PKN ORLEN S.A. | performance bond (PROPYLENE CISTERN) | 460 | do 20.12.2007 |
| Zakład Budowy Aparatury S.A | | PKN ORLEN S.A. | performance bond (KOLUMNA C 501) | 95 | do 01.03.2007 |
| | | | | **1 409** | |
| | | | | **1 423 442** | |

**Other contingent liabilities**

| | |
|---|---|
| 232 045 | excise tax guarantees |
| 819 459 | Including collateral submitted on behalf of other parties in respect of movement of harmonised excise goods in the excise tax suspension procedure and excise tax liability on goods kept at warehouses in the excise tax suspension procedure |
| 26 040 | statement of voluntary submission for execution for Bank Handlowy w Warszawie S.A. |
| 9 200 | ORLEN Oil Sp. z o.o. for Bank Handlowo-Przemysłowy PBK S.A.- recourse factoring - bill of exchange together with bill of exchange statement, which are guarantee of recourse factoring credit line on the basis of factoring services agreement (Faktoring Services Agreement, connected with Regional Sales Centres) |
| 4 000 | connected with not proper realization of trade agreements (Anwil has been sued by Tras Tychy S.A.) |
| 2 000 | Anwil S.A.- limit given by Insurance Company , to which Remwil can obtain coverage in issued insurance policies for particular contracts |
| 2 302 | connected with possible land reclamation (ORLEN PetroTank Sp z o.o.) |
| 2 146 | connected with tax liabilities (Ship-Service S.A.) |
| 847 | blank bills issued by ORLEN PetroCentrum Sp. z o.o. for the benefits of PKN ORLEN, which are guarantee of agreements with petrol stations owners |
| 189 | ORLEN Oil Sp z o.o. performance bond |
| **866 183** | |

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| | 30 June 2005 |
|---|---|
| Guarantees and sureties, granted to: | 69,269 |
| - unconsolidated related parties | 1,492 |
| - other entities | 67,777 |
| Other contingent liabilities: | 866,183 |
| - liabilities in respect of excise tax liabilities | 819,459 |
| - other | 46,724 |
| - Total contingent liabilities of PKN Orlen Group | 935,452 |

Additional information concerning significant court proceedings, body appropriate for arbitration proceedings or in front of public administration bodies and on other risks of the Company and its related parties are presented in Note XI.

## VIII. SIGNIFICANT EVENTS DURING THE PERIOD FROM 1 APRIL 2005 TO THE DATE OF THIS REPORT, PRESENTED IN THE CURRENT REPORTS

1. On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "Przyjaźń" S.A. ("PERN"), the buyer, for the sale of 24 shares with a nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which, as at the agreement date accounted for 30.77% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych "Naftoport" Sp. z o.o. ("Naftoport").

After the sale of the shares PKN ORLEN holds 17.95% in the Naftoport share capital. Other shares are held by:

a. PERN "Przyjaźń" S.A. 67.95%
b. Grupa LOTOS S.A. 8.97%
c. Port Północny 3.85%
d. J & S Services Ltd. 1.28%

2. PKN ORLEN announced that on 24 May 2005 it acquired:

1) 114,224,038 bearer shares of Unipetrol a.s., with a nominal value of CZK 100 each ("Unipetrol Shares"), which is approximately 62.99% of all issued and existing Unipetrol a.s ("Unipetrol") shares. The total acquisition cost of Unipetrol Shares amounted to CZK 11,303,886,660 (about PLN 1,562,197,136 as at 23 May 2005);

2) 745,000 bearer shares of Spolana a.s. with a nominal value of CZK 655 each ("Spolana Shares"), which is 9.76% of the share capital of Spolana a.s. The total acquisition cost of Spolana Shares amounted to CZK 1.0 million (about PLN 138,200 as at 23 May 2005);

3) receivables from some of the Unipetrol Group entities ("Receivables"), with a nominal value as at 1 April 2004 of approximately CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of Receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).

The acquisition of Unipetrol Shares and the Spolana Shares and Receivables are financed 90% by PKN ORLEN 's own financial resources and 10% from available credit limits.

Acquisition of Unipetrol and Spolana Shares has PKN ORLEN a character of a long-term investment.

The transaction will strengthen the PKN ORLEN market position as one of the largest companies in the oil and petrochemical sector in Central and Eastern Europe. Moreover, it places PKN ORLEN as one of the consolidation leaders in the region.

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After acquisition of Unipetrol Shares, under the law of the Czech Republic, PKN ORLEN shall make a mandatory public call for minority shareholders of Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.).

PKN ORLEN intends to restructure the Unipetrol Group. The general assumptions underlying the projected restructuring were announced in the current report no. 41/2004 of 4 June 2004.

3. On 24 May 2005 PKN ORLEN was informed that FMR Corp. in conjunction with its direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited, in conjunction with its direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, representing 5.01% of the share capital, and entitling them to 21,436,944 votes at the general meeting and 5.01% of the total votes at the PKN ORLEN General Meeting.

4. On 1 June 2005 the District Court in Warsaw, XV Commercial Department dismissed the legal case of Bengodi Finance Spółka Akcyjna against PKN ORLEN, due to that fact that resolution no. 14 of 5 August 2004 adopted by the Extraordinary General Meeting of PKN ORLEN was not valid. The resolution appointed Mr Jacek Bartkiewicz as President of PKN ORLEN Supervisory Board.

5. On 9 June 2005 the District Court in Warsaw, XV Commercial Department, acting in the case no. XV GC 378/04, admitted the suit of Bengodi Finance Spółka Akcyjna and other plaintiffs against PKN ORLEN S.A. on invalidity of the resolution no. 1 of the General Meeting of PKN ORLEN S.A. of 28 June 2004 which amended the provision in Article 7 section 11 of the Company's Articles of Association concerning limitation of some shareholders' voting rights. The Court ruled the resolution was invalid. The judgement of the first instance court is not binding.

6. On 14 June 2005 PKN ORLEN issued corporate guarantees to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH in the total amount of EUR 64 million and a letter of collateral to Bayerische-Hypo und Vereinsbank AG for EUR 25 million in order to secure liabilities of its German subsidiary ORLEN Deutschland A.G. resulting from trade in fuel (total about PLN 359 million). The guarantees provided to Holborn European Marketing Company Ltd. and Shell Deutschland Oil GmbH replaced the existing security granted by the Issuer on 4 January 2005 (*cf. Current report of 5 January 2005).* The guarantees and security are valid till 31 January 2006.

7. The Ordinary General Meeting of Polski Koncern Naftowy ORLEN Spółka Akcyjna, held on 29 June 2005 appointed to the Supervisory Board:

1. Mr. Adam Sęk
2. Mr .Andrzej Olechowski.

8. PKN ORLEN Supervisory Board on 19 July 2005, acting upon a motion from the Minister of Treasury, in accordance with § 9 section 1 para. 3 of the Company's Articles of Association, as from 1 August 2005 appointed Mr Dariusz Witkowski as PKN ORLEN Board Member.

9. On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

Due to the acquisition on 24 May 2005 of shares entitling PKN ORLEN to 62.99% of of the votes of UNIPETROL, a.s. and 9.76% of the votes of SPOLANA, a.s., PKN ORLEN is required to make mandatory public calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. ("Mandatory Calls").

PKN ORLEN authorised Patria Finance, a.s. to make the Mandatory Calls.
In accordance with the Czech regulations, conditions for Mandatory Calls are subject to approval from the CSEC, the respective application was filed at the CSEC within the required period on 30 June 2005.

The prices offered by PKN ORLEN were: CZK 103 for one share of UNIPETROL, a.s., CZK 701 for one share of PARAMO, a.s. and CZK 100 for one share of SPOLANA, a.s.; the pricing was based on the discounted cash flow method performed by an independent Czech expert, NS Group.
The CSEC justified its decision claiming that the application was rejected mainly due to incorrect share pricing of the Czech expert selected in September last year by PKN ORLEN in accordance with the Czech law.

Under the Czech law, PKN ORLEN should make calls for shares of UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. within the period ending 25 July 2005.

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The Company will face the following consequences if the calls are not made within the above period:

1. Within 6 months from 25 July 2005 the minority shareholders may present PKN ORLEN with a bid for their shares at the price defined by the respective regulations.
2. After 25 July 2005 to the date of the Mandatory Calls, PKN ORLEN and those authorised by PKN ORLEN may not execute their title to vote resulting from their shares in UNIPETROL, a.s. and SPOLANA, a.s. Moreover, during this period the CSEC may issue a ban against PKN ORLEN preventing it to benefit from any other rights to which it would be entitled as a result of the shares held.
3. If the CSEC regards it necessary for protection of other shareholders, lenders or employees, it may decide to prohibit PKN ORLEN to execute its right to vote for one year.
4. The CESC may impose a fine on PKN ORLEN.

PKN ORLEN does not intend to appeal against the decision, yet to prepare a new application acknowledging recommendations contained in the CSEC decision. PKN ORLEN is also going to refer to the CSEC to withhold the ban on title to vote resulting from ownership of UNIPETROL and SPOLANA shares.

10. The PKN ORLEN Board announced that on 12 August 2005 the Company reapplied to the Czech Securities and Exchange Commission for a permit to make Mandatory Calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s.

The prices offered by PKN ORLEN are: CZK 135 for 1 UNIPETROL share, CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s.

The previously filed applications were rejected by the CSEC due to an improper pricing method adopted by the independent Czech expert, NS Group. PKN ORLEN, acting in accordance with the best transparency standards, did all its best to prepare the new applications with due care and diligence and hopes that the offered prices reflect the pricing methods required by the CSEC.

The CSEC issues its decisions within 8-13 working days form the application filing date.

11. PKN ORLEN Management Board informs that on 25 and 26 August 2005 it filed at the Czech Securities and Exchange Commission supplementary applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The applications contain all necessary additional information required by the CSEC.

All the CSEC queries delivered on 23 and 24 August 2005 were immediately referred to an independent expert responsible for the preparation of the pricing. As a result of the analysis of the CSEC recommendations and comments concerning pricing issues, the pricing report was supplemented with a new price offer for UNIPETROL shares.

The price offered by PKN ORLEN in the new application amounts to CZK 139 per 1 UNIPETROL share. The prices offered for Paramo and Spolana shares were not changed and amount to CZK 978 and CZK 155 respectively.

The new higher prices result from the CSEC comments on the pricing method used in the report.

On 24 August 2005 the CSEC determined the deadline for making the final decision in this respect for 31 August 2005.

12. PKN ORLEN Management Board informs that on 26 August 2005 it obtained a permit from the Czech Securities and Exchange Commission for mandatory calls for shares by minority shareholders of UNIPETROL a.s., SPOLANA a.s. and PARAMO a.s.

Finally, the applications were approved together with the pricing which amount to: for UNIPETROL a.s. CZK 139, for SPOLANA a.s. CZK 155, for PARAMO a.s. CZK 978.

The calls for shares will be valid at the date of publication in the formal public announcements defined in Unipetrol Statutes. The publication is sheduled for the end of the following week. As at the publication date, the voting rights in UNIPETROL a.s. and SPOLANA a.s. will be by legally restituted.

13. PKN ORLEN Management Board informs that on 6 September 2005 it was informed that Mr Piotr Osiecki resigned from the position of the member of the PKN ORLEN S.A. Supervisory Board as of the nearest General Shareholders' Meeting.

The reason for the resignation was appointment of Mr Piotr Osiecki as Vice-President of the Management Board of PZU Asset Management S.A.

Mr Piotr Osiecki was appointed to the Supervisory Board on 5 August 2004. He is a member of the Audit Committee and the Corporate Governance Committee of the Supervisory Board

14. PKN ORLEN Management Board has called the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A., which shall take place on 14 October 2005 in Płock.

## IX. SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY VIA RELATED PARTIES AT LEAST 5% OF THE TOTAL VOTES AT THE PARENT'S GENERAL MEETING AS AT THE DATE OF FILING THE REPORT

| Shareholder | % of votes at the GSM at the prior quarter report filing date * | Number of shares at the prior quarter report filing date * | Change of % in the period 15 April 2005 – 1 August 2005 | % of votes at GSM at the report filing date ** | Number of shares at the report filing date ** |
|---|---|---|---|---|---|
| Nafta Polska S.A. | 17.32% | 74,076,299 | - | 17.32% | 74,076,299 |
| State Treasury | 10.20% | 43,633,897 | - | 10.20% | 43,633,897 |
| The Bank of New York (holders of GDRs) | 12.28% | 52,516,140 | 0.12 | 12.29% | 53,034,562 |
| Other | 60.20% | 257,482,725 | (0.12) | 60.19% | 256,964,303 |
| Total | 100% | 427,709,061 | - | 100% | 427,709,061 |

* Data as at 15 April 2005
** Data as at 16 September 2005

In accordance with the current report no. 54/2003 filed on 4 July 2003, Commercial Union OFE BPH CU WBK as at 1 July 2003 held 21,533,539 shares of PKN ORLEN S.A., which is 5.035% (considering increase of PKN ORLEN S.A. share capital of 20 November 2003) of the total votes at the General Shareholders' Meeting of PKN ORLEN S.A.
In compliance with the current report no. 19/2005 filed on 7 March 2005, Commercial Union OFE BPH CU WBK held 21,040,915 shares of PKN ORLENS.A. on 2 March 2005, which is 4.92% of PKN ORLEN S.A. share capital.
In accordance with the current report no. 33/2005, filed on 25 May 2005, FMR Corp. with direct and indirect subsidiaries, seated in Boston, and Fidelity International Limited with direct and indirect subsidiaries, seated in Bermuda, as at 24 May 2005 held 21,436,944 PKN ORLEN shares, which is 5.01% of the share capital, and gives title to 21,436,944 votes at the general meeting and 5.01% of the total votes at PKN ORLEN General Meeting.
The percentage participation of the above shareholders in the Company's share capital is compatible with the percentage of votes at the General Shareholders' Meeting as at this report filing date.

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## X. CHANGES IN THE NUMBER OF THE COMPANY'S SHARES HELD BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD IN ACCORDANCE WITH THE COMPANY'S RECORDS

**The number of shares held by the Board of Directors and Supervisory Board in the second quarter 2005:**

| | Number of shares, options as of the date of the prior quarter report filing * | Acquisition | Disposal | Increase due to changes in composition | Decrease due to changes in composition | Number of shares as at the date of report filing ** |
|---|---|---|---|---|---|---|
| Management Board | - | - | - | - | - | - |
| Supervisory Board | 2,950 | - | - | - | | 2,950 |

* Data as at 15 April 2005
** Data as at 16 September 2005

## XI. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF THE COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION BODIES AND ON OTHER RISKS OF THE COMPANY AND ITS RELATED PARTIES

1. On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all the necessary expert opinions confirming correctness of the applied classification of goods taxable with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter in the court of second instance.

On 5 May 2005, in reply to its motion, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.

On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005, against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.

On 28 July 2005, the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all the necessary opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.

On 9 August 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the above decisions and a motion to suspend execution of the decisions until the case is decided by the second instance authority.

On 11 August 2005, the Head of the Customs Office in Kraków, having examined the Company's appeal of 8 August 2005, suspended the decision in respect of setting the excise tax liability for the period May-August 2004 at about PLN 100 million. As at the date of preparation of these consolidated financial statements, the outcome of the above appeal was not known.

Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorisation from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as a potential impact of control extended to other periods were not yet known.

On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and correctness of tax

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settlements to be summarised in 'Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.' The 2000-2004 tax audit was completed and its results presented to the Supervisory Board.

On 22 April 2005, having received the first stage report on control procedures, the Supervisory Board of Rafineria Trzebinia ordered the second detailed stage of the 'Report on agreed upon procedures' which would involve an analysis of transactions in the selected areas of the company's activity. As at the date of preparation of these consolidated financial statements the outcome of the second stage control was not yet known.

2. In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ('Tankpol') transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ('Petrotank') in exchange for receivables due from Tankpol. On 30 October 2003, a suit was filed at court against PKN ORLEN for compensation of PLN 69,898 thousand or return of the transferred shares. On 26 January 2004 Tankpol modified its claim and demanded PLN 36,383 thousand or return the transferred shares. Tankpol supported the suit with a new valuation of Petrotank for PLN 232,147 thousand. As a result of the proceedings, on 22 March 2005 the Court dismissed Tankpol Sp. z o.o. suit. Tankpol appealed against the verdict. In the view of the Company's Management Board, based on an independent legal opinion, the final result of the dispute should not have a material impact on the presented financial results or settlements' balances..

3. On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ('NOM') shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ('PSE'). The 'put' price amounted to PLN 111.5 million and was calculated as a sum of nominal 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 Arbitration Court of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.

On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. The Company provided an allowance for receivable in the amount of PLN 111.5 million presented in the financial statements for the year 2004.

On 20 May 2005 the Company filed a complaint at the District Court in Warsaw for quash the above judgment of the arbitration court and applied for suspending the execution of the court sentence.

On 26 June 2005, the District Court rejected the application for suspending of execution of the arbitration court judgment.

On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111.5 million.

On 8 August 2005 PKN ORLEN received PSE letter where PSE stated it was not bound to settle the penalty.

On 5 August 2005 PKN ORLEN filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw a suit for adjudication of the contractual penalty of PLN 111.5 million.

On 15 September 2005 filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw an amended suit for adjudication of contractual penalty of PLN 33,453 thousand.

The District Court in Warsaw has not arrived at any judgement in respect of the complaint issued by PKN ORLEN until the date of preparation of these consolidated financial statements. After completion of the legal proceedings related to the sale of shares in NOM, the Company would perform appropriate adjustments to its financial statements, should it prove necessary.

4. 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 Laws No. 1

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dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree, a different method of power transfer fee settlement has been allowed. Following the decision of the Chairman of the Energy Regulatory Office the electricity sale agreement between Zakład Energetyczny Płock S.A. ('ZEP S.A.') and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zakład Energetyczny Plock S.A. called on PKN ORLEN S.A. to compromise agreement, as the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zakład Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.

As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zakład Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the business risk provision was increased by PLN 28,179 thousand to cover the whole claim.

The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN SA is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings.

5. As at the date of the report, the Company was a party in two anti-monopoly proceedings.
Upon to the decision of the Chairman of the Consumer and Competition Protection Office ('CCPO') from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of petrol Universal 95 through an unanimous decision to give up production and distribution of petrol Universal 95 and eliminating the competition on the domestic sale market of petrol Universal 95 as well as excluding the risk of the market take-over by the competition.

Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave replies to queries set by CCPO. Replies to the further queries made by CCPO were sent on 5 May 2005.

The proceedings to take evidence are pending. They are prolonged due to motions filed by PKN ORLEN in order to limit access rights to evidence and due to respective decisions which are to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court. As the proceedings are at their earliest stage, it is difficult to assess the risk that PKN ORLEN may be fined.

On 21 March 2005, the Company received a letter in which the Chairman of the CCPO requested information on monoethylene glycol and 'Petrygo' radiator liquid market in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators 'Petrygo' and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Monopoly Court against the negative decision of CCPO. On 13 August 2001 the Anti-Monopoly Court annulled fully the decision of CCPO, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the cash penalty. Consequently in 2001 due to this fact the provision was fully reversed. CCPO applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court from 13 August 2001.

The case was conducted again by District Court in Warsaw and Consumer and Competition Court (former Anti-Monopoly Court), which on the hearing on 21 July 2004 pronounced the judgment again revoking the complaint decision of CCPO.

Due to the received letter PKN ORLEN S.A. replied to queries of CCPO on 11 April 2005. Simultaneously CCPO approved prolongation of the period for responding to queries up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining adequate geographical markets of monoethylene glycol was sent to CCPO on 6 May 2005. Upon the CCPO's request, additional information was provided on 18 May 2005.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN SA and the petitioner in order to limit access rights to evidence and due to respective decisions that need to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court.

As the above proceedings are at their initial stage it is difficult to assess the risk of a fine which might again be imposed on PKN ORLEN. Due to elapse of time and considerable changes in the business environment where PKN ORLEN operates, the risk of a fine is insignificant.

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In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Board.

The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management Board, supported by an independent legal opinion, risk that the Company would be charged with a fine is limited.

6. On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review of control procedures at Orlen Oil Sp. z o.o.' As at the date of preparation of these consolidated financial statements, both the tax and forensic audits did not reveal any significant risks nor discrepancies.

7. On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review of control procedures at Rafineria Nafty Jedlicze S.A.' As at the date of preparation of these consolidated financial statements, the tax audit did not disclose risks which estimated value would have a significant

impact on the company's operations

8. In accordance with the Decree on Investment Expenditure and in line with article 18a of the Corporate Income Tax Act (in force till 31 December 1999) and article 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000), the taxpayer is entitled to deduct investment expenditures from the tax base in a given tax year and in the following tax year a half of the previously deducted amount, i.e. the so-called investment premium. In the years 1998-2003, the Group companies benefited from their entitlement to the following investment relieves and premiums (amounts deducted from income):

| PKN Group | Investment relief | Investment premium |
|---|---|---|
| 2001 | 98,927 | 43,750 |
| 2002 | 14,234 | 49,222 |
| 2003 | - | 6,923 |
| Total | 113,161 | 99,895 |

The tax relieves and premiums are conditional. The Corporate Income Tax regulations assumes loss of the entitlement to investment relieves if any of the following events occurs within three years from the end of the tax year when the relief has been exercised:

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

2) taxpayers transfer – in any form – ownership title to assets to which income deductions or tax exemptions relate; this does not refer to transfer of ownership resulting from a change in the legal personality, business combinations or separation of business entities carried out in compliance with the Commercial Code's regulations;

3) there are no longer grounds for recognition as the taxpayer's assets those fixed assets which have been adopted for chargeable use under tenancy, lease or similar agreements;

4) the taxpayer is subject to liquidation proceedings or its bankruptcy has been declared;

5) the taxpayer receives any form of reimbursement of investment expenditure;

Tax authorities may also deny a claim to tax allowances if the tax payer has been charged with outstanding tax liabilities at the moment in which the tax incentives deduction were recognized.

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In accordance with the Amendment of 20 November 1998 to the Corporate Income Tax Act (Journal of Laws No. 144, item 931) when the title to deductions made under Art.18a of the Corporate Income Tax Act (in force to 31 December 1999) and Art. 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000) no longer exists due to circumstances mentioned under paragraph 1) above, it is assumed that the title is not lost if the taxpayer makes adjustments to its tax return and settles the tax arrears with accrued interest or settles the arrears with interest within 14 days from the decision of the first instance authority defining the tax liability.

Regarding purchase of assets in the Czech Republic, PKN Orlen Group is subject to the regulations of Tax Investment Relieves Act and Corporate Income Tax Act binding in the Czech Republic. According to these regulations tax investment relieves of companies belonging to Unipetrol Group are of conditional nature. Non compliance with specified conditions may result in a loss of tax investment relief and an obligation to return received relieves (i.e. the repayment of unpaid tax liability for all the years when tax investment relieves were granted) increased by the relevant penalties and fines.

Effective May 2000, non compliance with the regulations imposed by Corporate Income Tax Act and Tax Investment Relieves Act results in the following:

a) if the condition related to the maximum decrease of tax base is not met, an investing entity is obliged to submit additional tax return (on the basis of which additional tax liability will be imposed) for the period during which the condition was not met;

b) if general conditions are not met (except for the condition mentioned in point a), a taxpayer loses the right to tax investment relief and is obliged to submit additional tax returns for every period during which the tax investment relief was used. It indicates that in such a case the investing entity is obliged to return all of the granted tax investment relieves, to settle all tax liabilities from which it was released over the period of the relief, and the relevant penalties and charges.

Unipetrol Group companies were granted with tax investment relieves in the amount of PLN 282 million in the years 2000–2001; it is planned to utilise PLN 51 million out of that amount until 2007.

9. Poland has currently a number of regulations in force concerning value added tax, excise tax, corporate income tax and social security. The tax law is often amended, which results in lack of clarity and inconsistencies. The frequent discrepancies in tax law interpretations provided within state authorities and between state authorities and taxpayers generate uncertainty and conflicts concerning the interpreted issues. Tax settlements and other regulated areas of activity (for instance customs and foreign exchange control) are controlled by the respective authorities which are entitled by law to impose high fines, penalties and related interest. Due to the above, the tax risk in Poland is substantially higher than typical for countries with better developed taxation systems.

There are no formal procedures in Poland for determining the final taxation charge. Tax settlements may be subject to tax control over five years since the end of the calendar year when the tax liability reached its maturity. There is a risk that respective authorities adopt a different interpretation of the tax law than the Group companies, which could have a significant impact on their tax liabilities.

## XII. INFORMATION ABOUT CURRENT PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE PARENT COMPANY AND RELATED PARTIES OF THE TOTAL VALUE EXCEEDING 10% OF THE COMPANY'S EQUITY

During the period from 1 January to 30 June 2005, the Parent Company was not a party in proceedings concerning liabilities or receivables of the Parent Company or related entities, of the value exceeding 10% of the Company's equity.

## XIII. RELATED PARTIES

### 1. Information about unusual related parties transactions

During the period from 1 January to 30 June 2005, there were no unusual related party transactions concluded between related parties within the Group, where the transaction would exceed EUR 500 thousand, except for a short-term EUR 60

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million loan granted to ORLEN Deutschland on 23 December 2004. The repayment was made on 14 February 2005 and interest was paid on 24 February 2005.
The transactions concluded within the Group were trade transactions resulting from the type of activity of the particular Group's entities.

**2. Information on significant related party transactions**

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

In the period of 6 months ended 30 June 2005 and as at 30 June 2005 the Group companies did not grant any advances, loans, borrowings, guarantees and suretees or any other agreements obliging to pay in favour of the Company and its related companies, to managing and supervising persons and their relatives.
As at 30 June 2004 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the periods of 6 months ended 30 June 2005 and 30 June 2004 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

**(b) Transactions with the related parties concluded through the supervising persons**

In the first half of 2005 the Company obtained statements on transactions with related parties extended in scope in regard of the amended IAS 24 "Related Party Disclosures".

| | Sale | Purchase | Receivables | Liabilities | Dividend paid |
|---|---|---|---|---|---|
| **Legal persons *** | 12,598 | 24,242 | - | - | - |
| **Natural persons**** | 443 | - | | | |

* Transactions in the period of performing duties as key management personnel by the persons supervising the Company.
** In the period covered by the financial statements the recorded transactions included those below EUR 500 thousand.

In the period presented in the financial statements 11 persons acted as members of the Supervisory Board. The Company has not received a statement extended in scope from 1 former member of the Supervisory Board.

**c) Transactions with related parties concluded through the managing persons**

In the second quarter 2005 members of the Company's key executive personnel did not conclude any significant transactions with related parties in regard of IAS 24 "Related Party Disclosures".

## d) Transactions of the Company with related parties in the period from 1 January to 30 June 2005 and the settlement balances as at 30 June 2005

| | PKN ORLEN Group | | | | | |
|---|---|---|---|---|---|---|
| | Consolidated subsidiaries 1) | Consolidated associates 2) | Non-consolidated subsidiaries 1) | Non-consolidated associates 2) | Consolidated jointly controlled entities 3) | Total related parties |
| Sales | 1.591.946 | 1.142 | 5.909 | 36 | 361.764 | 1.960.797 |
| Purchases | 361.458 | 31.688 | 41.718 | 137 | 3.071 | 438.072 |
| Financial revenues from interest | 3.627 | 11 | 1 | - | 39 | 3.678 |
| Financial expenses on interest | (39) | - | 2 | - | - | (37) |
| Gross short-term receivables | 908.351 | 4.892 | 4.744 | 57 | 76.053 | 994.097 |
| Short-term liabilities | 76.922 | 7.332 | 10.291 | 97 | 144 | 94.786 |
| Gross long-term receivables | 78.488 | - | 192 | - | - | 78.680 |
| Long-term liabilities | - | - | - | - | - | - |

1) Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members
2) Parent Company exercises considerable influence on the entity's supervisory bodies via its representatives
3) Parent Company exercises a joint control over the entities under the deed of association



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### 3. Remuneration, together with remuneration from profit paid to the Management Bard, the Supervisory Board and the key executive personnel in accordance with IAS 24

Management Board remuneration includes salaries, bonuses, annual bonus and equivalent for unused annual holiday.

The remuneration paid to the Management Board, Supervisory Board and key executive personnel amounted to:

| | for 6 months ended 30 June 2005 | for 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Parent's Management Board* | 11,490 | 11,375 |
| Parent's Supervisory Board | 400 | 436 |
| Parent's key executive personnel ** | 8,680 | 5,998 |
| Group key management personnel*** | 18,886 | 20,337 |
| **Total** | **39,456** | **38,146** |

* In the period of 6 months ended 30 June 2005 the remuneration to former Board members amounted to PLN 7.008 thousand.
** In the period of 6 months ended 30 June 2004 the remuneration was paid to 27 members of key executive personnel and in the period of 6 months ended 30 June 2005 to 34 members
*** Management Boards, Supervisory Boards and key executive personnel of the Group companies.

## XIV. LOAN SECURITY, GUARANTEES AND COLLATERALS OF AT LEAST 10% OF THE COMPANY'S EQUITY GRANTED BY PARENT COMPANY OR ITS SUBSIDIARIES TO A THIRD ENTITY OR ITS SUBSIDIARY

In the period from 1 January to 30 June 2005 the Company and its subsidiaries within the Group did not grant loan security, or guarantees to another entity or its subsidiary, where the value of security or guarantee would constitute at least 10% of the Company's equity, except collaterals provided by PKN ORLEN under the share pledge agreement in the amount of PLN 454 million of 19 December 2003, securing Basell ORLEN Polyolefins Sp. z o.o. repayment of current and future claims to which the pledgee is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.

## XV. SEASONAL OR CYCLICAL CHARACTER OF THE ISSUER'S OPERATIONS IN THE PRESENTED PERIOD

The PKN ORLEN Group does not report any material seasonal or cyclical character of its operations.

## XVI. POST BALANCE SHEET EVENTS

### a) Changes in the Parent's Management Board and Supervisory Board

Changes in the Parent's Management Board and Supervisory Board are discussed in detail under Note VIII.

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## XVII. IMPACT ON PRIOR PERIOD RESULTS

Due to the fact that effective 1 January 2005 the Group has been preparing its consolidated financial statements in accordance with IFRSs for statutory purposes, the below table presents the major differences identified and reported by the Group between IFRSs adopted by the European Union and Polish accounting standards (PASs) with respect to changes in the opening balance of equity as at 1 January 2005 and comparative data in respect of the net profit for the period ended 31 December 2004.

| | Net profit for 12 months period ended 31 December 2004 (unaudited) | Net profit for 6 months ended 30 June 2004 (unaudited) | Net profit for 3 months period ended 31 March 2004 (unaudited) |
|---|---|---|---|
| Consolidated according to PASs | 2,588,981 | 1,028,855 | 647,088 |
| Reversal of capitalised borrowing costs | 8,011 | 3,667 | 1,511 |
| Deferred tax on capitalised borrowing costs | (1,522) | (697) | (287) |
| Valuation of property, plant and equipment at fair value | (155,004) | (69,078) | (26,698) |
| Deferred tax on valuation of property, plant and equipment at fair value | 30,413 | 13,549 | 6,741 |
| Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost | (27,758) | (17,728) | (10,626) |
| Reversal of goodwill amortisation | 5,765 | 2,814 | 1,341 |
| Impairment of property, plant and equipment of ORLEN Deutschland AG | (65,381) | (65,381) | (65,381) |
| Distribution of profit other than dividends | (4,176) | (4,176) | (4,176) |
| Other | 5,654 | (11,585) | 1,038 |
| **Consolidated according to IFRSs** | **2,384,983** | **880,240** | **550,551** |

| | Net assets as at 31 December 2004 (unaudited) | Net assets as at 30 June 2004 (unaudited) | Net assets as at 1 January 2004 (unaudited) |
|---|---|---|---|
| Consolidated in accordance with PASs | 11,826,556 | 10,330,621 | 9,581,948 |
| Reversal of capitalised borrowing costs | (63,745) | (68,088) | (71,755) |
| Deferred tax on capitalised borrowing costs | 12,111 | 12,937 | 13,633 |
| Valuation of property, plant and equipment at fair value | 1,122,628 | 1,208,403 | 1,278,183 |
| Deferred tax on valuation of property, plant and equipment at fair value | (204,506) | (221,372) | (234,920) |
| Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost | 273,611 | 283,641 | 301,369 |
| Reversal of goodwill amortisation | 5,765 | 2,814 | - |
| Impairment of property, plant and equipment of ORLEN Deutschland AG | (65,381) | (65,381) | - |
| Other | 70,563 | 53,324 | 61,170 |
| Consolidated according to IFRSs | 12,977,602 | 11,536,899 | 10,929,628 |

### a. Reversal of capitalised borrowing costs

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In accordance with PASs borrowing costs resulting from investment loans were stated as investment expenditure. Other financial expenses were recognised in the profit and loss when incurred. In the financial statements prepared in accordance with IFRSs, the borrowings costs, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognised in the profit and loss statement in the period to which they refer.

**b. Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

In accordance with PASs, the Company settled the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost to revenues over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost was recognised as retained earnings.

**c. Reversal of goodwill amortization**

In accordance with PASs goodwill was amortised on a straight line basis over the period not longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in accordance IFRSs, goodwill is not amortised yet decreased by impairment allowances.

**d. Impairment of property, plant and equipment of ORLEN Deutschland AG**

Due to the change in the policy discussed in detail under b) above, ORLEN Deutschland AG recognised an excess of net fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost in equity as at 1 January 2005. Consequently, for the purpose of consolidated annual financial statements the impairment allowance for property, plant and equipment of ORLEN Deutschland AG was increased by the amount reflecting the above change in the accounting principles and recognised in 2004 financial result.

**e. Consolidation of BOP by proportionate method**

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise, Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.
In the records presented for the first half of 2004 and the first half of 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods BOP was presented by the equity method.
As at 30 June 2005 and 31 December 2004 and for the periods of 6 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP was as follows:

As at 30 June 2005 and 31 December 2004 and for the periods of 6 and 3 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) |
|---|---|---|
| Current assets | 152,996 | 168,681 |
| Non-current assets | 929,818 | 860,901 |
| Short-term liabilities | 90,370 | 152,590 |
| Long-term liabilities | 459,799 | 346,785 |

| | 6 months ended 30 June 2005 (unaudited) | 3 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) | 3 months ended 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Revenue | 253,802 | 116,551 | 240,067 | 116,398 |
| Cost of goods and materials sold | (223,618) | (110,318) | (209,690) | (103,717) |
| General administrative expenses | (4,321) | (2,546) | (3,526) | (1,892) |
| Financial costs | (13,925) | (7,559) | (5,936) | 5,610 |
| Profit before tax | 12,032 | 1,017 | 22,487 | 17,651 |
| Income tax | | | | |

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| | | | | |
|---|---|---|---|---|
| | (2,094) | 276 | (4,318) | (1,524) |
| Net profit | 9,939 | (700) | 18,170 | 16,129 |

## XVIII. DIFFERENCES BETWEEN DATA DISCLOSED IN THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2005 AND THE CURRENT REPORT DATED 16 AUGUST 2005:

Changes in comparison to data published in current report dated 16 August 2005 having influence on net profit and equity:

| | Net profit | Equity |
|---|---|---|
| | | |
| Data presented in condensed consolidated report for two quarters of 2005, published on 16 August 2005 | 1,316,141 | 13,357,673 |
| | | |
| Consolidation of Unipetrol a.s. Group | 2,019,957 | 4,225,501 |
| | | |
| Data presented in consolidated financial statements for the first half of 2005 | 3,336,098 | 17,583,174 |

## XIX. SUPPLEMENTARY INFORMATION

### a) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN OIL participate in the Project of 'Restructuring of southern assets of the PKN ORLEN S.A. Group'. The Project aims at optimisation and consolidation of manufacture and sale of fuel, motor and lubricating oils and paraffin at the PKN ORLEN S.A. Group.
On 5 July 2005 the Management Board adopted 'Restructuring plan for southern assets' thus accepting the restructuring objectives.

### b) Polkomtel S.A.

On 17 December 2004, an agreement of the Polish shareholders of Polkomtel S.A. was established in respect of intention of public offering of Polkomtel S.A.shares. During the reporting period the afore mentioned shareholders cooperated on the restructuring of share capital of Polkomtel. Having consulted financial and legal advisors, the shareholders examined and evaluated different options for public offering of Polkomtel S.A. shares, in particular by sale of all or a portion of the currently owned shares to Vodafone and TDC.
PKN ORLEN S.A., KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded 'Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital'. Negotiations and correspondence with foreign shareholders are conducted in order to define conditions for maximising of the value of Polkomtel S.A. shares by the Polish shareholders.

## SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

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.....
**President**
Igor Chalupec

| | | |
|---|---|---|
| ..... | ..... | ..... |
| **Vice-President** | **Vice-President** | **Vice-President** |
| Wojciech Heydel | Jan Maciejewicz | Cezary Smorszczewski |

| | |
|---|---|
| ..... | ..... |
| **Member of the Board** | **Member of the Board** |
| Paweł Szymański | Dariusz Witkowski |

**Płock, 26 September 2005**

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## Financial Highlights

| ORLEN Group | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Sales revenue | 16,760,956 | 5,278,376 | 9,955,048 | 3,034,243 | 13,813,152 | 3,582,156 | 7,472,937 | 1,920,027 | 21.3% | 47.4% | 33.2% | 58.0% |
| EBITDA[2] | 4,124,124 | 1,298,773 | 3,037,956 | 925,952 | 1,737,915 | 450,692 | 913,331 | 234,663 | 137.3% | 188.2% | 232.6% | 294.6% |
| Operating profit/(loss) | 3,499,979 | 1,102,217 | 2,708,654 | 825,583 | 1,070,470 | 277,604 | 586,721 | 150,747 | 227.0% | 297.0% | 361.7% | 447.7% |
| Financial expenses | -244,869 | -77,114 | -177,446 | -54,085 | -98,259 | -25,481 | -40,275 | -10,348 | 149.2% | 202.6% | 340.6% | 422.7% |
| Net profit (loss) | 3,336,098 | 1,050,607 | 2,718,065 | 828,451 | 880,240 | 228,272 | 550,551 | 141,453 | 279.0% | 360.2% | 393.7% | 485.7% |
| Net profit (loss) according to LIFO method | 2,788,972 | 878,306 | 2,393,536 | 729,536 | 628,462 | 162,979 | 390,594 | 100,356 | 343.8% | 438.9% | 512.8% | 626.9% |
| Operating cash flow | 1,648,153 | 519,038 | 1,083,750 | 330,321 | 1,738,442 | 450,829 | 1,110,413 | 285,299 | -5.2% | 15.1% | -2.4% | 15.8% |

*(1) The following average exchange rates were used for the conversion of the amounts denominated in USD: 6 months 2005 – PLN 3.1754, 6 months 2004 – PLN 3.8561, 3 months 2005 – PLN 3.2809, 3 months 2004 – PLN 3.8921.*

*(2) EBITDA = OPERATING PROFIT + AMORTISATION/DEPRECIATION*

*(3) Excluding the LIFO effect at Unipetrol a.s.*

- **Refining (Production + Wholesale):** In Q2 2005, the segment's financial result gained PLN 928m year on year, chiefly as a result of such factors as an increase in commodity margins on refinery products, a higher URAL/Brent differential and, most importantly, the disclosure in Q2 2005 of a PLN 663m excess of fair value of acquired net assets over their acquisition cost. This segment's proportionate share in Unipetrol's profit was PLN 50m.
- **Refining (Retail):** The PLN 224m segment profit posted for Q2 2005 was foremost driven by the disclosure in Q2 2005 of a PLN 161m excess of fair value of acquired net assets over their acquisition cost.
- **Petrochemicals:** Q2 2005 saw the segment's financial result growing relative to the analogous quarter of 2004 (up by PLN 1,154m) upon the disclosure of a PLN 1,077m excess of fair value of acquired net assets over their acquisition cost. Unipetrol's profit attributable to the segment totalled PLN 14m.
- **Other Activities:** A PLN 275m excess of fair value of acquired net assets over their acquisition cost made a decisive contribution to the segment's robust performance.
- **Inland Premium:** In Q2 2005, the inland premium went up by PLN 35m (37.9%), year on year.
- **Profit on Sales:** A 22.9% increase in the profit on sales in Q2 2005 in relation to Q2 2004, attributable mainly to positive market trends and efficiency-improvement measures.
- **Operating Profit (EBIT):** The clear upward swing in Q2 2005 profit (by PLN 2,122m) was a consequence of the disclosure of the excess of fair value of acquired net assets over their acquisition cost under Q2 2005 other operating income (PLN 2,005m).
- **Net Profit:** The Q2 2005 net profit stood at PLN 2,718m, an improvement of PLN 2,168m on Q2 2004, driven chiefly by the high operating profit.
- **Net Operating Cash Flow:** A PLN 27m fall in cash generated in Q2 2005, year on year.
- **CAPEX (expenditure on property, plant and equipment and intangible assets):** A PLN 67m increase in CAPEX in Q2 2005 over Q2 2004, caused mainly by the higher expenditure in the Petrochemicals and Refining (Production + Wholesale) segments.
- **Operating Expenses Reduction Programme:** In Q2 2005, the implementation of the Programme led to PLN 210m cost savings, against PLN 163m in Q2 2004 (relative to the reference value, that is the costs incurred in 2002).
- **Upgrade and Maintenance Shutdowns –** Combined effect of the scheduled upgrade shutdown of the Olefin II petrochemical plant and the maintenance shutdown of the HOG plant was PLN 140m (adverse

effect on PKN Orlen's operating profit).

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*"In Q2 2005, we pressed ahead with our value development strategy announced at the beginning of the year. We are working on a number of initiatives aimed at enhancing the Group's operating efficiency. New projects supporting our core business on the home markets are underway, and opportunities for expansion into new areas and markets are being explored.*

*The Management Board sees it as its priority to integrate the Unipetrol holding in the most efficient way possible. On June 8th 2005, we launched the previously developed new management model for the combined companies. Twenty-four Polish-Czech teams are examining the value-creation potential and, as originally announced, are preparing a business plan, to be presented in October. We have announced a mandatory tender offer for minority interests at Unipetrol a.s., Paramo a.s. and Spolana a.s. The existence of agreements with Agrofert and ConocoPhillips, which has recently been exposed in the media, has not affected the Management Board's positive opinion on PKN's presence on the Czech market. The Management Board believes that a satisfactory return on this investment may be achieved.*

*On June 29th 2005, our shareholders approved an amendment to the Articles of Association concerning the new regional structure of PKN Orlen. The successful restructuring at the regional level will streamline the operational management processes. We are reshaping and optimising our retail network by setting up new locations and centralising the support functions.*

*As part of our restructuring efforts at the Group level, in H1 2005 we disposed of five companies and commenced the process of exiting nine undertakings. We changed composition of the supervisory boards at all of the Group companies and assigned responsibility for the undertakings to particular business segments at the PKN Orlen level. We also assessed members of the companies' management boards using the assessment centre and personnel audit methods.*

*On August 1st, we implemented the Management by Objectives system, a new assessment and incentive scheme for our executive staff to support the pursuance of our strategy and develop a new business-oriented corporate culture. The system aims at developing a transparent and objective remuneration model for the management staff.*

*We are introducing the best procurement practices using the state-of-the-art technology solutions. We started to hold internet auctions to facilitate purchases on the most favourable terms.*

*In Q2 2005, we also prepared OPTIMA, a new cost-saving scheme for the Group, which will be a continuation and extension of the comprehensive Operating Expenses Reduction Programme. OPTIMA is expected to usher in PLN 1.2bn savings in operating expenses and capital expenditure by 2009.*

*With a view to strengthening our position in the retail segment, we are also participating in retail assets disposal processes currently underway in the Czech Republic.*

*The continued favourable conditions in the oil refining and petrochemical sectors, coupled with the further internal restructuring of PKN ORLEN, enabled us to post good financial results for yet another consecutive quarter. In Q2 2005, revenue on sales of products gained 38.0%, while net profit rose 393.7%, year on year. It is noteworthy that the results would be markedly higher but for the provision related to the disposal of Unipetrol assets. Our ROACE margin was 50.7%.*

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*The growing demand for oil products with the shrinking available capacity in the oil production and refining segments drove the strong growth of the feedstock prices and supported the refining margins at the satisfactory levels. The rising oil prices and continued mismatch in the quality structure of supply and demand led to an enhancement of the differential between high-quality oil (low sulphur content, higher light-product yields) and low-quality feedstock as compared with Q2 2004. For example, the URAL/Brent differential rose by 0.50 USD/bbl. Obviously, such a development is to the benefit of refineries capable of processing lower-quality oil.*

*As previously expected, the favourable climate in the refining sector was accompanied by an upward trend on the petrochemical market. However, in Poland we experienced adverse market conditions for oil refiners, such as the strengthening of the Polish zloty (up to PLN/USD 3.28 and PLN/EUR 4.13) or the projected economic slowdown which directly affected demand for fuels.*

*In Q2 2005 the volume of sales of refining products increased by 19.2% and those of chemical products by 29.7% over Q2 2004. The cost savings in all segments grew by PLN 47m in Q2 2005, year on year.*

*Since January 1st 2005, we have applied the International Financial Reporting Standards. We expect to complete the full implementation of IFRS for statutory reporting purposes by the end of 2005. An important change is the consolidation of BOP, our subsidiary involved in the production and marketing of polyolefins, with the proportionate consolidation method. In 2004, BOP was consolidated with the equity method."*

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## Financials by Area of Activity

***Market Overview***

In the second quarter of 2005, the average price of Brent was USD 51.66/bbl, having gone up by USD 16.31/bbl (46.1%) year on year. The rise went hand in hand with a higher URAL/Brent differential, which moved from USD 3.10/bbl in Q2 2004 to USD 3.60/bbl in Q2 2005. During the second quarter of 2005, the average commodity price of gasoline was USD 515.89/t (a USD 104.40, or 25.4%, increase over Q2 2004). In the same period, a material rise was recorded in the commodity prices of diesel fuel and Ekoterm, by USD 187.84/t and USD 170.58/t, respectively (or by 54.6% and 53.6%). Year on year, the commodity margins for diesel fuel, gas oil and JET A-1 aviation fuel increased substantially, by 83.7%, 91.6% and 67.0%, respectively; the commodity margin for gasoline fell by 13.1%. Growth was also reported for petrochemical commodity margins: in Q2 2005, the margins for ethylene and propylene rose by 16.9% and 34.5%, respectively. The U.S. dollar and the euro weakened against the Polish currency, by 15.7% and 12.0%, respectively (falling from PLN 3.89/USD 1 in Q2 2004 to PLN 3.28/USD 1 in Q2 2005, and from PLN 4.69/EUR 1 in Q2 2004 to PLN 4.13/EUR 1 in Q2 2005).

Based on the GUS (Central Statistics Office) data, in Q2 2005 consumer prices went up by 0.6% over Q1, while in Q2 2004 they grew by 2.0%. Compared with Q2 2004, in Q2 2005 the consumer prices were 2.3% higher. The unemployment rate at the end of Q2 2005 was 18.0%, compared with 19.4% a year before.

Based on market data provided by Samar, approx. 129.5 thousand new automobiles were sold in Poland in H1 2005, which means a nearly 33% drop year on year and is over three times lower than the number of new and pre-owned vehicles imported to Poland by individuals and independent companies. The opening of the borders for privately imported vehicles in May 2004 was yet another factor detrimental to the new automobile market.

***Refining (Production + Wholesale)***

| Refining (Production+Wholesale) | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | **11,814,446** | **3,720,617** | **6,976,519** | **2,126,404** | **9,249,297** | **2,398,614** | **5,291,536** | **1,359,558** | **27.7%** | **55.1%** | **31.8%** | **56.4%** |
| Third-party sales | 7,873,230 | 2,479,445 | 4,883,666 | 1,488,514 | 6,086,372 | 1,578,375 | 3,362,235 | 863,861 | 29.4% | 57.1% | 45.3% | 72.3% |
| Intra-company sales* | 3,941,216 | 1,241,172 | 2,092,853 | 637,890 | 3,162,925 | 820,239 | 1,929,301 | 495,697 | 24.6% | 51.3% | 8.5% | 28.7% |
| Segment's costs | **-10,349,570** | **-3,259,296** | **-6,081,390** | **-1,853,574** | **-8,140,474** | **-2,111,064** | **-4,602,747** | **-1,182,587** | **27.1%** | **54.4%** | **32.1%** | **56.7%** |
| Other operating income | 69,930 | 21,314 | 32,081 | 9,778 | 42,722 | 13,021 | 33,008 | 8,481 | 63.7% | 63.7% | -2.8% | 15.3% |
| Other operating expenses | -127,529 | -38,870 | -98,825 | -30,121 | -169,263 | -51,590 | -158,549 | -40,736 | -24.7% | -24.7% | -37.7% | -26.1% |
| Excess of fair value over acquisition cost of net assets | 662,538 | 201,938 | 662,538 | 201,938 | | | | | | | | |
| **Segment's result **** | **2,069,815** | **645,702** | **1,490,923** | **454,425** | **982,282** | **248,981** | **563,248** | **144,716** | **110.7%** | **159.3%** | **164.7%** | **214.0%** |
| Sales to third parties (thousand tonnes) | 4,674 | | 2,714 | | 4,099 | | 2,166 | | 14.0% | | 25.3% | |

**) The revenue includes the following transfers to retail: 6 months 2005 – PLN 1,621,590 thousand, 6 months 2004 – PLN 1,264,488 thousand, 3 months 2005 – PLN 913,101 thousand, 3 months 2004 – PLN 726,408 thousand.*

***) The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The Q2 2005 result in refining totalled PLN 1,490,923 thousand, rising from PLN 563,248 thousand in Q2 2004. The increase was driven by excess of fair value of acquired net assets over their acquisition cost, disclosed in Q2 2005 at PLN 662,538 thousand. The segment's proportionate share in Unipetrol's profit totalled PLN 50,354.6 thousand. The segment's revenues expanded by 31.8%, while its costs and expenses grew by 32.1%. The growth of the segment's revenue was a result of positive changes with respect to commodity margins for diesel fuel, Ekoterm and JET A-1 aviation fuel. On the other hand, the increase in costs was caused by such factors as the rising price of oil. The commodity Brent prices in Q2 2005 went up by 46.1% year on year. The rise was accompanied by a 16.1% increase in the URAL/Brent differential.

In Q2 2005, the volume of gasoline and diesel fuel sold to third parties grew by 23.9% and 25.1%, respectively, in comparison with Q2 2004. In the period, growth was also seen in Ekoterm and JET A-1 sales (up by 12.1%, or 40.8 thousand tonnes, and 41.1%, or 37.6 thousand tonnes, respectively, year on year). The volume of light product sales was up by 22.9% (368.9 thousand tonnes).

In Q2 2005, implementation of the comprehensive Operating Expenses Reduction Programme ushered in savings of PLN 79,859 thousand for the segment, that is 20,725 thousand more than in the analogous period of 2004.

As at the end of June 2005, the profit posted by this segment was PLN 2,069,815 thousand, up by 110.7% on year earlier.

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***Refining (Retail)***

| Refining (Retail) | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | 5,983,885 | 1,884,451 | 3,395,413 | 1,034,903 | 5,515,212 | 1,430,256 | 3,037,698 | 780,478 | 8.5% | 31.8% | 11.8% | 32.6% |
| Third-party sales | 5,961,188 | 1,877,303 | 3,381,950 | 1,030,799 | 5,502,414 | 1,426,938 | 3,029,497 | 778,371 | 8.3% | 31.6% | 11.6% | 32.4% |
| Intra-company sales | 22,697 | 7,148 | 13,463 | 4,103 | 12,798 | 3,319 | 8,201 | 2,107 | 77.3% | 115.4% | 64.2% | 94.7% |
| Segment's costs | -5,914,059 | -1,862,461 | -3,320,154 | -1,011,964 | -5,505,085 | -1,427,630 | -2,997,662 | -770,191 | 7.4% | 30.5% | 10.8% | 31.4% |
| Other operating income | 50,442 | 15,374 | 23,383 | 7,127 | 42,788 | 13,042 | 24,525 | 6,301 | 17.9% | 17.9% | -4.7% | 13.1% |
| Other operating expenses | -55,389 | -16,882 | -35,976 | -10,965 | -80,846 | -24,641 | -76,311 | -19,607 | -31.5% | -31.5% | -52.9% | -44.1% |
| Excess of fair value over acquisition cost of net assets | 161,382 | 49,188 | 161,382 | 49,188 | | | | | | | | |
| **Segment's result *** | **226,261** | **69,670** | **224,048** | **68,289** | **-27,931** | **-8,974** | **-11,750** | **-3,019** | **-910.1%** | **-876.4%** | **-2006.8%** | **-2362.0%** |
| Sales to third parties (thousand tonnes) | 1,625 | | 879 | | 1,599 | | 847 | | 1.6% | | 3.8% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In Q2 2005, the segment's revenue increased by PLN 357,715 thousand (11.8%) over Q2 2004, while costs gained PLN 322,492 thousand (10.8%). The stronger growth of revenue over costs is an evidence of enhanced efficiency and cost savings in this area of operations. PKN's German operations attributable to this segment brought profit of PLN 7,675 thousand (PLN 12,087 thousand in Q2 2004), another PLN 1,073.6 thousand was contributed to the segment by Unipetrol AS, representing the segment's proportionate share in the company's profit. Unipetrol's performance was greatly impacted by the price wars fought among service stations operated by supermarkets. It could not realise 100% of the retail margin on fuels and had to align its prices to those charged at competing service stations. In Q2 2005, the financial result of PKN ORLEN's retail segment was PLN 52,887 thousand, against PLN 45,276 thousand in Q2 2004.

The growth in segment's revenue was accompanied by a 3.7% increase in the volume of the Group's sales. In Q2 2005, the domestic retail sales rose 98.6% year on year in volume terms. In Q2 2005, the fuel margin rose by 8.5% over the corresponding period of 2004. The Group companies' sales revenue on non-fuel goods stood at PLN 219,284 thousand in Q2 2005, representing a 5.8% increase on the analogous period of 2004.

The implementation of the comprehensive Operating Expenses Reduction Programme yielded PLN 47,718 thousand in savings to the segment in Q2 2005 (Q2 2004: PLN 46,526 thousand).

The segment's profit was fortified by the excess of fair value of acquired net assets over their acquisition cost, disclosed in Q2 2005 in the amount of PLN 161,382 thousand.

All of the above factors increased the segment's Q2 2005 profit by PLN 224,048 thousand, while in Q2 2004 the loss stood at PLN 11,750 thousand. The loss was driven primarily by the adjustment of net assets of ORLEN Deutschland following from change in disclosure of negative goodwill, which increased segment's other operating expenses by PLN 65,381 thousand.

As at the end of June 2005, the segment's result was PLN 226,261 thousand, as compared with a PLN 27,931 loss in 2004.

***Petrochemicals***

| Petrochemicals | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results according to IFRS | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 | PLN '000 | USD '000 |
| Revenue, including: | 3,451,538 | 1,086,962 | 1,956,598 | 596,360 | 2,571,249 | 666,800 | 1,286,660 | 330,582 | 34.2% | 63.0% | 52.1% | 80.4% |
| Third-party sales | 2,569,516 | 809,194 | 1,538,221 | 468,841 | 1,882,567 | 488,205 | 914,655 | 235,003 | 36.5% | 65.7% | 68.2% | 99.5% |
| Intra-company sales | 832,692 | 262,232 | 411,446 | 125,406 | 667,441 | 173,087 | 350,764 | 90,122 | 24.8% | 51.5% | 17.3% | 39.2% |
| Settlement value of hedging transactions | 49,330 | 15,535 | 6,931 | 2,113 | 21,241 | 5,508 | 21,241 | 5,457 | 132.2% | 182.0% | -67.4% | -61.3% |
| Segment's costs | -2,902,386 | -914,022 | -1,725,011 | -525,774 | -2,229,441 | -578,160 | -1,143,476 | -293,794 | 30.2% | 58.1% | 50.9% | 79.0% |
| Other operating income | 16,686 | 5,086 | 13,835 | 4,217 | 10,830 | 3,301 | 6,811 | 1,750 | 54.1% | 54.1% | 103.1% | 141.0% |
| Other operating expenses | -28,394 | -8,654 | -25,742 | -7,846 | -10,495 | -3,199 | -7,286 | -1,872 | 170.5% | 170.5% | 253.3% | 319.1% |
| Excess of fair value over acquisition cost of net assets | 1,076,642 | 328,154 | 1,076,642 | 328,154 | | | | | | | | |
| Segment's result * | 1,614,086 | 497,525 | 1,296,322 | 395,112 | 342,143 | 88,743 | 142,709 | 36,666 | 371.8% | 460.6% | 808.4% | 977.6% |
| Sales to third parties (thousand tonnes) | 1,192 | | 641 | | 1,055 | | 494 | | 13.0% | | 29.8% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

The segment's result for Q2 2005 was PLN 1,296,322 thousand, while in the corresponding quarter of 2004 it totalled PLN 142,709 thousand. The revenue on petrochemicals rose by PLN 669,938 thousand (52.1%) including an increase of 29.7% in the volume of sales to external customers, achieved despite the maintenance shutdown in effect at Olefin II – PKN ORLEN's main petrochemical (ethylene and propylene) plant. The shutdown has been necessary due to the upgrade works which are to result in doubling the plant's capacity. Ethylene and propylene production must be intensified to meet the demand which will be posted by the new polyethylene and polypropylene plants currently being developed by BOP. Q2 2005 saw a decrease in the volume of sales of ethylene – by 3.3% (28.8% in value terms), glycols – by 42.9% (38.0% in value terms) and benzene – 21.6% (18.1% in value terms). The segment's performance was boosted by the segment's proportionate share in Unipetrol's profit, in the amount of PLN 14,349.4 thousand. Demand for petrochemicals on part of the Czech Republic seemed to slump as a result of high prices of raw materials and cheaper imports from Asia. Nevertheless, the prices of Unipetrol's petrochemical products remained relatively stable. The company's performance was helped further still by the continually robust margins on petrochemicals.

The disclosure in Q2 2005, of PLN 1,076,642 thousand in excess of fair value of acquired net assets over their acquisition cost was the single most important factor to improve the segment's results. The segment's performance was also powered by PKN ORLEN; in Q2 2005, the company's operating profit attributable to the segment was PLN 166,416 thousand, up from PLN 88,594 thousand in Q2 2004. The commodity margins were USD 542.4/t for ethylene and USD 491.1/t for propylene, which means an increase by 16.9% and 34.5%, respectively, over Q2 2004. A rise in margins was also recorded for acetone (by 24.4%) and butadiene (by 53.7%).

The implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 9,656 thousand in savings for the segment (PLN 13,303 thousand in Q2 2004).

As at the end of June 2005, the segment's result was PLN 1,614,086 thousand, PLN 1,271,943 thousand more year on year.

*Other Activities*

| Other Activities | 6 months ended June 30th 2005 (unaudited data) | | 3 months ended June 30th 2005 (unaudited data) | | 6 months ended June 30th 2004 (unaudited data) | | 3 months ended June 30th 2004 (unaudited data) | | % change 6 months | | % change 3 months | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results according to IFRS** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** | **PLN '000** | **USD '000** |
| Revenue, including: | **717,733** | **226,029** | **345,656** | **105,354** | **717,947** | **186,185** | **320,475** | **82,340** | **0.0%** | **21.4%** | **7.9%** | **27.9%** |
| Third-party sales | 307,692 | 96,899 | 144,280 | 43,976 | 320,558 | 83,130 | 145,309 | 37,334 | -4.0% | 16.6% | -0.7% | 17.8% |
| Intra-company sales | 410,041 | 129,131 | 201,376 | 61,378 | 397,389 | 103,055 | 175,166 | 45,006 | 3.2% | 25.3% | 15.0% | 36.4% |
| **Segment's costs** | **-691,793** | **-217,860** | **-349,590** | **-106,553** | **-670,644** | **-173,918** | **-295,763** | **-75,991** | **3.2%** | **25.3%** | **18.2%** | **40.2%** |
| Other operating income | 29,922 | 9,120 | 20,826 | 6,348 | 11,236 | 3,425 | 3,674 | 944 | 166.3% | 166.3% | 466.8% | 572.5% |
| Other operating expenses | -21,891 | -6,672 | -12,240 | -3,731 | -28,790 | -8,775 | -19,920 | -5,118 | -24.0% | -24.0% | -38.6% | -27.1% |
| Excess of fair value over acquisition cost of net assets | 274,541 | 83,679 | 274,541 | 83,679 | | | | | | | | |
| **Segment's result *** | **308,512** | **94,295** | **279,193** | **85,096** | **29,749** | **6,917** | **8,466** | **2,175** | **937.0%** | **1,263.2%** | **3,197.8%** | **3,812.5%** |
| Sales to third parties (thousand tonnes) | 103 | | 52 | | 98 | | 45 | | 5.1% | | 15.6% | |

**)The segment's operating result, net of the costs not attributed to any of the segments, incurred at the Group's level.*

In addition to the companies involved in the production of energy and provision of services to PKN ORLEN, the "other activities" segment includes a number of undertakings which were spun off, mainly as part of the Group restructuring.

In Q2 2005, the segment posted a profit of PLN 279,193 thousand. To compare, the profit earned in Q2 2004 was PLN 8,466 thousand. This increase was generated mainly through the disclosure in Q2 2005 of PLN 274,541 thousand in excess of fair value of acquired net assets over their acquisition cost. At the same time, there were a number of factors which stifled the segment's performance, including growing feedstock cost driven by higher crude prices and the absence of any possibility to transfer the higher costs to the energy prices due to the binding regulations governing the structuring of energy tariffs.

In the period under analysis, the implementation of the comprehensive Operating Expenses Reduction Programme ushered in PLN 73,149 thousand in savings for the segment, relative to PLN 44,037 thousand in Q2 2004.

As at the end of June 2005, the segment's result was PLN 308,512 thousand, which is PLN 278,763 thousand more than a year earlier.

## Financial Review

***Profit and Loss Account***

The profit on sales for Q2 2005 totalled PLN 1,884,463 thousand, rising by PLN 351,483 thousand (22.9%) from the result reported for Q2 2004. The improvement comes from an increase of PLN 700,589 thousand (25.1%) in revenue on sales of goods and materials, and a mere PLN 255,946 thousand (9.7%) increase in value of the goods and materials sold. At the same time, in Q2 2005 the Group reported the stronger net sales of products excluding the excise tax, an increase of PLN 1,781,522 thousand, (by 38.0%), with an increase of cost of sales of PLN 1,874,682 thousand, (by 57.0%). In Q2 2005, there was a year-on-year increase in the Group's external sales in Refining (Production + Wholesale), where it grew by PLN 1,521,431 thousand (45.3%), and in Refining (Retail), where it was higher by PLN 352,453 thousand (11.6%), and in Petrochemicals where external sales expanded by PLN 623,566 thousand (68.2%). The rise in the value of external sales was accompanied by an increase in the sales volume by 25.3%, 3.8%, and 29.8%, respectively. The amount of revenue derived from Refining (Production + Wholesale) was affected mainly by the higher market prices of fuel.

In the second quarter of 2005, the selling costs rose by PLN 27,646 thousand (5.3%) relative to Q2 2004, to amount to PLN 546,971 thousand. In the same period, the general and administrative expenses fell by PLN 12,375 thousand (5.2%) on Q2 2004, to PLN 224,034 thousand.

In Q2 2005, a profit of PLN 1,595,196 thousand was recorded on other operating activities, following the disclosure of PLN 2,005,028 thousand in excess of fair value of acquired net assets over their acquisition cost under Q2 2005 other operating income which, as a result, grew by PLN 2,028,638 thousand. Meanwhile, other operating expenses gained PLN 242,917 thousand (as a result of a PLN 366,351 thousand increase in a business risk provision).

In Q2 2005, EBITDA was PLN 3,037,956 thousand, up by PLN 2,124,625 thousand on Q2 2004. Operating profit (EBIT) was PLN 2,708,654 thousand and topped the Q2 2004 figure by PLN 2,121,933 thousand.

Financial income in the second quarter of 2005 was PLN 405,871 thousand, having risen by PLN 265,246 thousand on the Q2 2004 figure. The key driver behind the rise was a PLN 204,532 thousand unrealised discount on the acquired Unipetrol claims and PLN 83,290 thousand dividend paid by Polkomtel SA (in Q1 2004 – PLN 68,220). The Group also reported a PLN 137,171 thousand increase in financial expense over the Q2 2004 figure; the change was caused by such factors as unfavourable changes in foreign exchange losses (which pushed financial expenses up by PLN 104,392.6 thousand). Consequently, the profit of this segment totalled PLN 228,425 thousand in Q2 2005, while in the analogous period of 2004, the Group posted a profit of PLN 100,350 thousand.

The share of undertakings consolidated with the equity method in the financial result amounted to PLN 7,924 thousand) in Q2 2005, relative to PLN 2,219 thousand in Q2 2004.

The Q2 2005 income tax was PLN 252,539 thousand, which represents a PLN 116,463 thousand increase year on year.

The above factors produced a net profit of PLN 2,718.065 thousand for Q2 2005, PLN 2,167,514 thousand more than in Q2 2004.

As at the end of June 2005, net profit was PLN 3,336,098 thousand, which represents a PLN 2,167,514 thousand increase.

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***Balance Sheet***

As at the end of the second quarter of 2005, the total assets amounted to PLN 32,976,560 thousand, up by 63.9% from December 31st 2004. The value of non-current assets rose by PLN 8,234,874 thousand (67.8%) from the December 31st 2004 figure, and amounted to PLN 20,386,470 thousand, chiefly upon a PLN 7,206,329 thousand growth of property, plant and equipment in relation to their value as at December 31st 2004 (acquisition of Unipetrol – PLN 1,585,305 thousand). As at the end of Q2 2005, current assets grew from PLN 7,963,275 thousand (as at December 31st 2004) to PLN 12,567,398 thousand, mainly due to an increase in inventories, trade debtors and other receivables by PLN 2,407,873 thousand and PLN 2,406,688 thousand, respectively. The strong growth of receivables follows from longer payment terms offered to the customers who were building their for the period of the Olefin II plant upgrade shutdown; increase in suspended excise tax, and purchase of Unipetrol claims. Concurrently, the value of short-term securities dropped by PLN 884,018 thousand (acquisition of Unipetrol). Compared with the end of 2004, working capital (current assets less current liabilities) fell from PLN 3,959,734 thousand to PLN 2,448,817 thousand.

At the end of Q2 2005, total shareholders' equity stood at PLN 17,583,174 thousand, up by PLN 4,605,572 thousand (35.5%) in relation to the end of 2004. The main contributing item were increases is retained profit and shareholders' equity attributable to minority interests, by PLN 2,422,650 thousand and PLN 2,246,189 thousand, respectively.

Non-current liabilities amounted to PLN 5,274,805 thousand, rising by PLN 2,141,077 thousand in comparison with the end of 2004 in connection with an increase in loans and borrowings (by PLN 1,179,913 thousand) and total provisions (by PLN 844,348 thousand). Current liabilities increased from PLN 4,003,541 thousand as at December 31st 2004 to PLN 10,118,581 thousand as at June 30th 2005. As for current liabilities, trade creditors, other liabilities and deferred income grew significantly, by PLN 4,324,858 thousand, as a result of e.g. rise in oil prices. A major contributor to the growth was also PKN ORLEN's dividend of PLN 911,020 thousand. The Group's total debt (loans, borrowings and securities) reached PLN 4,778,912 thousand as at June 30th 2005, which means an increase of PLN 2,453,777 thousand as compared with the end of 2004. The increase results from this year's disclosure of Unipetrol's liabilities in the amount of PLN 2,302,092 thousand.

***Cash Flow***

The Q2 2005 net operating cash flow stood at PLN 1,083,750 thousand, having fallen by PLN 26,663 thousand relative to the analogous quarter of 2004. The decrease was attributable mainly to negative trends with respect to inventories (up by PLN 444,193 thousand in Q2 2005, against a PLN 200,403 thousand rise in Q2 2004). Concurrently, Q2 2005 operating cash flow grew year on year as a result of an increase in provisions which pushed the value of operating cash by PLN 407,829 thousand while a year earlier they had contributed only PLN 84,350 thousand towards the cash balance . Following the disclosure of the excess of fair value of acquired net assets over their acquisition cost under other operating income (under net profit), the item was derecognised from under other adjustments, in the amount of PLN 2,005,028.0 thousand.

In Q2 2005, the investing cash outflow was PLN 1,308,267 thousand, that is up on the Q2 2004 figure by PLN 821,004 thousand. This increase follows mainly from the acquisition of shares in unconsolidated undertakings (PLN 1,345,575 thousand; in Q2 2004 – PLN 15,655 thousand). Concurrently, proceeds from

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disposal of short-term securities also grew by PLN 541,909 thousand. In Q2 2005, the Group reported a positive balance of the financing cash flow of PLN 175,188 thousand (in Q2 2004, the balance was negative at PLN 340,516 thousand). In Q2 2005, net inflow under loans and borrowings was PLN 218,958 thousand, while in Q2 2004 the outflow was PLN 311,258 thousand.

Net cash at the end of Q2 2005 totalled PLN 1,384,234 thousand, PLN 462,927 thousand more than in Q2 2004.

## APPENDIX I

# PKN ORLEN
# SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004

## (PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| Gross revenue on sales of products | 16,160,344 | 9,228,478 | 13,479,918 | 7,273,499 | 19.9% | 26.9% |
| Excise tax and other charges | -5,121,406 | -2,760,393 | -4,898,872 | -2,586,936 | 4.5% | 6.7% |
| **Net revenue on sales of products** | **11,038,938** | **6,468,085** | **8,581,046** | **4,686,563** | **28.6%** | **38.0%** |
| Revenue on sales of goods and materials for resale | 5,722,018 | 3,486,963 | 5,232,106 | 2,786,374 | 9.4% | 25.1% |
| Cost of sales | -8,306,379 | -5,162,977 | -6,162,616 | -3,288,295 | 34.8% | 57.0% |
| Goods and materials at cost | -5,105,129 | -2,907,608 | -4,911,240 | -2,651,662 | 3.9% | 9.7% |
| **Profit (loss) on sales** | **3,349,448** | **1,884,463** | **2,739,296** | **1,532,980** | **22.3%** | **22.9%** |
| Other operating income | 2,176,539 | 2,097,868 | 109,632 | 69,230 | **1,885.3%** | **2,930.3%** |
| Selling costs | -1,036,387 | -546,971 | -1,063,396 | -519,325 | -2.5% | 5.3% |
| General and administrative expenses | -422,805 | -224,034 | -422,269 | -236,409 | 0.1% | -5.2% |
| Other operating expenses | -566,816 | -502,672 | -292,793 | -259,755 | 93.6% | 93.5% |
| **Operating profit (loss)** | **3,499,979** | **2,708,654** | **1,070,470** | **586,721** | **227.0%** | **361.7%** |
| Financial income | 452,050 | 405,871 | 157,101 | 140,625 | 187.7% | 188.6% |
| Financial expenses | -244,869 | -177,446 | -98,259 | -40,275 | 149.2% | 340.6% |
| Share in profit (loss) of undertakings consolidated with equity method | 7,707 | 7,924 | 8,905 | 2,219 | -13.5% | 257.1% |
| Profit (loss) on disposal of all or part of equity interests in subordinated undertakings | 29,395 | 29,395 | 3,795 | 3,795 | 674.6% | 674.6% |
| **Pre-tax profit (loss)** | **3,744,262** | **2,974,398** | **1,142,012** | **693,085** | **227.9%** | **329.2%** |
| Corporate income tax | -394,198 | -252,539 | -238,196 | -136,076 | 65.5% | 85.6% |
| **Net profit (loss)** | 3,350,064 | 2,721,859 | 903,816 | 557,009 | 270.7% | 388.7% |
| Profit (loss) attributable to minority interests | -13,966 | -3,794 | -23,576 | -6,458 | -40.8% | -41.3% |
| **Net profit (loss) after minority interest** | **3,336,098** | **2,718,065** | **880,240** | **550,551** | **279.0%** | **393.7%** |

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**APPENDIX II**

# PKN ORLEN
# SUMMARY CONSOLIDATED BALANCE SHEETS
# as at June 30th 2005 and December 31st 2004
# (PLN '000)

| ITEM | Jun 30 2005 (unaudited data) | Dec 31 2004 (unaudited data) | % change |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current (long-term) assets** | | | |
| Property, plant and equipment | 18,287,460 | 11,081,131 | 65.0% |
| (Negative) goodwill | 20,501 | 20,501 | 0.0% |
| Intangible assets | 767,424 | 344,431 | 122.8% |
| Financial assets | 624,886 | 511,564 | 22.2% |
| Shares and equity interests in undertakings consolidated with equity method | 511,043 | 118,014 | 333.0% |
| Deferred tax assets | 60,811 | 27,138 | 124.1% |
| Other non-current assets | 31,791 | 8,794 | 261.5% |
| Perpetual usufruct rights | 64,901 | 40,023 | 62.2% |
| Property investments | 17,653 | - | - |
| **Total non-current assets** | **20,386,470** | **12,151,596** | **67.8%** |
| **Current (short-term) assets** | | | |
| Stocks | 5,632,763 | 3,224,890 | 74.7% |
| Trade debtors and other receivables | 5,005,488 | 2,598,800 | 92.6% |
| Taxes receivable | 8,152 | 23,309 | -65.0% |
| Short-term securities | 240,137 | 1,124,155 | -78.6% |
| Prepayments | 164,026 | 102,091 | 60.7% |
| Cash and cash equivalents | 1,384,234 | 735,813 | 88.1% |
| Other financial assets | 132,598 | 154,217 | -14.0% |
| **Total current assets** | **12,567,398** | **7,963,275** | **57.8%** |
| **Non-current assets classified as held for sale** | 22,692 | 0 | - |
| **Total assets** | **32,976,560** | **20,114,871** | **63.9%** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 534,636 | 534,636 | 0.0% |
| Capital revaluation adjustment | 691,802 | 522,999 | 0.0% |
| Share premium | 1,058,450 | 1,058,450 | 0.0% |
| Share premium revaluation adjustement | 168,803 | 168,803 | 0.0% |
| Hedging accounting – cash flows | 30,016 | 59,195 | -49.3% |
| Currency-translation differences on subsidiary undertakings | -43,532 | -9,444 | 360.9% |
| (Accumulated loss)/retained profit brought forward | 12,681,600 | 10,258,950 | 23.6% |
| **Shareholders' equity attributable to parent undertaking's shareholders** | **14,952,972** | **12,593,589** | **18.7%** |
| Minority interests | 2,630,202 | 384,013 | 584.9% |
| **Total shareholders' equity** | **17,583,174** | **12,977,602** | **35.5%** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 3,263,449 | 2,083,536 | 56.6% |
| Provisions | 773,269 | 637,689 | 21.3% |
| Deferred income tax provisions | 1,087,016 | 378,248 | 187.4% |
| Other non-current liabilities | 151,071 | 34,255 | 341.0% |
| **Total non-current liabilities** | **5,274,805** | **3,133,728** | **68.3%** |
| **Current liabilities** | | | |
| Liabilities and accrued expenses | 7,742,774 | 3,417,916 | 126.5% |
| Provisions | 700,717 | 283,442 | 147.2% |
| Corporate income tax payable | 102,542 | 1,680 | 6003.7% |
| Loans and borrowings | 1,515,463 | 241,599 | 527.3% |

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| | | | |
|---|---|---|---|
| Deferred income | 52,634 | 16,911 | 211.2% |
| Other financial liabilities | 4,451 | 41,993 | -89.4% |
| **Total current liabilities** | **10,118,581** | **4,003,541** | **152.7%** |
| | | | |
| **Total shareholders' equity and liabilities** | **32,976,560** | **20,114,871** | **63.9%** |

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**APPENDIX III**

# PKN ORLEN
# SUMMARY CONSOLIDATED CASH FLOW STATEMENTS
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004

(PLN '000)

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | Change 6 months | Change 3 months |
|---|---|---|---|---|---|---|
| **Operating cash flow** | | | | | | |
| **Net profit (loss)** | **3,336,098** | **2,718,065** | **880,240** | **550,551** | **2,455,858** | **2,167,514** |
| Total adjustments: | | | | | | |
| Profit (loss) attributable to minority interests | 13,966 | 3,794 | 23,576 | 6,458 | -9,610 | -2,664 |
| Share in profit (loss) of undertakings consolidated with equity method | -7,707 | -7,924 | -8,905 | -2,219 | 1,198 | -5,705 |
| Depreciation and amortisation | 624,145 | 329,302 | 667,445 | 326,610 | -43,300 | 2,692 |
| Net dividends and interest | -62,712 | -62,529 | -23,158 | 15,619 | -39,554 | -78,148 |
| Corporate income tax as disclosed in profit and loss account | 394,198 | 252,539 | 238,196 | 136,076 | 156,002 | 116,463 |
| (Profit) loss on investment activities | -46,671 | -31,592 | 128,867 | 115,961 | -175,538 | -147,553 |
| Decrease / (increase) in receivables | -336,399 | 35,984 | -654,998 | -246,938 | 318,599 | 282,922 |
| Decrease / (increase) in stocks | -1,299,286 | -444,193 | -310,404 | -200,403 | -988,882 | -243,790 |
| (Decrease) / increase in liabilities and accrued expenses | 1,196,151 | 391,131 | 763,329 | 278,726 | 432,822 | 112,405 |
| (Decrease) / increase in provisions | 420,810 | 407,829 | 78,541 | 84,350 | 342,269 | 323,479 |
| Other adjustments* | -2,240,153 | -2,264,878 | 110,490 | 151,599 | -2,350,643 | -2,416,477 |
| Corporate income tax paid | -344,287 | -243,778 | -154,777 | -105,977 | -189,510 | -137,801 |
| **Net operating cash flow** | **1,648,153** | **1,083,750** | **1,738,442** | **1,110,413** | **-90,289** | **-26,663** |
| **Investing cash flow** | | | | | | |
| Acquisition of intangible assets and property, plant and equipment | -889,194 | -512,075 | -806,979 | -373,836 | -82,215 | -138,239 |
| Disposal of property, plant and equipment | 19,559 | 15,329 | 14,910 | 6,913 | 4,649 | 8,416 |
| Disposal of shares | 76,305 | 76,305 | | -383 | | |
| Acquisition of interests in unconsolidated undertakings** | -1,347,186 | -1,345,575 | -27,107 | -15,655 | -1,320,079 | -1,329,920 |
| Acquisition of short-term securities | -81,818 | -42,189 | -293,447 | -207,954 | 211,629 | 165,765 |
| Gain on disposal of short-term securities | 963,547 | 575,362 | 65,286 | 33,453 | 898,261 | 541,909 |
| Dividends and interest received | 124,135 | 104,320 | 84,356 | 81,857 | 39,779 | 22,463 |
| Loans granted/repaid | 558 | -284 | -2,072 | -2,072 | 2,630 | 1,788 |
| Other*** | -179,381 | -179,460 | 15,712 | -9,586 | -195,093 | -169,874 |
| **Net investing cash outflow** | **-1,313,475** | **-1,308,267** | **-949,341** | **-487,263** | **-364,134** | **-821,004** |
| **Financing cash flow** | | | | | | |
| Increase in long- and short-term loans and borrowings | 929,876 | 666,785 | 748,575 | 80,449 | 181,301 | 586,336 |
| Decrease in long- and short-term loans and borrowings | -540,482 | -447,827 | -1,189,056 | -391,707 | 648,574 | -56,120 |
| Interest paid | -59,261 | -35,992 | -54,921 | -27,198 | -4,340 | -8,794 |
| Other | -16,109 | -7,778 | -5,168 | -2,060 | -10,941 | -5,718 |
| **Net financing cash inflow/(outflow)** | **314,024** | **175,188** | **-500,570** | **-340,516** | **814,594** | **515,704** |
| **Change in net cash** | **648,702** | **-49,329** | **288,531** | **282,634** | **360,171** | **-331,963** |
| Foreign-exchange gains/losses | -281 | -6,073 | -1,483 | -1,647 | 1,202 | |

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Financial Results of the ORLEN Group for Q2 2005, according to IFRS

| | | | | | | |
|---|---|---|---|---|---|---|
| **Cash at beginning of period** | **735,813** | **1,439,636** | **634,259** | **640,320** | **101,554** | **799,316** |
| **Cash at end of period, including:** | **1,384,234** | **1,384,234** | **921,307** | **921,307** | **462,927** | **462,927** |
| Restricted cash | 109,467 | 109,467 | 120,346 | 120,346 | -10,879 | -10,879 |

***including negative goodwill of Unipetrol consolidation at the level of PLN 2,005,028 thousands**

**** including Unipetrol acquisition (PLN 1,562,335 thousands) decreased by PLN 218,806 thousands cash.**

***** including Unipetrol liabilities acquisition (PLN 178,804 thousands)**

**APPENDIX IV**

## PKN ORLEN
## KEY CONSOLIDATED FINANCIAL DATA BY BUSINESS SEGMENT
## for the periods of 6 and 3 months
## ended June 30th 2005 and June 30th 2004

**(PLN '000)**

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **REVENUE ON SALES TO THIRD PARTIES[1]** | | | | | | |
| Refining (production + wholesale) | 7,873,230 | 4,883,666 | 6,086,372 | 3,362,235 | 29.4% | 45.3% |
| Refining (retail) | 5,961,188 | 3,381,950 | 5,502,414 | 3,029,497 | 8.3% | 11.6% |
| Petrochemicals | 2,618,846 | 1,545,152 | 1,903,808 | 935,896 | 37.6% | 65.1% |
| Other activities | 307,692 | 144,280 | 320,558 | 145,309 | -4.0% | -0.7% |
| **TOTAL** | **16,760,956** | **9,955,048** | **13,813,152** | **7,472,937** | **21.3%** | **33.2%** |
| **FINANCIAL RESULT[2]** | | | | | | |
| Refining (production + wholesale) | 2,069,815 | 1,490,923 | 982,282 | 563,248 | 110.7% | 164.7% |
| Refining (retail) | 226,261 | 224,048 | -27,931 | -11,750 | -910.1% | -2,006.8% |
| Petrochemicals | 1,614,086 | 1,296,322 | 342,143 | 142,709 | 371.8% | 808.4% |
| Other activities | 308,512 | 279,193 | 29,749 | 8,466 | 937.0% | 3,197.8% |
| Exclusions | -263,581 | -263,256 | -54 | 140 | | |
| Total of non-attributed items | -455,115 | -318,577 | -255,719 | -116,092 | | |
| **TOTAL** | **3,499,979** | **2,708,654** | **1,070,470** | **586,721** | **227.0%** | **361.7%** |
| **EXPENDITURE ON PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Refining (production + wholesale) | 203,826 | 128,941 | 141,454 | 92,982 | 44.1% | 38.7% |
| Refining (retail) | 134,790 | 52,491 | 119,159 | 73,002 | 13.1% | -28.1% |
| Petrochemicals | 437,246 | 283,470 | 439,415 | 259,416 | -0.5% | 9.3% |
| Other activities | 53,909 | 32,653 | 29,496 | 15,539 | 82.8% | 110.1% |
| Total of non-attributed items | 24,638 | 22,380 | 15,616 | 11,845 | 57.8% | 88.9% |
| **TOTAL** | **854,409** | **519,935** | **745,140** | **452,784** | **14.7%** | **14.8%** |
| **DEPRECIATION AND AMORTISATION** | | | | | | |
| Refining (production + wholesale) | 238,419 | 117,699 | 300,665 | 130,510 | -20.7% | -9.8% |
| Refining (retail) | 111,647 | 62,381 | 113,569 | 71,232 | -1.7% | -12.4% |
| Petrochemicals | 151,448 | 87,595 | 127,397 | 62,752 | 18.9% | 39.6% |
| Other activities | 106,853 | 55,738 | 105,221 | 55,420 | 1.6% | 0.6% |
| Total of non-attributed items | 15,778 | 5,889 | 20,593 | 6,696 | -23.4% | -12.1% |
| **TOTAL** | **624,145** | **329,302** | **667,445** | **326,610** | **-6.5%** | **0.8%** |

*1. Revenue on sales to third parties represents exclusively sales to undertakings outside of the ORLEN Group.*
*2. Financial result comprises revenue on sales to third parties and transfer to other segments.*

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**APPENDIX V**

# PKN ORLEN
# KEY CONSOLIDATED OPERATING DATA

## for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004

**(tonnes)**

| ITEM | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **CRUDE OIL THROUGHPUT ('000 tonnes)** | **6,548** | **3,385** | **5,956** | **3,036** | **9.9%** | **11.5%** |
| | | | | | | |
| **REFINERY OUTPUT** | | | | | | |
| Gasoline | 1,501,548 | 802,061 | 1,328,828 | 708,145 | 13.0% | 13.3% |
| Diesel fuel | 1,839,482 | 997,366 | 1,663,957 | 885,624 | 10.5% | 12.6% |
| Fuel oil (III) | 383,555 | 234,648 | 276,305 | 155,703 | 38.8% | 50.7% |
| Ekoterm | 778,781 | 320,928 | 742,420 | 300,108 | 4.9% | 6.9% |
| JET A-1 | 197,120 | 109,368 | 134,413 | 87,176 | 46.7% | 25.5% |
| LPG | 134,351 | 75,866 | 95,577 | 48,493 | 40.6% | 56.4% |
| Other refining products | 897,919 | 675,516 | 560,522 | 359,359 | 60.2% | 88.0% |
| **TOTAL** | **5,732,756** | **3,215,753** | **4,802,022** | **2,544,608** | **19.4%** | **26.4%** |
| **SALES OF REFINING PRODUCTS** | | | | | | |
| Gasoline | 1,964,002 | 1,091,391 | 1,807,725 | 976,506 | 8.6% | 11.8% |
| Diesel fuel | 2,086,034 | 1,217,367 | 1,889,243 | 1,020,364 | 10.4% | 19.3% |
| Fuel oil (III) | 252,993 | 143,437 | 216,546 | 93,068 | 16.8% | 54.1% |
| Ekoterm | 864,024 | 379,062 | 822,648 | 338,284 | 5.0% | 12.1% |
| JET A-1 | 213,651 | 128,855 | 144,794 | 91,298 | 47.6% | 41.1% |
| LPG | 159,796 | 89,754 | 147,424 | 77,754 | 8.4% | 15.4% |
| Other refining products | 757,546 | 542,353 | 669,936 | 416,167 | 13.1% | 30.3% |
| **TOTAL** | **6,298,046** | **3,592,219** | **5,698,316** | **3,013,441** | **10.5%** | **19.2%** |
| | | | | | | |
| **PETROCHEMICALS OUTPUT** | | | | | | |
| Polyethylene | 56,752 | 38,114 | 34,177 | 4,206 | 66.1% | 806.2% |
| Polypropylene | 53,050 | 34,285 | 30,022 | 12,051 | 76.7% | 184.5% |
| Ethylene | 43,001 | 19,722 | 38,861 | 16,702 | 10.7% | 18.1% |
| Glycol | 40,897 | 11,964 | 50,199 | 22,762 | -18.5% | -47.4% |
| Propylene | 66,556 | 27,738 | 65,322 | 27,241 | 1.9% | 1.8% |
| Ammonium nitrate | 304,173 | 170,848 | 270,701 | 151,864 | 12.4% | 12.5% |
| CANWIL | 166,267 | 59,875 | 153,333 | 72,236 | 8.4% | -17.1% |
| Polyvinyl chloride (PVC) | 79,702 | 27,866 | 105,552 | 45,387 | -24.5% | -38.6% |
| Other petrochemical products | 385,596 | 216,098 | 312,100 | 153,932 | 23.5% | 40.4% |
| **TOTAL** | **1,195,994** | **606,510** | **1,060,267** | **506,381** | **12.8%** | **19.8%** |
| **SALES OF PETROCHEMICAL PRODUCTS** | | | | | | |
| Polyethylene | 81,714 | 63,319 | 49,392 | 21,299 | 65.4% | 197.3% |
| Polypropylene | 61,389 | 42,769 | 43,755 | 19,400 | 40.3% | 120.5% |
| Ethylene | 37,668 | 15,797 | 38,580 | 16,338 | -2.4% | -3.3% |
| Glycol | 44,504 | 14,830 | 51,139 | 25,972 | -13.0% | -42.9% |

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Polski Koncern Naftowy ORLEN
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| | | | | | | |
|---|---|---|---|---|---|---|
| Propylene | 65,451 | 26,912 | 64,660 | 27,230 | 1.2% | -1.2% |
| Ammonium nitrate | 262,127 | 131,658 | 254,945 | 128,289 | 2.8% | 2.6% |
| CANWIL | 167,964 | 75,978 | 143,995 | 58,725 | 16.6% | 29.4% |
| Polyvinyl chloride (PVC) | 105,979 | 60,438 | 108,531 | 50,708 | -2.4% | 19.2% |
| Other petrochemical products | 365,017 | 209,343 | 300,228 | 146,150 | 21.6% | 43.2% |
| **TOTAL** | **1,191,813** | **641,044** | **1,055,225** | **494,111** | **12.9%** | **29.7%** |

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**APPENDIX VI**

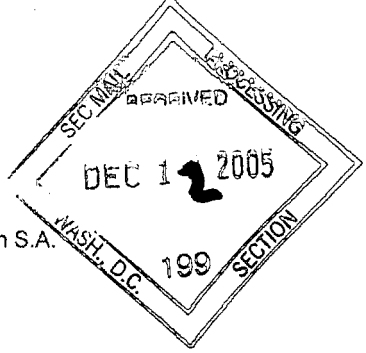
## PKN ORLEN
## SALES OF KEY PRODUCTS

### for the periods of 6 and 3 months ended June 30th 2005 and June 30th 2004

**(tonnes)**

| Sales of light products in the Orlen Group (by volume) | 6 months ended June 30th 2005 (unaudited data) | 3 months ended June 30th 2005 (unaudited data) | 6 months ended June 30th 2004 (unaudited data) | 3 months ended June 30th 2004 (unaudited data) | % change 6 months | % change 3 months |
|---|---|---|---|---|---|---|
| **Wholesale of key light products, including:** | **3,577,973** | **1,980,481** | **3,123,091** | **1,611,595** | **14.6%** | **22.9%** |
| - Gasoline | 1,041,612 | 598,345 | 876,555 | 482,941 | 18.8% | 23.9% |
| - Diesel fuel | 1,458,812 | 874,269 | 1,279,330 | 699,126 | 14.0% | 25.1% |
| - JET A-1 | 213,651 | 128,855 | 144,794 | 91,298 | 47.6% | 41.1% |
| - Ekoterm | 863,898 | 379,012 | 822,412 | 338,230 | 5.0% | 12.1% |
| **Retail sales of engine fuels, including:** | **1,618,493** | **872,975** | **1,598,454** | **846,875** | **1.3%** | **3.1%** |
| - Gasoline | 922,390 | 493,046 | 931,170 | 493,565 | -0.9% | -0.1% |
| - Diesel fuel | 627,222 | 343,098 | 609,913 | 321,238 | 2.8% | 6.8% |
| - LPG | 68,881 | 36,831 | 57,371 | 32,072 | 20.1% | 14.8% |
| **Total sales of fuels, including:** | **5,287,507** | **2,906,429** | **4,811,834** | **2,504,206** | **9.9%** | **16.1%** |
| - Engine fuels | 4,423,483 | 2,527,367 | 3,989,186 | 2,165,922 | 10.9% | 16.7% |

# Regulatory Announcement

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Interim Results Consolidated |
| **Released** | 18:30 29-Sep-05 |

PKN ORLEN S.A. hereby publishes Consolidated Financial Statements for the half-year periods ended 30 June 2005 and 30 June 2004 prepared in accordance with IFRS together with an independent auditor's review report.
To see the statement please download the PDF files.

http://www.rns-pdf.londonstockexchange.com/rns/9911r_-2005-9-29.pdf

END

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KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warszawa, Polska

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
contact_us@kpmg.pl
www.kpmg.pl

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# INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PKN ORLEN S.A. FOR THE PERIOD FROM 1 JANUARY 2005 TO 30 JUNE 2005

To *the Shareholders of PKN ORLEN S.A.*

We have reviewed the accompanying interim consolidated financial statements of the PKN ORLEN S.A. Group ("Group"), with its registered office in Płock, Poland, 7 Chemików Street, that consist of the consolidated balance sheet as at 30 June 2005, with total assets and total liabilities and equity of PLN 32,976,560 thousand, the consolidated profit and loss account for the period from 1 January 2005 to 30 June 2005 with a net profit of PLN 3,336,098 thousand, the statement of changes in consolidated equity for the period from 1 January 2005 to 30 June 2005 with an increase in equity of PLN 4,605,572 thousand, the consolidated cash flow statement for the period from 1 January 2005 to 30 June 2005 with an increase in cash amounting to PLN 648,702 thousand, and accounting policies and explanatory notes.

Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Council of Ministers dated 21 March 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 49, item 463). Our responsibility is to issue a report on these interim consolidated financial statements, based on our review. The consolidated financial statements of PKN ORLEN Group as at 31 December 2004, before the transition described in note 36 "First-time adoption of International Financial Reporting Standards" of explanatory notes, was audited by another independent auditor, who issued an opinion without qualification to these financial statements, dated 19 April 2005.

KPMG Audyt Sp. z o.o., a Polish limited liability company, is a member firm of KPMG International, a Swiss cooperative.

Spółka zarejestrowana w Sądzie Rejonowym dla m. st. Warszawy XIX Wydział Gospodarczy Krajowego Rejestru Sądowego
KRS 0000104753
NIP: 626-10-24-841
REGON 010939471

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Except for the matters described below, we conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and with Standard No. 4 of the professional standards *General terms of the review of financial statements*, issued by the National Council of Certified Auditors. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The Unipetrol a.s. Group financial data included in the interim consolidated financial statements of PKN ORLEN S.A. Group should be recognised at their fair value in accordance with IFRS 3. As at the date of this report, the process for the determination of the fair values of the acquired assets of the Unipetrol a.s. Group and goodwill calculation had not been completed. In Management Board of PKN ORLEN S.A. Group view, negative goodwill shall finally arise on this transaction. In accordance with the disclosure in note 35b of the financial statement, the valuations performed by an independent expert, did not include all assets. The valuation of these assets could have a significant impact on the financial statement of PKN ORLEN S.A. Group. Accordingly, the interim consolidated financial statements of the PKN ORLEN S.A. Group do not include a complete valuation of acquired net assets nor the valuation of negative goodwill arising on acquisition of Unipetrol a.s. shares measured in accordance with IFRS 3. We were not given the opportunity to review the valuation of the Unipetrol a.s. Group as well as negative goodwill. In accordance with IFRS 3, the PKN ORLEN S.A. Group should recognise adjustments to the provisional values recognised in relation to the fair value of net assets acquired and negative goodwill valuation in relation to the acquisition of the Unipetrol a.s. Group within twelve months of the acquisition date.

The accompanying interim consolidated financial statements PKN ORLEN S.A. Group present Polkomtel S.A. shares at cost as "Financial assets- other unconsolidated entities" in all presented periods in accordance with the existing practice of the group. In our view, in accordance with the Polkomtel S.A. status and shareholders agreements there are indications that Polkomtel S.A. could be treated as jointly controlled. In accordance with the PKN ORLEN S.A. Group accounting policy would require the jointly controlled entity to be consolidated by the proportionate method in all presented periods. As described in note 9 and 35d) of the attached financial statement the Management Board of PKN ORLEN S.A. has committed itself to obtain expert opinion and appropriate analysis which could allow it to determine whether Polkomtel S.A. is jointly controlled. As at the date of this report, PKN ORLEN S.A. had not determined the adjustments required, if any, if PKN ORLEN S.A. were to recognised Polkomtel S.A. as a jointly controlled entity.

Based on our review, except as noted above, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements, including note 36 "First-time adoption of International Financial Reporting Standards" do not present fairly in all material respects, the financial position of PKN ORLEN Group as at 30 June 2005, and of its financial performance and its cash flows for the period from 1 January 2005 to 30 December 2005 in accordance with International Financial Reporting Standards as adopted by the European Union.

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Without qualifying our report, we draw attention to following issues:

- The comparative information as at and for the six months ended 30 June 2004, before the transition described in note 36 "First-time adoption of International Financial Reporting Standards" of explanatory notes, were subject to review by another independent auditor.

- Note 36 to the interim consolidated financial statements explains the Company's transition to International Financial Reporting Standards as adopted by the European Union. The interim consolidated financial statements have been prepared in accordance with accounting standards adopted by the European Union that are issued and available for early adoption as of 31 December 2005, the Company's first annual reporting date at which it is required to use accounting standards adopted by the European Union. However, the accounting standards adopted by the European Union that will be effective as of 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty at the time of preparing this interim consolidated financial statements. Accordingly, there is a possibility that the Company's management may determine that changes to the accounting policies adopted in preparing the interim consolidated financial statements are necessary when it prepares its first annual financial statements in accordance with accounting standards adopted by the European Union as of 31 December 2005.

- In accordance with IFRS 1 the Group is currently in the process of valuing of fixed assets at fair value. The preliminary results of this valuation have been recognised in the accompanying interim consolidated financial statements of the PKN ORLEN S.A. Group.

.....
Certified Auditor 9451/7175
Leszek Dubicki,
Member of the Board of Directors

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Board of Directors

Warsaw, 26 September 2005

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# POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE HALF-YEAR PERIODS
## ENDED 30 JUNE 2005 AND 30 JUNE 2004
## PREPARED IN ACCORDANCE WITH
## INTERNATIONAL FINANCIAL REPORTING STANDARDS

## TOGETHER WITH AN INDEPENDENT AUDITOR'S REVIEW REPORT

PKN ORLEN SA
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# SECURITIES AND EXCHANGE COMMISSION
## Consolidated half-year report PSr/ 2005

(in accordance with § 93 section 2 and § 94 section 1 of the Council of Ministers' Decree of 21 March 2005, Journal of Laws No. 49, item 463)

**(for issuers of securities whose business activity embraces manufacture, construction, trade and services)**

for the first half of the reporting year 2005, that is for the period from 1 January 2005 to 30 June 2005
and for the first half of the reporting year 2004, that is for the period from 1 January 2004 to 30 June 2004

which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)
and condensed financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)

on 29 September 2005
(submission date)

| | | |
|---|---|---|
| *POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA* | | |
| (full name of the issuer) | | |
| *PKN ORLEN S.A.* | | *CHEMICAL* |
| (abbreviated name of the issuer) | | (industrial sector in line with classification of Warsaw Stock Exchange) |
| *09-411* | *PŁOCK* | |
| (zip code) | (location) | |
| *CHEMIKÓW* | | *7* |
| (street) | | (number) |
| **48 24 365 28 95** (telephone) | **48 24 365 40 40** (fax) | **media@orlen.pl** (e-mail) |
| **774-00-01-454** (NIP) | **610188201** (REGON) | **www.orlen.pl** (www) |

**KPMG AUDYT SP. Z O.O.**
(entity authorized to conduct audit)

# POLSKI KONCERN NAFTOWY ORLEN SA
# SELECTED FINANCIAL DATA

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| SELECTED FINANCIAL DATA | thousand PLN | | thousand EUR | |
|---|---|---|---|---|
| | 2005 - I half | 2004 - I half | 2005 - I half | 2004 - I half |
| **Data in respect of MSSF consolidated financial statement** | | | | |
| I. Net revenues from sale of finished goods, merchandise and raw materials | 16 760 956 | 13 813 152 | 4 107 574 | 3 385 162 |
| II. Profit / (Loss) on operations | 3 499 979 | 1 070 470 | 857 733 | 262 338 |
| III. Gross profit | 3 744 262 | 1 142 012 | 917 599 | 279 871 |
| IV. Net profit | 3 336 098 | 880 240 | 817 571 | 215 719 |
| V. Net cash provided by operating activities | 1 648 153 | 1 738 442 | 403 910 | 426 037 |
| VI. Net cash used in investing activities | (1 313 475) | (949 341) | (321 891) | (232 653) |
| VII. Net cash provided by / (used in) financing activities | 314 024 | (500 570) | 76 957 | (122 674) |
| VIII. Net change in cash and cash equivalents | 648 702 | 288 531 | 158 976 | 70 710 |
| IX. Profit (loss) per ordinary share for 6 months (in PLN/EUR) | 7,80 | 2,06 | 1,91 | 0,50 |
| | **as of 30.06.2005** | **as of 30.06.2004** | **as of 30.06.2005** | **as of 30.06.2004** |
| X. Non-current assets | 20 386 470 | 11 855 621 | 5 046 031 | 2 934 487 |
| XI. Current assets | 12 567 398 | 7 610 656 | 3 110 665 | 1 883 779 |
| XII. Total assets | 32 976 560 | 19 466 277 | 8 162 313 | 4 818 266 |
| XIII. Long-term liabilities | 5 274 805 | 3 031 115 | 1 305 612 | 750 257 |
| XIV. Short-term liabilities | 10 118 581 | 4 898 263 | 2 504 537 | 1 212 411 |
| XV. Equity | 17 583 174 | 11 536 899 | 4 352 163 | 2 855 597 |
| XVI. Share capital * | 1 057 635 | 1 057 635 | 261 784 | 261 784 |
| XVII. Number of issued ordinary shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| XVIII. Book value per share (in PLN/EUR) | 41,11 | 26,97 | 10,18 | 6,68 |

* The share capital was revalued in accordance with IAS 29.

**The above data have been translated into EUR by the following exchange rates:**

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 30 June 2005 - 4.0401 PLN/EUR

- specific items in profit and loss and cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January - 30 June 2005) - 4.0805 PLN/EUR

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# CONSOLIDATED BALANCE SHEETS
# as of 30 June 2005, 31 December 2004 and 30 June 2004
# (all amounts in PLN thousand)

| | Notes | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| | | | (in thousand PLN) | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 5 | 18 287 460 | 11 063 238 | 10 754 636 |
| Goodwill | 7 | 20 501 | 20 501 | 20 133 |
| Intangible assets | 8 | 767 424 | 344 431 | 353 956 |
| Long-term financial investments | 9 | 624 886 | 511 564 | 515 041 |
| Investments in associates | 10 | 511 043 | 118 014 | 131 550 |
| Deferred tax assets | | 60 811 | 27 138 | 8 860 |
| Other non-current assets | | 31 791 | 8 794 | 10 532 |
| Perpetual usufruct of land | | 64 901 | 40 023 | 42 782 |
| Investment property | 6 | 17 653 | 17 893 | 18 131 |
| **Total non-current assets** | | **20 386 470** | **12 151 596** | **11 855 621** |
| **Current assets** | | | | |
| Inventory | 11 | 5 632 763 | 3 224 890 | 3 318 227 |
| Trade and other receivables | 12 | 5 005 488 | 2 598 800 | 2 829 027 |
| Income tax receivable | | 8 152 | 23 309 | 1 644 |
| Short-term investments | 13 | 240 137 | 1 124 155 | 297 571 |
| Short-term prepayments | 14 | 164 026 | 102 091 | 152 341 |
| Cash and cash equivalents | 15 | 1 384 234 | 735 813 | 921 307 |
| Other financial assets | | 132 598 | 154 217 | 90 539 |
| **Total current assets** | | **12 567 398** | **7 963 275** | **7 610 656** |
| Long-term financial assets available for sale | | 22 692 | - | - |
| **Total assets** | | **32 976 560** | **20 114 871** | **19 466 277** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | | |
| **Equity** | 20 | | | |
| Share capital | | 534 636 | 534 636 | 534 636 |
| Share capital revaluation adjustment | | 522 999 | 522 999 | 522 999 |
| Share premium | | 1 058 450 | 1 058 450 | 1 058 450 |
| Share premium revaluation adjustment | | 168 803 | 168 803 | 168 803 |
| Hedging reserve | | 30 016 | 59 195 | 12 111 |
| Foreign exchange differences on subsidiaries from consolidation | | (43 532) | (9 444) | 42 032 |
| Retained earnings | | 12 681 600 | 10 258 950 | 8 754 150 |
| **Total equity (attributed to shareholders of the parent company)** | | **14 952 972** | **12 593 589** | **11 093 181** |
| Minority interest | 21 | 2 630 202 | 384 013 | 443 718 |
| **Total equity** | | **17 583 174** | **12 977 602** | **11 536 899** |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | 16 | 3 263 449 | 2 083 536 | 1 969 151 |
| Provisions | 17 | 773 269 | 637 689 | 600 990 |
| Deferred tax liabilities | | 1 087 016 | 378 248 | 425 173 |
| Other non-current liabilities | | 151 071 | 34 255 | 35 801 |
| **Total non-current liabilities** | | **5 274 805** | **3 133 728** | **3 031 115** |
| **Current liabilities** | | | | |
| Trade and other liabilities and accrued expenses | 18 | 7 742 774 | 3 417 916 | 4 059 883 |
| Provisions | 17 | 700 717 | 283 442 | 110 133 |
| Income tax liability | | 102 542 | 1 680 | 30 722 |
| Interest-bearing loans and borrowings | 16 | 1 515 463 | 241 599 | 665 282 |
| Deferred income | 19 | 52 634 | 16 911 | 23 373 |
| Other current financial liabilities | | 4 451 | 41 993 | 8 870 |
| **Total current liabilities** | | **10 118 581** | **4 003 541** | **4 898 263** |
| **Total equity and liabilities** | | **32 976 560** | **20 114 871** | **19 466 277** |

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# CONSOLIDATED PROFIT AND LOSS STATEMENTS
## for the period of 6 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | Notes | for 6 months ended 30 June 2005 (unaudited) | for 6 months ended 30 June 2004 (unaudited) |
|---|---|---|---|
| | | (in thousand PLN) | |
| **Operating activities** | | | |
| **Net sale revenues** | | | |
| Sales of finished goods | | 16 160 344 | 13 479 918 |
| Excise tax and other charges | | (5 121 406) | (4 898 872) |
| Revenues from sale of finished goods | | 11 038 938 | 8 581 046 |
| Revenues from sale of merchandise and raw materials | | 5 722 018 | 5 232 106 |
| Total sales revenues | | **16 760 956** | **13 813 152** |
| Cost of finished goods sold | 25 | (8 306 379) | (6 162 616) |
| Cost of merchandise and raw materials sold | 25 | (5 105 129) | (4 911 240) |
| **Gross profit on sales** | | **3 349 448** | **2 739 296** |
| Other operating income * | | 2 176 539 | 109 632 |
| Distribution expenses | 25 | (1 036 387) | (1 063 396) |
| General and administrative expenses | 25 | (422 805) | (422 269) |
| Other operating expenses | 25 | (566 816) | (292 793) |
| **Profit from operations** | | **3 499 979** | **1 070 470** |
| Financial income | 26 | 452 050 | 157 101 |
| Financial expenses | 26 | (244 869) | (98 259) |
| Net financial revenues and expenses | | **207 181** | **58 842** |
| Share in profit from investments accounted for under equity method | | 7 707 | 8 905 |
| Profit on the sale of all or part of shares of related parties | | 29 395 | 3 795 |
| **Profit before tax** | | **3 744 262** | **1 142 012** |
| Income tax expense | 27 | (394 198) | (238 196) |
| **Profit after tax** | | **3 350 064** | **903 816** |
| Minority interest | | (13 966) | (23 576) |
| **Net profit** | | **3 336 098** | **880 240** |
| **Basic and diluted earnings per share in Polish Zloty** | | **7,80** | **2,06** |

* Including in the first half of 2005 the excess of the share in the net identifiable assets, liabilities and contingent liabilities of Unipetrol over the acquisition cost.

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## CONSOLIDATED CASH FLOW STATEMENTS
## for the period of 6 months ended 30 June 2005 and 30 June 2004
## (all amounts in PLN thousand)

| | for the period of 6 months ended 30 June 2005 | for the period of 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| | (in thousand PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **3 336 098** | **880 240** |
| Adjustments for: | | |
| Minority interest | 13 966 | 23 576 |
| Share in profit from investments accounted for under equity method | (7 707) | (8 905) |
| Depreciation | 624 145 | 667 445 |
| Interest and dividend income, net | (62 712) | (23 158) |
| Income tax expense | 394 198 | 238 196 |
| (Profit) / loss on investing activities | (46 671) | 128 867 |
| (Increase) in receivables | (336 399) | (654 998) |
| (Increase) in inventories | (1 299 286) | (310 404) |
| Increase in liabilities and accruals | 1 196 151 | 763 329 |
| Increase in provisions | 420 810 | 78 541 |
| Other* | (2 240 153) | 110 490 |
| Income tax paid | (344 287) | (154 777) |
| **Net cash provided by operating activities** | **1 648 153** | **1 738 442** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (889 194) | (806 979) |
| Proceeds from the sale of property, plant and equipment | 19 559 | 14 910 |
| Proceeds from the sale of shares | 76 305 | - |
| Acquisition of shares** | (1 347 186) | (27 107) |
| Acquisition of short-term securities | (81 818) | (293 447) |
| Proceeds from the sale of short-term securities | 963 547 | 65 286 |
| Interest and dividends received | 124 135 | 84 356 |
| Loans (granted) / repaid | 558 | (2 072) |
| Other*** | (179 381) | 15 712 |
| **Net cash used in investing activities** | **(1 313 475)** | **(949 341)** |
| **Cash flow - financing activities** | | |
| Proceeds from long and short-term borrowings | 929 876 | 748 575 |
| Repayment of long and short-term borrowings | (540 482) | (1 189 056) |
| Interest paid | (59 261) | (54 921) |
| Other | (16 109) | (5 168) |
| **Net cash provided by / (used in) financing activities** | **314 024** | **(500 570)** |
| **Net change in cash and cash equivalents** | **648 702** | **288 531** |
| Effect of exchange rate changes | (281) | (1 483) |
| **Cash and cash equivalents, beginning of the period** | **735 813** | **634 259** |
| **Cash and cash equivalents, end of period, incl.** | **1 384 234** | **921 307** |
| Cash and cash equivalents not available for use | 109 467 | 120 346 |

* Incl. in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the acquisition price - PLN 2,005,028 thousand.

** Incl. in 2005 the acquisition of the Unipetrol Group for PLN 1,562,335 thousand, decreased by acquired cash of PLN 220,107 thousand.

*** Incl. in 2005 the acquisition of liabilities of the Unipetrol Group of PLN 178,804 thousand.

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
# STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
# as of 30 June 2005, 31 December 2004 and 30 June 2004
# (all amounts in PLN thousand)

| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 62 366 | 8 148 515 | 433 859 | 10 929 628 |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (20 334) | - | - | (20 334) |
| Dividend | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 880 240 | - | 880 240 |
| Impairment of non-current assets | - | - | - | - | 3 406 | - | 3 406 |
| Hedge accounting - cash flow hedges | - | - | 12 111 | - | - | - | 12 111 |
| Shares issued | - | - | - | - | - | - | - |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 23 576 | 23 576 |
| Change in shareholders structure | - | - | - | - | - | (13 717) | (13 717) |
| **30 June 2004** | 1 057 635 | 1 227 253 | 12 111 | 42 032 | 8 754 150 | 443 718 | 11 536 899 |
| **(unaudited)** | | | | | | | |

| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2005** | 1 057 635 | 1 227 253 | 59 195 | (9 444) | 10 258 950 | 384 013 | 12 977 602 |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (34 088) | - | - | (34 088) |
| Dividend | - | - | - | - | (911 020) | - | (911 020) |
| Net profit | - | - | - | - | 3 336 098 | - | 3 336 098 |
| Impairment of non-current assets | - | - | - | - | (2 428) | - | (2 428) |
| Hedge accounting - cash flow hedges | - | - | (29 179) | - | - | - | (29 179) |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | 13 967 | 13 967 |
| Change in shareholders structure | - | - | - | - | - | 2 232 222 | 2 232 222 |
| Other | - | - | - | - | - | - | - |
| **30 June 2005** | 1 057 635 | 1 227 253 | 30 016 | (43 532) | 12 681 600 | 2 630 202 | 17 583 174 |
| **(unaudited)** | | | | | | | |

| | Share capital | Share premium | Hedging reserve | Foreign exchange differences on subsidiaries from consolidation | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 62 366 | 8 148 515 | 433 859 | 10 929 628 |
| **(unaudited)** | | | | | | | |
| Foreign exchange differences on consolidation | - | - | - | (71 810) | - | - | (71 810) |
| Dividend | - | - | - | - | (278 011) | - | (278 011) |
| Net profit | - | - | - | - | 2 384 983 | - | 2 384 983 |
| Impairment of non-current assets | - | - | - | - | 3 463 | - | 3 463 |
| Hedge accounting - cash flow hedges | - | - | 59 195 | - | - | - | 59 195 |
| Share premium | - | - | - | - | - | - | - |
| Minority interest | - | - | - | - | - | - | - |
| Change in shareholders structure | - | - | - | - | - | 53 950 | 53 950 |
| Change in the share structure | - | - | - | - | - | (103 796) | (103 796) |
| **31 December 2004** | 1 057 635 | 1 227 253 | 59 195 | (9 444) | 10 258 950 | 384 013 | 12 977 602 |
| **(unaudited)** | | | | | | | |

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## 1. Principal activities of the Group

The Parent Company of the Polski Koncern Naftowy ORLEN Group ("Group") is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", "Company", "Parent"), seated in Płock, Poland, 7 Chemikow Street.
The Company was established under the notarial deed of 29 June 1993 as a result of the transformation of a state owned enterprise into a joint-stock company registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court of Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spółka Akcyjna was incorporated and thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

The Group's operations comprise of refining of petroleum and manufacture of a wide range of petroleum products, chemical and petrochemical products, delivery as well as wholesale and retail sale of those products.

Before the date of the second public offering completed in July 2000, the Group had been directly and indirectly owned by the Polish State Treasury, the minority shares being held by employees and other parties. The State Treasury supervised the Group by executing control over the ultimate Parent Company, Nafta Polska S.A. As at 16 September 2005, Nafta Polska S.A. held directly or indirectly 17.32% shares in PKN ORLEN SA, the Polish State Treasury 10.2%, Bank of New York (as a depositor) 12.29%, and other shareholders 60.19% of the Company's shares.
On 4 July 2003, the Company announced that Commercial Union OFE BPH CU WBK held 21,533,539 of PKN ORLEN shares, which accounted for 5.035% of votes at the General Shareholders' Meeting. On 2 March 2005 the stake of PKN ORLEN's shares held by Commercial Union OFE BPH CU WBK decreased and amounted to 21,040,915 shares, which constituted 4.92 % of voting rights at the General Shareholders' Meeting.
FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,436,944 PKN ORLEN shares as at 24 May 2005, which is 5.01% of the share capital and gives title to 21,436,944 votes at the General Shareholders' Meeting and 5.01% of the total votes at the General Meeting of PKN ORLEN.

## 2. Basis of presentation

### Principles adopted for preparation of consolidated financial statements for the first half of 2005

As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") adopted by the European Union. The information disclosed in these consolidated financial statements is compliant with IAS 34 'Interim Financial Reporting'. As at the day of preparation of these consolidated financial statements the scope of standards adopted by the International Accounting Standards Board and the standards adopted by the European Union differ with respect to some issues of IAS 39 "Financial Instruments: Recognition and Measurement". The above differences do not concern these consolidated financial statements.
The International Accounting Standards Board issued International Financial Reporting Standard No. 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as the PKN ORLEN Group, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognized under IFRSs. In accordance with IFRS 1, an entity may state its tangible fixed assets at fair value as of IFRSs adoption date and recognize the fair value as the cost of the fixed assets as at that date.
From 1 January 2005 the Group has prepared its consolidated financial statements first time in compliance with IFRS 1 as it complies with conditions defined in that standard.
From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory stand-alone financial statements in accordance with IFRSs approved by the European Commission for 2005.

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value, which change is recognised in the profit and loss, financial assets available for sale, and investments property stated at fair value.

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## (a) Statement of compliance

Under the Council of Ministers' Decree of 21 March 2005 on current and periodical information provided by issuers of securities, § 100 section 1 para. 4, PKN ORLEN Management Board hereby honestly and sincerely declares that the half-year financial statements and comparative data have been prepared in accordance with the Group accounting principles in force (excluding exceptions discussed below) and that they reflect the true and fair view of PKN ORLEN's financial status and its financial result, and that the half-year report of the Board provides the true overview of PKN ORLEN's development, achievements, and its business situation, including basic risks and exposures.

The consolidated half-year financial statements presented in this consolidated half-year report and condensed standalone half-year financial statements attached to the report were prepared in accordance with the International Financial Reporting Standards and in the scope required under the Council of Ministers' Decree of 21 March 2005 on current and periodical information provided by issuers of securities (Journal of Laws No. 49, item 463) and they embrace the period from 1 January to 30 June 2005 and the comparative period of from 1 January to 30 June 2004.

When preparing these consolidated financial statements the Group applied International Financial Reporting Standards effective as of 30 June 2005. In accordance with IFRS 3, these consolidated financial statements include an initial impact of acquisition of UNIPETROL financial assets, due to the conducted valuation process of the acquired assets (the discussed transaction was recognised based on initial impact of valuation of the net acquired assets except for the assets of Česka Rafinerska) and the ongoing process of determining the final acquisition cost.
The carrying value of property, plant and equipment was remeasured as of 1 January 2004 by an independent expert. The Group recognised the effect of the measurement. 90% of net property, plant and equipment assigned to valuation was measured in accordance with the principles discussed under section A, Accounting Principles "Property, plant and equipment" due to the ongoing process aiming at full compliance with the International Accounting Standard 29 'Financial Reporting in Hyperinflationary Economies' (IAS 29) and the International Accounting Standard 16 'Property, Plant and Equipment' (IAS 16). The Group recognized the revalued amount as the deemed cost as at the date of measurement.
The Management Board of the Company expects to complete the process yet in 2005, which will ensure application of all IFRSs required for 2005 statutory reporting before the year end. According to the Board, the projected effect of potential adjustments related to compliance with the above requirements will not impact significantly the assets, equity or the Group results for the first half of 2005.
In accordance with IAS 16, the Group has commenced a process aiming to ensure that all significant items of plant, property and equipment with different economic useful lives or depreciation methods, be identified in order to calculate relevant depreciation rates. The Group plans to conclude the process before the end of 2005.

As at the date of preparation of consolidated financial statements, the Group applied transitional provisions of IFRS 3 'Business Combinations' for conversion of comparative data as at 1 January 2004 (required by IFRS 1), as discussed below. The Group applied also an exemption contained in IFRS 1 for business combinations despite the fact that it did not fully comply with IFRS 1 requirements as at the date of preparation of these financial statements. In accordance with IFRS 3, if IFRS 1 requirements are not complied with in 2005, the Group should apply transitional provisions of IFRS 3 from 1 January 2005. Consequently, if IFRS 1 requirements are not met before the end of 2005, the Group will make relevant adjustments to its opening balance sheet of 1 January 2005.
Goodwill resulting from business combinations which were conducted before 1 January 2004 is stated at the amount defined under the previous generally accepted accounting principles effective as at the IFRSs adoption date, i.e. on 1 January 2004.

These consolidated financial statements are compliant with all IFRS requirements adopted by the EU and present a true and fair view of the Group's financial position as at 30 June 2005, 31 December 2004 and 30 June 2004, results of its operations and cash flows for the periods of 6 months ended 30 June 2005 and 30 June 2004.

The consolidated financial statements were prepared assuming that the Group will continue to operate as going concerns in the foreseeable future. As at the approval date of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as going concerns.

## (b) Appointment of an independent auditor

PKN ORLEN SA Board hereby announces that an entity authorised to audit financial statements, conducting a review of the half-year consolidated financial statements and the half-year condensed financial statements was appointed in compliance with legal requirements and that the entity and the chartered accountants conducting the review comply

with the conditions for issuing an independent and impartial review report, as provided for in the respective local regulations.

In accordance with corporate governance adopted by PKN ORLEN S.A. Management Board, an independent auditor was appointed by the Supervisory Board under Resolution No. 485/2005 of 21 January 2005 to appoint the independent auditor. The Supervisory Board made the above decision ensuring full independence and impartiality of the appointment and work to be performed by the independent auditor.

### (c) Restructuring of the Group

As a result of the Polish Government's Restructuring and Privatization Programme for the oil sector, the State Treasury, by its holding in Nafta Polska S.A., restructured the Polish oil sector in the years 1997 – 1999. The existing Group is a result of that restructuring of several significant companies which operated under a joint control of Nafta Polska S.A. and the State Treasury. In particular the restructuring of the Polish oil sector comprised the following transactions:

- before the merger of Centrala Produktów Naftowych "CPN" S.A. ("CPN") and Petrochemia Płock:

- separation of Dyrekcja Eksploatacji Cystern Sp. z o.o. from CPN – an entity dealing with exploitation of railway tanks used for transportation of crude oil products,
- CPN's sale of shares in Naftobazy Sp. z o.o. – an operator of large warehouse facilities used for storage of crude oil products.

- acquisition of rafineries: Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A.,

- merger of Petrochemia Płock S.A. and Centrala Produktów Naftowych "CPN" S.A. – the main retailer of fuels in Poland.

To the extent reflecting the Polish State Treasury's interest in the restructured companies of the oil sector, the transactions were recognised as transactions under joint control using the united interest method of accounting by analogy to International Accounting Standard 22 "Business Combinations" (IAS 22).

### (d) Entities included in consolidated financial statements

These consolidated financial statements for the periods ended 30 June 2005 and 31 December 2004 include the following Group entities located in Poland, Germany and the Czech Republic:

| | Share in total voting rights[1)] | |
|---|---|---|
| | 30 June 2005 | 31 December 2004 |
| | (full %) | |
| PKN ORLEN | Parent company | |
| ORLEN Deutschland AG | 100% | 100% |
| ORLEN Gaz Sp. z o.o. | 100% | 100% |
| ORLEN PetroCentrum Sp. z o.o. | 100% | 100% |
| ORLEN Medica Sp. z o.o. | 100% | 100% |
| ORLEN Budonaft Sp. z o.o. | 100% | 100% |
| ORLEN Powiernik Sp. z o.o. | 100% | 100% |
| ORLEN KolTrans Sp. z o.o. | 100% | 100% |
| ORLEN Transport Szczecin Sp. z o.o. | 100% | 100% |
| ORLEN ASFALT Sp. z o.o. (former Bitrex Sp. z o.o.) | 100% | 100% |
| ORLEN Petroprofit Sp. z o.o. Group | 100% | 100% |
| including: | | |
| Petro-oil LCS Sp. z o.o. | 100% | 100% |
| Petrooktan Sp z o.o. | 51% | 51% |
| ORLEN Morena Sp. z o.o. | 100% | 100% |
| Raf Trans Sp. z o.o. | 99% | 99% |
| ORLEN Transport Kraków Sp. z o.o. | 98% | 98% |
| ORLEN Transport Płock Sp. z o.o. | 98% | 98% |
| ORLEN Transport Nowa Sól Sp. z o.o. | 97% | 97% |
| Zakład Budowy Aparatury S.A. | 97% | 97% |
| ORLEN Transport Słupsk Sp. z o.o. | 97% | 97% |

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| | | |
|---|---|---|
| ORLEN Transport Poznań Sp. z o.o. [2] | - | 96% |
| ORLEN Laboratorium Sp. z o.o. | 95% | 95% |
| ORLEN Transport Olsztyn Sp. z o.o. | 95% | 95% |
| ORLEN Transport Warszawa Sp. z o.o. [2] | - | 94% |
| ORLEN– Oil Sp. z o.o. Group | 92% | 92% |
| ORLEN Petro – Tank Sp. z o.o. | 90% | 90% |
| ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. | 94% | 94% |
| Petrotel Sp. z o.o. | 81% | 89% |
| Anwil S.A. Group | 84% | 76% |
| Including: | | |
| Przedsiębiorstwo Inwestycyjno – Remontowe Remwil Sp. z o.o. | 100% | 100% |
| Przedsiębiorstwo Produkcyjno – Handlowo – Usługowe Pro – Lab Sp. z o.o. | 99% | 99% |
| Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o. | 56% | 56% |
| Rafineria Trzebinia S.A. Group | 77% | 77% |
| including: | | |
| Energomedia Sp. z o.o. | 100% | 100% |
| Euronaft Sp. z o.o. | 100% | 100% |
| Nafto Wax Sp. z o.o. | 100% | 100% |
| Ekonaft Sp. z o.o. | 99% | 99% |
| Rafineria Nafty Jedlicze S.A. Group | 75% | 75% |
| including: | | |
| RAF – LAB Sp. z o.o. | 100% | 100% |
| RAF – ENERGIA Sp. z o.o. | 100% | 100% |
| RAF – KOLTRANS Sp. z o.o. | 100% | 100% |
| RAF – REMAT Sp. z o.o. | 96% | 96% |
| RAF – EKOLOGIA Sp. z o.o. | 93% | 93% |
| Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A. | 81% | 81% |
| Inowrocławskie Kopalnie Soli "Solino" S.A. | 71% | 71% |
| Unipetrol a.s. Group [3] | 63% | - |
| including: | | |
| CHEMOPETROL a.s. | 100% | - |
| KAUČUK a.s. | 100% | - |
| BENZINA a.s. | 100% | - |
| UNIPETROL TRADE a.s. | 100% | - |
| UNIPETROL RAFINERIE a.s. | 100% | - |
| UNIPETROL - DOBRAVA a.s. | 100% | - |
| B.U.T. s.r.o. | 100% | - |
| CHEMOPETROL BM a.s. | 100% | - |
| POLYMER INSTITUT BRNO spol. s.r.o. | 100% | - |
| UNIPETROL CHEMICALS IBERICA S.A. | 100% | - |
| CHEMAPOL (SCHWEIZ) AG | 100% | - |
| UNIPETROL AUSTRIA HmbH | 100% | - |
| ALIACHEM VERWALTUNGS GmbH | 100% | - |
| UNIPETROL DEUTSCHLAND GmbH | 100% | |
| ALIAPHARM GmbH | 100% | - |
| BENZINA Trade a.s. | 100% | - |
| PETROTRANS a.s. | 100% | - |
| Paramo Trysk a.s. | 100% | - |
| SPOLANA a.s. | 92% | - |
| PARAMO a.s. | 74% | - |
| HC CHEMOPETROL a.s. | 71% | - |
| Česka Rafinerska [4] | 51% | - |

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| | | |
|---|---|---|
| Ship-Service S.A. Group | 56% | 56% |
| including: | | |
| Bor – Farm Sp. z o.o. | 100% | 100% |
| ORLEN Automatyka Sp. z o.o. | 52% | 52% |
| ORLEN PetroZachód Sp. z o.o. | 52% | 52% |
| Petrogaz Wrocław Sp. z o.o. | 52% | 52% |
| Petrolot Sp. z o.o. | 51% | 51% |
| ORLEN Projekt Sp. z o.o. | 51% | 51% |
| ORLEN Wir Sp. z o.o. | 51% | 51% |
| Basell Orlen Polyolefins Sp z o. o. [4] | 50% | 50% |

[1] Share in the total voting rights equals the participation in the share capital, except for the Ship Service S.A. Group, where the share amounts to 61%;
[2] Entities taken over by ORLEN Transport Płock Sp. z o.o. in the 2nd quarter 2005;
[3] The Group acquired in 2nd quarter 2005;
[4] Entities consolidated using the proportionate method.

## 3. Measurement and reporting currency

The measurement currency of the Parent Company and the reporting currency of these consolidated financial statements is Polish New Zloty. For assets and liabilities expressed in foreign currencies as at the balance sheet date, the same average National Bank of Poland exchange rate is applied as announced on the balance sheet date.
The financial statements of foreign entities are translated into the Polish currency in the following way:

- balance sheet items at the average National Bank of Poland rate announced on the balance sheet date;
- profit and loss items at the arithmetic average of average rates announced by the National Bank of Poland for each day ending a reporting month.

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

## 4. Accounting principles and policy

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

### (a) Principles of consolidation

**- Subsidiaries**

The Group consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority shareholders' interest is recognised in equity. Net profit attributable to minority shareholders is shown in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

**- Investments in associates**

Investments in associated companies (overall investments ranging from 20% to 50% in a company's equity) where the Group exercises significant financial and operating influence, yet does not have control over them, are accounted for by the equity method. Assessment of the recovering value of investments in associates is performed when there are indications that the asset has been impaired or the impairment losses recognised in prior years are no longer required.

**- Investments in jointly controlled entities**

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, having deducted an impact of mutual transactions and settlements, is presented position by position with similar items in the consolidated financial statements.

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**(b) Property, plant and equipment**

Property, plant and equipment, excluding investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the fixed asset into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, fixed assets are depreciated and subject to impairment write-offs.

Tangible fixed asset items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment write-offs.

Fixed assets acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment losses. In order to comply with the above requirements, in accordance with IFRS 1, the Group commissioned an independent expert to perform a preliminary revaluation of fixed assets to fair value as at the date of application of IFRS 1 and recognized the value as deemed cost as at that date. The Parent Company's Management Board expects that the revaluation process will be concluded in 2005, which will ensure application of all IFRS principles required in 2005 for statutory reporting by the end of that year. According to the Board, the estimated result of recognition of potential adjustments resulting from the above requirements will not impact significantly the Group assets, equity or financial results for the first half of 2005.

The cost of significant repairs and regular maintenance programmes are regarded as tangible fixed assets and depreciated in accordance with their economic useful life.

The cost of significant repairs and regular maintenance programmes is recognised as tangible fixed assets and depreciated in accordance with their economic useful lives.

Fixed assets are depreciated on a straight line basis over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified once a year, and respective adjustments are made to the subsequent periods of depreciation. Components of fixed assets which are material for the whole fixed asset are depreciated separately in accordance with their economic useful life.

In the first half of 2005, the Company has not implemented the component accounting. The Company commenced the process to ensure that all material components of tangible fixed assets with different useful lives or depreciation methods would be identified in order to calculate relevant depreciation. The Company expects that this process will be concluded by the end of 2005.

The Group estimates the residual value of fixed assets. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life.
The residual value is not subject to depreciation and is reviewed once a year.

The following useful lives are used for property, plant and equipment:

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machines and equipment | 3-25 years |
| Vehicles and other | 4-17 years |

Assets with an estimated useful life not exceeding one year and with an initial cost not exceeding PLN 3.5 thousand are expensed when accepted for use.

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analysed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount. The recoverable amount of fixed assets reflects the higher of net selling cost and value in use.
Impairment write-offs are recognised as operating costs in the profit and loss.

**(c) Finance lease**

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the above defined criteria are regarded as fixed assets and recognised at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are treated as long-term receivables and stated at the net lease investment value.

**(d) Goodwill**

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment losses.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortised.

**(e) Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognises immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

**(f) Intangible assets**

Intangible assets are recognised if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognised at fair value as defined at the business combination date.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortisation and impairment losses. Intangible assets are amortised using the straight line method over their estimated economic useful life. Appropriateness of the applied amortisation periods and rates is regularly reviewed, at least at the end of the reporting year, and potential adjustments to amortisation rates are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortised. Their value is decreased by impairment losses.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful lives for amortisation of intangible assets are:

| | |
|---|---|
| Acquired licenses, patents, and similar intangible assets | 2-15 years |
| Acquired computer software | 2-10 years |

Except for development costs, all intangible assets generated by the Group are not recognised as assets and are recorded in the profit and loss for the period when the related cost has been incurred.

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.

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Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

**(g) Investment property**

Investment property is initially recognised at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is derecognised when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from derecognition of the investment property are recognised in the profit and loss in the period of derecognition.

**(h) Inventories**

Inventories are measured at the lower of cost and net realisable value, considering any inventory allowances. The net realisable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.

Cost is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding cost of external financing.

**(i) Receivables**

Trade receivables are recognised when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortised cost using the effective interest method less allowances for doubtful receivables.
Bad debts are stated in the profit and loss when it is determined that they are not collectable.

**(j) Cash and cash equivalents**

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of an entity's cash management.

**(k) Revenue from sale**

Revenue from sales is recognised when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. The revenue from the sale of finished goods and merchandise is recognised after deducting value added tax (VAT), excise tax (finished goods), fuel charges (finished goods) and discounts.

Revenue from the sale of goods and merchandise is recognised when the goods are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjust the sales revenue.

The revenue is measured at the fair value of the received or due payment.

**(l) Revenue from dividends**

Dividends are recognised when the shareholder's right to receive payment is established.

**(m) Equity**

Equity is stated in the accounting books by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.

The stated outstanding share capital contributions are recognised as outstanding share capital contributions. Own shares and outstanding contributions to the share capital decrease the Company's equity.
Share premium is created by the surplus of the issuance value in excess of the nominal value decreased by issuance costs.
Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value, and the remaining portion is presented in other capital reserves.

Changes in the fair value of cash flows hedges related to the portion regarded as an effective hedge are included in equity as hedge accounting reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortised discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve capital, the undistributed income from prior periods and the current period net income are presented in the financial statements as retained earnings.

**(n) Loans and borrowings**

Loans are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognised at amortised cost in line with the effective interest rate method. The difference between the net proceeds and the buyout amount is recognised as financial revenue or cost over the term of the loan or borrowing.

**(o) External financing costs**

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

**(p) Retirement benefits and jubilee bonuses**

Under the Group companies' remuneration plans, their employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group makes a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present amount of those liabilities at each balance sheet date is estimated by an independent actuary. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period before the balance sheet date. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognised in the profit and loss.

**(q) Foreign currency transactions**

Transactions denominated in foreign currencies are recognised after their translation to the functional currency, i.e. Polish New Zloty, at the exchange rate effective on the transaction date. Monetary assets and liabilities expressed in foreign currencies are stated at the National Bank of Poland average foreign exchange rates announced at the balance sheet date. Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognised as financial income or cost in the profit and loss statement. The exchange differences are stated in the profit and loss at their net amount.

**(r) Financial instruments**

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets classified as available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Company intends and has the ability to hold to the maturity date. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.

All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

Financial investments held to maturity are part of long-term assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets at fair value, the change in which is recognised in the profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognised at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market price as at the balance sheet date. The change in fair value of those financial assets is recognised as financial income or costs.
Financial assets held to maturity are measured at the amortised cost using the effective interest rate.

Financial assets available for sale are recognised at fair value, without deduction of the transaction costs, and considering their market price at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment losses.

Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decreases in the value of financial assets available for sale due to impairment losses is charged to financial costs in the profit and loss.

Granted loans are presented at amortised cost.

Derivatives which are not designated as hedging instruments and are classified as financial assets or liabilities at fair value are stated at fair value through profit and loss.

Derivatives treated as cash flow hedge instruments are carried at fair value with changes in value accounted for in the following way:
- the portion determined to be an effective hedge is recognised directly in equity through the statement of changes in equity;
- the portion determined to be an ineffective hedge is recognised in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognised in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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 realization terms as the embedded derivative would meet the definition of a derivative;
- is not the hybrid (combined) instrument

The hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the net profit and loss.

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

Financial instruments are not presented in the financial statements if the title and control resulting from the underlying contract is lost which usually takes place on disposal of the financial instrument or when all related cash flows are transferred to a third party.

Derivatives used by the Company in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.

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When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognised asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognised asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion of the gain or loss is recognised in the profit and loss.
The gain or loss from the re-measurement of the derivative hedging instruments at fair value that do not comply with the hedge accounting criteria are recognised directly in the profit and loss.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such case, total gain or loss on the hedging instrument, previously recognised in equity, is recognised in equity until the forecast transaction takes place. If the Company no longer expects the forecast transaction to take place, the total net gain or loss recognised in equity is presented in the financial result of the current period.

### (s) Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognised for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognised for all temporary tax differences.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to be realised.
Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

### (t) Non-current assets classified for disposal/sale

Non-current assets classified for sale are those which comply with the following criteria:
- a decision was made by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active search for a potential buyer has been initiated;
- the sale transaction is highly probable and could be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets designated for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

### (u) Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period 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 a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

### (v) Provisions and liabilities

The Group makes provisions if it has such a legal or constructive obligation as a result of past events and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a

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reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When the effect of the time value of money is material, the amount of the provision and liability is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financing costs.

**(w) Environmental provisions**

The Group makes provisions for future liabilities for reclamation of contaminated land or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provisions for reclamation are periodically reviewed based on reports prepared by independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

The created provision reflects potential future expenses predicted to be incurred, estimated and verified periodically according to current prices.

**(x) Government grants and assistance**

The government grants are recognised at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognised as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognised as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

**(y) Contingent liabilities and receivables**

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognised in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognised as provisions in the balance sheet .

Contingent receivables are not recognised in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

**(z) Company's Board estimates**

The preparation of financial statements in accordance with IFRSs requires that the Company's Board makes relevant estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. Actual results may differ from those estimations.

In the matters of considerable weight, the Company's Board bases its estimates on opinions of independent experts.

**(ź) Business segments**

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

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

- The Chemical Segment includes production and sale of petrochemical products by PKN ORLEN and fertilizers and PCW by Anwil S.A.

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

Segment profit and assets have been determined before making intersegment adjustments as appropriate. Selling prices between business segments are similar to market values. Segment operating costs have been allocated as appropriate.

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Other costs which cannot be reliably determined have been included as unallocated Group expenses, reconciling total segment results to profit from operations.

**Adjustments from consolidation**

Internal balances between the Group companies, transactions concluded within the Group and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements depending on the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements based on the same rationale as in case of unrealized gains, until there are indications of impairment.

**Application of the accounting principles**

The above principles are applicable for comparative data, except principles concerning treatment of assets designated for sale, which have been applied since 1 January 2005.

**Composition of the Company's Management Board**

As at 30 June 2005, the Company's Management Board consisted of:

Igor Chalupec – President of the Board, General Executive Officer
Wojciech Heydel – Vice-President of the Board, Retail and Commercial Sales
Jan Maciejewicz – Vice-President of the Board, Cost Management and Information Technology
Cezary Smorszczewski – Vice-President of the Board, Chief Investment Officer
Paweł Szymański – Member of the Board, Chief Finance Officer

Upon the motion of the Polish Minister of State Treasury, PKN ORLEN Supervisory Board at the sitting on 19 July 2005, appointed Dariusz Witkowski as PKN ORLEN Board Member responsible for Organisation, effective 1 August 2005.

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## 5. Property, plant and equipment

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Land | 789 050 | 349 077 | 355 212 |
| Buildings and constructions | 7 456 974 | 5 349 691 | 5 401 646 |
| Machinery and equipment | 7 231 931 | 3 015 940 | 3 205 991 |
| Vehicles and other | 581 888 | 401 282 | 395 997 |
| Construction in progress | 2 227 617 | 1 947 248 | 1 395 790 |
| **Total property, plant and equipment** | **18 287 460** | **11 063 238** | **10 754 636** |
| incl. impairment allowances* | 416 911 | 282 351 | 293 006 |

The movements by type in each year were as follows:

| | Land | Buildings and constructions | Machinery and equipment | Vehicles and other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 1 January 2004 | 388 833 | 7 595 218 | 6 806 520 | 729 355 | 1 001 760 | 16 521 686 |
| Increase | 14 824 | 167 162 | 151 293 | 48 687 | 715 131 | 1 097 097 |
| Reclassification | 9 | (331) | (17) | 339 | - | - |
| Decrease | (8 046) | (81 088) | (91 572) | (30 869) | (321 101) | (532 676) |
| **30 June 2004** | **395 620** | **7 680 961** | **6 866 224** | **747 512** | **1 395 790** | **17 086 107** |
| 1 January 2005 | 390 412 | 7 792 557 | 6 906 196 | 575 645 | 1 947 248 | 17 612 058 |
| Increase | 22 307 | 269 132 | 325 658 | 276 079 | 748 211 | 1 641 387 |
| Reclassification | - | 3 522 | (4 012) | 490 | - | - |
| Decrease | (2 131) | (38 649) | (37 341) | (35 368) | (623 998) | (737 487) |
| Increases related to acquisition of Unipetrol ** | 424 458 | 3 474 114 | 7 773 234 | 324 282 | 156 156 | 12 152 244 |
| **30 June 2005** | **835 046** | **11 500 676** | **14 963 735** | **1 141 128** | **2 227 617** | **30 668 202** |
| **Accumulated depreciation and impairment allowances** | | | | | | |
| 1 January 2004 | 488 | 2 027 137 | 3 362 058 | 316 955 | - | 5 706 638 |
| Depreciation | 34 | 243 454 | 354 902 | 43 455 | - | 641 845 |
| Other increases | - | 894 | 115 | 3 442 | - | 4 451 |
| Impairment allowances | 39 904 | 53 357 | 5 753 | 1 058 | - | 100 072 |
| Reclassification | 9 | (94) | (13) | 98 | - | - |
| Decrease | (27) | (45 433) | (62 582) | (13 493) | - | (121 535) |
| **30 June 2004** | **40 408** | **2 279 315** | **3 660 233** | **351 515** | **-** | **6 331 471** |
| 1 January 2005 | 41 335 | 2 442 866 | 3 890 256 | 174 363 | - | 6 548 820 |
| Depreciation | 277 | 242 531 | 305 825 | 49 028 | - | 597 661 |
| Other increases | - | 16 934 | 19 915 | 176 182 | - | 213 031 |
| Impairment allowances | 4 389 | 98 621 | 32 128 | (99) | - | 135 039 |
| Reclassification | - | 2 096 | (2 698) | 602 | - | - |
| Decrease | (5) | (33 994) | (32 166) | (24 262) | - | (90 427) |
| Increases related to acquisition of Unipetrol | - | 1 274 648 | 3 518 544 | 183 426 | | 4 976 618 |
| **30 June 2005** | **45 996** | **4 043 702** | **7 731 804** | **559 240** | **-** | **12 380 742** |
| **Net book value** | | | | | | |
| **1 January 2004** | **388 345** | **5 568 081** | **3 444 462** | **412 400** | **1 001 760** | **10 815 048** |
| **30 June 2004** | **355 212** | **5 401 646** | **3 205 991** | **395 997** | **1 395 790** | **10 754 636** |
| **1 January 2005** | **349 077** | **5 349 691** | **3 015 940** | **401 282** | **1 947 248** | **11 063 238** |
| **30 June 2005** | **789 050** | **7 456 974** | **7 231 931** | **581 888** | **2 227 617** | **18 287 460** |

* including PLN 166,906 thousand of impairment allowances relating to Unipetrol as at acquisition date

** including increase of PLN 1,170,644 thousand relating to valuation as at aqcuisition date of Unipetrol, details see Note 35b

Transfers from construction in progress to other groups of Property, plant and equipment are presented in additions at cost.

The Group recognises perpetual usufruct of land granted by virtue of law at fair value which is the deemed cost at recognition less impairment losses. The revaluation process initiated at the Company enabled to determine a fair value of those rights, i.e. PLN 904,467 thousand. The Company recognises the above rights in the off-balance items.

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The property, plant and equipment items of the carrying amount of PLN 100,048 thousand pledged the Group liabilities as at 30 June 2005, those of PLN 167,327 thousand as at 31 December 2004, and PLN 313,875 thousand as at 30 June 2004.

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

As at 30 June 2005 and 31 December 2004 construction in progress included:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) |
|---|---|---|
| Revamping of Olefin II production unit | 839,152 | 864,226 |
| Installation of Polipropylen HD - HOSTALEN | 262,246 | 235,000 |
| Installation of Polipropylen III - Spheripol | 242,522 | 205,403 |
| Change in production technology of chlorine from diaphragme to membrane | 108,477 | 27,638 |
| Financial expenses in the intangible assets group and undividable expenses and preparatory work | 72,750 | 67,785 |
| Construction of Craking petrol desulphurization installation | 59,179 | 15,834 |
| Construction of installation for hydrofining of paraffins | 48,821 | 24,413 |
| Construction of Logistics Platform at BOP | 46,829 | 42,944 |
| Intensification of Aromatics Extraction Installation | 41,941 | 45,597 |
| New technology of sulphur reduction from fuels | 39,722 | - |
| Intensification of IFP, Pyrotol, Butadiene | 35,273 | 79,797 |
| Infrastructure of Olefin II | 27,784 | 94,071 |
| Construction of an underground crude oil and petrol storage | 22,118 | 17,367 |
| Installation of Polymeroasphalts | 16,577 | 799 |
| Construction of 41D and 43 A,B,C,D tanks | 15,249 | 1,484 |
| Construction of installation for production of biodiesel | 14,138 | 8,431 |
| Non-current assets from purchases | 13,060 | - |
| Infrastructure of PP III and PE III | 8,957 | 40,984 |
| Other construction in progress | 312,821 | 175,476 |
| **Total** | **2,227,617** | **1,947,248** |

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

## 6. Investment property

Investment property relates to a social and office building valued at PLN 17,653 thousand, totally designated for rental, which constitutes investment property as defined by IAS 40.

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## 7. Goodwill

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Orlen PetroTank | 11 298 | 11 298 | 11 298 |
| ShipService | 6 645 | 6 645 | 6 645 |
| PetroProfit | 1 175 | 1 175 | 1 175 |
| Other | 1 383 | 1 383 | 1 015 |
| **Total** | **20 501** | **20 501** | **20 133** |

Net changes in goodwill for the period of 6 months ended 30 June 2005, for the period of 12 months ended 31 December 2004 and for the period of 6 months ended 30 June 2004 were as follows:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Goodwill, beginnig of period | 20 501 | 20 856 | 20 856 |
| Additions during the period | - | - | - |
| Disposals during the period | - | (355) | (723) |
| **End of period** | **20 501** | **20 501** | **20 133** |

## 8. Intangible assets

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Acquired licenses, patents and similar intangible assets | 519 836 | 274 855 | 53 698 |
| Acquired computer software | 30 608 | 14 603 | 15 344 |
| Other* | 216 980 | 54 973 | 284 914 |
| **Total intangible assets** | **767 424** | **344 431** | **353 956** |

* Including development costs, goodwill and other.

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

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| | Acquired computer software | Acquired licenses, patents and similar intangible assets | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2004 | 28 140 | 187 035 | 311 657 | 526 832 |
| Increase | 5 554 | 3 680 | 643 | 9 877 |
| Decrease | (462) | (6) | (1 120) | (1 588) |
| **30 June 2004** | **33 232** | **190 709** | **311 180** | **535 121** |
| 1 January 2005 | 34 940 | 440 991 | 76 930 | 552 861 |
| Increase | 1 928 | 14 320 | 10 649 | 26 897 |
| Decrease | (1 442) | (608) | (2 066) | (4 116) |
| Increases related to acquisition of Unipetrol * | 97 191 | 300 015 | 166 052 | 563 258 |
| **30 June 2005** | **132 617** | **754 718** | **251 565** | **1 138 900** |
| 1 January 2004 | 15 791 | 120 964 | 21 114 | 157 869 |
| Depreciation | 2 299 | 16 048 | 5 614 | 23 961 |
| Other increases | 3 | - | - | 3 |
| Impairment allowances | - | 5 | - | 5 |
| Decrease | (205) | (6) | (462) | (673) |
| **30 June 2004** | **17 888** | **137 011** | **26 266** | **181 165** |
| 1 January 2005 | 20 337 | 166 136 | 21 957 | 208 430 |
| Depreciation | 4 016 | 17 584 | 3 096 | 24 696 |
| Other increases | 70 | 315 | 4 | 389 |
| Impairment allowances | (1) | (26) | (480) | (507) |
| Decrease | (421) | (570) | (86) | (1 077) |
| Increases related to acquisition of Unipetrol | 78 008 | 51 443 | 10 094 | 139 545 |
| **30 June 2005** | **102 009** | **234 882** | **34 585** | **371 476** |
| **Net book value** | | | | |
| **1 January 2004** | **12 349** | **66 071** | **290 543** | **368 963** |
| **30 June 2004** | **15 344** | **53 698** | **284 914** | **353 956** |
| **1 January 2005** | **14 603** | **274 855** | **54 973** | **344 431** |
| **30 June 2005** | **30 608** | **519 836** | **216 980** | **767 424** |

* including PLN 187,971 thousand increase relating to valuation at at the purchase date of Unipetrol

## 9. Financial assets

### (a) significant shares in other entities

| | 30 June 2005 | 31 December 2004 | 30 June 2004 | Group interest in equity as at 31 December 2004 | Group voting rights | Principal activity |
|---|---|---|---|---|---|---|
| Polkomtel S.A. | 436,495 | 436,495 | 436,495 | 19.61% | 19.61% | GSM mobile operator |
| AWSA Holland II B.V. | 61,400 | 61,400 | 61,400 | 9.22% | 9.22% | Parent company of Autostrada Wielkopolska S.A. |
| Telewizja Familijna[1)] | 26,004 | 26,004 | 26,004 | 11.96% | 9.61% | Radio and television broadcasting activity |
| Other | 145,576 | 29,201 | 20,130 | | | |
| Total | 669,475 | 553,100 | 544,029 | | | |

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| | | | |
|---|---|---|---|
| Impairment | (53,506) | (52,366) | (50,478) |
| **Net value of significant shares in other entities** | **615,969** | **500,734** | **493,551** |
| **(b) loans granted** | | | |
| Other | 8,917 | 10,830 | 21,490 |
| **Total** | **8,917** | **10,830** | **21,490** |
| **(b) financial assets held to maturity** | | | |
| Telewizja Familijna S.A. bonds[1)] | 26,004 | 26,004 | 26,004 |
| Impairment | (26,004) | (26,004) | (26,004) |
| **Net value of financial assets held to maturity** | - | - | - |
| **Total net value of financial assets** | **624,886** | **511,564** | **515,041** |

[1)] On 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was announced; carrying value of shares and bonds as at 30 June 2005 and 31 December 2004 is subject to impairment for the total amount of assets.

Investments available for sale are carried at purchase cost less impairment charges since they do not have quoted market prices on an active market and their fair value cannot be reliably measured by alternative methods.

Shares of Polkomtel S.A., a Polish GSM mobile operator, are presented at purchase cost of PLN 436,495 thousand (19.61% interest in the share capital) as at 30 June 2005. The Management Board of PKN ORLEN has requested relevant legal analyses in order to determine if, according to IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures', Polkomtel may be recognised as a jointly controlled entity, consolidated by the proportionate method.
As at 30 June 2005, PKN ORLEN held 9.22% share in AW S.A. Holland II B.V. ("AWSA") share capital at the total purchase price of PLN 61,400 thousand. AWSA is the parent company of Autostrada Wielkopolska S.A., which

possesses a license to construct motorways in Poland. The Company has a put option for AWSA shares, exercisable on each demand of PKN ORLEN SA till 31 December 2006 and a call option valid till 7 January 2038 if Kulczyk Holding S.A. withdraws from the investment. The Company's Management believes that both options are fully exercisable. Additionally, PKN ORLEN S.A. provided Kulczyk Holding S.A. with a call option for AW S.A. Holland II B.V. shares realisable on each demand between 1 January 2005 and 31 December 2006.

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

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## 10. Investments in associates

As at 30 June 2005, 31 December 2004 and 30 June 2004 the Group's investments accounted for under the equity method were as follows:

| | Recorded value under equity method as at | | | Group interest in equity as at 30 June 2005 | Principal activity |
|---|---|---|---|---|---|
| | 30 June 2005 | 31 December 2004 | 30 June 2004 | | |
| Agrobohemie a.s. | 257,268 | - | - | 50% | Wholesale |
| Allachem a.s. | 242,113 | - | - | 38.90% | Production of chemicals |
| Naftoport Sp. z o.o. | - | 52,017 | 48,795 | 48.71% | construction, operation and maintenance of loading stations for liquid fuel |
| Other | 11,662 | 65,997 | 82,755 | | |
| **Total** | **511,043** | **118,014** | **131,550** | | |

## 11. Inventories

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Raw materials | 3 019 008 | 1 594 284 | 1 696 613 |
| Work in progress | 563 927 | 322 764 | 350 819 |
| Finished goods | 1 694 950 | 1 103 408 | 1 030 644 |
| Merchandise | 354 878 | 204 434 | 240 151 |
| **Total inventory, net** | **5 632 763** | **3 224 890** | **3 318 227** |

The inventory allowances to net realisable value amounted to PLN 10,654 thousand in the period of 6 months ended 30 June 2005 and PLN 7,359 thousand in the period of 6 months ended 30 June 2004.

As at 30 June 2005, 31 December 2004 and 30 June 2004 the carrying amounts of inventories pledged the Group liabilities were PLN 32,225 thousand, PLN 14,380 thousand and PLN 54,185 thousand respectively.

Beginning from 2002, the level of mandatory reserves is created based on a schedule defined by the Decree of the Ministry of Economy of 14 June 2002 (Journal of Laws 84 item 756) so as to reach the level of 76 days of liquid fuel production or imports of the prior calendar year less exports of the entity as at the end of 2008 (moreover the Ministry respective for economy is responsible for setting economic fuel reserves: for liquid fuel in the quantity equal to 14 fuel consumption days in the current year). As at 30 June 2005, 31 December 2004 and 30 June 2004, the value of

mandatory inventory reserves in the Group amounted to PLN 1,687,074 thousand, PLN 1,304,472 thousand and PLN 1,256,708 thousand, respectively.

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## 12. Trade and other receivables

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Trade receivables | 3 966 350 | 2 155 698 | 2 226 413 |
| Taxation, duty and social security receivables | 307 336 | 226 064 | 179 844 |
| Receivables from sale of property, plant and equipment | 51 460 | 3 477 | 1 900 |
| Prepayments for property, plant and equipment | 32 923 | 27 915 | 140 074 |
| Other receivables * | 1 364 476 | 659 474 | 597 955 |
| Total trade and other receivables, gross | 5 722 545 | 3 072 628 | 3 146 186 |
| Receivables allowances | (717 057) | (473 828) | (317 159) |
| **Total trade and other receivables, net** | **5 005 488** | **2 598 800** | **2 829 027** |

* The increase in other receivables in the first half of 2005 relates to the purchase of the Unipetrol Group.

Total receivables include PLN 492,034 thousand in foreign currencies as at 30 June 2005, PLN 392,428 thousand as at 31 December 2004 and PLN 444,950 thousand as at 30 June 2004. Trade receivables relate primarily to the sales of finished goods and merchandise.
Concentration of credit risk related to trade receivables is limited due to the large number of customers comprising the Group's customer base belonging to different industries principally in Poland, Germany and the Czech Republic.
The normal repayment periods of receivables related to sales is 14 - 30 days.
Maximum credit risk amounts to PLN 3,896,883 thousand. The Management Board believes that the risk of doubtful receivables is reflected by the allowance set for doubtful accounts.
As at 30 June 2005, 31 December 2004 and 30 June 2004, the carrying amounts of PLN 161,266 thousand, PLN 167,541 thousand and PLN 194,074 thousand were assigned as security for the Group liabilities.

Provisions for receivables and changes therein for the years ended 30 June 2005, 31 December 2004 and 30 June 2004 were as follows:

| **Receivables allowances** | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Beginning of period | 473 828 | 317 058 | 317 058 |
| Allowance made during the period | 295 751 | 264 131 | 31 329 |
| Allowance reversed during the period | (49 897) | (95 955) | (30 498) |
| Allowance used during the period | (2 625) | (11 406) | (730) |
| **End of period** | **717 057** | **473 828** | **317 159** |

## 13. Short-term investments

Short-term investments as at 30 June 2005, 31 December 2004 and 30 June 2004 included treasury bonds, treasury bills and other short-term securities amounting to PLN 240,137 thousand, PLN 1,124,155 thousand and PLN 297,571 thousand, respectively, including:

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Available for sale | 18 637 | 85 344 | 287 734 |
| Held to maturity | 218 189 | 1 038 273 | 9 215 |
| Loans and receivables | 3 311 | 538 | 622 |
| **Total** | **240 137** | **1 124 155** | **297 571** |

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## 14. Short-term prepayments

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Subscriptions | 17 179 | 15 493 | 16 430 |
| Insurances | 56 693 | 22 643 | 56 355 |
| Other* | 90 154 | 63 955 | 79 556 |
| **Total** | **164 026** | **102 091** | **152 341** |

*Other prepayments include contributions to the Company's Social Fund, tax on vehicles, road charges and other.

## 15. Cash and cash equivalents

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Cash on hand and in bank | 907 374 | 676 738 | 807 948 |
| Other cash | 100 997 | 59 027 | 113 323 |
| Other monetary assets | 375 863 | 48 | 36 |
| **Total** | **1 384 234** | **735 813** | **921 307** |

Total cash denominated in foreign currencies amount to PLN 992,255 thousand as at 30 June 2005, PLN 482,142 thousand as at 31 December 2004 and PLN 651,398 thousand as at 30 June 2004.

Taking into account cooperation of the Group companies mainly with well-established Polish and international banks, the risk related to depositing cash and cash equivalents is considerably limited.

Beginning from 2001, the Group has concentrated cash and cash equivalents. As at 30 June 2005, the system embraces seventeen of the Group companies. Concentration of local currency cash in the cash pooling system takes place with cooperation with three banks, and concentration of foreign currency cash is performed by one bank. The operation of this system results in the Group's financial benefits.

In accordance with the Polish law, the Group companies registered in Poland manage the Company's Social Fund on behalf of their employees. The contributions paid to the Social Fund are deposited in separate bank accounts of the Group companies and cannot be used for operating activity. As at 30 June 2005, 31 December 2004, and 30 June 2004 cash relating to the Social Fund account amounted to PLN 20,025 thousand, PLN 28,979 thousand and PLN 35,105 thousand respectively. The receivables related to borrowings from the Social Fund drawn by employees as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 21,195 thousand, PLN 23,886 thousand and PLN 26,777 thousand respectively. Liabilities related to the Social Fund as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 47,464 thousand, PLN 35,245 thousand and PLN 45,195 thousand respectively and are included in deferred liabilities.

Apart from the above presented amounts related to the Social Fund, cash and cash equivalents for which availability is limited as at 30 June 2005, 31 December 2004 and 30 June 2004 amounted to PLN 89,442 thousand, PLN 247,263 thousand and PLN 85,241 thousand respectively.

## 16. Loans and borrowings

| | Note | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Bank loans | (a) | 4,283,637 | 2,300,971 | 2,529,479 |
| Other loans and borrowings | (b) | 18,802 | 24,164 | 30,212 |
| Debenture bonds | (c) | 476,473 | - | 74,742 |
| **Total** | | **4,778,912** | **2,325,135** | **2,634,433** |
| including: | | | | |
| Short-term portion | | 1,515,463 | 241,599 | 665,282 |
| Long-term portion | | 3,263,449 | 2,083,536 | 1,969,151 |

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As at 30 June 2005, 31 December 2004 and 30 June 2004, principal repayments fell due on:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| up to 1 year | 1,515,463 | 241,599 | 665,282 |
| from 1 to 5 years | 2,563,519 | 1,973,729 | 1,872,867 |
| above 5 years | 699,930 | 109,807 | 96,284 |
| **Total** | **4,778,912** | **2,325,135** | **2,634,433** |

The value of loans and borrowings drawn by the Group increased net by PLN 2,453,777 thousand for the 6 months ended 30 June 2005.
The change in indebtedness level results mainly from:

- drawing loans translated to PLN:
  - 103,044 thousand (including EUR 24,590 thousand) in Societe Generale Bank Consortium as the Leading entity
  - 169,081 thousand in Bank Pekao S.A.
  - 143,578 thousand (including CZK 750,000 thousand) in PKO BP S.A.
  - 17,587 thousand in BPH PBK S.A.
  - 149,768 thousand (including CZK 750,000 thousand) in BH w Warszawie S.A.
  - 7,555 thousand in BRE Bank S.A.
  - 3,019 thousand in Kredyt Bank
- loans drawn by the Unipetrol a.s. Group of PLN 1,534,081 thousand (CZK 11,405,808 thousand)
- issue of bonds of PLN 476,473 thousand
- PLN 72,401 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- repayment of loans translated to PLN:
  - 75,898 thousand (including USD 18,411 thousand) in ING Bank Śląski S.A.
  - 51,835 thousand in PKO BP S.A.
  - 36,716 thousand in BPH PBK S.A.
  - 17,064 thousand in BH SA.
  - 6,746 thousand in BNP PARIBAS POLSKA
  - 9,360 thousand resulting from foreign exchange differences at BOP
- repayment of loans in German entities:
  - EUR 2,640 thousand.

**(a) Bank loans by currency**

| | | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| Polish Zloty | (1) | 573,461 | 426,662 | 539,758 |
| US Dollar | (2) | 747,421 | 719,535 | 826,348 |
| Swiss Franc | (3) | 9,907 | 12,978 | 17,908 |
| EURO | (4) | 1,216,864 | 1,141,796 | 1,145,465 |
| CZK | (5) | 1,735,984 | - | - |
| **Total** | | **4,283,637** | **2,300,971** | **2,529,479** |

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As at 30 June 2005 and 31 December 2004 the level of fixed rates and margins relating to loans with floating rates was as follows:

Polish Zloty (1)

| 30 June 2005 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 573,461 | | |
| T/N WIBOR | | 0.09% | 1.00% |
| 1M WIBOR | | 0.06% | 3.20% |
| 3M WIBOR | | 0.55% | 1.50% |
| **Total Polish Zloty** | **573,461** | | |

US Dollar (2)

| 30 June 2005 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 747,421 | | |
| 1M LIBOR | | 0.45% | 1.35% |
| 3M LIBOR | | - | 0.40% |
| 6M LIBOR | | - | 0.15% |
| **Total US Dollar** | **747,421** | | |

Swiss Franc (3)

| 30 June 2005 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 9,907 | | |
| 3M LIBOR | | 1.00% | 2.70% |
| **Total Swiss Franc** | **9,907** | | |

**EUR (4)**

| 30 June 2005 | Amount due | Lowest margin/rate | Highest margin/rate |
|---|---|---|---|
| Fixed rate | 101,066 | 4.17% | 6.50% |
| Floating rate | 1,115,798 | | |
| 1M LIBOR | | - | 1.00% |
| 1M EURIBOR | | 0.75% | 1.50% |
| 3M EURIBOR | | - | 0.40% |
| 6M EURIBOR | | 0.60% | 1.13% |
| **Total EUR** | **1,216,864** | | |

Czech Koruna (5)

| 30 June 2005 | Amount due | Lowest margin/rate | Highest margin/rate |
|---|---|---|---|
| Fixed rate | 131,957 | 2.70% | 5.90% |
| Floating rate | 1,604,027 | | |
| 3M LIBOR | | - | 0.80% |
| O/N PRIBOR | | - | 0.30% |
| 1W PRIBOR | | 0.30% | 0.38% |
| 1M PRIBOR | | 0.45% | 1.50% |
| 3M PRIBOR | | 0.68% | 1.50% |
| **Total Czech Koruna** | **1,735,984** | | |
| **Total** | **4,283,637** | | |

Polish Zloty (1)

| 31 December 2004 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 426,662 | | |
| T/N WIBOR | | 0.15% | 1.00% |
| 1T WIBOR | | 0.60% | 2.50% |
| 1M WIBOR | | 0.02% | 3.20% |
| 3M WIBOR | | 0.40% | 1.00% |
| 6M WIBOR | | - | 0.95% |
| **Total Polish Zloty** | **426,662** | | |

US Dollar (2)

| 31 December 2004 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 719,535 | | |
| 1M LIBOR | | - | 0.45% |
| 3M LIBOR | | - | 0.40% |
| **Total US Dollar** | **719,535** | | |

Swiss Franc (3)

| 31 December 2004 | Amount due | Lowest margin | Highest margin |
|---|---|---|---|
| Floating rate | 12,978 | | |
| 3M LIBOR | | - | 1.00% |
| **Total Swiss Franc** | **12,978** | | |

**EUR (4)**

| 31 December 2004 | Amount due | Lowest margin/rate | Highest margin/rate |
|---|---|---|---|
| Fixed rate | 112,812 | 4.17% | 7.90% |
| Floating rate | 1,028,984 | | |

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| | | | |
|---|---|---|---|
| 3M LIBOR | | 0.45% | 1.00% |
| 1M EURIBOR | | 0.16% | 0.50% |
| 3M EURIBOR | | - | 0.45% |
| 6M EURIBOR | | - | 0.30% |
| **Total EUR** | **1,141,796** | | |
| **Total** | **2,300,971** | | |

As at 30 June 2005 and 31 December 2004 interest rates for selected bases were as follows:

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| O/N Wibor | 5.11% | 6.64% |
| T/N Wibor | 5.12% | 6.67% |
| 1W Wibor | 5.09% | 6.66% |
| 1M Wibor | 5.08% | 6.66% |
| 3M Wibor | 4.90% | 6.64% |
| 6M Wibor | 4.74% | 6.61% |
| 1 M Euribor | 2.1040% | 2.128% |
| 3 M Euribor | 2.1060% | 2.155% |
| 6 M Euribor | 2.0970% | 2.215% |
| 1M Libor (USD) | 3.3400% | 2.4000% |
| 3M Libor (USD) | 3.5163% | 2.5644% |
| 1M Libor (EUR) | 2.1055% | 2.1281% |
| 3M Libor (EUR) | 2.1060% | 2.1544% |
| 3M Libor (CHF) | 0.7483% | 0.7167% |
| NBP discount rate | 5.50% | 7.00% |

In the first half of 2005 the effective interest rate amounted to 6.35% for loans denominated in PLN and 3.02% for loans denominated in other currencies.

As at 30 June 2005 PLN 813,547 thousand of the Group's assets were pledged as a collateral for loans and borrowings, compared with PLN 357,566 thousand as at 31 December 2004.

### (b) Other loans and borrowings

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Voivodship Fund for Environment Protection and Water Management | 11 | 34 | 56 |
| National Fund for Environment Protection | 18,791 | 24,130 | 30,156 |
| Total | 18,802 | 24,164 | 30,212 |

As at 30 June 2005 loans and borrowings were subject to floating interest rates at the level of 1.38% - 9.00% and as at 31 December 2004 at the level of 2.80% -9.00%.

### (c) Bonds

| Debt securities by kind | Nominal value | Fair value valuation to bonds quoted on Prague Stock Exchange | Discount value | Book value | Interest rate | Expiration date | Collaterals |
|---|---|---|---|---|---|---|---|
| Flat rate bonds | 269 000 | 325 046 | | 325 046 | 12,53 | 2013-12-28 | none |
| Zero coupon bonds | 174 850 | | (23 424) | 151 426 | - | 2007-04-01 | none |

* Interest calculated on flat rate bonds are recognised in the amount of PLN 34,174 thousand as short-term liabilities.

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As at 30 June 2005 there were liabilities in the Group related to issued bonds of PLN 476,473 thousand.

The Group monitors opportunities to obtain loans and borrowings based on more favourable terms due to changes in market conditions.

The Group was granted loans both in PLN and foreign currencies, mainly subject to floating rates.
As at 30 June 2005 in accordance with agreements concluded with banks the Group had unused floating rate loan facilities in the amount of PLN 1,157,140 thousand.

## 17. Provisions

| LONG-TERM PROVISIONS | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Land reclamation provision | 425 924 | 368 172 | 398 818 |
| Retirement benefits and jubilee bonuses | 182 529 | 178 381 | 150 670 |
| Business risk provision | 36 572 | 38 933 | 28 670 |
| Shield programmes provision | 73 169 | 25 464 | - |
| Other provisions | 55 075 | 26 739 | 22 832 |
| **Total** | **773 269** | **637 689** | **600 990** |

| SHORT-TERM PROVISIONS | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Land reclamation provision | 119 560 | 128 493 | 44 244 |
| Retirement benefits and jubilee bonuses | 23 883 | 19 065 | 22 001 |
| Business risk provision | 427 831 | 49 049 | 25 496 |
| Shield programmes provision | 51 018 | 44 536 | - |
| Other provisions | 78 425 | 42 299 | 18 392 |
| **Total** | **700 717** | **283 442** | **110 133** |

The Group has a legal or constructive obligation to restore contaminated land of production facilities, petrol stations, and warehouses. In 2000-2004 an assessment of the contaminated objects and estimation of future expenditure on land reclamation were conducted by independent experts. The amount of the environmental provision was assessed by the Management Board on the basis of an analysis prepared by independent experts. The amount of the provision is the best estimate of the Management Board concerning future expenditure, taking into account the average level of costs necessary to remove contamination, by facilities constituting the grounds for creating the provision.

The movements in provisions in particular periods were as follows:

Movements in long-term provisions

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Business risk provision | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 362 258 | 139 323 | 3 800 | - | 23 115 | **528 496** |
| Provision made during the period | 36 560 | 11 784 | 24 870 | - | 375 | **73 589** |
| Provision used during the period | - | (206) | - | - | (658) | **(864)** |
| Provision reversed during the period | - | (231) | - | - | - | **(231)** |
| **30 June 2004** | **398 818** | **150 670** | **28 670** | **-** | **22 832** | **600 990** |
| 1 January 2005 | 368 172 | 178 381 | 38 933 | 25 464 | 26 739 | **637 689** |
| Provision made during the period | 58 992 | 5 251 | 41 | 47 705 | 40 573 | **152 562** |
| Provision used during the period | - | (780) | (202) | - | (36) | **(1 018)** |
| Provision reversed during the period | (1 240) | (323) | (2 200) | - | (12 201) | **(15 964)** |
| **30 June 2005** | **425 924** | **182 529** | **36 572** | **73 169** | **55 075** | **773 269** |

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| | Land reclamation provision | Retirement benefits and jubilee bonuses | Business risk provision | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 362 258 | 139 323 | 3 800 | - | 23 115 | **528 496** |
| Provision made during the period | 90 394 | 57 525 | 35 174 | 25 464 | 6 047 | **214 604** |
| Provision used during the period | (2 255) | (10 278) | - | - | (1 558) | **(14 091)** |
| Provision reversed during the period | (82 225) | (8 189) | (41) | - | (865) | **(91 320)** |
| **31 December 2004** | **368 172** | **178 381** | **38 933** | **25 464** | **26 739** | **637 689** |

Movements in short-term provisions

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Business risk provision | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 49 590 | 21 520 | 18 012 | - | 18 173 | **107 295** |
| Provision made during the period | 14 | 16 510 | 7 637 | - | 7 051 | **31 212** |
| Provision used during the period | (3 960) | (14 701) | (62) | - | (1 319) | **(20 042)** |
| Provision reversed during the period | (1 400) | (1 328) | (91) | - | (5 513) | **(8 332)** |
| **30 June 2004** | **44 244** | **22 001** | **25 496** | **-** | **18 392** | **110 133** |
| 1 January 2005 | 128 493 | 19 065 | 49 049 | 44 536 | 42 299 | **283 442** |
| Provision made during the period | 2 505 | 12 097 | 378 868 | 6 482 | 53 690 | **453 642** |
| Provision used during the period | (2 395) | (6 874) | (68) | - | (9 625) | **(18 962)** |
| Provision reversed during the period | (9 043) | (405) | (18) | - | (7 939) | **(17 405)** |
| **30 June 2005** | **119 560** | **23 883** | **427 831** | **51 018** | **78 425** | **700 717** |

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Business risk provision | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 49 590 | 21 520 | 18 012 | - | 18 173 | **107 295** |
| Provision made during the period | 130 630 | 15 033 | 39 271 | 44 536 | 35 108 | **264 578** |
| Provision used during the period | (22 360) | (14 673) | (8 139) | - | (5 701) | **(50 873)** |
| Provision reversed during the period | (29 367) | (2 815) | (95) | - | (5 281) | **(37 558)** |
| **31 December 2004** | **128 493** | **19 065** | **49 049** | **44 536** | **42 299** | **283 442** |

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## 18. Trade and other liabilities and accrued expenses

Trade and other liabilities and accrued expenses consisted of the following:

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Trade liabilities | 4 245 480 | 1 994 555 | 2 507 031 |
| Social Funds | 47 464 | 35 245 | 45 195 |
| Holiday pay accrual | 31 352 | 24 898 | 25 316 |
| Payroll liabilities | 25 475 | 14 328 | 15 977 |
| Loyalty programme VITAY | 60 169 | 54 157 | 51 024 |
| Dividends liabilities | 975 039 | - | 278 118 |
| Excise tax and fuel charge liabilities | 1 213 680 | 713 329 | 671 871 |
| Other taxation, duty and social security liabilities | 1 013 450 | 348 850 | 320 154 |
| Other liabilities and accrued expenses | 130 665 | 232 554 | 145 197 |
| **Total** | **7 742 774** | **3 417 916** | **4 059 883** |

The Social Fund ("Fund"), classified as short-term employee benefits, is a mandatory fund calculated based on the number of employees and the monthly minimum wage in Poland. The Fund resources must be used only for the benefits of the employees.
The difference between liabilities of the social fund and cash in the Fund stands for receivables from employees (borrowings). Cash on bank accounts of the Fund is restricted and cannot be used by the Group for its own benefit.

Trade and other payables and accrued expenses denominated in foreign currencies amount to PLN 2,275,047 thousand as at 30 June 2005, PLN 1,339,592 thousand as at 31 December 2004 and PLN 2,167,743 thousand as at 30 June 2004. The balance sheet value of short-term trade payables approximates their fair value due to their short-term character.

VITAY programme is a loyalty programme designed for individual customers. VITAY programme has been present on the Polish market since 14 February 2001. Customers making purchases within the programme obtain VITAY points that can be later exchanged for fuel or VITAY gifts.

For unrealised but registered on customers' accounts number of points the provision is charged in the period in which the points are granted. The provision is estimated on the basis of the number of points and current cost of one point in the VITAY programme to the amount of 75% of the value of unrealised points (75% is a rate of realisation of points).

## 19. Deferred income

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Subventions | 26 722 | 2 121 | 2 256 |
| Other | 25 912 | 14 790 | 21 117 |
| **Total** | **52 634** | **16 911** | **23 373** |

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## 20. Shareholder's equity

The share capital as at 30 June 2005 is represented by Polski Koncern Naftowy ORLEN S.A. share capital and amounts to PLN 534,636 thousand, according to the entry in the Commercial Register. It is divided into 427,709,061 shares of nominal value of PLN 1.25 each.

The share capital as at 30 June 2005 and 31 December 2004 consisted of the following share series:

| Share series | Number of shares issued as at 30 June 2005 | Number of shares issued as at 31 December 2004 | Number of shares authorised as at 30 June 2005 | Number of shares authorised as at 31 December 2004 |
|---|---|---|---|---|
| A series | 336,000,000 | 336,000,000 | 336,000,000 | 336,000,000 |
| B series | 6,971,496 | 6,971,496 | 6,971,496 | 6,971,496 |
| C series | 77,205,641 | 77,205,641 | 77,205,641 | 77,205,641 |
| D series | 7,531,924 | 7,531,924 | 7,531,924 | 7,531,924 |
| | 427,709,061 | 427,709,061 | 427,709,061 | 427,709,061 |

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

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

The balance of foreign translations is adjusted by differences resulting from recalculation of the financial statements of ORLEN Deutschland AG from EUR to PLN and Unipetrol a.s. from CZK to PLN.

The retained earnings contain the Privatization Fund of Petrochemia Płock S.A. of PLN 53 million.

Accumulated profits subject to distribution in accordance with the Polish law (Commercial Code sets certain restrictions in relation to periods for which dividends can be paid) as at 30 June 2005 amounted to PLN 4,842,940 thousand (for the period 2001-2005), and as at 31 December 2004 PLN 5,112,879 thousand (for the period 2000-2004), including PLN 937,398 thousand resulting from changes in the applied accounting principles. PKN ORLEN has a right to pay dividends to the extent of distributable reserves available under the generally accepted rules on a standalone reporting basis.

The share capital and the share premium as at 31 December 1996, based on IAS 29, point 24 and 25, were revalued in accordance with monthly increase ratios of goods and services by the amount of PLN 691,802 thousand (PLN 522,999 thousand concerns revaluation of the share capital and PLN 168,803 thousand refers to the share premium). Both capitals were presented in the balance sheet as adjustment from revaluation of the share capital and share premium.
In the 6 month period ended 30 June 2004 the Company did not pay a dividend to its shareholders. The Company's General Shareholders' Meeting on 29 June 2005 adopted a resolution to pay a dividend from profit generated in 2004 of PLN 911,020,299.91. The payment was established by two instalments:
- the first instalment of PLN 457,648,695.27, which is PLN 1.07 per share, will be paid on 1 September 2005,
- the second instalment of PLN 453,371,604.64, which is PLN 1.06 per share, will be paid on 1 December 2005.

The calculation of earnings per share and diluted earnings per share is presented below:

| | 6 months ended 30 June 2005 (unaudited) | 6 months ended 30 June 2004 (unaudited) |
|---|---|---|
| Weighted average of issued common stock | 427,709,061 | 427,709,061 |
| Net profit and diluted profit per share (in PLN per share) | 7,80 | 2.06 |

As at 30 June 2005 and 30 June 2004 there was no dilutive effect that could have had impact on the above calculation.

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## 21. Minority interests

The minority interests represent a portion of net assets of subsidiaries that is not owned directly or indirectly by the Group.

Minority interests by subsidiaries:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Anwil S.A. Group | 171 699 | 161 064 | 225 168 |
| Rafineria Trzebinia S.A. Group | 86 834 | 93 482 | 100 606 |
| Rafineria Nafty Jedlicze S.A. Group | 39 641 | 33 555 | 30 014 |
| Inowrocławskie Kopalnie Soli "Solino" S.A. | 23 152 | 20 805 | 20 256 |
| Petrolot Sp. z o.o. | 26 811 | 24 789 | 25 584 |
| Orlen PetroZachód Sp. z o.o. | 10 819 | 11 152 | 10 866 |
| Unipetrol a.s Group | 1 955 479 | - | - |
| Other | 315 767 | 39 166 | 31 224 |
| **Total** | **2 630 202** | **384 013** | **443 718** |

## 22. Basis of differences between changes of some balance sheet items and changes resulting from cash flows statement

| Receivables: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change of net long- and short-term receivables | (2,429,685) | (608,977) |
| Change related to the Group structure | 1,930,478 | (13,673) |
| Change of the receivables due to Unipetrol acquisition | 120,810 | - |
| Other | 41,998 | (32,348) |
| Change in receivables in the cash flows statement | (336,399) | (654,998) |

| Payables: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change of long- and short-term liabilities | 4,441,674 | 987,174 |
| Change in liabilities from dividend | (911,020) | (278,011) |
| Liabilities from acquisition of Unipetrol shares | (221,295) | - |
| Change related to the Group structure | (1,953,849) | 13,550 |
| Other | (159,359) | 40,616 |
| Change in long- and short-term liabilities in the cash flows statement | 1,196,151 | 753,329 |

| Inventories: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change in inventories | (2,407,873) | (303,119) |
| Change related to the Group structure | 1,138,412 | (2,278) |
| Other | (29,825) | (5,007) |
| Change in inventories in the cash flows statement | (1,299,286) | (310,404) |

| Provisions: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change in provisions | 552,855 | 301,776 |
| Change related to the Group structure | 143,558 | (46) |
| Change in provisions for deferred tax on remeasurement of fixed assets to fair value | (351,151) | (221,258) |
| Other | 75,548 | (1,931) |
| Change in provisions in the cash flows statement | 420,810 | 78,541 |

## 23. Segment reporting

Business segments

### Revenues, costs and financial result in segments

| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Adjustments | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | for the period | | | | for the period | | | | for the period | | | | for the period | | | | for the period | | | |
| | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | |
| **Revenues** | | | | | | | | | | | | | | | | | | | | |
| Sales to external customers | 13 834 418 | 8 265 616 | 11 588 786 | 6 391 732 | 2 569 516 | 1 538 221 | 1 882 567 | 914 655 | 307 692 | 144 280 | 320 558 | 145 309 | | | | | 16 711 626 | 9 948 117 | 13 791 911 | 7 451 696 |
| Transactions with other segments | 2 342 322 | 1 193 215 | 1 911 235 | 1 211 094 | 832 692 | 411 446 | 667 441 | 350 764 | 410 041 | 201 376 | 397 389 | 175 166 | -3 585 055 | -1 806 037 | -2 976 065 | -1 737 024 | 0 | 0 | 0 | 0 |
| Settlement of hedging transactions | | | | | 49 330 | 6 931 | 21 241 | 21 241 | | | | | | | | | 49 330 | 6 931 | 21 241 | 21 241 |
| **Total revenues** | **16 176 740** | **9 458 831** | **13 500 021** | **7 602 826** | **3 451 538** | **1 956 598** | **2 571 249** | **1 286 660** | **717 733** | **345 656** | **717 947** | **320 475** | **-3 585 055** | **-1 806 037** | **-2 976 065** | **-1 737 024** | **16 760 956** | **9 955 048** | **13 813 152** | **7 472 937** |
| **Total operating cost** | **-14 642 038** | **-8 488 444** | **-12 381 069** | **-6 874 000** | **-2 902 386** | **-1 725 011** | **-2 229 441** | **-1 143 476** | **-691 793** | **-349 590** | **-670 644** | **-295 763** | **3 584 966** | **1 806 273** | **2 976 011** | **1 737 164** | **-14 651 251** | **-8 756 772** | **-12 305 143** | **-6 576 075** |
| Other operating income | 120 372 | 55 464 | 85 509 | 57 533 | 16 686 | 13 835 | 10 830 | 6 811 | 29 922 | 20 826 | 11 236 | 3 674 | | | | | 166 980 | 90 125 | 107 575 | 68 018 |
| Other operating expenses | -182 918 | -134 800 | -250 110 | -234 861 | -28 394 | -25 742 | -10 495 | -7 286 | -21 891 | -12 240 | -28 790 | -19 920 | | | | | -233 203 | -172 782 | -289 395 | -262 067 |
| The excess of the fair value of acquired net assets over the acquisition price | 823 920 | 823 920 | 0 | 0 | 1 076 642 | 1 076 642 | 0 | 0 | 274 541 | 274 541 | 0 | 0 | -263 492 | -263 492 | 0 | 0 | 1 911 612 | 1 911 612 | 0 | 0 |
| **Result** | | | | | | | | | | | | | | | | | | | | |
| Segment result | 2 296 076 | 1 714 971 | 954 351 | 551 498 | 1 614 086 | 1 296 322 | 342 143 | 142 709 | 308 512 | 279 193 | 29 749 | 8 466 | -263 581 | -263 256 | -54 | 140 | 3 955 094 | 3 027 231 | 1 326 189 | 702 813 |
| Unallocated revenues of the Group | | | | | | | | | | | | | | | | | 4 532 | 2 716 | 2 057 | 1 212 |
| Unallocated excess of the fair value of acquired net assets over the acquisition price | | | | | | | | | | | | | | | | | 93 415 | 93 415 | 0 | 0 |
| Unallocated costs of the Group | | | | | | | | | | | | | | | | | -553 062 | -414 708 | -257 776 | -117 304 |
| **Profit from operations** | | | | | | | | | | | | | | | | | **3 499 979** | **2 708 654** | **1 070 470** | **586 721** |
| Financial income | | | | | | | | | | | | | | | | | 452 050 | 405 871 | 157 101 | 140 625 |
| Financial expenses | | | | | | | | | | | | | | | | | -244 869 | -177 446 | -98 259 | -40 275 |
| Share in profit from investments accounted for under equity method | 7 629 | 7 758 | -64 | -128 | 78 | 166 | 887 | 846 | 0 | 0 | 8 082 | 1 501 | | | | | 7 707 | 7 924 | 8 905 | 2 219 |
| Profit on the sale of all or part of shares of related parties | | | | | | | | | | | | | | | | | 29 395 | 29 395 | 3 795 | 3 795 |
| **Gross profit** | | | | | | | | | | | | | | | | | **3 744 262** | **2 974 398** | **1 142 012** | **693 085** |
| Income tax expense | | | | | | | | | | | | | | | | | -394 198 | -252 539 | -238 196 | -136 076 |
| Minority interest | | | | | | | | | | | | | | | | | -13 966 | -3 794 | -23 576 | -6 458 |
| **Net profit** | | | | | | | | | | | | | | | | | **3 336 098** | **2 718 065** | **880 240** | **550 551** |



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Other information by business segments

| | Refining Segment for the period ended | | Chemical Segment for the period ended | | Other operations for the period ended | | Adjustments for the period ended | | Total for the period ended | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 | 30 June 2005 | 30 June 2004 |
| **Other information** | | | | | | | | | | |
| Segment assets employed | 17 334 468 | 11 333 880 | 11 166 949 | 4 087 188 | 4 075 349 | 2 015 680 | -1 857 879 | -204 035 | 30 718 887 | 17 232 713 |
| Investments in associates | 3 105 | 11 267 | 506 287 | 7 177 | 1 651 | 113 106 | | | 511 043 | 131 550 |
| Unallocated assets | | | | | | | | | 1 746 630 | 2 102 014 |
| **Total consolidated assets** | | | | | | | | | 32 976 560 | 19 466 277 |
| Segment liabilities | 6 098 639 | 3 307 930 | 1 591 570 | 550 666 | 628 806 | 344 188 | -1 747 230 | -203 525 | 6 571 785 | 3 999 259 |
| Unallocated liabilities | | | | | | | | | 8 821 601 | 3 930 119 |
| **Total consolidated liabilities** | | | | | | | | | 15 393 386 | 7 929 378 |

All the Group's assets as at 30 June 2005 and as at 30 June 2004 were located in Poland, Germany, Czech Republic, Switzerland, Austria and Spain, where also all the capital expenditure was incurred in the period of 6 months ended 30 June 2005 and 30 June 2004.



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## Other information in segments - continued

| | Refining Segment | | | | Chemical Segment | | | | Other operations | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | for the period | | | | for the period | | | | for the period | | | | for the period | | | |
| | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | | ended 30 June 2005 | | ended 30 June 2004 | |
| Cost incurred to acquire segment property, plant and equipment and intangible assets | 338 616 | 181 432 | 260 613 | 165 984 | 437 246 | 283 470 | 439 415 | 259 416 | 53 909 | 32 653 | 29 496 | 15 539 | 829 771 | 497 555 | 729 524 | 440 939 |
| Unallocated cost incurred to acquire property, plant and equipment and intangible assets | | | | | | | | | | | | | 24 638 | 22 380 | 15 616 | 11 845 |
| **Total cost incurred to acquire property, plant and equipment and intangible assets** | | | | | | | | | | | | | 854 409 | 519 935 | 745 140 | 452 784 |
| Segment depreciation | 350 066 | 180 080 | 414 234 | 201 742 | 151 448 | 87 595 | 127 397 | 62 752 | 106 853 | 55 738 | 105 221 | 55 420 | 608 367 | 323 413 | 646 852 | 319 914 |
| Depreciation of unallocated assets | | | | | | | | | | | | | 15 778 | 5 889 | 20 593 | 6 696 |
| **Total depreciation** | | | | | | | | | | | | | 624 145 | 329 302 | 667 445 | 326 610 |
| **Non-cash expenses other than depreciation** | 123 771 | 87 195 | 74 301 | 64 346 | 2 286 | 1 630 | 7 450 | 6 826 | 74 542 | 64 010 | 13 619 | 5 825 | 200 599 | 152 835 | 95 370 | 76 997 |



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Geographical segments

The table presents consolidated sales revenues of the Group by geographical segments for the period of 6 and 3 months ended 30 June 2005 and 30 June 2004.

| | Revenues from sale by geographical area for the period | | | |
|---|---|---|---|---|
| | 6 months | 3 months | 6 months | 3 months |
| | ended 30 June 2005 | | ended 30 June 2004 | |
| Poland | 10 214 260 | 5 827 839 | 8 719 163 | 4 736 278 |
| Germany | 4 457 298 | 2 421 109 | 4 418 350 | 2 372 747 |
| Czech Republic | 1 152 155 | 1 078 010 | 288 504 | 245 319 |
| Other countries | 937 243 | 628 090 | 387 135 | 118 593 |
| **Total revenues from sale by geographical area** | **16 760 956** | **9 955 048** | **13 813 152** | **7 472 937** |



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## 24. Financial instruments

Derivative transactions were concluded by two of the Group's entities: PKN ORLEN and Anwil S.A.

### (a) Parent Company's transactions within derivatives

According to 'Market risk management policy in PKN ORLEN S.A.' the reduction of the changeability of cash flows and potential losses caused by occurrence of events which might have a negative impact on the Company's results is the Company's major goal in terms of market risk management. Market risk management includes processes of identification, measurement, and definition of risk reduction methods, taking into consideration fluctuations in exchange rates, interest rates and prices of goods.

At the end of the first half of 2005, owing to conclusion of derivative transactions in 2003 hedging revenues from sale of petrochemicals, the Company considerably reduced fluctuations in sales of the above products in the first half of 2005. To hedge revenues from sale of petrochemicals the Company uses currency-interest EUR/PLN swap transactions. For this group of transactions rules of cash flow hedge accounting are applicable. The effective portion of the hedge in the hedge accounting reserve decreased as compared to the end of 2004 by PLN 24,761 thousand and amounted to PLN 68,996 thousand. The ineffective portion of the hedge recognised in the result of the first half of 2005 amounted to PLN 1,847 thousand. Profits from hedge instruments in two first quarters of 2005 amounted to PLN 49,330 thousand.

In June 2004 a conditional purchase-sale agreement for Unipetrol a.s. shares was signed by the Company with the Czech government agencies. Consequently, the Company decided to hedge CZK/PLN exchange rate on the futures market. Forward exchange rate contracts were used to limit foreign exchange rate risk resulting from the future liability corresponding with the execution of the above agreement. The instruments were settled in May 2005 at a loss for the first half of 2005 of PLN 153 thousand. In respect to this group of transactions the rules of hedge accounting were not applied.

The Company values derivatives at fair value using models of the financial instruments valuation taking advantage of widely available data coming from active markets. The transactions may only be concluded with reliable partners, admitted to participate in transactions as a result of procedures obliging in the Company and within allowed limits. According to 'Market risk management policy in PKN ORLEN S.A.' it is not allowed to conclude transactions for speculatory purposes. All the concluded hedge transactions are reflected in the physical transactions and hedge risk resulting directly from relevant real transactions or belong to the group of probable future transactions.

## Recognition of derivatives:

| | Financial assets - hedge transactions - derivatives | Financial liabilities - hedge transactions - derivatives |
|---|---|---|
| **Fair value as at 31 December 2004** | **146,784** | |
| **INCREASES** | - | - |
| - purchase, opening, drawing | - | - |
| - valuation | - | - |
| - revaluation | - | - |
| - reclassification | - | - |
| **DECREASES** | 22,914 | - |
| - disposal, termination, repayment | - | - |
| - valuation | - | - |
| - revaluation | 22,914 | - |
| - reclassification | - | - |
| **Fair value as at 30 June 2005** | **123,870** | - |

**Derivative transactions - continued**

Swap and forward transactions in the Parent Company

| Company | Type of transaction | Opening transaction date | Period of transaction | Nominal amount (in PLN thousand) | Interest rate** | Exchange rate** |
|---|---|---|---|---|---|---|
| PKN ORLEN | Currency-interest swap (EUR/PLN) depreciated by straight-line method* | 08.10.2003 | 20.10.2003-29.09.2006 | 224,136.0 | 2.4% | 4.5 |
| PKN ORLEN | Currency-interest swap (EUR/PLN) depreciated by straight-line method * | 10.10.2003 | 20.10.2003-29.09.2006 | 224,284.5 | 2.4% | 4.5 |
| PKN ORLEN | Currency-interest swap (EUR/PLN) depreciated by straight-line method* | 15.10.2003 | 20.10.2003-29.09.2006 | 225,720.0 | 2.4% | 4.6 |
| PKN ORLEN | Currency swap (EUR/PLN) depreciated by straight-line method* | 17.12.2003 | 18.12.2003-30.11.2006 | 814,968.0 | 0.0% | 5.5 |

* Derivatives as at the end of the period are valued at fair value whereas each month interest is accrued on unamortised base value of the financial instruments.
** Interest rates and exchange rates are given rounded to one decimal.

| Date of payments of the amount bought forward | Date of payments of the interest on the amount sold forward | Amount of interest received by PKN ORLEN in 6 months ended 30 June 2005 (in PLN thousand) | Amount of interest paid by PKN ORLEN in 6 months ended 30 June 2005 (in PLN thousand) | Fair value as at 30 June 2005 (in PLN thousand) | Fair value as at 31 December 2004 (in PLN thousand) |
|---|---|---|---|---|---|
| Last working day of the month | - | 49,330 | - | 123,870 | 146,784 |



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**(b) Financial instruments by category**

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| Financial assets at fair value through profit and loss | 28,247 | 92,313 | 94,372 |
| Financial assets held to maturity | 223,228 | 1,042,152 | 210,488 |
| Financial assets | 675,835 | 685,519 | 526,629 |
| Loans and receivables | 8,488 | 10,420 | 21,489 |
| Financial liabilities at fair value through profit and loss | 3,469 | 4,212 | 8,869 |
| Interest-bearing loans and borrowings | 4,778,912 | 2,325,135 | 2,634,433 |

Value of long-term financial assets carried at purchase price minus an allowance amount, as at 30 June 2005 amounted to PLN 675,835 thousand, as at 31 December 2004 amounted to PLN 685,519 thousand and as at 30 June 2004 amounted to PLN 526,629 thousand and included mainly shares and stakes with no active market.
The Group presents derivative transaction with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.

Value of other financial assets available for sale valued at fair value as at 30 June 2005 included hedging instruments of PKN ORLEN.
The value of short-term financial assets held to maturity as at 30 June 2005 amounted to PLN 223,228 thousand, as at 31 December 2004 amounted to PLN 1,042,152 thousand and as at 30 June 2004 amounted to PLN 210,488 thousand and included among others 'buy-sell back' transactions concerning treasury bonds and bills of PLN 200,415 thousand and PLN 1,016,899 thousand respectively.

**(c) Information on interest rate risk**

Financial liabilities of the Group are held to maturity. The effective interest of financial liabilities is similar to the nominal interest rate (the Group is not charged with commissions on majority of the loans and the loan margins are relatively low). Financial surpluses are invested mainly in treasury instruments, i.e. treasury bills and/or bonds issued by the Polish State Treasury.

The Group uses bank loans for financing. Fluctuations of interest rates impact the amounts of financial expenses incurred by the Group. Increase in interest rates would result in increase in financial expenses incurred by the Group, in particular in costs related to interest on loans and borrowings, which would be relevant to the actually used financial resources; to a large extent that increase would be however balanced by increase in return on the financial instruments of depository character possessed by the Group.

**(d) Information on loan risk**

According to the Management Board there is no significant credit risk related to receivables from financial instruments or loans granted by the Parent Company.

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## 25. Cost by kind

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Materials and energy | 7 796 586 | 5 562 217 |
| Cost of merchandise and materials sold | 5 105 129 | 4 911 240 |
| External services | 906 498 | 860 955 |
| Payroll, social security and other employee benefits | 546 178 | 560 753 |
| Depreciation* | 624 145 | 667 445 |
| Taxes and charges | 160 701 | 125 239 |
| Other | 711 881 | 435 125 |
| **Total** | **15 851 118** | **13 122 974** |
| **Adjustments:** | | |
| Change in inventory and prepayments | (343 238) | (239 510) |
| Cost of products and services for own use | (70 364) | (31 150) |
| **Operating cost** | **15 437 516** | **12 852 314** |

* The decrease in depreciation for the 6 months period ended 30 June 2005 in comparison to the respective period of 2004 resulted from lengthening of depreciation periods of property, plant and equipment effective 1 January 2005 due to verification of formerly set depreciation periods.

## 26. Net financial income and expenses

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Interest paid | (68 017) | (61 240) |
| Negative foreign exchange surplus | (139 861) | (19 074) |
| Interest received | 62 431 | 15 761 |
| Positive foreign exchange surplus | 20 516 | 55 212 |
| Gains on trade in shares and other securities | 3 071 | 3 916 |
| Dividends received | 90 872 | 68 216 |
| Unrealised discount on the acquisition of liabilities of Unipetrol Group | 204 532 | - |
| Other financial expenses | 33 637 | (3 949) |
| **Total** | **207 181** | **58 842** |

## 27. Corporate income tax

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Current tax | (384 076) | (261 556) |
| Deferred tax | (10 122) | 23 360 |
| **Total** | **(394 198)** | **(238 196)** |

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The difference between the tax amount presented in the profit and loss and the amount calculated in accordance with statutory income tax rates before tax resulted from the following:

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| **Profit before tax** | **3 744 262** | **1 142 012** |
| Corporate income tax for 2005 and 2004 by the valid tax rate (19% in Poland) | (711 410) | (216 982) |
| Difference between Polish and German (40%) tax rates | 12 255 | 743 |
| Difference between Polish and Czech (26%) tax rates | (33 068) | - |
| Permanent differences (incl. amortisation of goodwill and negative goodwill) | (28 752) | (15 827) |
| The excess of fair value of the net identifiable assets, liabilities and contingent liabilities over the acquisition cost | 380 955 | - |
| Other | (14 178) | (6 130) |
| **Corporate income tax** | **(394 198)** | **(238 196)** |
| Effective tax rate | 11% | 21% |

The Group does not form a tax group under Polish regulations. Therefore, each Group company is a separate taxpayer.

The net deferred tax liability as at 30 June 2005, 31 December 2004 and 30 June 2004 consisted of the following:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Land reclamation provision | 89 892 | 89 747 | 83 409 |
| Other receivables allowances | 21 187 | - | - |
| Retirement benefits and jubilee bonuses | 25 010 | 29 266 | 21 762 |
| Depreciation in excess of tax limits | 14 845 | 7 442 | - |
| Expenses for loyalty programme prizes | 11 432 | 11 869 | - |
| Impairment of long-term investments | (11 036) | 623 | 681 |
| Provision for long-term financial assets | 25 835 | 58 781 | 8 314 |
| Impairment of property, plant and equipment and intangible assets | 11 014 | - | 17 601 |
| Other | 93 159 | 49 778 | (102) |
| **Total deferred tax assets** | **281 337** | **247 505** | **131 665** |
| **Deferred tax provision** | | | |
| Investment relief | 173 422 | 187 672 | 208 153 |
| Other receivables allowances | 27 306 | - | - |
| Capitalisation of loan interest | - | (12 111) | (12 937) |
| Difference between carrying amount and tax base of property, plant and equipment | 942 837 | 79 884 | 286 658 |
| Unrealised positive foreign exchange differences | 42 841 | 60 871 | 12 804 |
| Revaluation of assets to fair value in respect of acquisition of the majority interest in Anwil S.A. | 10 673 | 11 954 | 14 516 |
| Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o. | 39 891 | 39 890 | 40 353 |
| Impairment of property, plant and equipment and intangible assets | - | 187 741 | - |
| Other | 70 572 | 42 714 | (1 569) |
| **Total deferred tax provision** | **1 307 542** | **598 615** | **547 978** |
| **Deferred tax provision, net** | **1 026 205** | **351 110** | **416 313** |

As the Group companies are separate taxpayers, the deferred tax assets and deferred tax liabilities must be calculated in individual companies on a stand-alone basis. As a result, the consolidated balance sheets reflect deferred tax assets of PLN 60,811 thousand as at 30 June 2005, PLN 27,138 thousand as at 31 December 2004 and PLN 8,860 thousand as at 30 June 2004 as well as deferred tax liabilities of PLN 1,087,016 thousand as at 30 June 2005, PLN 378,248 thousand as at 31 December 2004 and PLN 425,173 thousand as at 30 June 2004.

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According to the Polish tax law, taxpayers could have reduced the taxable income by the costs of purchasing of qualified fixed assets acquired in a given tax year (investment relief). The taxable income could have been additionally reduced in the following year by 50% of the prior year's deduction (investment premium).

Due to amendments in corporate income tax law, the above tax incentives were available only in 2002 for the continued investment projects commenced before 2001. In all other cases, the investment incentives are no longer available. Investment premium earned in 2002 was deducted from tax in the year ended 31 December 2003.

## 28. Leases

Lease agreements and other operating agreements (tenancy, rental) concern mainly lease of buildings, computer equipment and vehicles. The operating lease expenses in the period of 6 months ended 30 June 2005 amounted to PLN 6,276 thousand and in the period of 6 months ended 30 June 2004 amounted to PLN 1,976 thousand.

Future minimum lease payments under non-cancellable operating lease agreements as at 30 June 2005, 31 December 2004 and 30 June 2004 were as follows:

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| up to 1 year | 32,974 | 2,459 | 2,547 |
| from 1 year to 5 years | 272,065 | 1,172 | 3,075 |
| above 5 years | 1,262 | - | - |
| Total minimum lease payments | **306,301** | **3,631** | **5,622** |

## 29. Future commitments from capital expenditure

As at 30 June 2005 future liabilities resulting from contracts signed before that date amount to PLN 666,918 thousand and accepted by the Management Board yet not contracted investment expenditure in the following years will amount to PLN 4,483,565 thousand.

## 30. Related party transactions

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

In the period of 6 months ended 30 June 2005 and as at 30 June 2005 the Group companies did not grant any advances, loans, borrowings, guarantees and sureties or any other agreements obliging to pay in favour of the Company and its related companies, to managing and supervising persons and their relatives.
As at 30 June 2005 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the periods of 6 months ended 30 June 2005 and 30 June 2004 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

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**(b) Transactions with the related parties concluded through the supervising persons**

In the first half of 2005 the Company obtained statements on transactions with related parties extended in scope in accordance with the amended IAS 24 "Related Party Disclosures".

| | Sale | Purchase | Receivables | Liabilities | Dividend paid |
|---|---|---|---|---|---|
| **Legal persons *** | 12,598 | 24,242 | - | - | - |
| **Natural persons**** | 443 | - | | | |

* Transactions in the period of performing duties as key management personnel by the persons supervising the Company.

** In the period covered by the financial statements the recorded transactions included those below EUR 500 thousand.

In the period presented in the financial statements 11 persons acted as members of the Supervisory Board. The Company has not received a detailed statement from 1 former member of the Supervisory Board.

**(c) Transactions with the related parties concluded through the managing persons**

In the first half of 2005 members of the Management Board did not conclude any transactions with related parties in compliance with IAS 24 "Related Party Disclosures".

**(d) Transactions with the related parties were concluded on market terms and were as follows:**

| | Entities consolidated under the equity method |
|---|---|
| Sales | |
| 6 months ended 30 June 2005 | 7,087 |
| 6 months ended 30 June 2004 | 30,610 |
| Purchases | |
| 6 months ended 30 June 2005 | 73,543 |
| 6 months ended 30 June 2004 | 65,885 |
| Short-term receivables | |
| 30 June 2005 | 9,693 |
| 31 December 2004 | 3,965 |
| Short-term liabilities, gross | |
| 30 June 2005 | 17,720 |
| 31 December 2004 | 20,861 |

The above transactions with the related parties include sales and purchases of petrochemical products and purchases of maintenance and repair, transportation and other services. The prices used in the transactions with related entities approximate market levels.

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## 31. Contingencies and risks

The Group companies granted the following guarantees and sureties:

| Entity | Type of relation with the issuer | Name of entity (company) to which a guarantee / surety was granted | Subject of guarantee | Amount of guarantee/surety | Period for which the guarantee / surety was granted (expiration of the liability) |
|---|---|---|---|---|---|
| Anwil S.A. | other entities | Unb GmbH | guarantee connected with investment in chlorine production technology change | 37 552 | till 09.08.2006 |
| ORLEN PetroTank Sp z o.o. | | "LOCUM"company | 3 agreements on return tease guarantee (lease of compartments) (at the moment at notice stage) | 24 299 | till 26.06.2012 |
| ORLEN Oil Sp z o.o. | | Bank Handlowy w Warszawie S.A. | Guarantee for obligations of Clients connected with Paylink Cards Usage Agreement. This amount gives 7.5% of Programme Amount (agreement on financing trade liabilities for Paylink-connected with Regional Sales Center) | 2 655 | till 31.03.2007 |
| Zakład Budowy Aparatury S.A | | ALSTOM POWER | performance bond | 2 160 | till 15.07.2007 |
| Inowrocławskie Kopalnie Soli "SOLINO" Sp z o.o. | | Urząd Miasta w Inowrocławiu (Municipal Office of Inowrocław) | guarantee of loan for waste-water treatment plant for the town | 700 | till 20.12.2006 |
| Zakład Budowy Aparatury S.A | | LURGI BIPRONAFT | warranty | 333 | till 21.01.2006 |
| Zakład Budowy Aparatury S.A | | ALSTOM POWER | guarantee of proper defect removal | 78 | till 30.05.2007 |
| | | | | **67 777** | |
| Anwil S.A. | **unconsolidated subsidiaries** | Agro-Azoty II Sp z o.o.Włocławek | guarantee of overdraft and investment credit repayment | 83 | till 20.09.2005 |
| | | | | **83** | |
| PKN ORLEN S.A. | **consolidated subsidiaries** | ORLEN PetroTank Sp z o.o., Rafineria Jedlicze S.A., Orlen Transport Kędzierzyn-Koźle, Orlen Dautschland, Basell Orlen Polyolefins Sp z o.o. | | 1 295 923 | from 31.12.2005 till 31.12.2013 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of working capital credit | 13 500 | till 31.01.2009 |
| Rafineria Trzebinia S.A. | | NaftoWax Sp z o.o. | guarantee of overdraft repayment | 12 000 | till 31.03.2009 |

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| | | | | | |
|---|---|---|---|---|---|
| Rafineria Trzebinia S.A. | | NaftoWax Sp z o.o. | guarantee of overdraft repayment | 12 000 | till 31.05.2008 |
| Rafineria Trzebinia S.A. | | Orlen Asfalt Sp z o.o. | guarantee of overdraft repayment | 7 200 | till 09.07.2005 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of overdraft repayment | 5 250 | till 30.04.2009 |
| Rafineria Trzebinia S.A. | | EuroNaft Trzebinia Sp z o.o. | guarantee of overdraft repayment | 4 800 | till 31.07.2006 |
| Rafineria Trzebinia S.A | | Energomedia Sp z o.o. | guarantee of overdraft repayment | 1 100 | till 30.06.2006 |
| Ship-Service S.A. | | SHIP SERVICE AGRO Sp z o.o. | guarantee of credit | 1 000 | till 31.03.2007 |
| Ship-Service S.A. | | SHIP SERVICE AGRO Sp z o.o. | guarantee of credit | 800 | till 31.03.2006 |
| Rafineria Trzebinia S.A | | Energomedia Sp z o.o. | guarantee of trade liabilities | 500 | till the liabilities repayment date |
| Ship-Service S.A. | | BOR-FARM SP. Z O.O. | guarantee of credit | 100 | till 30.09.2005 |
| | | | | **1 354 173** | |
| Zakład Budowy Aparatury S.A | **parent company** | PKN ORLEN S.A. | performance bond (AROMAS) | 854 | do 25.11.2006 |
| Zakład Budowy Aparatury S.A | | PKN ORLEN S.A. | performance bond (PROPYLENE CISTERN) | 460 | do 20.12.2007 |
| Zakład Budowy Aparatury S.A | | PKN ORLEN S.A. | performance bond (KOLUMNA C 501) | 95 | do 01.03.2007 |
| | | | | **1 409** | |
| | | | | **1 423 442** | |

**Other contingent liabilities**

| | |
|---|---|
| 819 459 | Including collateral submitted on behalf of other parties in respect of movement of harmonised excise goods in the excise tax suspension procedure and excise tax liability on goods kept at warehouses in the excise tax suspension procedure |
| 26 040 | statement of voluntary submission for execution for Bank Handlowy w Warszawie S.A. |
| 9 200 | ORLEN Oil Sp. z o.o. for Bank Handlowo-Przemysłowy PBK S.A.- recourse factoring - bill of exchange together with bill of exchange statement, which are guarantee of recourse factoring credit line on the basis of factoring services agreement (Faktoring Services Agreement, connected with Regional Sales Centres) |
| 4 000 | connected with not proper realization of trade agreements (Anwil has been sued by Tras Tychy S.A.) |
| 2 000 | Anwil S.A.- limit given by Insurance Company , to which Remwil can obtain coverage in issued insurance policies for particular contracts |
| 2 302 | connected with possible land reclamation (ORLEN PetroTank Sp z o.o.) |
| 2 146 | connected with tax liabilities (Ship-Service S.A.) |
| 847 | blank bills issued by ORLEN PetroCentrum Sp. z o.o. for the benefits of PKN ORLEN, which are guarantee of agreements with petrol stations owners |
| 189 | ORLEN Oil Sp z o.o. performance bond |
| **866 183** | |

| | **30 June 2005** |
|---|---|
| Guarantees and sureties, granted to: | 69,269 |
| - unconsolidated related parties | 1,492 |
| - other entities | 67,777 |
| Other contingent liabilities: | 866,183 |
| - liabilities in respect of excise tax liabilities | 819,459 |
| - other | 46,724 |
| - Total contingent liabilities of PKN Orlen Group | 935,452 |

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**(b) Tax investment relief**

In accordance with the Decree on Investment Expenditure and in line with article 18a of the Corporate Income Tax Act (in force till 31 December 1999) and article 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000), the taxpayer is entitled to deduct investment expenditures from the tax base in a given tax year and in the following tax year a half of the previously deducted amount, i.e. the so-called investment premium. In the years 1998-2003, the Group companies benefited from their entitlement to the following investment relieves and premiums (amounts deducted from income):

| PKN Group | Investment relief | Investment premium |
|---|---|---|
| 2001 | 98,927 | 43,750 |
| 2002 | 14,234 | 49,222 |
| 2003 | - | 6,923 |
| Total | 113,161 | 99,895 |

The tax relieves and premiums are conditional. The Corporate Income Tax regulations assumes loss of the entitlement to investment relieves if any of the following events occurs within three years from the end of the tax year when the relief has been exercised:

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

2) taxpayers transfer – in any form – ownership title to assets to which income deductions or tax exemptions relate; this does not refer to transfer of ownership resulting from a change in the legal personality, business combinations or separation of business entities carried out in compliance with the Commercial Code's regulations;

3) there are no longer grounds for recognition as the taxpayer's assets those fixed assets which have been adopted for chargeable use under tenancy, lease or similar agreements;

4) the taxpayer is subject to liquidation proceedings or its bankruptcy has been declared;

5) the taxpayer receives any form of reimbursement of investment expenditure;

Tax authorities may also deny a claim to tax allowances if the tax payer has been charged with outstanding tax liabilities at the moment in which the tax incentives deduction were recognized.

In accordance with the Amendment of 20 November 1998 to the Corporate Income Tax Act (Journal of Laws No. 144, item 931) when the title to deductions made under Art.18a of the Corporate Income Tax Act (in force to 31 December 1999) and Art. 3.1 of the Amendment of 20 November 1999 to the Corporate Income Tax Act (in force from 1 January 2000) no longer exists due to circumstances mentioned under paragraph 1) above, it is assumed that the title is not lost if the taxpayer makes adjustments to its tax return and settles the tax arrears with accrued interest or settles the arrears with interest within 14 days from the decision of the first instance authority defining the tax liability.

Regarding purchase of assets in the Czech Republic, PKN Orlen Group is subject to the regulations of Tax Investment Relieves Act and Corporate Income Tax Act binding in the Czech Republic. According to these regulations tax investment relieves of companies belonging to Unipetrol Group are of conditional nature. Non compliance with specified conditions may result in a loss of tax investment relief and an obligation to return received relieves (i.e. the repayment of unpaid tax liability for all the years when tax investment relieves were granted) increased by the relevant penalties and fines.

Effective May 2000, non compliance with the regulations imposed by Corporate Income Tax Act and Tax Investment Relieves Act results in the following:

a) if the condition related to the maximum decrease of tax base is not met, an investing entity is obliged to submit additional tax return (on the basis of which additional tax liability will be imposed) for the period during which the condition was not met;

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b) if general conditions are not met (except for the condition mentioned in point a), a taxpayer loses the right to tax investment relief and is obliged to submit additional tax returns for every period during which the tax investment relief was used. It indicates that in such a case the investing entity is obliged to return all of the granted tax investment relieves, to settle all tax liabilities from which it was released over the period of the relief, and the relevant penalties and charges.

Unipetrol Group companies were granted with tax investment relieves in the amount of PLN 282 million in the years 2000–2001; it is planned to utilise PLN 51 million out of that amount until 2007.

**(c) Contingent liability in excise tax of Rafineria Trzebinia S.A.**

On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all the necessary expert opinions confirming correctness of the applied classification of goods taxable with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter in the court of second instance.
On 5 May 2005, in reply to its motion, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.
On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005, against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.
On 28 July 2005, the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all the necessary opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.
On 9 August 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the above decisions and a motion to suspend execution of the decisions until the case is decided by the second instance authority.

On 11 August 2005, the Head of the Customs Office in Kraków, having examined the Company's appeal of 8 August 2005, suspended the decision in respect of setting the excise tax liability for the period May-August 2004 at about PLN 100 million. As at the date of preparation of these consolidated financial statements, the outcome of the above appeal was not known.

Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorisation from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003.
As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as a potential impact of control extended to other periods were not yet known.

On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and correctness of tax settlements to be summarised in 'Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.' The 2000-2004 tax audit was completed and its results presented to the Supervisory Board.

On 22 April 2005, having received the first stage report on control procedures, the Supervisory Board of Rafineria Trzebinia ordered the second detailed stage of the 'Report on agreed upon procedures' which would involve an analysis of transactions in the selected areas of the company's activity. As at the date of preparation of these consolidated financial statements the outcome of the second stage control was not yet known.

**(d) Power transfer fee in settlements with Zakład Energetyczny Płock S.A.**

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 Laws No. 1 dated 15 January 2001), the method of calculation of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree, a different method of power transfer fee

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settlement has been allowed. Following the decision of the Chairman of the Energy Regulatory Office the electricity sale agreement between Zakład Energetyczny Płock S.A. ('ZEP S.A.') and PKN ORLEN S.A. was signed. The agreement did not determine contentious issues concerning transfer fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. Zakład Energetyczny Plock S.A. called on PKN ORLEN S.A. to compromise agreement, as the District Court in Warsaw called PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against Zakład Energetyczny Plock S.A. The Company's Management estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the negative court decision PKN ORLEN S.A. was obliged to pay a liability connected with the so called system fee to Zakład Energetyczny Plock S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the business risk provision was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN SA is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings.

### (e) Anti-monopoly proceedings

As at the date of the preparation of the report, the Company was a party in two anti-monopoly proceedings.

Upon to the decision of the Chairman of the Consumer and Competition Protection Office ('CCPO') from 21 March 2005, an anti-trust proceeding was started in connection with a suspicion that PKN ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of petrol Universal 95 through an unanimous decision to give up production and distribution of petrol Universal 95 and eliminating the competition on the domestic sale market of petrol Universal 95 as well as excluding the risk of the market take-over by the competition.
Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave replies to queries set by CCPO. Replies to the further queries made by CCPO were sent on 5 May 2005.
The proceedings to take evidence are pending. They are prolonged due to motions filed by PKN ORLEN in order to limit access rights to evidence and due to respective decisions which are to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court. As the proceedings are at their earliest stage, it is difficult to assess the risk that PKN ORLEN may be fined.

On 21 March 2005, the Company received a letter in which the Chairman of the CCPO requested information on monoethylene glycol and 'Petrygo' radiator liquid market in years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze liquid to radiators 'Petrygo' and prices for monoethylene glycols. In these proceedings OPCC issued a decision imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Monopoly Court against the negative decision of CCPO. On 13 August 2001 the Anti-Monopoly Court annulled fully the decision of CCPO, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the cash penalty. Consequently in 2001 due to this fact the provision was fully reversed. CCPO applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court from 13 August 2001.
The case was conducted again by District Court in Warsaw and Consumer and Competition Court (former Anti-Monopoly Court), which on the hearing on 21 July 2004 pronounced the judgment again revoking the complaint decision of CCPO.
Due to the received letter PKN ORLEN S.A. replied to queries of CCPO on 11 April 2005. Simultaneously CCPO approved prolongation of the period for responding to queries up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining adequate geographical markets of monoethylene glycol was sent to CCPO on 6 May 2005. Upon the CCPO's request, additional information was provided on 18 May 2005.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN SA and the petitioner in order to limit access rights to evidence and due to respective decisions that need to be issued in this respect by the Chairman of the CCPO and which may be sued at the Consumer and Competition Court.

As the above proceedings are at their initial stage it is difficult to assess the risk of a fine which might again be imposed on PKN ORLEN. Due to elapse of time and considerable changes in the business environment where PKN ORLEN operates, the risk of a fine is insignificant.

In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Board.

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The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management Board, supported by an independent legal opinion, risk that the Company would be charged with a fine is limited.

### (f) Employee compensation plan

On 14 June 2005, due to announced Programme of Restructuring of Regional Organization Units, the Regulations for group redundancy dismissals in the Regional Organization Unit were issued.
The regulations embraced all the employees working in the areas covered by the Programme who in the period when the Programme was in operation would file a statement of will on termination of the employment contracts by mutual agreement of the parties or who would be dismissed by the employer for reasons concerning the employer.
The employees are entitled to one-off cash benefits due to termination of the employment contracts by mutual agreement of the parties for reasons not caused by employees in the period when the Regulations are effective. The amount of the benefit is the 12-fold employee's remuneration or PLN 50,000 increased by PLN 4,000 for each commenced year of service at employers within PKN ORLEN S.A. and its legal predecessors.
The above benefits contain benefits and allowances to which employees are entitled under the generally binding law, in particular in accordance with the Act of 13 March 2003 on particular rules for termination of employment contracts for reasons concerning the employer (Journal of Laws No. 90, item 844 as amended), and other benefits and allowances to which employees are entitled on the basis of other internal deeds and agreements.

Additionally, in order to facilitate finding other places of employment or launching business activity, the employees have a right to participate in training selected by the employee, organized by PKN ORLEN S.A., which cost will be fully or partially covered by the employer to the amount of PLN 2,000.

### (g) Shield programmes

Due to programmes of employment restructuring carried out in the Company, the shield programmes are being introduced including additional compensations related to redundancy for reasons concerning the employer.
As a result the Company made a provision for 2004 costs of PLN 70 million and a provision for 2005 costs of PLN 54 million.

### (h) Claims and disputes before court

In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ('Tankpol') transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ('Petrotank') in exchange for receivables due from Tankpol. On 30 October 2003, a suit was filed at court against PKN ORLEN for compensation of PLN 69,898 thousand or return of the transferred shares. On 26 January 2004 Tankpol modified its claim and demanded PLN 36,383 thousand or return the transferred shares. Tankpol supported the suit with a new valuation of Petrotank for PLN 232,147 thousand. As a result of the proceedings, on 22 March 2005 the Court dismissed Tankpol Sp. z o.o. suit. Tankpol appealed against the verdict. In the view of the Company's Management Board, based on an independent legal opinion, the final result of the dispute should not have a material impact on the presented financial results or settlements' balances.

### (i) Polish tax regulations

Poland has currently a number of regulations in force concerning value added tax, excise tax, corporate income tax and social security. The tax law is often amended, which results in lack of clarity and inconsistencies. The frequent discrepancies in tax law interpretations provided within state authorities and between state authorities and taxpayers generate uncertainty and conflicts concerning the interpreted issues. Tax settlements and other regulated areas of activity (for instance customs and foreign exchange control) are controlled by the respective authorities which are entitled by law to impose high fines, penalties and related interest. Due to the above, the tax risk in Poland is substantially higher than typical for countries with better developed taxation systems.

There are no formal procedures in Poland for determining the final taxation charge. Tax settlements may be subject to tax control over five years since the end of the calendar year when the tax liability reached its maturity. There is a risk that respective authorities adopt a different interpretation of the tax law than the Group companies, which could have a significant impact on their tax liabilities.

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**(j) Fixed assets located on the land with unsettled legal status**

The Group possesses and presents in its assets a number of petrol stations and other constructions on the sites with unsettled legal status. The book value of fixed assets attributed to land with unsettled legal status amounted to PLN 19 million as at 31 December 2004 and PLN 17 million as at 30 June 2005.

**(k) Disposal of stake in NOM Sp. z o.o.**

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ('NOM') shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ('PSE'). The 'put' price amounted to PLN 111.5 million and was calculated as a sum of nominal 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 Arbitration Court of the Polish Chamber of Commerce in Warsaw, regarding the determination of the invalidity of the shares sales agreement.
On 26 April 2005 the Company received a sentence of the Arbitration Court of the Polish Chamber of Commerce in Warsaw. The sentence of the arbitration court is unfavourable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable was changed. The Company provided an allowance for receivable in the amount of PLN 111.5 million presented in the financial statements for the year 2004.
On 20 May 2005 the Company filed a complaint at the District Court in Warsaw for quash the above judgment of the arbitration court and applied for suspending the execution of the court sentence.
On 26 June 2005, the District Court rejected the application for suspending of execution of the arbitration court judgment.
On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111.5 million.
On 8 August 2005 PKN ORLEN received PSE letter where PSE stated it was not bound to settle the penalty.
On 5 August 2005 PKN ORLEN filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw a suit for adjudication of the contractual penalty of PLN 111.5 million.
On 15 September 2005 filed at the Arbitration Court of the Polish Chamber of Commerce in Warsaw an amended suit for adjudication of contractual penalty of PLN 33,453 thousand.
The District Court in Warsaw has not arrived at any judgement in respect of the complaint issued by PKN ORLEN until the date of preparation of these consolidated financial statements. After completion of the legal proceedings related to the sale of shares in NOM, the Company would perform appropriate adjustments to its financial statements, should it prove necessary.

**(l) Pledge on Basell ORLEN Polyolefins Sp. z o.o. ("BOP") shares**

Pursuant to the registered share pledge agreement dated 19 December 2003 PKN ORLEN S.A. established for the benefit of Kredyt Bank S.A. located in Warsaw acting as the Security Agent ('Security Agent') a registered pledge for all shares held by PKN ORLEN in the share capital of BOP, i.e. 907,398 shares of nominal value of PLN 500 each, representing 50% of BOP share capital entitling to 50% voting rights at the general Shareholders' Meeting of BOP. The condition for the effective establishment of the registered pledge was the entry on 23 January 2004 in the pledge register kept by the applicable court.
The pledge established pursuant to the share pledge agreement of 19 December 2003 secures the repayment by BOP the present and future pecuniary claims to the Security Agent, under the Collateral Agreement concluded between entities financing BOP, to the maximum amount of the pledge of EUR 750 million.

**m) Tax review at ORLEN Oil Sp. z o.o.**

On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review of control procedures at Orlen Oil Sp. z o.o.' As at the date of preparation of these consolidated financial statements, both the tax and forensic audits did not reveal any significant risks nor discrepancies.

**n) Tax review at Rafineria Nafty Jedlicze S.A .**

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarised in 'Report on agreed upon procedures concerning review

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of control procedures at Rafineria Nafty Jedlicze S.A.' As at the date of preparation of these consolidated financial statements, the tax audit did not disclose risks which estimated value would have a significant impact on the company's operations

**o) Court proceedings against Benzyna a.s. ("Firm")**

As a part of the court proceedings which have been pending from August 2001, the Anti-Monopoly Office announced a ruling on violation of the Economic Competition Protection Act. As a result, the Firm was punished with a fine of CZK 98 million.

The fine was reimbursed to the Firm on 29 July 2004.
The first instance ruling of the Anti-Monopoly Office was invalidated due to serious failures presented in the Firm's appeal; the Firm's Management believes that the District Court will issue a favourable verdict for the Firm.

However, taking into account repetitive rulings of the Anti-Monopoly Office concerning the fine and the fact that the court has not issued the verdict yet, the Firm recognised a provision for a potential fine of CZK 98 million.

**p) Other risks**

As described in Note 17 of additional information and explanations the Company recognised in the balance sheet as at 30 June 2005 the balance of the provision for reclamation of land based on the analysis prepared by independent experts, taking into account the effective regulations and current practice in this respect. Potential future changes in regulations and practices concerning environmental protection may influence the amount of the provision in future periods.

## 32. Remuneration, together with remuneration from profit paid to the Management Board and the Supervisory Board and the key executive personnel in accordance with IAS 24

Management Board remuneration includes salaries, bonuses, annual bonus and equivalent for unused annual holiday.

The remuneration paid to the Management Board, Supervisory Board and key executive personnel amounted to:

| | for 6 months ended 30 June 2005 | for 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Parent's Management Board* | 11,490 | 11,375 |
| Parent's Supervisory Board | 400 | 436 |
| Parent's key executive personnel ** | 8,680 | 5,998 |
| Group key management personnel*** | 18,886 | 20,337 |
| **Total** | **39,456** | **38,146** |

* In the period of 6 months ended 30 June 2005 the remuneration to former Board members amounted to PLN 7,008 thousand.
** In the period of 6 months ended 30 June 2004 the remuneration was paid to 27 members of key executive personnel and in the period of 6 months ended 30 June 2005 to 34 members.
*** Management Boards, Supervisory Boards and key executive personnel of the Group companies.

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## 33. Employment structure

Average employment by category was as follows:

| | for 6 months ended 30 June 2005* | for 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| Blue collar workers | 11,551 | 7,638 |
| White collar workers | 9,862 | 6,983 |
| | **21,413** | **14,621** |

The employment level as at 30 June 2005 amounted to 21,338 persons and as at 31 December 2004 14,296 persons.
* The average employment in PKN Orlen Group includes the average employment of the Unipetrol Group for the period from 1 January 2005 to 30 June 2005.

## 34. Post balance sheet events

1. On 12 August 2005, the Company submitted at the Czech Securities and Exchange Commission (CSEC') applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s.

The prices offered by PKN ORLEN were: CZK 135 for one share of UNIPETROL, a.s., CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s.

Prior applications submitted by PKN ORLEN were not approved by the CSEC due to incorrectness of the attached pricing methodology designed by an independent expert, NS Group. PKN ORLEN applied the highest standards of transparency and paid special attention to proper preparation of the new applications and hoped that the prices offered by PKN ORLEN fully reflected the pricing in accordance with the methodology complying with the expectations of CSEC.

2. On 26 August 2005, PKN ORLEN obtained a permit from the Czech Securities and Exchange Commission for mandatory calls for sale of shares held by minority shareholders of UNIPETROL a.s., SPOLANA a.s. oraz PARAMO a.s.

The applications were finally approved and the prices were as follows: CZK 139 per share of UNIPETROL a.s., CZK 155 per share for SPOLANA a.s. and CZK 978 per share for PARAMO a.s.

The calls for shares will be valid at the date of publication in formal public announcements defined in Unipetrol Statutes.

## 35. Additional information

### a) Restructuring of the southern assets

Rafineria Nafty Jedlicze, Rafineria Trzebinia and ORLEN OIL participate in the Project of 'Restructuring of southern assets of the PKN ORLEN S.A. Group'. The Project aims at optimisation and consolidation of manufacture and sale of fuel, motor and lubricating oils and paraffin at the PKN ORLEN S.A. Group.
On 5 July 2005 the Management Board adopted 'Restructuring plan for southern assets' thus accepting the restructuring objectives.

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**b) Purchase of UNIPETROL shares**

On 24 May 2005, the Company acquired 114,224,038 bearer shares in UNIPETROL a.s., which is approximately 62.99% of all issued Unipetrol a.s shares. The acquisition was made under the agreement concluded by PKN ORLEN on 4 June 2004 with the National Property Fund of the Czech Republic.
Unipetrol is a group of companies operating in the chemical sector in the Czech Republic, mainly in activities related to processing of crude oil, fuel distribution, production of fertilizers and petrochemicals. In all those activities Unipetrol is a main representative of the industry sector in the Czech Republic and Central Europe. The Unipetrol Group consists mainly of the following companies:

- Ceska Rafinerska (a joint venture, combined with: AgipPetroli, Conoco and Shell) and Paramo – the largest manufacturer of fuels, bitumin and other products related to refining of the crude oil;
- Chemopetrol, Kaučuk and Spolana – manufacturers of mainly petrochemical products and plastics;
- Benzina – the largest network of petrol stations in the Czech Republic.

The Unipetrol Group has the following associates: Lovochemie – an important manufacturer of industrial fertilizers and other non-organic chemical products, Aliachem – a group of enterprises engaged in organic and non-organic chemical products, plastics production, and a few entities operating in the area of distribution, research and services.

As a result of the transaction of the purchase of Unipetrol the Company acquired the following categories of assets, liabilities and contingent liabilities of the acquired company and settled the transaction as follows using the purchase method:

| | |
|---|---|
| Initial fair value of assets and liabilities by main categories: | |
| Cash and cash equivalents | 220,107 |
| Property, plant and equipment* | 7,008,720 |
| Inventories | 1,138,412 |
| Receivables | 1,912,516 |
| Other assets | 1,096,804 |
| Provisions | (143,558) |
| Long-term liabilities | (1,266,024) |
| Short-term liabilities | (3,006,451) |
| Contingent liabilities | (63,927) |
| Other liabilities** | (845,436) |
| Net assets of Unipetrol at fair value | 6,051,163 |
| Share of PKN ORLEN in the net assets of Unipetrol | 3,811,628 |
| Purchase price | 1,562,197 |
| Adjustment of purchase price according to the price formula included in the agreement | 221,295 |
| Acquisition costs*** | 23,108 |
| The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income | 2,005,028 |
| | |
| Share of PKN ORLEN in the net assets of Unipetrol | 3,811,628 |
| The excess of the share in the net consolidated assets over the acquisition cost, included in other operating income | (2,005,028) |
| Total outflow of cash | 1,806,600 |
| Adjustment of purchase price, unpaid as at the balance sheet date | (221,295) |
| Acquisition costs | (23,108) |
| Cash outflow relating to purchase of Unipetrol Group until 30 June 2005 | 1,562,197 |

* Including initial fair value valuation in the amount of PLN 1,358,615 thousand.
** Including deferred tax on initial fair value valuation in the amount of PLN 353,240 thousand (calculated using the 26% tax rate, valid in the Czech Republic)
*** The acquisition costs comprise advisory services expenses, business travel etc.

PKN ORLEN intends to conduct the restructuring of the UNIPETROL Group.

Due to a large number of the acquired assets and liabilities of Unipetrol Group, PKN ORLEN is currently engaged in the process of their valuation to fair value. The PKN ORLEN Group recognised a preliminary effect of the valuation of the acquired net property, plant and equipment except for the assets of Česka Rafinerska. The lack of Česka Rafinerska valuation resulted from the limitation of access to the relevant data since, according to the Česka Rafinerska's Company

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Act, financial data may only be made available to shareholders upon a resolution of General Shareholder's Meeting. PKN Orlen was granted with a limited access to the relevant data which disabled conducting of valuation process according to the schedule set afore.
Simultaneously, the process of defining the final acquisition price is at the final stage. The Management Board of PKN ORLEN and the National Property Fund of the Czech Republic are obliged either to approve the newly established price or announce any reservations to the pricing. Consequently, the initial value of the acquired assets and liabilities, the purchase price and the excess of the share in consolidated net assets over the acquisition cost may diverge from the final valuation. The final settlement of the transaction may also be influenced by the increase in acquisition costs relating to the pending valuation processes aimed at final settlement of the transaction and restructuring of the acquired assets. Upon completion of all the relevant processes, the calculation of the excess of the share in net consolidated assets over the acquisition cost may differ significantly from the one presented above.

According to the Management Board, the final settlement of the transaction should be performed by the end of 2005.

PKN ORLEN has been consolidating the Unipetrol Group using the full method since the acquisition date.

In accordance with IFRS 3 'Business Combinations', the below table presents the consolidated revenues and financial result of the PKN ORLEN Group (including consolidated financial data of Unipetrol for the period from 1 January 2005 to 30 June 2005), as if the acquisition date coincided with the beginning of the period.

| | For the first half of 2005 |
|---|---|
| Revenues from sale | 22 030 438 |
| Operating revenues | 2 257 684 |
| Financial revenues | 500 554 |
| Financial result | 3 561 787 |

### c) Sale agreement of part of assets and liabilities regarding the purchase of shares of Unipetrol

In 2003-2004, the former Management Board of PKN Orlen concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of Unipetrol Group companies. The present Management Board of the Company, having analysed the consequences resulting from the above agreements and having consulted with recognised independent experts, adopted and presented to the Supervisory Board a proceeding strategy, taking into account the best interest of the Company and its shareholders related to execution of the agreements. As a consequence the Management Board is proceeding with formal correspondence with Agrofert Holding a.s., and ConocoPhillips and Unipetrol in respect of the signed agreements. Therefore the Management Board of PKN Orlen cannot disclose detailed information concerning the conducted negotiations.

As a consequence of the above mentioned agreements, PKN ORLEN created provisions to cover the potential negative financial effects related to execution of the agreements.

PKN ORLEN addressed Agrofert Holding with a suggestion of disclosing particulars of the agreements a number of times, yet as at the date of publication of these statements it did not obtain a consent for disclosing their full content.
Agrofert agreed to disclose only portions of the agreements which it also presented at the press conference on 13 September 2005. PKN ORLEN SA still highlights its readiness to publish the agreements in their full wording yet after it obtains the relevant consent from Agrofert.

PKN ORLEN SA Management Board wishes to underline the fact that all actions it has undertaken are transparent and ethical, and the same conduct is expected form other entities. The Management Board is determined to explain the circumstances affecting PKN ORLEN and focus on developing a brand value for UNIPETROL and its shareholders.

### d) Agreement with DEZA a.s.

The Management Board of Unipetrol a.s. informed on 2 September 2005, that on 22 August 2005, it received letters from DEZA a.s. (one of Agrobohemie a.s. shareholders) requesting to enable execution of call option for 50% of shares in Agrobohemie a.s., accordingly to the agreements signed between Unipetrol and DEZA on 12 October 2000. Having analysed available documents and received letters, the Management Board concluded, that the agreements contain vital legal faults (and additionally are not compliant with best market practice). Enumerated factors did not allow the Management Board of UNIPETROL a.s. to accept the request of DEZA a.s. As a consequence on 1 September 2005 the

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Management Board of Unipertol offered DEZA a.s. to modify those documents in order to ensure complance with the binding Czech law, accepted standards and best market practice.

### e) Polkomtel S.A.

On 17 December 2004, an agreement of the Polish shareholders of Polkomtel S.A. was established in respect of intention of public offering of Polkomtel S.A. shares. During the reporting period the afore mentioned shareholders cooperated on the restructuring of share capital of Polkomtel. Having consulted financial and legal advisors, the shareholders examined and evaluated different options for public offering of Polkomtel S.A. shares, in particular by sale of all or a portion of the currently owned shares to Vodafone and TDC.
PKN ORLEN S.A., KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded 'Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital'. Negotiations and correspondence with foreign shareholders are conducted in order to define conditions for maximising of the value of Polkomtel S.A. shares by the Polish shareholders.

## 36. Impact on prior period results

Due to the fact that effective 1 January 2005 the Group has been preparing its consolidated financial statements in accordance with IFRSs for statutory purposes, the below table presents the major differences identified and reported by the Group between IFRSs adopted by the European Union and Polish accounting standards (PASs) with respect to changes in the opening balance of equity as at 1 January 2005 and comparative data in respect of the net profit for the period ended 31 December 2004.

| | Net profit for 12 months period ended 31 December 2004 (unaudited) | Net profit for 6 months ended 30 June 2004 (unaudited) |
|---|---|---|
| Consolidated according to PASs | 2,588,981 | 1,028,855 |
| Reversal of capitalised borrowing costs | 8,011 | 3,667 |
| Deferred tax on capitalised borrowing costs | (1,522) | (697) |
| Valuation of property, plant and equipment at fair value | (155,004) | (69,078) |
| Deferred tax on valuation of property, plant and equipment at fair value | 30,413 | 13,549 |
| Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost | (27,758) | (17,728) |
| Reversal of goodwill amortisation | 5,765 | 2,814 |
| Impairment of property, plant and equipment of ORLEN Deutschland AG | (65,381) | (65,381) |
| Distribution of profit other than dividends | (4,176) | (4,176) |
| Other | 5,654 | (11,585) |
| **Consolidated according to IFRSs** | **2,384,983** | **880,240** |

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| | Net assets as at 31 December 2004 (unaudited) | Net assets as at 30 June 2004 (unaudited) | Net assets as at 1 January 2004 (unaudited) |
|---|---|---|---|
| Consolidated in accordance with PASs | 11,826,556 | 10,330,621 | 9,581,948 |
| Reversal of capitalised borrowing costs | (63,745) | (68,088) | (71,755) |
| Deferred tax on capitalised borrowing costs | 12,111 | 12,937 | 13,633 |
| Valuation of property, plant and equipment at fair value | 1,122,628 | 1,208,403 | 1,278,183 |
| Deferred tax on valuation of property, plant and equipment at fair value | (204,506) | (221,372) | (234,920) |
| Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost | 273,611 | 283,641 | 301,369 |
| Reversal of goodwill amortisation | 5,765 | 2,814 | - |
| Impairment of property, plant and equipment of ORLEN Deutschland AG | (65,381) | (65,381) | - |
| Other | 70,563 | 53,324 | 61,170 |
| **Consolidated according to IFRSs** | **12,977,602** | **11,536,899** | **10,929,628** |

**a. Reversal of capitalised borrowing costs**

In accordance with PASs borrowing costs resulting from investment loans were stated as investment expenditure. Other financial expenses were recognised in the profit and loss when incurred. In the financial statements prepared in accordance with IFRSs, the borrowings costs, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognised in the profit and loss statement in the period to which they refer.

**b. Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost**

In accordance with PASs, the Company settled the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost to revenues over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost was recognised as retained earnings.

**c. Reversal of goodwill amortization**

In accordance with PASs goodwill was amortised on a straight line basis over the period not longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in accordance IFRSs, goodwill is not amortised yet decreased by impairment allowances.

**d. Impairment of property, plant and equipment of ORLEN Deutschland AG**

Due to the change in the policy discussed in detail under b) above, ORLEN Deutschland AG recognised an excess of net fair value of identifiable assets, liabilities and contingent liabilities above acquisition cost in equity as at 1 January 2005. Consequently, for the purpose of consolidated annual financial statements the impairment allowance for property, plant and equipment of ORLEN Deutschland AG was increased by the amount reflecting the above change in the accounting principles and recognised in 2004 financial result.

**e. Consolidation of BOP by proportionate method**

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise, Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.

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In the records presented for the first half of 2004 and the first half of 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods BOP was presented by the equity method.
As at 30 June 2005 and 31 December 2004 and for the periods of 6 months ended 30 June 2005 and 30 June 2004, the Group share in assets, liabilities, revenues and costs of BOP was as follows:

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) |
|---|---|---|
| Current assets | 152,996 | 168,681 |
| Non-current assets | 929,818 | 860,901 |
| Short-term liabilities | 90,370 | 152,590 |
| Long-term liabilities | 459,799 | 346,785 |

| | I half ended 30 June 2005 (unaudited) | I half ended 30 June 2004 (unaudited) |
|---|---|---|
| Revenues | 253,802 | 240,067 |
| Cost of goods, merchandise and materials sold | (223,618) | (209,690) |
| General and administrative expenses | (4,321) | (3,526) |
| Financial expenses | (13,925) | (5,936) |
| Profit before tax | 12,032 | 22,487 |
| Income tax expense | (2,094) | (4,318) |
| Net profit | 9,939 | 18,170 |

## 37. Differences between data disclosed in the consolidated financial statements for the I half of 2005 and the Current Report published on 16 August 2005:

Changes in comparison to data published in current report dated 16 August 2005 having influence on net profit and equity:

| | Net profit | Equity |
|---|---|---|
| Data presented in condensed consolidated report for two quarters of 2005, published on 16 August 2005 | 1,316,141 | 13,357,673 |
| Consolidation of Unipetrol a.s. Group | 2,019,957 | 4,225,501 |
| Data presented in consolidated financial statements for the I half of 2005 | 3,336,098 | 17,583,174 |

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## 38. Other

These consolidated financial statements were authenticated by the Company's Management Board at the Company's premises on 26 September 2005.

## SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

.....

**President**

Igor Chalupec

| | | |
|---|---|---|
| ..... | ..... | ..... |
| **Vice-President** | **Vice-President** | **Vice-President** |
| Wojciech Heydel | Jan Maciejewicz | Cezary Smorszczewski |
| ..... | ..... | |
| **Member of the Board** | **Member of the Board** | |
| Paweł Szymański | Dariusz Witkowski | |

Płock, 26th September 2005

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| | |
|---|---|
| **Company** | Polski Koncern Naftowy Orlen S.A. |
| **TIDM** | POKD |
| **Headline** | Interim ResultsUnconsolidated |
| **Released** | 18:38 29-Sep-05 |
| **Number** | 9925R |

PKN ORLEN S.A. hereby publishes Unconsolidated Financial Statements for the half-year periods ended 30 June 2005 and 30 June 2004 prepared in accordance with IFRS together with an independent auditor's review report. To see the statement please download the PDF file.

http://www.rns-pdf.londonstockexchange.com/rns/9925r_-2005-9-29.pdf

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KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warszawa, Polska

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
contact_us@kpmg.pl
www.kpmg.pl

# INDEPENDENT AUDITORS' REVIEW REPORT ON THE ABBREVIATED INTERIM FINANCIAL STATEMENTS OF PKN ORLEN S.A. FOR THE PERIOD FROM 1 JANUARY 2005 TO 30 JUNE 2005

*To the Shareholders of PKN ORLEN S.A.*

We have reviewed the accompanying abbreviated interim financial statements of PKN ORLEN S.A. with its registered office in Płock, Chemików 7, that consist of the balance sheet as at 30 June 2005, with total assets and total liabilities and equity of PLN 18,764,807 thousand, the profit and loss account for the period from 1 January 2005 to 30 June 2005 with a net profit of PLN 1,317,902 thousand, the statement of changes in equity for the period from 1 January 2005 to 30 June 2005 with an increase in equity of PLN 388,132 thousand, the cash flow statement for the period from 1 January 2005 to 30 June 2005 with an increase in cash amounting to PLN 29,775 thousand and abbreviated explanatory notes.

Management of the Company is responsible for the preparation and fair presentation of these abbreviated interim financial statements in accordance with the Decree of the Council of Ministers dated 21st of March 2005 on current and periodical statements provided by issuers of securities (Official Journal from 2005, No.49, item 463) which states that an issuer, being a parent company, is not required to submit separate interim financial statements, provided that abbreviated interim financial statements comprising of: a balance sheet, profit and loss account, statement of changes in equity, cash flow statement and abbreviated explanatory notes, including information and data which is significant for assessment of the issuer's financial position and financial performance and which is not included in the interim consolidated financial statements, are presented with the interim consolidated financial statements. Our responsibility is to issue a report on these abbreviated interim financial statements, based on our review. The financial statements of PKN ORLEN S.A. as at 31 December 2004, before the transition described in note 1.2 "First-time adoption of International Financial Reporting Standards" of explanatory notes, was audited by another independent auditor, who issued an opinion without qualification to these financial statements, dated 31 March 2005.

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and with Standard No. 4 of the professional standards issued by the Polish National Council of Certified Auditors. A review of abbreviated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG Audyt Sp. z o.o., a Polish limited liability company, is a member firm of KPMG International, a Swiss cooperative.

Spółka zarejestrowana w Sądzie Rejonowym dla m. st. Warszawy XIX Wydział Gospodarczy Krajowego Rejestru Sądowego
KRS 0000104753
NIP: 526-10-24-841
REGON 010939471

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Based on our review, nothing has come to our attention that causes us to believe that the accompanying abbreviated interim financial statements of PKN ORLEN S.A. including note 1.2 "First-time adoption of International Financial Reporting Standards" do are not prepared, in all material respects, in accordance with accounting principles as described in note 1.2 of the abbreviated explanatory notes to these abbreviated interim financial statements.

Without qualifying our report, we draw attention to following issues:

- The comparative information as at and for the six months ended 30 June 2004, before the transition described in note 1.2 "First-time adoption of International Financial Reporting Standards" of explanatory notes, were subject to review by another independent auditor.

- Note 1.2 to the abbreviated interim financial statements explains the Company's transition to International Financial Reporting Standards as adopted by the European Union. The abbreviated interim financial statements have been prepared in accordance with accounting standards adopted by the European Union that are issued and available for early adoption as of 31 December 2005, the Company's first annual reporting date at which it is required to use accounting standards adopted by the European Union. However, the accounting standards adopted by the European Union that will be effective as of 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty at the time of preparing this abbreviated interim financial statements. Accordingly, there is a possibility that the Company's management may determine that changes to the accounting policies adopted in preparing the abbreviated interim financial statements are necessary when it prepares its first annual financial statements in accordance with accounting standards adopted by the European Union as of 31 December 2005.

- In accordance with IFRS 1 the Company is currently in the process of valuing of fixed assets at fair value. The preliminary results of this valuation have been recognised in the accompanying abbreviated interim financial statements of the PKN ORLEN S.A.

.....
Certified Auditor 9451/7175
Leszek Dubicki,
Member of the Board of Directors

.....
On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Board of Directors

Warsaw, 26 September 2005

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# POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

## STANDALONE CONDENSED FINANCIAL STATEMENTS FOR THE HALF-YEAR PERIODS ENDED 30 JUNE 2005 AND 30 JUNE 2004 PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## AND INDEPENDENT AUDITOR'S REVIEW REPORT

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| Data in respect of MSSF condensed standalone financial statement | | | | |
|---|---|---|---|---|
| SELECTED FINANCIAL DATA | thousand PLN | | thousand EUR | |
| | 2005 - I half | 2004 - I half | 2005 - I half | 2004 - I half |
| I. Net revenues from sale of finished goods, merchandise and raw materials | 9 748 797 | 8 108 485 | 2 389 118 | 1 987 130 |
| II. Profit / (Loss) on operations | 1 344 876 | 1 006 530 | 329 586 | 246 668 |
| III. Gross profit | 1 661 470 | 1 106 565 | 407 173 | 271 184 |
| IV. Net profit | 1 317 902 | 891 857 | 322 976 | 218 566 |
| V. Net cash provided by operating activities | 718 030 | 1 036 890 | 175 966 | 254 109 |
| VI. Net cash used in investing activities | (944 093) | (381 696) | (231 367) | (93 541) |
| VII. Net cash provided by / (used in) financing activities | 255 838 | (403 013) | 62 698 | (98 766) |
| VIII. Net change in cash and cash equivalents | 29 775 | 252 181 | 7 297 | 61 802 |
| IX. Profit (loss) per ordinary share for 6 months (in PLN/EUR) | 3.08 | 2.09 | 0.76 | 0.51 |
| | as of 30.06.2005 | as of 30.06.2004 | as of 30.06.2005 | as of 30.06.2004 |
| X. Non-current assets | 11 760 301 | 9 874 706 | 2 910 894 | 2 444 174 |
| XI. Current assets | 7 004 506 | 5 553 173 | 1 733 746 | 1 374 514 |
| XII. Total assets | 18 764 807 | 15 427 879 | 4 644 639 | 3 818 687 |
| XIII. Long-term liabilities | 2 264 488 | 2 416 418 | 560 503 | 598 108 |
| XIV. Short-term liabilities | 4 859 196 | 3 086 874 | 1 202 742 | 764 059 |
| XV. Equity | 11 641 123 | 9 924 587 | 2 881 395 | 2 456 520 |
| XVI. Share capital * | 1 057 635 | 1 057 635 | 261 784 | 261 784 |
| XVII. Number of issued ordinary shares | 427 709 061 | 427 709 061 | 427 709 061 | 427 709 061 |
| XVIII. Book value per share (in PLN/EUR) | 27.22 | 23.20 | 6.74 | 5.74 |

* share capital was revalued in accordance with IAS 29

**The above data were translated into EUR by the following exchange rates:**
- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 30 June 2005 - 4.0401 PLN/EUR
- specific items in profit and loss and cash flows – by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January – 30 June 2005) – 4.0805 PLN/EUR

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## Introduction to condensed financial statement

### 1. Accounting principles, including valuation of assets and liabilities, measuring the financial result and methods of preparation of financial statement.

### 1.1 Format and the basis for preparation of condensed financial statemeny

The format, basis and scope of condensed financial statement were specified by the Regulation of the Council of Ministers of 21 March 2005 on current and periodical information presented by issuers of securities in paragraph § 94.4-5.
According to the above quoted regulation, the issuer, who is a parent company is not obliged to prepare a separate half year report, providing that the condensed financial statements are included in the consolidated half year report, together with the auditor's review report concerning the condensed financial statements, comprising: balance sheet statement, income statement, statements of changes in shareholders equity, cash flow statement and condensed description notes, covering information and data which are material to properly assess the financial position and financial result of the issuer and were not included in the consolidated financial statements.

### 1.2 Accounting policies

As applicable for standalone financial statements, the accounting policies applied by PKN ORLEN are convergent with policies described in the consolidated financial statements of the Capital Group for the first half of 2005, in which the Company is the parent entity.
From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 par. 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory stand-alone financial statements in accordance with IFRSs approved by the European Commission for 2005.
The impact of changes was included in the financial statement by conversion of the comparative data.

| | Net financial result from 01.01.2004 till 30.06.2004 | Net financial result from 01.01.2004 till 31.12.2004 |
|---|---|---|
| Data according to PAS | 954 669 | 2 275 645 |
| Derecognizing of capitalized financial expenses | 3 544 | 7 098 |
| Deferred tax | ( 673 ) | ( 1 349 ) |
| Valuation of fixed assets at fair value | ( 76 040 ) | ( 158 447) |
| Deferred tax on valuation of fixed assets at fair value | 14 357 | 28 714 |
| Valuation of shares in foreign currencies using historical exchange rate | | 14 094 |
| Payments from net profit, other that dividends | ( 4 000 ) | ( 4 000 ) |
| Other | | |
| Data according to IFRS | 891 857 | 2 161 755 |

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| | Net assets at 30.06.2004 | Net assets at 31.12.2004 |
|---|---|---|
| Data according to PAS | 9 078 472 | 10 416 439 |
| Derecognizing of capitalized financial expenses | ( 33 448 ) | ( 29 894 ) |
| Deferred tax | 6 355 | 5 680 |
| Valuation of fixed assets at fair value | 1 109 732 | 1 027 323 |
| Deferred tax on valuation of fixed assets at fair value | ( 195 008 ) | ( 180 651 ) |
| | ( 41 516 ) | 14 094 |
| Data according to IFRS | | |
| | 9 924 587 | 11 252 991 |

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
## Condensed standalone balance sheets
## as at 30 June 2005, 31 December 2004 and 30 June 2004
## (in PLN thousand)

| | Notes | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|---|
| | | | (in thousand PLN) | |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 1 | 7 652 059 | 7 569 696 | 7 532 203 |
| Intangible assets | 2 | 31 110 | 29 404 | 34 978 |
| Long-term financial investments | | 511 975 | 498 963 | 457 769 |
| Investments in associates | | 3 448 749 | 1 685 878 | 1 784 160 |
| Other non-current assets | | 79 196 | 32 302 | 36 544 |
| Perpetual usufruct of land | | 37 212 | 24 931 | 29 052 |
| **Total non-current assets** | | **11 760 301** | **9 841 174** | **9 874 706** |
| **Current assets** | | | | |
| Inventory | 3 | 3 752 993 | 2 621 975 | 2 815 115 |
| Trade and other receivables | 4 | 2 538 957 | 1 908 263 | 2 044 589 |
| Income tax receivable | | - | 10 206 | - |
| Short-term investments | | 200 415 | 1 261 747 | 200 843 |
| Short-term prepayments | 5 | 59 930 | 68 329 | 90 376 |
| Cash and cash equivalents | 6 | 320 245 | 291 138 | 312 864 |
| Other financial assets | | 131 966 | 154 018 | 89 386 |
| **Total current assets** | | **7 004 506** | **6 315 676** | **5 553 173** |
| **Total assets** | | **18 764 807** | **16 156 850** | **15 427 879** |
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | | | |
| **Equity** | | | | |
| Share capital | | 534 636 | 534 636 | 534 636 |
| Share capital revaluation adjustment | | 522 999 | 522 999 | 522 999 |
| Share premium | | 1 058 450 | 1 058 450 | 1 058 450 |
| Share premium revaluation adjustment | | 168 803 | 168 803 | 168 803 |
| Hedging reserve | | 57 383 | 75 943 | 16 350 |
| Retained earnings | | 9 298 852 | 8 892 160 | 7 623 349 |
| **Total equity** | | **11 641 123** | **11 252 991** | **9 924 587** |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings | | 1 423 613 | 1 407 707 | 1 596 506 |
| Provisions | 7 | 545 503 | 498 334 | 474 504 |
| Deferred tax liabilities | | 292 179 | 296 878 | 345 408 |
| Other non-current liabilities | | 3 193 | - | - |
| **Total non-current liabilities** | | **2 264 488** | **2 202 919** | **2 416 418** |
| **Current liabilities** | | | | |
| Trade and other liabilities and accrued expenses | 9 | 3 892 877 | 2 432 232 | 2 718 269 |
| Provisions | 8 | 553 961 | 235 447 | 79 699 |
| Interest-bearing loans and borrowings | | 342 531 | 5 863 | 233 575 |
| Deferred income | 10 | 10 330 | 6 048 | 12 052 |
| Income tax liability | | 56 028 | - | 25 407 |
| Other current financial liabilities | | 3 469 | 21 350 | 17 872 |
| **Total current liabilities** | | **4 859 196** | **2 700 940** | **3 086 874** |
| **Total equity and liabilities** | | **18 764 807** | **16 156 850** | **15 427 879** |

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# POLSKI KONCERN NAFTOWY ORLEN S.A.
## Condensed standalone profit and loss statements
## for 6 month periods ended 30 June 2005 and 30 June 2004
## (in PLN thousand)

| | Notes | for 6 months ended 30 June 2005 (unaudited) | for 6 months ended 30 June 2004 (unaudited) |
|---|---|---|---|
| | | (in thousand PLN) | |
| **Operating activities** | | | |
| **Net sale revenues** | | | |
| Revenues from sale of finished goods | | 13 903 293 | 12 210 769 |
| Excise tax and other charges | | (4 967 511) | (4 848 496) |
| Net revenues from sale of finished goods | | 8 935 782 | 7 362 273 |
| Net revenues from sale of merchandise and raw materials | | 813 015 | 746 212 |
| Total net sale revenues | | **9 748 797** | **8 108 485** |
| Cost of finished goods sold | 11 | (6 450 645) | (5 453 043) |
| Cost of merchandise and raw materials sold | 11 | (620 161) | (591 312) |
| **Gross profit on sales** | | **2 677 991** | **2 064 130** |
| Other operating income | | 69 260 | 48 694 |
| Distribution expenses | 11 | (702 616) | (705 447) |
| General and administrative expenses | 11 | (245 267) | (260 896) |
| Other operating expenses | | (454 492) | (139 951) |
| **Profit from operations** | | **1 344 876** | **1 006 530** |
| Financial income | 12 | 493 687 | 156 206 |
| Financial expenses | 12 | (177 093) | (56 171) |
| Net financial revenues and expenses | | **316 594** | **100 035** |
| **Profit before tax** | | **1 661 470** | **1 106 565** |
| Income tax expense | 13 | (343 568) | (214 708) |
| **Net profit** | | **1 317 902** | **891 857** |
| **Basic and diluted earnings per share in Polish Zloty** | | **3.08** | **2.09** |

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## Standalone cash flow statements
## for 6 months ended 30 June 2005 and 30 June 2004
## (in PLN thousand)

| | for the period of 6 months ended 30 June 2005 | for the period of 6 months ended 30 June 2004 |
|---|---|---|
| | (unaudited) | (unaudited) |
| | (in thousand PLN) | |
| **Cash flows - operating activities** | | |
| Net profit | **1 317 902** | **891 857** |
| Adjustments for: | | |
| Depreciation | 393 224 | 487 139 |
| Interest and dividend income, net | (129 400) | (60 502) |
| Income tax expense | 343 568 | 214 708 |
| (Profit) / loss on investing activities | (48 331) | 43 738 |
| (Increase) in receivables | (247 953) | (147 174) |
| (Increase) in inventories | (1 131 018) | (302 612) |
| Increase in liabilities and accruals | 310 816 | 39 908 |
| Increase in provisions | 370 081 | 43 033 |
| Other | (178 824) | (32 731) |
| Income tax paid | (282 035) | (140 474) |
| **Net cash provided by operating activities** | **718 030** | **1 036 890** |
| **Cash flows - investing activities** | | |
| Acquisition of property, plant and equipment and intangible assets | (469 518) | (511 706) |
| Proceeds from the sale of property, plant and equipment | 6 505 | 5 335 |
| Proceeds from the sale of shares in Naftoport | 67 692 | - |
| Proceeds from the sale of subsidiaries | 8 141 | 6 111 |
| Acquisition of shares * | (1 562 335) | (12 654) |
| Proceeds from the sale of short-term securities | 810 977 | - |
| Acquisition of short-term securities | - | (200 843) |
| Interest and dividends received | 128 603 | 93 039 |
| Proceeds from repayment of loan granted to subsidiary | 240 248 | - |
| Proceeds from return of additional payments to subsidiaries' equity | - | 230 299 |
| Other | (174 406) | 8 723 |
| **Net cash used in investing activities** | **(944 093)** | **(381 696)** |
| **Cash flow - financing activities** | | |
| Proceeds from long and short-term borrowings and loans | 371 706 | 713 279 |
| Repayment of long and short-term borrowings and loans | (91 532) | (1 085 502) |
| Interest paid | (24 336) | (30 666) |
| Other | - | (124) |
| **Net cash provided by / (used in) financing activities** | **255 838** | **(403 013)** |
| **Net change in cash and cash equivalents** | **29 775** | **252 181** |
| Effect of exchange rate changes | (668) | (2 086) |
| **Cash and cash equivalents, beginning of the period** | **291 138** | **62 769** |
| **Cash and cash equivalents, end of period, incl.** | **320 245** | **312 864** |
| Cash and cash equivalents not available for use | 7 089 | 7 327 |

* Incl. in 2005 the entire amount relates to acquisition of the Unipetrol Group

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**POLSKI KONCERN NAFTOWY PKN ORLEN S.A.**
**Standalone statement of changes in equity**
**as at 30 June 2005, 31 December 2004 and 30 June 2004**
**(in PLN thousand)**

| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 7 009 503 | 9 294 391 |
| (unaudited) | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 891 857 | 891 857 |
| Impairment of non-current assets | - | - | - | - | - |
| Hedge accounting - cash flow hedges | - | - | 16 350 | - | 16 350 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **30 June 2004** | 1 057 635 | 1 227 253 | 16 350 | 7 623 349 | 9 924 587 |
| (unaudited) | | | | | |

| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2005** | 1 057 635 | 1 227 253 | 75 943 | 8 892 160 | 11 252 991 |
| (unaudited) | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (911 020) | (911 020) |
| Net profit | - | - | - | 1 317 902 | 1 317 902 |
| Impairment of non-current assets | - | - | - | (190) | (190) |
| Hedge accounting - cash flow hedges | - | - | (18 560) | - | (18 560) |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| Other | - | - | - | - | - |
| **30 June 2005** | 1 057 635 | 1 227 253 | 57 383 | 9 298 852 | 11 641 123 |
| (unaudited) | | | | | |

| | Share capital | Share premium | Hedging reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **1 January 2004** | 1 057 635 | 1 227 253 | - | 7 009 503 | 9 294 391 |
| (unaudited) | | | | | |
| Foreign exchange differences on consolidation | - | - | - | - | - |
| Dividend | - | - | - | (278 011) | (278 011) |
| Net profit | - | - | - | 2 161 754 | 2 161 754 |
| Impairment of non-current assets | - | - | - | (1 086) | (1 086) |
| Hedge accounting - cash flow hedges | - | - | 75 943 | - | 75 943 |
| Shares issued | - | - | - | - | - |
| Share premium | - | - | - | - | - |
| Minority interest | - | - | - | - | - |
| **31 December 2004** | 1 057 635 | 1 227 253 | 75 943 | 8 892 160 | 11 252 991 |
| (unaudited) | | | | | |

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## 1. Property, plant and equipment

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Land | 171 191 | 161 830 | 149 786 |
| Buildings and constructions | 3 913 541 | 3 865 306 | 3 922 106 |
| Machinery and equipment | 2 218 280 | 2 122 755 | 2 327 813 |
| Vehicles and other | 181 884 | 180 838 | 189 919 |
| Construction in progress | 1 167 163 | 1 238 967 | 942 579 |
| **Total property, plant and equipment** | **7 652 059** | **7 569 696** | **7 532 203** |

| | Land | Buildings and constructions | Machinery and equipment | Vehicles and other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 1 January 2004 | 136 571 | 5 334 706 | 4 668 234 | 310 546 | 697 822 | 11 147 879 |
| Increase | 13 215 | 108 778 | 45 090 | 7 475 | 420 545 | 595 103 |
| Reclassification | - | (323) | (17) | 340 | - | - |
| Decrease | - | (42 743) | (48 981) | (4 145) | (175 788) | (271 657) |
| **30 June 2004** | **149 786** | **5 400 418** | **4 664 326** | **314 216** | **942 579** | **11 471 325** |
| 1 January 2005 | 161 830 | 5 391 529 | 4 559 273 | 293 348 | 1 238 967 | 11 644 947 |
| Increase | 9 644 | 219 965 | 284 701 | 27 148 | 453 159 | 994 617 |
| Reclassification | - | 40 | (30) | (10) | - | - |
| Decrease | (283) | (34 770) | (25 175) | (16 871) | (524 963) | (602 062) |
| **30 June 2005** | **171 191** | **5 576 764** | **4 818 769** | **303 615** | **1 167 163** | **12 037 502** |
| **Accumulated depreciation** | | | | | | |
| 1 January 2004 | - | 1 299 066 | 2 119 035 | 106 175 | - | 3 524 276 |
| Depreciation | - | 188 099 | 263 258 | 20 759 | - | 472 116 |
| Other increases | - | - | 236 | - | - | 236 |
| Impairment allowances | - | 28 051 | 2 016 | 962 | - | 31 029 |
| Reclassification | - | (86) | (12) | 98 | - | - |
| Decrease | - | (36 818) | (48 020) | (3 697) | - | (88 535) |
| **30 June 2004** | **-** | **1 478 312** | **2 336 513** | **124 297** | **-** | **3 939 122** |
| 1 January 2005 | - | 1 526 223 | 2 436 518 | 112 510 | - | 4 075 251 |
| Depreciation | - | 171 676 | 187 901 | 22 016 | - | 381 593 |
| Other increases | - | - | 399 | - | - | 399 |
| Impairment allowances | - | (6 795) | (1 424) | (103) | - | (8 322) |
| Reclassification | - | (1) | 1 | - | - | - |
| Decrease | - | (27 880) | (22 906) | (12 692) | - | (63 478) |
| **30 June 2005** | **-** | **1 663 223** | **2 600 489** | **121 731** | **-** | **4 385 443** |
| **Net book value** | | | | | | |
| **1 January 2004** | **136 571** | **4 035 640** | **2 549 199** | **204 371** | **697 822** | **7 623 603** |
| **30 June 2004** | **149 786** | **3 922 106** | **2 327 813** | **189 919** | **942 579** | **7 532 203** |
| **1 January 2005** | **161 830** | **3 865 306** | **2 122 755** | **180 838** | **1 238 967** | **7 569 696** |
| **30 June 2005** | **171 191** | **3 913 541** | **2 218 280** | **181 884** | **1 167 163** | **7 652 059** |

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## 2. Intangible assets

| | 30 June 2005 | 31 December 2004 | 30 June 2004 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Acquired licenses, patents and similar intangible assets | 31 106 | 29 392 | 34 938 |
| Acquired computer software | 4 | 8 | 13 |
| Other | - | 4 | 27 |
| **Total intangible assets** | **31 110** | **29 404** | **34 978** |

| | Acquired computer software | Acquired licenses, patents and similar intangible assets | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 1 January 2004 | 3 517 | 149 425 | 189 | 153 131 |
| Increase | - | 2 789 | - | 2 789 |
| Decrease | (44) | (6) | - | (50) |
| **30 June 2004** | **3 473** | **152 208** | **189** | **155 870** |
| 1 January 2005 | 3 470 | 158 287 | 189 | 161 946 |
| Increase | - | 11 951 | - | 11 951 |
| Decrease | (134) | (602) | - | (736) |
| **30 June 2005** | **3 336** | **169 636** | **189** | **173 161** |
| 1 January 2004 | 3 498 | 103 723 | 139 | 107 360 |
| Depreciation | 7 | 13 548 | 24 | 13 579 |
| Impairment allowances | - | 5 | - | 5 |
| Decrease | (45) | (6) | (1) | (52) |
| **30 June 2004** | **3 460** | **117 270** | **162** | **120 892** |
| 1 January 2005 | 3 462 | 128 895 | 185 | 132 542 |
| Depreciation | 3 | 10 225 | 4 | 10 232 |
| Impairment allowances | (1) | (26) | - | (27) |
| Decrease | (132) | (564) | - | (696) |
| **30 June 2005** | **3 332** | **138 530** | **189** | **142 051** |
| **Net book value** | | | | |
| **1 January 2004** | **19** | **45 702** | **50** | **45 771** |
| **30 June 2004** | **13** | **34 938** | **27** | **34 978** |
| **1 January 2005** | **8** | **29 392** | **4** | **29 404** |
| **30 June 2005** | **4** | **31 106** | **-** | **31 110** |

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## 3. Inventory

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Raw materials | 2 218 105 | 1 404 775 | 1 489 749 |
| Work in progress | 307 121 | 229 105 | 275 640 |
| Finished goods | 1 135 916 | 878 372 | 938 924 |
| Merchandise | 91 851 | 109 723 | 110 802 |
| **Total inventory, net** | **3 752 993** | **2 621 975** | **2 815 115** |

## 4. Trade and other receivables

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Trade receivables | 2 019 665 | 1 850 924 | 1 610 336 |
| Taxation, duty and social security receivables | 57 997 | 29 721 | 123 861 |
| Receivables from sale of property, plant and equipment | 37 346 | 37 629 | 19 312 |
| Prepayments for property, plant and equipment | 6 355 | 20 169 | 139 902 |
| Other receivables | 769 637 | 305 857 | 363 442 |
| Total trade and other receivables, gross | 2 891 000 | 2 244 300 | 2 256 853 |
| Receivables allowances | (352 043) | (336 037) | (212 264) |
| **Total trade and other receivables, net** | **2 538 957** | **1 908 263** | **2 044 589** |

## Receivables allowances

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Beginning of period | 336 037 | 216 987 | 216 987 |
| Allowance made during the period | 55 028 | 204 134 | 20 756 |
| Allowance reversed during the period | (39 022) | (85 084) | (25 479) |
| Allowance used during the period | - | - | - |
| **End of period** | **352 043** | **336 037** | **212 264** |

## 5. Short-term prepayments

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Leases | 15 641 | 15 493 | 16 430 |
| Insurances | 30 662 | 16 789 | 43 937 |
| Other | 13 627 | 36 047 | 30 009 |
| **Total** | **59 930** | **68 329** | **90 376** |

## 6. Cash and cash equivalents

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Cash on hand and in bank | 295 301 | 269 250 | 286 806 |
| Other cash | 24 944 | 21 888 | 26 058 |
| **Total** | **320 245** | **291 138** | **312 864** |

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**7. Long-term liabilities - provisions**

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Land reclamation provision | 347 331 | 347 531 | 354 261 |
| Retirement benefits and jubilee bonuses | 104 614 | 104 614 | 87 712 |
| Penalty fees, compensations and other | 17 344 | 17 757 | 28 670 |
| Shield programmes provision | 73 169 | 25 464 | - |
| Other provisions | 3 045 | 2 968 | 3 861 |
| **Total** | **545 503** | **498 334** | **474 504** |

**8. Short-term liabilities - provisions**

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Land reclamation provision | 102 476 | 106 143 | 36 095 |
| Retirement benefits and jubilee bonuses | 9 013 | 9 013 | 12 168 |
| Penalty fees, compensations and other | 361 247 | 46 384 | 25 436 |
| Shield programmes provision | 51 018 | 44 536 | - |
| Other provisions | 30 207 | 29 371 | 6 000 |
| **Total** | **553 961** | **235 447** | **79 699** |

## Changes in long-term provisions

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Penalty fees, compensations and other | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 354 261 | 76 394 | 3 800 | - | 3 785 | **438 240** |
| Provision made during the period | - | 11 318 | 24 870 | - | 76 | **36 264** |
| Provision used during the period | - | - | - | - | - | - |
| Provision reversed during the period | - | - | - | - | - | - |
| **30 June 2004** | **354 261** | **87 712** | **28 670** | **-** | **3 861** | **474 504** |
| 1 January 2005 | 347 531 | 104 614 | 17 757 | 25 464 | 2 968 | **498 334** |
| Provision made during the period | - | - | - | 47 705 | 77 | **47 782** |
| Provision used during the period | - | - | - | - | - | - |
| Provision reversed during the period | (200) | - | (413) | - | - | **(613)** |
| **30 June 2005** | **347 331** | **104 614** | **17 344** | **73 169** | **3 045** | **545 503** |

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| | Land reclamation provision | Retirement benefits and jubilee bonuses | Penalty fees, compensations and other | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 354 261 | 76 394 | 3 800 | - | 3 785 | **438 240** |
| Provision made during the period | 76 506 | 35 943 | 13 957 | 25 464 | 153 | **152 023** |
| Provision used during the period | (1 011) | (7 458) | - | - | (145) | **(8 614)** |
| Provision reversed during the period | (82 225) | (265) | - | - | (825) | **(83 315)** |
| **31 December 2004** | **347 531** | **104 614** | **17 757** | **25 464** | **2 968** | **498 334** |

## Changes in short term provisions

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Penalty fees, compensations and other | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 39 873 | 11 348 | 17 860 | - | 15 | **69 096** |
| Provision made during the period | - | 12 439 | 7 576 | - | 6 000 | **26 015** |
| Provision used during the period | (3 778) | (11 619) | - | - | - | **(15 397)** |
| Provision reversed during the period | - | - | - | - | (15) | **(15)** |
| 30 June 2004 | **36 095** | **12 168** | **25 436** | - | **6 000** | **79 699** |
| 1 January 2005 | 106 143 | 9 013 | 46 384 | 44 536 | 29 371 | **235 447** |
| Provision made during the period | - | 5 084 | 314 863 | 6 482 | 13 834 | **340 263** |
| Provision used during the period | (1 817) | (5 084) | - | - | (7 000) | **(13 901)** |
| Provision reversed during the period | (1 850) | - | - | - | (5 998) | **(7 848)** |
| **30 June 2005** | **102 476** | **9 013** | **361 247** | **51 018** | **30 207** | **553 961** |

| | Land reclamation provision | Retirement benefits and jubilee bonuses | Penalty fees, compensations and other | Shield programmes provision | Other provisions | Total |
|---|---|---|---|---|---|---|
| 1 January 2004 | 39 873 | 11 348 | 17 860 | - | 15 | **69 096** |
| Provision made during the period | 82 141 | 9 037 | 36 602 | 44 536 | 29 372 | **201 688** |
| Provision used during the period | (13 373) | (11 348) | (8 078) | - | - | **(32 799)** |
| Provision reversed during the period | (2 498) | (24) | - | - | (16) | **(2 538)** |
| **31 December 2004** | **106 143** | **9 013** | **46 384** | **44 536** | **29 371** | **235 447** |

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## 9. Trade and other liabilities and accrued expenses

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Trade liabilities | 1 618 562 | 1 307 742 | 1 395 364 |
| Social Funds | 29 320 | 23 260 | 29 936 |
| Holiday pay accrual | 21 113 | 17 374 | 16 276 |
| Payroll liabilities | 28 | 2 855 | 4 090 |
| Loyalty programme VITAY | 60 169 | 54 157 | 51 024 |
| Dividends liabilities | 911 021 | - | 278 011 |
| Excise tax and fuel charge liabilities | 736 973 | 703 756 | 664 195 |
| Other taxation, duty and social security liabilities | 264 954 | 262 902 | 250 877 |
| Other liabilities and accrued expenses | 250 737 | 60 186 | 28 496 |
| **Total** | **3 892 877** | **2 432 232** | **2 718 269** |

## 10. Deferred income

| | 30 June 2005 (unaudited) | 31 December 2004 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|---|
| Subventions | 1 205 | 1 258 | 1 314 |
| Other | 9 125 | 4 790 | 10 738 |
| **Total** | **10 330** | **6 048** | **12 052** |

## 11. Cost by kind

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Materials and energy | 6 263 848 | 4 981 088 |
| Cost of merchandise and materials sold | 620 161 | 591 312 |
| External services | 673 062 | 660 539 |
| Payroll, social security and other employee benefits | 236 188 | 297 237 |
| Depreciation | 393 224 | 487 139 |
| Taxes and charges | 119 824 | 110 985 |
| Other | 549 073 | 245 474 |
| **Total** | **8 855 380** | **7 373 774** |
| **Adjustments:** | | |
| Change in inventory and prepayments | (326 800) | (195 937) |
| Cost of products and services for own use | (55 399) | (27 188) |
| **Operating cost** | **8 473 181** | **7 150 649** |

## 12. Net financial revenues and expenses

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Interest paid | (25 761) | (33 761) |
| Negative foreign exchange surplus | (125 717) | (14 934) |
| Interest received | 53 262 | 6 422 |
| Positive foreign exchange surplus | - | 43 377 |
| Gains on trade in shares and other securities | 46 054 | 4 911 |
| Dividends received | 125 356 | 92 778 |
| Unrealised discount on the acquisition of liabilities of Unipetrol Group | 204 532 | - |
| Other | 38 868 | 1 242 |
| **Total** | **316 594** | **100 035** |

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## 13. Corporate income tax

| | 30 June 2005 (unaudited) | 30 June 2004 (unaudited) |
|---|---|---|
| Current tax | (343 871) | (223 309) |
| Deferred tax | 303 | 8 601 |
| **Total** | **(343 568)** | **(214 708)** |

## 14. Basis of differences between changes of selected balance sheet items and changes resulting from cash flows statements

| Receivables: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change in other non-current assets and trade and other receivables | (677 588) | 7 496 |
| Change in receivables related to acquired Unipetrol Group companies' receivables | 412 348 | - |
| Change in prepayments for construction in progress | (13 813) | 78 367 |
| Change in receivables from dividends | 32 519 | 859 |
| Change in receivables related to additional payments to ORLEN Powiernik share capital | | (230 299) |
| Other | (1 419) | (3 597) |
| Change in receivables within cash flow statement | (247 953) | (147 174) |

| Liabilities: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change in other long-term liabilities, trade liabilities, other liabilities and accruals | 1 463 838 | 323 060 |
| Change in liabilities related to dividends | (911 020) | (278 011) |
| Liabilities related to purchase of Unipetrol Group assets | (221 295) | - |
| Other | (20 707) | (5 141) |
| Change in other long-term liabilities, trade liabilities, other liabilities and accruals within cash flow statement | 310 816 | 39 908 |

| Accruals: | I half of 2005 | I half of 2004 |
|---|---|---|
| Balance sheet change in accruals | 365 683 | 39 200 |
| Change in deferred tax liability related to valuation of non-current assets to fair value | 4 398 | 3 833 |
| Change in accruals within cash flow statement | 370 081 | 43 033 |

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**Other captions in cash flow statement**

In cash flow statement for the first half of 2005:

- in position 'Other' in operating activity the amount of PLN (178,824) thousand is presented which consists of the following items:

| | |
|---|---|
| Change in receivables purchased from Unipetrol Group companies | (412 348) |
| Inflows/Outflows relating to receivables purchased from Unipetrol Group companies | 176 707 |
| Interest rate losses | 77 138 |
| Change in accruals and deferred income | (12 681) |
| Other | (7 640) |
| Total | (178 824) |

- in position 'Other' in investing activity the amount of PLN (174,406) thousand is presented chich consists of the following items:

| | |
|---|---|
| Inflows/Outflows relating to receivables purchased from Unipetrol Group companies | (176 707) |
| Other | 2 301 |
| Total | (174 406) |

**15. Changes introduced in condensed financial statement for the first half of 2005 compared to financial data published in current report dated 16th August 2005:**

Changes of data published in current report dated 16th August 2005, affecting total assets, equity and liabilities:

| | Total assets/Total equity and liabilities | | |
|---|---|---|---|
| | **30.06.2005** | **31.12.2004** | **30.06.2004** |
| Data published in condensed report for 2 quarters of 2005, included in current report dated 16th August 2005 | 19 130 926 | 16 579 629 | 15 867 476 |
| Adjustment of acquisition cost of UNIPETROL a.s. shares | 221 295 | - | - |
| Adjustment of excise tax suspension procedure settlements | (587 414) | (422 779) | (439 597) |
| Data published in consolidated financial statement for the first half of 2005 | 18 764 807 | 16 156 850 | 15 427 879 |

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**16. Other**

This standalone financial statement was authenticated by the Management Board in the Company's seat on 26 September 2005.

## SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD

.....
**President**
Igor Chalupec

| | | |
|---|---|---|
| ..... | ..... | ..... |
| **Vice President** | **Vice President** | **Vice President** |
| Wojciech Heydel | Jan Maciejewicz | Cezary Smorszczewski |
| ..... | ..... | |
| **Member** | **Member** | |
| Paweł Szymański | Dariusz Witkowski | |

Płock, 26th September 2005

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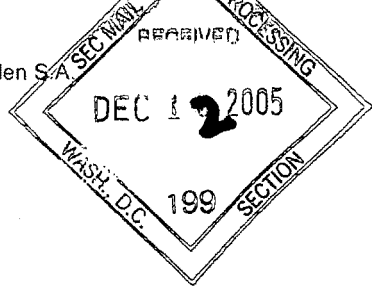
| | |
|---|---|
| Company | Polski Koncern Naftowy Orlen S.A. |
| TIDM | POKD |
| Headline | Interim Results MB Report |
| Released | 07:03 30-Sep-05 |
| Number | 0016S |

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RNS Number:0016S
Polski Koncern Naftowy Orlen S.A.
29 September 2005

MANAGEMENT BOARD REPORT
ON OPERATIONS OF
THE POLSKI KONCERN NAFTOWY ORLEN
SPOLKA AKCYJNA
CAPITAL GROUP
FOR THE FIRST HALF OF 2005

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1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF THE CAPITAL GROUP

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- 1.3.2 Consolidated jointly controlled entities
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- 1.3.4 Unconsolidated company of considerable importance for the Capital Group - Polkomtel S.A.

II. CHANGES IN ORGANISATION AND MANAGEMENT OF THE PARENT COMPANY AND PKN ORLEN SA GROUP COMPANIES AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF THE CAPITAL GROUP

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INFORMATION ON PRIMARY PRODUCTS AND SERVICES, AND ON MARKETS AND SOURCES OF SUPPLY WITH ENUMERATION OF SUPPLIERS

TRANSACTIONS WITH RELATED ENTITIES

## INTRODUCTION

This report has been prepared in accordance with the Council of Ministers' Decree dated 21 March 2005 concerning current and periodical information published by issuers of securities (Journal of Laws 05.49.463).

## I. CHARACTERISTICS AND CHANGES IN STRUCTURE OF THE POLSKI KONCERN NAFTOWY ORLEN SPOLKA AKCYJNA CAPITAL GROUP

### 1.1 STRUCTURE OF THE CAPITAL GROUP AS AT 30 JUNE 2005

Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN S.A., Parent Company, Concern, Company) as at 30 June 2005 possessed directly shares and stakes in 76 commercial law companies, including:

- 43 subsidiaries in which PKN ORLEN S.A. holds above 50% shares,
- 2 jointly controlled companies with share in the capital equalling 50%,
- 3 associate companies with share in capital between 20% to 50%,
- 28 other minority interest companies with share in capital below 20%.

Capital engagement of PKN ORLEN S.A. as at the end of June 2005 amounted to PLN 3,960.724 thousand and increased by PLN 1,549,225 thousand in comparison to the end of the first half of 2005.

The subject to consolidation were 35 entities (33 direct subsidiaries, 1 jointly controlled company and 1 associate) of the PKN ORLEN S.A. Group:

1. Most important companies in terms of sales and equity:

- Rafineria Trzebinia S.A. located in Trzebinia (with its Capital Group),
- Rafineria Nafty Jedlicze S.A. located in Jedlicze (with its Capital Group),

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- Basell Orlen Polyolefins Sp. z o.o. located in Plock,
- ORLEN Asfalt Sp. z o.o. located in Plock,
- Unipetrol a.s. located in Prague (with its Capital Group).

2. Liquid fuel trading companies:

- ORLEN PetroTank Sp. z o.o. located in Widelka near Kolbuszowa,
- ORLEN PetroProfit Sp. z o.o. located in Niemce near Lublin (with its Capital Group),
- ORLEN PetroCentrum Sp. z o.o. located in Plock,
- Petrolot Sp. z o.o. located in Warszawa,
- ORLEN PetroZachod Sp. z o.o. located in Poznan,
- ORLEN Morena Sp. z o.o. located in Gdansk,
- Ship-Service S.A. located in Warszawa (with its Capital Group),
- ORLEN Gaz Sp. z o.o. located in Plock (with its Capital Group),
- ORLEN Deutschland AG located in Elmshorn. (Germany)

3. Companies established as a result of restructuring of the Parent Company:

- Zaklad Budowy Aparatury S.A. located in Plock,
- Petrotel Sp. z o.o. located in Plock,
- ORLEN Projekt S.A. located in Plock,
- ORLEN Medica Sp. z o.o. located in Plock (with its Capital Group),
- ORLEN Laboratorium Sp. z o.o. located in Plock.

4. Maintenance companies:

- ORLEN Automatyka Sp. z o.o. located in Plock,
- ORLEN Wir Sp. z o.o. located in Plock.

5. Transportation companies:

- ORLEN Transport Plock Sp. z o.o. located in Plock,
- ORLEN Transport Szczecin Sp. z o.o. located in Szczecin,
- ORLEN Transport Krakow Sp. z o.o. located in Krakow,
- ORLEN Transport Nowa Sol Sp. z o.o. located in Nowa Sol,
- ORLEN Transport Slupsk Sp. z o.o. located in Slupsk,
- ORLEN Transport Olsztyn Sp. z o.o. located in Olsztyn,
- ORLEN Transport Kedzierzyn-KoYle Sp. z o.o. located in Kedzierzyn-KoYle,
- ORLEN KolTrans Sp. z o.o. located in Plock.

6. Other companies:

- Chemiepetrol GmbH located in Hamburg,
- ORLEN Powiernik Sp. z o.o. located in Plock,
- ORLEN Budonaft Sp. z o.o. located in Krakow.

Additionally, this report includes comments on Polkomtel S.A., not consolidated, due to its great importance for the PKN ORLEN Group.

## 1.2 CHANGES IN THE CAPITAL GROUP IN THE FIRST HALF OF 2005

The key changes in structural and capital relations in the PKN ORLEN Group during the first half of 2005 until the date of preparation of this report include the following:

- On 3 January 2005 the District Court in Opole, VIII Economic Department of the National Court Register, registered a business combination of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. located in Opole (bidder) with the following companies (targets):

- Serwis Katowice Sp. z o.o. located in Katowice,
- Serwis Kedzierzyn - KoYle Sp. z o.o. located in Kedzierzyn - KoYle,
- Serwis Kielce Sp. z o.o. located in Kielce,
- Serwis lodY Sp. z o.o. located in lodY, and

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Urzadzen Dystrybucyjnych Sp. z o.o. (combination by incorporation). Consequently, amendments were introduced to the company's deed of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., concerning increase of its share capital from PLN 6,536,500 to PLN 6,759,200, i.e. by PLN 222,700. Shares in the increased capital of the nominal value of PLN 50 each were taken by the existing shareholders of the target companies. As a result of the increase in the share capital of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., PKN ORLEN S.A. stake decreased from 99.94 % to 96.65%.

- On 28 January 2005 the District Court in Krakow - OErodmieoecie, XII Economic Department of the National Court Register, registered a change of the amount and structure of the share capital of Rafineria Trzebinia S.A. located in Trzebinia. The share capital was reduced from PLN 43,041,890 to PLN 42,995,350 and is divided into 4,299,535 shares of the nominal value of PLN 10 each as a result of write off of 4,654 own shares of Rafineria Trzebinia S.A. After the decrease of share capital of Rafineria Trzebinia SA, PKN ORLEN S.A. stake in the share capital of the company amounts to 77.15%.
- On 25 March 2005, based on a shares sale agreement, PKN ORLEN S.A. sold all owned shares in Dom Wczasowy "Mazowsze" Sp. z o.o. located in Ustron for the total amount of PLN 1,332,574.
- On 7 April 2005, under shares sale agreements, PKN ORLEN S.A. sold shares in two maintenance companies for the total amount of PLN 1,980,000, including:
- 6,974 shares in Serwis Mazowsze Sp. z o.o. for the total amount of PLN 700,000;
- 12,608 shares in Serwis Nowa Wieoe Wielka Sp. z o.o. for the total amount of PLN 1,280,000.

ORLEN Centrum Serwisowe Sp. z o.o. acquired both companies.

As a result of the sale of shares in the above two companies, PKN ORLEN S.A. will not have any shares in those entities. We also wish to inform that PKN ORLEN S.A. holds 99.94% in the share capital of ORLEN Centrum Serwisowe Sp. z o.o. The above transaction is another stage of the disposal process carried out by PKN ORLEN S.A. with respect to companies of supporting activities. The scope of those companies' operations includes service activities.

- On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "PrzyjaYn" S.A., the buyer, for the sale of 24 shares with a nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which, as at the agreement date accounted for 30.77% of the share capital of Przedsiebiorstwo Przeladunku Paliw Plynnych "Naftoport" Sp. z o.o. The key provisions of the sale agreement were:

The selling price of one share amounts to PLN 2,820,512.82,

Total selling cost of 24 shares is PLN 67,692,307.68,

The payment will be pledged by a collateral on the disposed shares.

- On 1 February 2005 the Extraordinary Shareholders Meeting of Naftoport adopted amendments to the Deed of Naftoport. The amended Deed of the company secures PKN ORLEN S.A. and other Naftoport shareholders' interest in terms of deliveries.
PKN ORLEN concluded also with Naftoport and PERN long-term trade contracts, which secure the safety of oil deliveries by land and sea. The contracts enable PKN ORLEN to maintain deliveries through Naftoport on terms which are not less advantageous than before the above transaction.
- On 20 April 2005 the European Commission adopted a decision with respect to approval for PKN ORLEN SA to take over control over Unipetrol a.s. by way of acquisition form the Czech National Property Fund of 114,224,038 bearer shares in UNIPETROL, which approximate 62.99% of all issued and existing shares of UNIPETROL.
- On 24 May 2005 PKN ORLEN S.A. purchased:
- 114,224,038 bearer shares in Unipetrol a.s., of the nominal value CZK 100 each, which approximates 62.99% of all issued and existing Unipetrol a.s. shares. The initial price for the acquired Unipetrol shares was CZK

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Spolana shares amounted to CZK 1 million (about PLN 138,200 as at 23 May 2005).
- receivables from some of the Unipetrol Group entities, with a nominal value as at 1 April 2004 of approximately CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of the receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).
The acquisition of Unipertol shares was made under an agreement concluded by PKN ORLEN S.A. on 4 June 2004 with the Czech National Property Fund. The acquisition of Spolana's shares and receivables was performed under agreements concluded by PKN ORLEN S.A. on 4 June 2004 with Ceska Konsolidacni Agentura.

The acquisition of Unipetrol shares, and Spolana shares and receivables was covered in 90% from PKN ORLEN S.A. own resources and 10% from available credit limits.

After acquisition of Unipetrol shares, under the Czech law, PKN ORLEN was required to announce mandatory calls for minority shares of Unipetrol a.s. and its listed subsidiaries (Spolana a.s. and Paramo a.s.). PKN ORLEN authorised Patria Finance, a.s. to make the mandatory calls.

In accordance with the Czech regulations, conditions for mandatory calls are subject to approval from the Czech Securities and Exchange Commission, the respective application was filed at the CSEC within the required period on 30 June 2005.

On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The prices offered by PKN ORLEN were: CZK 103 for one share of UNIPETROL, a.s., CZK 701 for one share of PARAMO, a.s. and CZK 100 for one share of SPOLANA, a.s.; the pricing was based on the discounted cash flow method performed by an independent Czech expert, NS Group.

On 12 August 2005 the PKN ORLEN SA reapplied to the Czech Securities and Exchange Commission for a permit to make mandatory calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s. The prices offered by PKN ORLEN are: CZK 135 for one UNIPETROL share, CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s. On 26 August 2005 PKN ORLEN obtained from the Czech Securities and Exchange Commission the permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The accepted prices for one share offered for Unipetrol, Paramo and Spolana shares were adjusted and amount to CZK 139, CZK 978 and CZK 155 respectively.

The acquisition of UNIPETROL is one of the next significant steps in PKN's strategy, as it represents a perfect opportunity for PKN ORLEN to: expand its geographic presence, enter the attractive Czech market and to strengthen its position in the southern Poland.

1. On 26 April 2005 the received a judgment of the Arbitration Court in Warsaw. The judgment sattes that the agrement for acquisition by Polskie Sieci Elektroenergetyczne S.A. in Warsaw of 168,000 shares in the capital of Niezalez ny Operator Miedzystrefowy Sp. z o.o. from Polski Koncern Naftowy ORLEN S.A. was not legally binding due to lack of compliance with the suspending condition, i.e. lack of approval of the PSE corporate bodies for the transaction. The counter claim of PKN ORLEN SA for payment for the shares was rejected. Consequently, PKN ORLEN S.A. still holds 168,000 shares in NOM of the total nominal value of PLN 84,000,000, which is 35 % of NOM's share capital.
2. On 20 April 2005, based on the shares sale agreement, PKN ORLEN S.A. sold 3,932 shares in Zespol Wypoczynkowy "Mazowsze" Sp. z o.o. located in leba representing 100% of its share capital. The shareholders of Przedsiebiorstwo Turystyczne "MAZOWSZE" Sp. z o.o. are managing personnel and staff of ZW Mazowsze.
3. On 2 June 2005, based on the shares sale agreement PKN ORLEN S.A. sold 8,219 shares in ZAWITAJ OEwinoujoecie Sp. z o.o. located in OEwinoujoecie.

## 1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF THE CAPITAL GROUP

### 1.3.1 Consolidated subsidiaries

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Pursuant to the terms of a share purchase agreement dated 16 June 1997, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 74.88% of the shares in Rafineria Trzebinia. In 1999, an increase in the company's capital was recorded and as a result voting rights of the Company increased to 76.96%. On 14 September 2000 the agreement of the purchase of the remaining stake of Nafta Polska S.A. was finalised and as a result PKN ORLEN S.A. stake increased to 77.07% of the company's share capital.

On 30 June 2005 the share capital of Rafineria Trzebinia SA. amounted to PLN 42.995 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 77.15%
- State Treasury 9.19%
- Other 13.65%.

As at 30 June 2005 the shareholders equity of the company amounted to PLN 442,690 thousand.

The Rafineria Trzebinia Capital Group's business activities include:

- processing of crude oil,
- production and sale of fuels (including gasoline, ethylene, diesel fuels and oil heating fuel),
- blending and preparation of lubricants,
- processing of paraffin slack waxes,
- production of asphalt and asphalt products.

Rafineria Trzebinia's S.A. Capital Group business activities are focused on the manufacturing of specialist high-value products and in particular: a full range of lubricants, industrial oils (hydraulic and tempering oils) and a range of paraffin products.

At 30 June 2005 the company employed 187 people (Capital Group of Rafineria Trzebinia S.A. employed 717 people).

The net loss of Rafineria Trzebinia S.A. as at 30 June 2005 amounted to PLN 5,144 thousand, whereas sales amounted to PLN 405,398 thousand.

Rafineria Trzebinia S.A. holds shares in 6 subsidiaries ( 5 subsidiaries and 1 jointly controlled entity).

Rafineria Nafty Jedlicze S.A.

Pursuant to the relevant provisions of a share purchase agreement and a shareholders' agreement of 19 November 1998, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 75% of shares in Rafineria Nafty Jedlicze S.A. The above agreement came into effect on 1 January 1999.

On 30 June 2005 the company's share capital amounted to PLN 78,000 thousand.

Shareholders of the company are:

- PKN ORLEN S.A. 75.00%
- State Treasury 10.01%
- Other 14.99%

The Company's business activities include:

- transport, processing, storage and trade in crude oil and oil derived products, as well as in used oil and other waste products,
- collection of used oils,
- production of lubricating oils and other industrial fluids,
- production of oil solvents and fuels,
- production of lubricants and asphalt,
- production of packaging and preparation of oils and other industrial

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The company is the second largest lubricants producer in Poland (in terms of volume). Additionally, Rafineria Nafty Jedlicze S.A. regenerates used oil in its regeneration facilities, which have a processing capacity of 80 thousand tons a year. The collection of used oils is carried out through the network of companies associated with Rafineria Nafty Jedlicze S.A.

As at 30 June 2005 Rafineria Jedlicze S.A. employed 417 people (Capital Group of Rafineria Jedlicze SA employed 798 people).

The net profit of the company as at 30 June 2005 amounted to PLN 11,991 thousand, whereas sales amounted to PLN 221,614 thousand.

In the analysed period, the company focused on improving its profitability. The effects of increased efforts in this respect are noticeable within optimisation of operating costs.

- Inowroclawskie Kopalnie Soli "Solino" S.A.

Under the agreement dated 28 September 1996, PKN ORLEN SA purchased from the Ministry of Privatisation 723,465 registered shares in Inowroclawskie Kopalnie Soli "Solino" S.A. with a total par value of PLN 7,235 thousand which constituted 51% of the company's share capital. Following the acquisition of the new series of the shares in December 1999 and purchase of part of the employees' stake in 2000, PKN ORLEN S.A. share increased to 70.54%.

As at 30 June 2005 the share capital of Inowroclawskie Kopalnie Soli "Solino" S.A. amounted to PLN 19,146 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 70.54%
- State Treasury 25.20%
- Other 4.26%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 78,587 thousand.

The Company's business activities include:

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

The company is involved in mining and processing of salt, production of salt and industrial brine. The brine is supplied to such companies as Anwil S.A., a member of the PKN ORLEN S.A. Group.

As at 30 June 2005 the company employed 307 people.

For the first half of 2005 the company's sales amounted to PLN 55,651 thousand, whereas the net profit amounted to PLN 5,332 thousand.

The company's development plans focus on the same area as before i.e. salt oproduction and sales as well as on realisation of second stage of the second stage of construction of fuel and crude oil underground storage tanks.

- Zaklady Azotowe Anwil S.A.

Zaklady Azotowe Anwil S.A was entered in the Commercial Register on 14 April 1993. As at 30 June 2005 the share capital of the company amounted to PLN 135,415 thousand. PKN ORLEN acquired first Anwil shares as a result of conciliatory proceedings in 1995.

The company's shareholders are:

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- Zaklad Energetyczny Torun S.A. 5.84%
- State Treasury 5.54%
- Other 4.13%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 1,107,018 thousand.

The Company's business activities include:

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

Anwil is principally involved in the production of nitrogen fertilisers and PVC. The company is the largest PKN ORLEN's customer for ethylene (the main raw material for the manufacture of PVC).

As at 30 June 2005 the company employed 1,473 people. (Anwil Capital Group employed 2,462 people).

For the first half of 2005 Anwil achieved sales amounted to PLN 730.533 thousand, whereas net profit for the first half of 2005 amounted to PLN 66,706 thousand. .

Anwil helds shares in 4 subsidiaries and 5 assiotiates.

- Unipetrol a.s.

Persuant to the agremeent dated 4 June 2004 between PKN ORLEN S.A. and Czech National Property Fund, the latter acquiered on 24 Mai 2005 of 62.99% of the share capital of Unipetrol a.s.. Remaining share of Unipetrol a.s. are hold by minority shareholders.

The Unipetrol business activities include processing of crude oil, sals of products resulting from processing of crude oil, - chemicals, petrochemicals and fuel in Czech Republic and outside the Czech Republic.

Unipetrol a.s. helds the shares of the followings subsidiaries:

| | |
|---|---|
| Chemopetrol a.s. | 100,00% |
| Kaucuk a.s. | 100,00% |
| Spolana a.s | 81,78% |
| Ceska Rafinerska a.s | 51,00% |
| Unipetrol Rafinerie a.s. | 100,00% |
| Paramo a.s. | 73,52% |
| Benzina a.s. | 100,00% |
| Unipetrol Trade a.s. | 100,00% |

The number of employees as at 30 June 2005 amounted to 6.945 people.

The consolidated financial statements included the financial results of Unipetrol for the period beginning with acquisition day. For the first half year of 2005 Unipetrol achieved net profit amounted to PLN 22.541 thousand, whereas sales amounted to PLN 1.607.411 thousand.

- ORLEN-Oil Sp. z o.o.

ORLEN Oil Sp. z o.o. was established by four refineries. ORLEN Oil Sp. z o.o. was entered in the Commercial Register on 27 August 1998.

As at 30 June 2005 the company's share capital amounted to PLN 75,093 thousand.

The structure of shareholders as at 30 June 2005 is as follows:

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- Rafineria Nafty Jedlicze S.A. 4.47%
- Rafineria Czechowice S.A. 4.47%

At the end of the first half of 2005 the shareholders equity amounted to PLN 141,548 thousand.

The business activities of ORLEN Oil Sp. z o.o. include:

- production and sale of chemicals, lubricating oils, oil bases, and liquid fuels,
- trade in chemicals, refinery products and petrochemicals in Poland and abroad,
- services, including warehousing, transportation and R&D services,
- technical advisory services.

Trade activities are focused on high and low class motor oil, industrial oils, technological oils, lubricants, industrial fluids, exploitation fluids (hydraulic and tempering oils), automotive chemistry and cosmetics, basic oils.

As at 30 June 2005 the company employed 367 people.

The net profit at the end of the first half of 2005 amounted to PLN 16,555 thousand, whereas sales amounted to PLN 280,669 thousand.

Olren Oil Sp. z o.o. has shares in 2 subsidiaries and 10 associates.

- ORLEN Asfalt Sp. z o.o.

On 31 May 2003 PKN ORLEN signed sale agreement of assets in its Zaklad Asfaltow to Bitrex Sp. z o.o. located in Trzebinia. Following the resolution of Ordinary Shareholders'Meeting of Bitrex PKN ORLEN contributed cash in exchange for shares in the increased share capital. The share capital increase was registered on 15 July 2003 along with the change of the company's name to ORLEN Asfalt Sp. z o.o.

As at 30 June 2005 the share capital of the company amounts to PLN 60,635 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 82.46%
- Rafineria Trzebinia S.A. 17.54%.

As at the end of the first half of 2005 the shareholders' equity of the company amounted to PLN 95,956 thousand.

The company's business activities include production and processing of crude oil. Primary products are road and industrial asphalt as well as other asphalt products. The company intends to develop activity in area of modified and special asphalts, simultaneously keeping its share in road asphalt market.

The number of employees as at 30 June 2005 amounted to 138.

At the end of the first half of 2005 the company incurred net loss of PLN 7,427 thousand. The sales amounted to PLN 137,165 thousand.

- ORLEN GAZ Sp. z o.o.

ORLEN Petrogaz Plock Sp. z o.o. was entered in the Commercial Register on 15 December 1995. Since 16 April 1998 PKN ORLEN S.A. has been the company's sole shareholder. As at 30 June 2005 the share capital of the company amounted to PLN 24,823 thousand, and shareholders' equity amounted to PLN 50,495 thousand.

The Company's business activities include:

- wholesale trading of LPG, in bulk or in steel cylinders,
- retail sales of gas in containers,
- installation of ductless gas devices,
- supply of LPG to customers,

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subsequent use.

The company's trade activity focuses on following products: propane and propane-butane gas in steel cylinders (11, 30 and 33 kg), 11 kg FP gas for industrial vehicles, automotive gas sold in retail and wholesale, gas (propane and butane) for domestic, industrial and heating installations (so called Maly Luz and Duzy Luz). Moreover, the company offers domestic, industrial and automotive gas installations. Additionally, the company leases such installations, cylinders and containers, etc.

The number of employees as at 30 June 2005 amounted to 203 people.

In the first half of 2005 the company earned net profit of PLN 5,085 thousand. The sales amounted to PLN 230,746 thousand.

ORLEN GAZ Sp. z o.o. has sahers in two subsidiaries.

- ORLEN PetroTank Sp. z o.o.

ORLEN PetroTank Sp. z o. was registered on 9 April 1996. On 23 December 2002 the company signed agreement with the second shareholder (Tankpol Sp. z o.o.) for cession of 470 shares in ORLEN PetroTank Sp. z o.o., as a result PKN ORLEN S.A. holds 100% in the company's share capital. The ceded shares pledged ORLEN PetroTank Sp. z o.o. receivables due from Tankpol Sp. z o.o.

As at 30 June 2005 the share capital amounted to PLN 11,750 thousand, and the shareholders' equity amounted to PLN 44,313 thousand.

The company's line of business is the wholesale and sales of fuels, gas and plastics as well as the preparation of Petrygo radiator liquid.

The number of employees as at 30 June 2005 was 148.

As at 30 June 2005 the company incurred net loss of PLN 626thousand, whereas sales amounted to PLN 357,655 thousand.

- ORLEN PetroProfit Sp. z o.o.

ORLEN Petroprofit Sp. z o.o. located in Niemce near Lublin was registered on 14 September 1995. As at 30 June 2005 share capital of the company amounted to PLN 11,500 thousand. The only shareholder of ORLEN PetroProfit Sp. z o.o. is PKN ORLEN S.A.

The company's shareholders equity as at the end of the first half of 2005 amounted to PLN 33,678 thousand.

The company's business activities comprise of the wholesale and retail of fuels, Petrygo radiator fluid and plastics.

The number of employees as at 30 June 2005 was 60 people. The ORLEN PetroProfit Capital Group employed 116 people.

The net loss for the first half of 2005 amounted to PLN 583 thousand, whereas sales amounted to PLN 237,751 thousand.

- ORLEN PetroCentrum Sp. z o.o.

ORLEN PetroCentrum Sp. z o.o. was entered in the Commercial Register on 25 September 1996. The share capital as at 30 June 2005 amounted to PLN 21,000 thousand and was wholly owned by PKN ORLEN S.A. As at the end of the first half of 2005, the shareholders equity amounted to PLN 32,656 thousand.

The company's business activities include wholesale and retail trading of fuels. The main source of income for PetroCentrum Sp. z o.o. is retail of liquid fuels in its own chain and in petrol stations managed by the company.

The number of employees as at 30 June 2005 was 35.

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- Petrolot Sp. z o.o.

Petrolot Sp. z o.o. was entered in the Commercial Register on 7 January 1997. As at 30 June 2005 the share capital of the company was PLN 20,039 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- PLL LOT S.A. 49.00 %

As at 30 June 2005 the shareholders' equity amounted to PLN 54,717 thousand.

The company's basic line of business is sales and distribution of aviation fuel (JET A-1) and aviation petrol. The company's main customer is PLL LOT S.A. The company secures sales of about 60% of JET A-1 fuel produced by the company. Other company's key customers are the following foreign airlines: Lufthansa, British Airways, Air France, SAS, KLM, Swiss, Alitalia and Polish airlines: White Eagle and Air Polonia. The Poland's accession to the European Union, opening of the Polish market for foreign airlines and gaining new customers such as cheap airlines contributed substantially to an increase in sales.

As at 30 June 2005 the company employed 192 people. In the first half of 2005 net profit amounted to PLN 6,448 thousand.

As at 30 June 2005 the sales amounted to PLN 236,482 thousand.

- ORLEN PetroZachod Sp. z o.o.

ORLEN PetroZachod Sp. z o.o. located in Poznan was entered in the Commercial Register on 19 January 1998. As at 30 June 2005 the share capital of ORLEN PetroZachod Sp. z o.o. amounted to PLN 17,749 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.83%
- BGW Wielobranzowe Przedsiebiorstwo Handlowe Sp. z o.o. 48.17%

As at 30 June 2005, the shareholders' equity amounted to PLN 22,459 thousand.

The Company's business activities include wholesale and retail trading in fuels and plastics.

The number of employees as at 30 June 2005 was 184.

In the first half of 2005 net profit amounted to PLN 154 thousand, whereas sales reached the level of PLN 264,471 thousand.

- ORLEN Morena Sp. z o.o.

ORLEN Morena Sp. z o.o. located in Gdansk was entered in the Commercial Register on 10 September 2001. As at 30 June 2005 the share capital of the company was PLN 10,500 thousand. PKN ORLEN holds 100% in the share capital of the company.

As at 30 June 2005, the shareholders equity amounted to PLN 12,824 thousand.

The company's business activities include wholesale and retail trading in fuels, and logistic services provided by own warehouse base in Slawno for PKN ORLEN.

The number of employees as at 30 June 2005 was 39.

As at 30 June 2005, the company earned net profit of PLN 1,162 thousand. The sales amounted to PLN 172,184 thousand.

- Ship - Service S.A.

Ship-Service S.A. was established in 1991 as a result of privatisation of state owned company SPUP Ship-Service S.A.

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As at 30 June 2005 the share capital of the company was PLN 3,943 thousand.

The company's shareholders are:

| | | |
|---|---|---|
| • | PKN ORLEN S.A. | 60.86% |
| • | Malgorzata Bubilek | 7.61% |
| • | Porta Baltic Service S.A. (official receiver) | 4.95% |
| • | Brends Sp. z o.o. | 4.35% |
| • | Other | 22.23% |

As at 30 June 2005, the shareholders' equity amounted to PLN 14,314 thousand.

The company's business activities include distribution of ship fuels within Polish harbours as well as at international market. Additionally, the company offers ship maintenance services in harbours, reloading services, land and sea freight services as well as water environment protection services.

The number of employees as at 30 June 2005 was 183. Ship Service Capital Group employed 204 people.

The company incurred net loss of PLN 2,175 thousand for the end of the first half of 2005. The company's sales amounted to PLN 127,162 thousand.

Ship-Service has shares in two subsidiaries.

- ORLEN Deutschland AG

ORLEN Deutschland AG, the company which operates under the German law, was established as a result of a merger of ORLEN Deutschland GmbH and ORLEN Deutschland Immobilien GmbH, through which PKN ORLEN realized on 28 February 2003 the purchase of 494 petrol stations in Germany. Thanks to the purchase of petrol stations with logo of BP, Aral and EM Eggert for EUR 140 million, 3% of the German market was gained. In the northern Germany the company holds 7% share of the fuel market. PKN ORLEN SA Management Board perceives the transactions as an important step towards the strategy of regional expansion. In the first half of 2004, 6 companies of ORLEN Deutschland were merged into one joint stock company, ORLEN Deutschland AG. At the same time the share capital was increased from EUR 30 million to the amount of EUR 60 million. PKN ORLEN S.A. holds 100% of share capital in this entity.

As at the end of the first half of 2005 the share capital of the company amounted EUR 283,020 thousand. The shareholders' equity as at 30 June 2005 amounted to PLN 464,576 thousand.

The company as at the end of the first half of 2005 employed 116 persons.

For the first half of 2005 ORLEN Deutschland AG incurred net loss of PLN 14,919 thousand, whereas sales amounted to PLN 4,084,167 thousand.

- ORLEN Wir Sp. z o.o.

ORLEN Wir Sp. z o.o. was registered on 1 October 1999. The share capital of the company as at 30 June 2005 amounted to PLN 1,600 thousand.

The company's shareholders are:

| | |
|---|---|
| • PKN ORLEN S.A. | 51.00% |
| • Employees | 49.00% |

As at 30 June 2005, the shareholders' equity amounted to PLN 4,545 thousand.

The company's business activity includes repair services. The company provides very specific services i.e.: repairs of rotors related to flow and displacement compressors, steam turbines, transmission devices and all kinds of pumps. The company safeguards the continuous work of compressors, turbines and raw material pumps of production installations of Production Plant in Plock.

6,819 thousand.

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- ORLEN Automatyka Sp. z o.o.

ORLEN Automatyka Sp. z o.o. was registered on 30 April 1999. The share capital of the company as at 30 June 2005 amounted to PLN 2,400 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 52.42%
- Employees 47.58%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,206 thousand.

The company specializes in repair services.

The number of employees as at 30 June 2005 was 239.

The net profit for the first half of 2005 amounted to PLN 1,387 thousand, whereas sales amounted to PLN 12,471 thousand.

- ORLEN Transport Plock Sp. z o.o.

ORLEN Transport Plock Sp. z o.o. was entered in the Commercial Register on 23 December 1998 and commenced its operations as a subsidiary of the PKN ORLEN Capital Group on 3 January 1999. The company was established on the basis of the assets of the former Zaklad Transportu Samochodowego Petrochemia Plock S.A.

As at 30 June 2005 the share capital of the company amounted to PLN 26,430 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 97.59%
- Employees 2.41%

As at 30 June 2005, the shareholders equity amounted to PLN 30,323 thousand.

The Company's business activities include:

- sales, service and repair of motor vehicles,
- road transport of passengers and freight,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles,
- hire of construction machinery and plant together with maintenance services.

The company provides wide range of services: road transport of liquid fuels, glycols and alcohols, road transport of passengers and freight, international freight transport, freight of unusual goods, wheeled cranes services, domestic and international forwarding, sale of heating oil Ekoterm Plus and engine oils (on petrol stations as well), Petrygo and Qal cooling liquids, preparation and sale, as well as a full range of repair, maintenance and other services for cars, construction vehicles and equipment with its own workshop together with washing stand and service station.

The number of employees as at the end of the first half of 2005 was 435.

The net profit for the first half of 2005 amounted to PLN 743 thousand, whereas sales amounted to PLN 43,356 thousand.

- ORLEN Transport Kedzierzyn KoYle Sp. z o.o.

ORLEN Transport Kedzierzyn-KoYle Sp. z o.o. was entered in the Commercial Register on 29 May 2000

and commenced its operations as a subsidiary of the PKN ORLEN Group on 1 July

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On 24 January 2003 a merger was registered of: Petromot Sp. z o.o. to ORLEN Transport Kedzierzyn KoYle Sp. z o.o. by transfer of the total assets of Petromot Sp. z o.o. to ORLEN Transport Kedzierzyn-KoYle Sp. z o.o. (business combination).

As at 30 June 2005 the share capital of the company amounted to PLN 10,009 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 94.28%
- Employees 5.72%

As at 30 June 2005, the shareholders' equity amounted to PLN 9,998 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products
- sale and service of FIAT car models.

The employment of the company at the end of the first half of 2005 was 106 people.

The net loss for the first half of 2005 amounted to PLN 502 thousand, whereas sales amounted to PLN 9,477 thousand.

- ORLEN Transport Krakow Sp. z o.o.

ORLEN Transport Krakow Sp. z o.o. was entered in the Commercial Register on 5 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN SA Group on 1 July 2000. The company was established from the assets of the former Zaklad Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 12,465 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 98.41%
- Employees 1.59%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,424 thousand.

The Company's business activities include:

- domestic and international road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 104. The sales for the first half of 2005 amounted to PLN

14,101 thousand, whereas net profit PLN 76 thousand.

- ORLEN Transport Olsztyn Sp. z o.o.

ORLEN Transport Olsztyn Sp. z o.o. was entered in the Commercial Register on 29 May 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Group on 1 July 2000. The company was established from the assets of the former Zaklad Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 8,464 thousand. The company's shareholders are:

As at 30 June 2005, the shareholders' equity amounted to PLN 9,669 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 70. The net loss for the first half of 2005 amounted to PLN 56 thousand, whereas sales amounted to PLN 8,283 thousand.

- ORLEN Transport Nowa Sol Sp. z o.o.

ORLEN Transport Nowa Sol Sp. z o.o. was entered in the Commercial Register on 9 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Group on 1 July 2000. The company was established from the assets of the former Zaklad Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 10,091 thousand. The company's

shareholders are:

- PKN ORLEN S.A. 96.79%
- Employees 3.21%

As at 30 June 2005, the shareholders' equity amounted to PLN 17,892 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 127. The net profit for the first half of 2005 amounted to PLN 79 thousand, whereas sales amounted to PLN 15,226 thousand.

- ORLEN Transport Slupsk Sp. z o.o.

ORLEN Transport Slupsk Sp. z o.o. was entered in the Commercial Register on 23 June 2000 and commenced its operations as a subsidiary within the PKN ORLEN Group on 1 July 2000. The company was established from the assets of the former Zaklad Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 8,644 thousand. The company's shareholders are:

- PKN ORLEN S.A. 97.10%
- Employees 2.90%.

As at the end of the first half of 2005, the shareholders' equity of the company amounted to PLN 11,548 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of regular posts as at 30 June 2005 was 81 people. The net profit for the first half of 2005 amounted to PLN 227 thousand, whereas sales amounted to

ORLEN Transport Szczecin Sp. z o.o. was entered in the Commercial Register on 15 June 2000 and commenced its operations as a subsidiary within the PKN ORLEN S.A. Group on 1 July 2000.The company was established from the assets of the former Zaklad Transportu Samochodowego. As at 30 June 2005 the share capital of the company amounted to PLN 3,424 thousand. The company's shareholders are:

- PKN ORLEN S.A. 99.56%
- Employees 0.44%.

As at 30 June 2005 the shareholders' equity amounted to PLN 3,523 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees as at the end of June 2005 was 40. The net loss for the first half of 2005 amounted to PLN 114

thousand, whereas sales amounted to PLN 2,200 thousand.

- ORLEN KolTrans Sp. z o.o.

ORLEN KolTrans Sp. z o.o. was entered in the Commercial Register on 13 December 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A Group at the beginning of 2001. The company took over from PKN ORLEN full range of activities conducted by department of tankers expedition unit of the Parent Company, i.e. operations relating to tanker exploitation, as well as a sewage plant and workshop.

As at 30 June 2005 the share capital of the company amounted to PLN 40,859 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 99.85%
- Employees 0.15%

The company's business activities include the railroad servicing of loading and reloading points as well as transport of the Parent Company's products.

At the end of the first half of 2005, the shareholders' equity amounted to PLN 44,257 thousand.

The number of employees as at 30 June 2005 was 48.

The net profit for the first half of 2005 amounted to PLN 2,568 thousand, whereas sales amounted to PLN 22,417 thousand.

- ORLEN Medica Sp. z o.o.

ORLEN Medica Sp. z o.o. was registered on 24 November 1997. On 30 June 2005 the share capital amounted to PLN 13,273 thousand. PKN ORLEN is the sole shareholder of the company.

The company provides health-care services on domestic market. The services are provided to the employees of PKN ORLEN S.A. and employees of other companies of the Capital Group (labour medicine) as well as to their families in relation to both basic and specialist health care, based on the agreements concluded with the National Health Fund.

As at 30 June 2005, the shareholders' equity amounted to PLN 9,826 thousand.

The number of employees at the end of the first half of 2005 was 107.

- ORLEN Projekt S.A.

ORLEN Projekt S.A. was registered on 28 May 1998. As at 30 June 2005 the share capital amounted to PLN 1,500 thousand. The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- Employees 49.00%.

The company is involved in the providing design services in refining and petrochemical sector.

As at 30 June 2005 the shareholders' equity amounted to PLN 12,796 thousand.

The number of employees at the end of the first half of 2005 was 177.

The net profit for the first half of 2005 amounted to PLN 450 thousand, whereas sales amounted to PLN 12,392 thousand.

- Petrotel Sp. z o.o.

Petrotel Sp. z o.o. was entered in the Commercial Register on 14 August 1997. As at 30 June 2005 the company's share capital amounted to PLN 8,200 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 80.65%
- Employees 19.35%

The company provides telecommunications services.

As at 30 June 2005 the shareholders' equity amounted to PLN 29,636 thousand.

The number of employees at the end of the first half of 2005 was 112.

The net profit for the first half of 2005 amounted to PLN 2,522 thousand, whereas sales amounted to PLN 16,518 thousand.

- Zaklad Budowy Aparatury S.A.

Zaklad Budowy Aparatury S.A. was entered in the Commercial Register on 27 October 1998. As at 30

June 2005, the company's share capital amounted to PLN 18 million.

The company's shareholders are:

- PKN ORLEN S.A. 96.57%
- Employees 3.43%

The Company's business activities include:

- production of chemical equipment (e.g. compressors) and similar products,
- renovation and repair of instrumentation,
- design of construction documentation for instrumentation and appliances.

As at the end of the first half of 2005 the shareholders' equity amounted to PLN 16,563 thousand.

The number of employees at the end of the first half of 2005 was 232.

The net loss as at 30 June 2005 amounted to PLN 1,419 thousand, whereas sales amounted to PLN 11,010 thousand.

- ORLEN Powiernik Sp. z o.o.

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the company's sole shareholder.

The company is involved in providing trust services for PKN ORLEN S.A. in relation with the implementation of the Management Motivation Program.

As at 30 June 2005 the shareholders' equity amounted to PLN 87 thousand. The number of employees at the end of the year remained unchanged and amounted to 2 people. The net loss for the first half of 2005 amounted to PLN 8 thousand.

- ORLEN Budonaft Sp. z o.o.

ORLEN Budonaft Sp. z o.o was registered on 2 January 1997. PKN ORLEN S.A. is the sole shareholder in the company. As at 30 June 2005 the share capital amounted to PLN 3,795 thousand.

The company is involved in providing construction and modernization services for petrol stations.

As at 30 June 2005 the shareholders' equity amounted to PLN 205 thousand. The number of employees as at the end of the first half of 2005 was 181.

The net profit for the first half of 2005 amounted to PLN 82 thousand, whereas sales amounted to PLN 21,702 thousand.

- ORLEN Laboratorium Sp. z o.o.

ORLEN Laboratorium Sp. z o.o. was registered on 13 February 2003.

The company's shareholders are:

- PKN ORLEN S.A. 94.94%
- Employees 5.06%

As at 30 June 2005 the share capital amounted to PLN 9,915 thousand. The company specializes in providing laboratory and research services, as well as expertise and analyses. As at 30 June 2005 the shareholders' equity amounted to PLN 12,442 thousand. The number of employees as at 30 June 2005 was 309. The net profit in 2004 amounted to PLN 2,513 thousand, whereas sales amounted to PLN 18,405 thousand.

1.3.2 Conslidated jointly controlled entities

- Basell Orlen Polyolefins Sp. z o.o.

On 30 September 2002 PKN ORLEN SA and Basell Europe Holdings B.V. signed the joint venture agreement with Basell Orlen Polyolefins Sp. z o.o.

The company's shareholders are:

- PKN ORLEN S.A. 50%
- Basell Europe Holdings B.V. 50%.

As at 30 June 2005 the share capital amounted to PLN 907,398 thousand.

At the end of the first half of 2005 the shareholders equity was PLN 1,065,289 thousand.

The company is engaged in production of plastics and the wholesale of chemical products.

Initially the company used the installations contributed by PKN ORLEN SA (polyethylene production plant of capacity of 150,000 tons/year and the polypropylene production plant of capacity 140,000 tons/year). Currently the extensive construction work is in progress on a polypropylene production plant of capacity of 400,000 tons/year and a polyethylene production plant of capacity of 300,000 tons/year. Launching of commercial production in new plants is planned for the end of 2005.

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The net profit as at 30 June 2005 amounted to PLN 19,877 thousand, whereas sales amounted to PLN 507,603 thousand.

Until the completion of construction of new installation (NPP), there will be two production lines LDPE and two PP production lines in motion, which were contributed by PKN ORLEN S.A. After setting in motion of NPP three of the four installations will be closed and new capacities will allow the company to increase production from 290 thousand tons to 830 thousand tons.

It is assumed that the NPP project will be financed from two sources: internal (cash from operating activity) and external (bank loan - BOP concluded a loan agreement with the bank consortium supervised by Societe Generale).

NPP was granted a prize "European Transaction of the Year in Petrochemical Industry" by Project Finance Magazine. The event proves the significance, scope and complexity of the project and the level of engagement of the people involved.

1.3.3 Consolidated associated companies

Consolidated directly associates of the Parent Company within PKN ORLEN SA Capital Group are:

- Chemiepetrol GmbH

Chemiepetrol GmbH was established on 1 January 1984. PKN ORLEN S.A. purchased shares in the company on 28 April 1993. As at 30 June 2005 the share capital of the company amounted to EUR 51,1 thousand (PLN 207 thousand).

The company's shareholders are:

| | |
|---|---|
| • PKN ORLEN S.A. | 20% |
| • CIECH S.A. | 60% |
| • Jurgen Kleiner | 20%. |

The company's business activities include trading and agency services in all types of goods, in particular trade in chemical products on foreign markets.

As at 30 June 2005 the shareholders equity amounted to PLN 3,683 thousand.

The number of employees at the end of the first half of 2005 was 8 people.

The net profit for the first half of 2005 amounted to PLN 474 thousand, whereas sales amounted to PLN 17,605 thousand.

1.3.4 Unconsolidated company of considerable importance for the Capital Group - Polkomtel S.A.

The company was established on 19 December 1995. The company's share capital as at 30 June 2005 amounted to PLN 2,050 million and PKN ORLEN capital envolvement in the company PLN 436,495 thousand. PKN ORLEN SA holds 19.61% of shares and voting rights on the General Shareholders' Meeting.

Since 23 February 1996 Polkomtel S.A. has been one of the three entities which have a license for the development of a GSM mobile telephony network (Systems GSM 900 and DCS 1800). On 1 October 1996 the company commenced its commercial activity in Warsaw under the trade mark of "Plus GSM". Since 20 December 2000 the company has a license for UMTS mobile communications services.

The company's shareholders are:

| | |
|---|---|
| • PKN ORLEN S.A. | 19.61% |
| • KGHM Polska Miedz S.A. | 19.61% |
| • TDC Mobile International A/S | 19.61% |
| • Vodafone Americas Asia, Inc. | 19.61% |
| • Polskie Sieci Elektroenergetyczne S.A. | 16.05% |
| • Weglokoks S.A. | 4.00% |

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The company's business activities include:

- design, installation, operation and management of a GSM system,
- mobile telecommunications services,
- sale of GSM systems-related products and services.

II. CHANGES IN ORGANISATION AND MANAGEMENT OF THE PARENT COMPANY AND PKN ORLEN SA GROUP COMPANIES AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF THE CAPITAL GROUP

In the first half of 2005 the Framework Organizational Rules and Regulations of PKN ORLEN S.A. approved by the Management Board on 6 December 2004 was in force. According to the Regulations, the organisational structure of the Parent Company consists of Head Offices in Plock and Warszawa, Production Plant in Plock and 12 Regional Organizational Offices in Bialystok, Gdansk, Katowice, Krakow, Lublin, Nowa Wieoe Wielka, Plock, Poznan, Rzeszow, Szczecin, Warszawa and Wroclaw, having the status of an employer under the wording of Art. 3 of the Labour Code. Regional Organizational Offices are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices, Regional Financial Offices and Financial Offices.

The Supervisory Board of PKN ORLEN S.A. decided on 18 October 2004 to extend the number of the Members of the Management Board from 6 to 7. In accordance with the decision of the Framework Organizational Rules and Regulations of the Company the responsibilities of Members of the Management Board is as follows:

- President of the Management Board, General Executive Officer,
- Member of the Management Board, Chief Financial Officer,
- Vice-President of the Management Board, Human Resources Management and Administration,
- Vice-President of the Management Board, Cost Management and Information Technology,
- Vice-President of the Management Board, Operational Activities,
- Vice-President of the Management Board, Retail and Commercial Sales,
- Vice-President of the Management Board, Chief Investment Officer,

The structure of President of the Board Group consisted of: Audit Department, Control and Security Department, Legal Department, Public Relations Department, Investor Relations Department, Business Strategy Department, Management Board Department and Proxy for Protection of Confidential Information.

The Group of Vice-President of the Board for strategy and capital Investments comprised: Capital Group Department,

UNIPETROL Holding Integration Department, Capital Investments Department.

The new Group established as of 1 December 2004, supervised by Vice-President of the Board for Cost Management and Information Technology comprised: IT Department, Crude Oil Trading Department and newly created Purchase Department and Cost Management Department. The departments of the newly created group supervised realization of the raw material supply of the Parent Company (with exclusion of energy, fuels for resale, and non-fuel products), they are responsible for turnover of natural gas, purchases of fuel raw materials, cost management, optimization of IT solutions and IT standards implementations, and for activities within sector of crude oil and natural gas searching and mining.

The structure of Vice-president for Human Resources and Administration Group was formed of: Administrative Department, Organization and Restructuring Department, Personnel Department and Human Resource Management Department.

The structure of Vice-President of the Board for Retail Sales Group comprised: the structures of Director for Investments in Retail Sales and Director of Sales Management, Department of Planning and Retail Sales Analysis, Department for Purchase of Non-Fuel Products and Category Management, and Marketing Department.

Within the process of integration of PKN ORLEN SA and UNIPETROL Holding, particular Reporting Directors commenced analytical research concerning the

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In the first half of 2005, the Company continued work on the initiated last year project of a new concept of segment management, based on standards adopted in the international oil concerns. The drafts of procedures necessary for the operation of the segment management were prepared and the Company assigned particular companies of the Group to appropriate segments. A new organizational structure was also suggested, adapted to development strategy and increase of PKN ORLEN SA goodwill.

In the first half of 2005 the Company conducted work within the restructuring project for regional offices in the area of retail sales, investments and maintenance of petrol stations and finance, which was aimed at design of trade effective structures ensuring maximum sales and economic result. The new regional structures in retail sales, investments and maintenance of petrol stations and finance were implemented on 1 July 2005.

Apart from the above organizational and legal changes in the Company, significant changes in two companies of the Capital Group were noticed:

- Rafineria Nafty Jedlicze S.A.

In the first half of 2005 there were further changes in the work organization in the company aiming at improving its functioning and optimization of activity costs, and effectiveness of task performance. The most important of those changes are as follows:

- liquidation of the Trade unit and replacing it with Sales unit, directly supervised by the Trade Director; the number of posts of the sales unit was increased, while decreasing the number of posts in the former Supplies Team;
- establishment of Purchases and Logistics unit, supervised by Trade Director thus replacing the Supplies Team; the unit supervises Supplies Warehouse;
- separation of Oil and Lubricants Warehouse from the former Trade unit, which is currently supervised directly by the Director of the Oil and Lubricants production unit;
-establishment of an independent post of Coordinator for production and sales, supervised directly by the Director of the Oil and Lubricants production unit;
- liquidation of the technology and Production Development Team in the Optimization and Settlement of Production unit, and formation of the optimizations and settlement of production team; moreover, expert engineers were assigned to particular production units;
- widening of scope of professional duties of up to now Representative of Bonded Warehouse with simultaneous change of the name of this position to Representative to Excise Tax Products.

The most important external factors having an impact on the results of Capital Group are the following:

- Economic growth

An increase in GDP in the first half of 2005 amounted to 2.4% whereas in the first half of 2004 to 6.5%. The domestic demand in the first half of 2005 increased by 0.4%. The projections for the year 2005 assume an increase in GDP by 4%. Rapid race of the economic growth in Poland and the deomestic demand may have a positive impact on rise in the consumption of liquid fuels.

- Unemployment rate

At the end of the first half of 2005 the unemployment rate was lower compared to the end of the first half of 2004 and amounted for 18% compared to 19.40% at the end of the first half of 2004. There was a smaller number of the newly registered unemployed and at the same time there was an increase in number of the unemployed deregistered from the employment agency evidence. The high unemployment rate in Poland is still one of the factors, which limits internal demand and adversely influences the level of sales of the Capital Group products.

- Inflation

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- Prices of crude oil, refinery products and margins

Changes in crude oil prices as well as significant fluctuations in finished goods prices on world markets, cause significant variations in margins generated by the Capital Group. In the first half of 2005 there were large fluctuations in crude oil prices. The average annual price of Brent barrel from quotations increased in comparison to the first half of 2004 by 47.4% to the level of USD 49.67/bbl. Additionally, during the first half of 2005 there were considerables increases in product margins (crack), which positively influenced the results of PKN ORLEN S.A. and the Capital Group companies producing and trading in fuels. Margins on petrol increased by 78.3% to the level of USD 128.92/ton, on Ekoterm by 94.1% to the level of USD 90.33/ton, and on Jet A-1 by 65.2% to the level of USD 146.62/ton. An insignificant decrease was recorded for margins on petrol (decrease by 13.4% to the level of USD 106.12/ton). The margins on petrochemical products recorded significant increases, among others, on ethylene by 20.9% to the level of USD 576.28/ton and on propylene by 41.7% to USD 515.72/ton.

- Fluctuation of exchange rates

The exchange rate fluctuations have significant impact on sales revenue and results of the PKN ORLEN Capital Group (by means of adjusting the fuel prices on the basis of import parity), costs of crude oil and other raw materials as well as financial costs related to debt denominated in foreign currencies. Purchases of crude oil and other raw materials realised by PKN ORLEN S.A. are denominated in USD and EUR, although the majority of revenues are realized in PLN. As a result of the above trends, changes in the exchange rate of PLN to foreign currencies have a significant impact on the results achieved by the Parent Company. The average annual USD exchange rate decreased by 17.6% to the level of PLN 3.18 (calculated as arithmetical average of daily NBP exchange rates within period from 1 January to 30 June 2005). Simultaneously, the EUR exchange rate increased by 13.7% to the level of PLN 4.08.

- Changes in fiscal policy and current legal regulations

Any changes in VAT regulations and excise tax will also be of great importance for the economic situation of the Capital Group. Fiscal policy is characterized by enlarging its subject range and increasing of excise tax rates for crude oil products. While prices of products are on high level, it is an additional barrier preventing form full transfer of operational costs on products selling prices.

The year 2005 is another period of changes in the structure of demand for engine fules due to increase demand for automotive liquid gas and diesel oil, while the petrol market remained on the comparable level. Since 1 January 2005 the quality requirements have been more restrictive for petrol and diesel oil. In case of petrol, the sulphur content was limited to 50 ppm (from 150 ppm) and the content of fragrances to 32% of the capacity (from 42% of the capacity). In case of diesel oil, the content of sulphur was limited to 50 ppm (from 350 ppm), and the excise tax allowance was introduced for sulphur-free diesel oil (sulphur content <10 ppm).

The above changes had an impact on limitation of flexibility in the motor fuels production and increased the unit cost of production. The excise tax allowance for sulphur-free diesel oil enabled PKN ORLEN SA to optimise its production in his area. Some investment decisions has been also made aiming at improvement of production flexibility and lowering of production costs of low-sulphur motor fuels.

- Mandatory reserves

Owing to obligations resulting from the Polish accession to the European Union, Poland is compelled to reach the level of 90-days mandatory reserves of liquid fuels, constituting the assurance of the energy safety for the country. Thus, the producers and importers of fuels operating in Poland are obliged to make mandatory reserves. Effective 1 July 2005 an Amendement of the Act on State Reserves and Mandatory Reserves (Journal of Laws No. 143, item 1201) came into

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entrepreneur in the prior year, less intracommunity supplies and exports. Starting from 1999 the required level of mandatory reserves has increased by 7 days yearly, to reach the number of 76 days at the end of 2008. Moreover, the the Ministry Material Reserves Agency is responsible for state reserves of liquid fuels in the amount equal 14-day consumption of fuels in a given year. PKN ORLEN SA makes and maintains mandatory reserves of fuels, semi-products and crude oil. For storing the reserves the Parent Company uses mainly the underground warehouses of crude oil and fuels of storage tanks in IKS "Solino" S.A., its own warehouses located around the country and warehouses belonging to Naftobazy Sp. z o.o. The cost of underground storage of crude oil and fuels is much lower than the cost of ground warehouses.

- Decrease in car sales

During the first half of 2005 lower demand on the domestic market of newly produced cars was observed. According to companies analysing the automobile market, car sales in the first half of 2005 decreased by about 33% as compared to the first half of 2004, i.e. to the level of over 129 thousand cars. The decrease of sales was influenced considerably by the increased import of second-hand cars. The number of cars imported to Poland was over three times higher than sales od brand new cars. The level of sales of new cars influences fuel consumption.

- Domestic fuel consumption

In the first half of 2005 the total estimated domestic fuel consumption in Poland, based on data from Nafta Polska S.A., amounted to 6,245 thousand tons, that is was at the level comparable with the respective period of 2004.

In the first half of 2005 pertol consumption decreased by 5% with regards to the level of 2004. The basic factor caused the decrease is a dymamic development of the automotive gas market. In accordance with the data provided by the Polish Organisation for Liquid Gas (POLG), in 2004 the LPG consumption increased compared with 2003 by about 35% and amounted to 1, 440 thousand tons (i.e. 34% of the consumption volume of pertol in 2004). In compliance with POLG estimates, the Polish liquid gas market is the first in Europe considering the number of vehicles powered with LPG, and the second in the world (after the South Korea). The number of vehicles powered with this type of fuel is currently estimated at almost 2 million.

The consumption of the diesel oil in the first half of 2005 increased only by 1% with respect to the first half of 2004, which is mainly due to very ineffective second quarter (2% decrease in consumption). The reason for such a situation is considerable, of about 16%, increase of retail DO prices in the first half of 2005 and the related possible rise in light heating oil usage for illegal powering of Diesel engine vehicles (this may be evidenced also by 5% increase in LHO consumption).

In accordance with Nafta Polska S.A. data, in the first half of 2005 the consumption of light heating oil increased by 5% with reference to the comparable period of 2004. The main factor which generated rise in LHO consumption was the Decree of the Ministry of Finance under which the excise tax rate on this fuel was increased to the level of DO. Consequently, in May 2005 LHO consumption was over 40% higher than in May of the prior year. Finally, the Decree was withdrawn yet it definitely influenced significantly the medium distillate market and the whole situation proved how strongly the government's fiscal policy influences the Polish fuel market.

In the first half of 2005 the demand for fuels was satisfied mainly from domestic refineries, which due to increasing imports recorded 5% fall of the total fuel sales in Poland.

- Imports of fuels

The estimated total import sof fuels to pOland in the first half of 2005 increased with respekt to the comparable period of 2004 by about 285 thousand tons.

In the first half of 2005 pertrol imports remained at the volume level of the first half of 2004 (decrease only by 12 thousand tons), while imports of medium distillates considerably increased: diesel oil (by 210 thousand tons) and light heating oil (by 87 thousand tons).

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A high level of imports of diesel oil to Poland was due mainly attributable to very high crack margins in the first half of 2005 for this product - on average USD 129/ton compared with USD 76 /ton in the first half of 2004.

Due to dynamic rise of imports of medium distillates, it is estimated that in the first half of 2005, as in the comparable period of 2004, PKN ORLEN S.A. reached 55% share in the fuels market, including approximate 2 percentage points gained on the petrol market and the same amount given up on the diesel oil market.

Still high fuel prices and the related high crack margins justify the assumption that imports of fuels will continue to be profitable and its high volume will in the near future decrease the share in sales of Polish refineries on the domestic market.

- Interest rates

At the end of the first half of 2005, pawn loan interest rates reached the level of 6.5%, whereas bill of exchange discount rate 5.5% (at the end of the first half of 2004 6.75% and 5.75% respectively).

The average LIBOR 3M rate for United States Dollar increased by 1.9 pp in comparison to the end of June 2004, whereas the average EURIBOR 3M rate for Euro decreased by 0.1 pp. The level of interest rates influences cost of the Capital Group debt.

- The situation on the Polish retail market

Considerable increase of the number of Neste and shopping centers stations which are aimed at low prices and high volume of sales (due to localization and pricing policy) impacts the fuel retail market in Poland and currently, using " volume factor" constitutes the significant portion of that market.

Despite increase in PKN ORLEN S.A. franchising stations and the nominal rise in the number of petrol stations, PKN ORLEN S.A.'s share in the total number of petrol stations decreases (by 1.2%).

The following internal factors influenced the results achieved by of the PKN ORLEN S.A. Group in the first half of 2005:

- Loyalty programs developed in the Parent Company

VITAY program is a loyalty scheme aimed at individual customers visiting ORLEN petrol stations on a regular basis.

VITAY was launched on 14 February 2001.Customers making purchases within the program gain VITAY points, which may be subsequently exchanged for fuel or gifts.

Flota Polska Program is designed for institutional customers operating their own means of transport. The most numerous participants of the program include: shipping companies, production and service companies, banks, offices of central and local administration and foreign branch offices. We offer two kinds of Flota cards for our clients: K-type cards, issued to the driver's name and S-type cards issued for a specific vehicle registration number. Each card can be loaded with individual limit for fuel volume as well as products and services value and frequency of transactions. Additionally, Flota managers can visit a personalized web-page, which provides tools assisting in Flota management.

In 2004, owing to cooperation of two strong partners and brands a new co-branded card was introduced. ORLEN/DKV card is the first one in Europe, which unites a microchip technology of Polish FLOTA card with magnetic strip of DKV network.

In 2004, owing to cooperation of two strong partners and brands, there is a new

magnetic card.

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In the first half of 2005, the share of Flota sales in the total fuel sales in the own petrol stations increased to 10.4% from 8.6% in the first half of 2004.

- PKN ORLEN S.A. investment program

In the first half of 2005, the Parent Company's Management Board approved of the following investment projects:

- adaptation of HON VI installation for production of diesel oil of sulphur content below 10 ppm. The completion deadline is: October 2006. Objective: to adaptat of the instrumentation of HON VI to the new catalyst necessary for production of diesel oil of sulphur content up to 10 ppm.
- modernization of the Warehouse No. 94 in OEwinoujoecie. Completion deadline: September 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 81 in Krakow - Olszanica. Completion deadline: September 2007. Objective: to maintain distribution capacity of the warehouse by reconstruction of the obsolete technical utilities and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 82 in urawica. Completion deadline: August 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 112 in Boleslawiec. Completion deadline: July 2007. Objective: to adapt the existing technical utilities of the building to the technical safety, fire, ecological and work safety requirements resulting from the binding regulations and to improve the operations of the warehouse.
- PKN ORLEN SA engagement in construction of a complex of fragrances extraction installation of capacity of 395 thousand tons/year for paraxylene PX and 600 thousand tons/year for PTA terephthalate acid. The projected deadline of completion: September 2009. Objective: to launch from 2009 the PX + PTA installation of capacity of 600 thousand tons/year as components for production of polyterephthalate ethylene (PET).

In the first half of 2005, in accordance with Investment Operations Plan the following projects were accepted, transferred for use and settled within the projected budgets:

- Construction of three feeding units for auto tanks for toluene, pharbasole and xylene in Production Plant in Plock. The investment was accepted on 20 January 2005. Objective: to move production of the above solvents from Warehouse No. 13 to PKN ORLEN S. A. Vehicle Terminal.
- Adaptation of technological furnaces F201 at installations HON II and HON III for their UDT supervision. The project was accepted on 28 January 2005. Objective: to modernize furnaces in order to subject them to UDT supervision, to ensure further exploitation of the furnaces and installations HON II and HON III, to increase technical safety and decrease a negative impact on environment by limitation of gas emission.
- A unit for feeding auto tanks with heating fuel. The project was accepted on 9 March 2005. Objective: to improve technical, fire and ecological safety at loading of heavy heating oil to auto tanks.
- Improvement of separation of liquids from wet gas from 1-V-06 at installation DRW VI. The project was accepted on 10 March 2005. Objective: to improve separation of liquids from we gas at installation DRW VI, to reduce the amount of desalted crude oil, to limit the number of breaks in the process.
- Development of the warehouse network for antifreezeing liquids. The project was accepted on 25 March 2005. Objective: to meet the trade needs by increase of the range of produced antifreezing liquids: PETRYGO liquid and concentrate, QAL liquid and concentrate.
- Modification of the soft asphalt cooling unit. The project was accepted on 30 March 2005. Objective: to ensure safety of installation HOG during its rest.
- Infrastructure of Polyethylene III and Polypropylene III. The date of

constructed by JV.

- Optimisation of the sulphur content in the diesel fuel and Ekoterm light heating oil. The project was accepted on 31 March 2005. Objective: to opitimise the sulphur content in accordance with the European Union requirements, to reduce the amount of reblendings and to eliminate control analyses.
- Installation for petrol feeding to raiway tanks in the Warehouse No. 74 in Ostrow Wielkopolski. The project was accepted on 24 May 2005. Objective: to decrease transportation costs of fuels on the route Plock - warehouses located in the south-western Poland, using the existing product pipeline Plock - Ostrow Wielkopolski.
- Modernisation of H101 and H102 furnaces at Paraxylene Installation. The project was accepted on 30 May 2005. Objective: to modernise furnaces in order to subject them for UDT supervision; to allow firther use of the furnaces and paraxylene installation; to increase technical safety and reduce a negative impact on environment by limitation of gas emission.
- Revamping Infrastructure at Olefin II. The project was accepted on 28 June 2005. Objective: to ensure supplies of raw materials, support products and electric power to Olefin II after revamping, and to ensure expedition of all product lines.
- Intensification of Fragrances Extraction Installation with facilities. The project was accepted on 13 June 2005. Objective: to increase capacity of the installation from 480 thousand tons/year to 550 tons/year, to manage the BT fraction line from II after revamping, to remove bezene from reformate which will make it possible to decrease the benzene content in fuels (the required petrol quality in the EU in 2005); to increase the quality of the produced benzene and toluene in compliance with ASTM standards, which will increase sale capacity.
- Revamping at Olefin II, intensification of IFP, pyrotol and butadiene emission - installations of I category. The scope of the project accepted on 29 June 2005. Objective: to complete the necessary stages in order to launch the installation with capacity of 360 thousand tons/year and to gradually launch technological units increasing ethylene production volume to 700 thousand tons/ year.

• BONUS Project in the Parent Company

In April 2005 the Company launched BONUS project. Its objective is mainly to significantly reduce costs related to external purchases and to make the purchases more effective. The Project is carried out with advisory support from A.T. Kearney, which provides similar services to the largest global companies. In June the Company completed the first stage of the project consisting of review of all external expanses of the Parent Company and selected companies of the Capital Group. Currently, the project embraces the operating implementation of savings in particular purchase areas. Within the first stage the project projects even PLN 100 milion of savings per year.

• OPTIMA - Programme of operating cost reduction

OPTIMA, a programme of operating cost reduction is follower of the previous programme launched in 2004, called KPRKO. OPTIMA is to embrace the whole Capital Group. By the end of 2005 PKN ORLEN SA will have finished KPRKO. Under this programme, before the end of 2004, 340 savings initiatives were implemented. OPTIMA is a more extensive programme than KPRKO as it embraces the Group companies and refers to many more issues. OPTIMA does not comprise the parallel programme of Total Margin Optimisation. Implementation of OPTIMA will result in reduction of operating costs by minimum PLN 600 million in 2009, i.e. above the final result of KPRKO with respect to 2005. It will also help to reduce e investment expenditure by minimum PLN 600 million in the years 2006-2009 at unchanged investment schedule included in the development strategy of PKN ORLEN SA. The savings will result from more rational expenditures and not from reduction of investments.

• Risk Management System in PKN ORLEN S.A.

Financial results of the Parent Company may be subject to fluctuations in relation to market factors, particularly to quotations of products, exchange rates and interest rates. PKN ORLEN S.A. manages the risk, to which it is

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impact on the result of the Company. The policy and the strategy of using derivatives is determined and supervised by the Management Board.

In case of the exposition USD/PLN related to operating activity there is a natural hedging, i.e. the exchange rate risk from purchase of crude oil is offset against the revenues from the sale of products, which prices depend on the USD/PLN exchange rate.

Moreover, swap transactions concluded in the year 2003 stabilizing cash flows in EUR generated by sales of petrochemical products were realized in 2005. Maturity date of the mentioned hedging transactions is 2006.

The Parent Company applies the cash flow hedge accounting for the swap transactions using a system supporting management of hedge transactions. In order to formalize the risk management process relevant procedures were implemented and the Risk Committee was set up to control the Parent Company exposure to risk and to make decisions on concluding hedging transactions.

- Implementation of efficiency plans in the Parent Company

At the end of 2002, the Parent Company's Management Board decided to implement two significant efficiency systems during the period 2003-2005 - value based management system and a comprehensive operational cost cutting programme. The first plan will allow the Company to introduce modern management methods, take optimal decisions and improve managers' competency, which will help to increase Company's value and improve the shareholders' perception of the Company. The latter plan will ensure a decrease in a significant part of operating expenses in all areas of the PKN ORLEN S.A. activities. The detailed description of those programs is included in the part V of the statement.

- Investment programme in ANWIL S.A.

Investment projects carried out in last years improved to a significant extent competitiveness of Anwil S.A. The company timely discounted the effects of investment undertakings from prior years thus settling all its financial liabilities, particularly rapid special loan instalments. This way it achieved a liabilities structure which makes it possible to launch other development projects. The scope of investment carried out in this period concerned continued investments related with environment protection and improvement of business effectiveness and cost competitiveness of the company:

- the company continued the task the commenced in 2004 "Change of technology of producing chlorine from diaphragm to membrane" at Chlorine and Sodium Wax Production Plant. This investment is supplementary to the earlier realized projects in PCV production chain, necessary to reach production capacity at the level of about 330 thousand tons/year. The closing budget amounts to PLN 247 million.
- to reduce impact on the environment ANWIL SA modernised the waste disposal system by constructing and acceptance for use of Biological Sewage Treatment Plant (BSTP)
- the company continued the following main projects:
- modernisation of cracking installation - heat retrieval,
- construction of CANWIL warehouse (the trade name),
- modernization of CV and PCV installations.

## III. CURRENT AND PROJECTED FINANCIAL POSITION OF THE CAPITAL GROUP

### 3.1 PRODUCTION

In the first half of 2005 crude oil processing in the PKN ORLEN SA Group companies amounted to 6,548 thousand tons and was by 9.9% higher in comparison to the comparable period of the previous year (2005 includes Unipetrol - June). There was an increase of the processing of crude oil by 6.0% to the level of 6,047 thousand tons in the Dominant Company. The proceeds on refined products amounted to 81.37% and was higher by 0.2 pp than in the first half of 2004.

The most important events in the first half of 2005 in the area of production were:

were restricted in two parameters: fragrances content is lowered from 42% (of the volume) to 35% (of the volume) and sulphur content from 150 mg/kg to 50 mg/kg.

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2. Production of diesel oil Ekodiesel Ultra of the sulphur content below 10 mg/kg in accordance with ZN/ITN-ORLEN/NF-229/2004, which was included in PKN ORLEN S.A. offer from 1 January 2005. The oil meets the highest quality and ecological standards for high-pressure engine fuels in the EU. The low level of sulphur in the diesel oil will be adopted in the EU states as obligatory in 2009.

3. Agreement with AXENS (basic design, license and catalyst delivery) for diesel fuel stabilising installation in Desulphurisation of Cracking Fuel concluded in January 2005. The launching of the installation is planned for the end of 2007.

4. The necessity to process the mixture of Rebco crude oil and low-sulphur oil in order to produce low-sulphur fuel for Power Plant due to the planned rest of HOG installation (29.04-12.06). The share of low-sulphur oil in the total processed raw material amounted to 1.6%.

5. Due to conducted modernisation of petrochemical installations (Olefin II, Butadiene II, Hydrogenetion of Petrol, Pyrotol) and maintenance rests at other installations: Ethylene Oxide I and II, Glycol I and II and Phenol, the production of petrochemical products was limited.

6. In May and June the major modernisation work at installation in Olefin II, which allowed launching of new units without excluding the existing part of the installation. The completion of the project is planned for September. The production capacity of the modernised installation is 702 thousand tons of ethylene/year.

7. By the end of June 2005, launching of the modernised Fragrances Extraction Installation producing benzene and toluene based on raw materials from Reforming V and Olefin II. The production capacity of the modernised installation is 27.4 t /h for toluene and 22.4 t/h benzene.

## 3.2 INFORMATION CONCERNING BASIC PRODUCTS AND SERVICES, SALES MARKET AND SUPPLY SOURCES FOR COMPANIES OF THE CAPITAL GROUP

Information concerning the basic products and services as well as sales market and supply sources for the Capital Group companies are presented further in the Additional Information.

## 3.3 FINANCIAL RESPURCES MANAGEMENT

At the end of the first half of 2005 the level of net financial indebtedness of the Parent Company with respect to 31 December 2004 increased by PLN 1,385. Capital investments, in this period reaching PLN 1,995 million, were financed with an excess from the current operating activity (PLN 718 million), with liquid assets and deposits (PLN 757 million), assets obtained from repayment of the loan granted by the Company in 2004 to its subsidiary ORLEN Deutschland AG (PLN 244 million) and with increased external indebtedness (PLN 280 million).

The most significant investment expense item at the Parent Company in the first half of 2005 was acquisition of 62.99% shares in Unipetrol, 9.76% of shares in Spolana and purchase of receivables of some of the Unipetrol Group companies for the total amount of PLN 1,797 million.

Increase in external indebtedness of the Company was a result of signing of two loan agreements in CZK of the total amount of PLN 207 million and increase by PLN 134 million, compared to the state at 31 December 2004, of available credit lines at current accounts. In accordance with consortium agreement concerning the optional currency (dollar), a portion of the dollar drawings (PLN 61 million) of the consortium loan was repaid, yet the carrying amount of the loan denominated in PLN increased due to changes in exchange rates.

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currency loan granted by the consortium of 19 banks, both Polish and international. The maturity date for four of the short-term loans with statistical interest accumulated as at 30 June 2005 falls in 2005 (in line with the balance as at 30 June 2005: PLN 338 million), for three loans in 2006 (in line with the balance as at 30 June 2005: PLN 5 million), and for the long-term loan in 2008 (in line with the balance as at 30 June 2005: PLN 1,423 million).

Detailed information on maturity dates for the loans were presented in Note 16 of the consolidated financial statements of the PKN ORLEN Group for the first half of 2005.

In the first half of 2005, the Parent Company did not grant any loan within the Capital Group.

The amount and structure of financial liabilities, both in terms of their maturity and currency in which they are denominated, are as follows:

| | 31 December 2004 | | 30 June 2005 | |
|---|---|---|---|---|
| | | % | | % |
| Share of loans in the Company: | in PLN million | | in PLN million | |
| Long-term | 1,408 | 100% | 1,423 | 81% |
| Short-term | 6 | 0% | 343 | 19% |
| in USD | 709 | 50% | 732 | 41% |
| in EUR | 702 | 50% | 695 | 39% |
| in CZK | 0 | 0% | 202 | 12% |
| in PLN | 3 | 0% | 137 | 8% |

The Company's liquidity as at the end of the first half of 2005 remains at the secure level. The available current financial assets amount to PLN 520 million, the Company takes advantage of unused credit lines and the Programme of Bond Issue. As at 30 June 2005, under short-term loan agreements the Company may use PLN 272 million, under the long-term agreement PLN 606 million (i.e. in the loan currency EUR 150 million) and PLN 700 million within the Programme of Bond Issue (moreover after the balance sheet date, in July 2005, the Company signed another renewable loan agreement for PLN 100 million with a year maturity).

The financial safety of the Company is positively influenced also by a large lending capacity which allows obtaining additional external resources in a relatively quick and inexpensive way.

Currently, the Company intends to continue optimization of its financing within the PKN ORLEN SA Group.

In the first half of 2005 the Group companies (excluding the Parent Company) drew and were granted the following significant loans:

• Anwil S.A.

ANWIL SA in the first half of 2005 signed 2 new loan agreements:

- preferential loan agreement related to environment protection; amount due: PLN 3,500,000; maturity date: 30 December 2010;
- preferential loan agreement related to environment protection; amount due: PLN 63,000,000; maturity date: 30 March 2011.

• IKS SOLINO S.A.

- investment loan; amount due: PLN 121,651 thousand; maturity date: June 2017;

• Rafineria Nafty Jedlicze S.A.

- loan in Bank PEKAO S.A. Warsaw; of PLN 10,000 thousand for financing of current operations; amount due PLN 10,000 thousand; maturity date: May 2008

- loan in ING Bank OElaski S.A. of PLN 29,688.7 thousand for the

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current operations; amount due: PLN 17,329 thousand; maturity date: May 2007,
- loan in BPH S.A. of PLN 20,000 thousand for financing of current operations; amount due: PLN 150 thousand; maturity date: November 2007,
- loan in BRE Bank S.A. of PLN 5,000 thousand for financing of current operations, amount due: PLN 39 thousand; maturity date: December 2006,
- loan in PKO Bank Polski S.A. of PLN 20,000 thousand for financing of current operations, amount due: 5.242; maturity date: December 2006,
- loan in the National Fund for Environment Protection and Water Management of PLN 50,000 thousand for subsidising the investment project "Hydrorefining Installation"; amount due: PLN 15,000 thousand; maturity date: December 2006.

• Rafineria Trzebinia S.A.

- investment loan in BOOE Warsaw, amount due: PLN 1,500 thousand; maturity date: April 2006,
- investment loan in BOOE Warsaw, amount due: PLN 1,950 thousand; maturity date: July 2006,
- investment loan in PEKAO Warsaw, amount due: PLN 30,000 thousand; maturity date: October 2007,
- short-term loan in BPH PBK S.A., amount due: PLN 29,016 thousand; maturity date: May 2006,
- short-term loan in CITIBANK, amount due: PLN 18,589.4 thousand; maturity date: November 2005,
- short-term loan in PEKAO Warsaw, amount due: PLN 18,788.4 thousand; maturity date: December 2005,
- short-term loan in PEKAO Warsaw, amount due: PLN 20,000 thousand; maturity date: February 2007,
- short-term loan in BH Warsaw, amount due: PLN 3,735 thousand; maturity date: January 2006,
- short-term loan in PEKAO Krakow, amount due: PLN 11,311 thousand; maturity date: January-April 2006,

• ORLEN Oil Sp. z o.o.

- current account loan in Bank Handlowy in Warsaw, amount due: PLN 17,087 thousand; maturity date: November 2005;

• Basell Orlen Polyolefins Sp. z o.o.

- Before 19 December 2004 Basell Orlen Polyolefins was granted a loan for Project Implementation (EUR 350 million) and a short-term loan (EUR 20 million). The first is an investment loan and is devoted to finance new polypropylene and plyethylene installations; the latter is used to cover deficiencies in the operating capital. The first instalment of the Project Implementation loan was partially used in January 2005 to repay the auxiliary loan drawn in 2003 (EUR 30 million). The loan repayment will start in July 2006, and the maturity date will fall in the half of 2015. Financial assumptions of creditors project an earlier repayment of the loan (half of 2012). In order to finance NPP investment and repay the accumulated interest the company continues to draw from the loan. The withdrawals within a given drawings are possible before the end of 2005. After that date the repayment of the loan will be commenced. As at the end of June 2005 the amount of the loan used for the project amounted to EUR 190.6 million (PLN 840.7 million), and the renewable short-term loan was not used.

• ORLEN PetroTank Sp. z o.o.

- medium-term loan in Bank BPH S.A., amount due: PLN 14,482.5 thousand; maturity date: May 2006,
- short-term loan in Bank Handlowy S.A., of PLN 20,000 thousand, amount due: PLN 19,728 thousand; maturity date: December 2005,
- investment loan, in Bank BPH S.A. (in CHF) amount due: PLN 9,906 thousand (CHF 3,799.5 thousand); maturity date: December 2006,

• ORLEN PetroProfit sp. z o.o.

- short-term loan in PKO S.A. V O/Lublin, of PLN 5,000 thousand, amount due: PLN 4,331 thousand; maturity date: December 2005,
- short-term loan in Kredyt Bank S.A. O/Lublin, of PLN 4,200 thousand; amount due: 2.975 thousand; maturity date: June 2006,
- short-term loan in Bank Handlowy S.A. O/Lublin of PLN 3,500 thousand; amount due: PLN 3,500 thousand; maturity date: January 2006,

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• ORLEN PetroZachod Sp. z o.o.

- short-term loan in, PEKAO S.A. Poznan, of PLN 9,000 thousand, amount due: 7.552,5 thousand; maturity date: June 2006,
- short-term loan in PKO BP S.A. Poznan, of PLN 2,200 thousand, amount due: PLN 394 thousand; maturity date: December 2005,
- short-term loan in Bank Handlowy Warsaw, of PLN 5,000 thousand, amount due: PLN 3,324 thounsand; maturity date: December 2005,
- short-term loan in Bank BWE, of PLN 4,000 thousand, amount due: PLN 4,000 thousand; maturity date: September 2005,
- short-term loan in Bank BWE, of PLN 2,000 thousand, amount due: 269 thousand; maturity date: September 2005,
- long-term investment loan in Bank Handlowy Warsaw, of PLN 6,500 thousand, amount due: PLN 977 thousand; maturity date: March 2006.

• Ship Service S.A.

- loan of PLN 8,000 thousand, in Bank PEKAO S.A., amount due: PLN 7,458 thousand; maturity date: March 2006,
- loan of PLN 6,700 thousand, BNP PARIBAS, amount due: PLN 1,614 thousand; maturity date: June 2005.
- loan of PLN 3,000 thousand, BRE Bank S.A., amount due: PLN 2,128 thousand; maturity date: September 2009,
- loan of USD 4,000 thousand, Bank PEKAO S.A., amount due: PLN 10,553 thousand; maturity date: August 2006,
- loan of USD 1,450 thousand, BRE Bank S.A., amount due: PLN 4,544 thousand; maturity date: November 2006,
- loan of USD 400 thousand, BRE Bank S.A., amount due: PLN 1,156 thousand; maturity date: September 2008,

• Petrolot Sp. z o.o.

- current account loan in BRE Bank S.A. up to PLN 10,000 thousand; as at 30 June 2005 amount due: PLN 1,445 thousand,
- current account loan in Bank Handlowy in Warsaw; amount due as at 30 June 2005 PLN 18 thousand, maturity date: July 2005,
- current account loan in BPH S.A. in Warsaw up to PLN 15,000 thousand; as at 30 June 2005 the loan was not used,
- investment loan in ING Bank OElaski S.A. of PLN 11,200 thousand, amount due as at 30 June 2005 PLN 5,058 thousand; maturity date: December 2009.

• Petrotel Sp. z o.o.

- investment loan in BGZ S.A. of PLN 6,000 thousand, amount due as at 30 June 2005 PLN 4,500 thousand, maturity date: June 2008,
- loan in PKO BP S.A. of PLN 5,400 thousand, amount due as at 30 June 2005 PLN 5,400 thousand, maturity date: 2008-2010,

• ORLEN Gaz Sp. z o.o.

- short-term current account loan in Bank Pekao S.A. of PLN 4,400 thousand; amount due as at 30 June 2005: PLN 1,497 thousand; maturity date: September 2005.
- short-term current account loan in Bank Handlowy in Warsaw CITIBANK of PLN 5,500 thousand; amount due as at 30 June 2005: PLN 1,700 thousand; maturity date: January 2006.

• Unipetrol a.s.

- loan in Ceska sporitelna a.s. of CZK 2,069 million, amount due as at

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- ORLEN Deutschland GmbH

- loan of EUR 15,834 thousand in HSH,
- other loans of EUR 9,183 thousand.

- ORLEN KolTrans Sp. z o.o.

- investment loan in Bank Pekao S.A. of PLN 672 thousand; amount due as at 30 June 2005: PLN 420 thousand; maturity date: April 2007
- investment loan in Bank BPH S.A. of PLN 1,522 thousand; amount due as at 30 June 2005: PLN 1,208 thousand; maturity date: June 2008.
- investment loan in PKO BP S.A. of PLN 2,705 thousand; amount due as at 30 June 2005: PLN 2,181 thousand; maturity date: June 2008.
- loan in Bank Pekao S.A. of PLN 1,504 thousand; amount due as at 30 June 2005: PLN 504 thousand; maturity date: December 2005
- loan in Bank BPH S.A. of PLN 2,100 thousand; amount due as at 30 June 2005: PLN 630 thousand; maturity date: December 2005.
- loan in PKO BP S.A. of PLN 3,490 thousand; amount due as at 30 June 2005: PLN 1,047 thousand; maturity date: January 2006.

- ORLEN Transport Nowa Sol Sp. z o.o.

- loan of PLN 2,000 thousand, in Bank Przemyslowo Handlowy; amount due: PLN 909 thousand; maturitydate: September 2005.

3.3.1 Loans, sureties and guarantees granted to employees and companies of the Capital Group

In the first half of 2005 the Prent Company did not grant any loans within the Capital Group, therefore as at 30 June 2005 the Company was not a party to any loan agreement within the Group. In the discussed period the loan was rapid granted in 2004 to ORLEN Deutschland, a subsidiary, for EUR 60 million with accumulated interest.

The closing balance of borrowings granted from the Company's Social Fund to employees and pensioners of PKN ORLEN S.A. as at 30 June 2005 amounted to PLN 13,500 thousand, and the closing balance of borrowings granted to employees of the consolidated Group companies, which signed an agreement with PKN ORLEN SA for conducting common social activity, amounted to PLN 5,973 thousand.

As at 30 June 2005 the Parent Company' total off-balance sheet liabilities resulting from guarantees, sureties and other forms of hedges for other entities' liabilities amounted to PLN 997,224 thousand. Those liabilities include guarantees and sureties for liabilities of subsidiaries of the amount of PLN 690,720 thousand, for liabilities a jointly controlled entity PLN 151,504 thousand, and for third party liabilities PLN 155,000 thousand.

The key item of off-balance sheet pledges (74%) are the sureties granted to the banks in the form of guarantee letters and corporate warrantees with aim to hedge liabilities of ORLEN Deutschland AG resulting from its fuel trade activity.

A considerable portion of the off-balance sheet items will expire before the end of 2005 (41%), the largest portion will expire in the fist half of 2006 (53%), and other insignificant liabilities (6%) will expire in 2008. The above structure proves the short-term nature of the off-balance sheet liabilities.

Moreover, the Company has an effective pledge established in 2003 on stakes held in Basell Orlen Polyolefins Sp. z o.o. of PLN 453,699 thousand in order to secure financial liabilities of that company.

The other companies of the PKN ORLEN Group in the first half of 2005 granted the following borrowings, sureties and guarantees:

- Anwil S.A.

the surety as at 30 June 2005 was PLN 83 thousand.
- Bank Handlowy w Warszawie SA at the beginning of February 2004 granted guarantees (EUR 17,505,000) upon ANWIL SA application for Uhde GmbH due to the conducted investment in change of the production technology of chlorine from diaphragm to membrane, the value of the guarantee is decreased by the invoices settled by the company and as at 30 June amounted to EUR 9,294,746.

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• Rafineria Trzebinia S.A.

- BH Warsaw - surety of a loan for Energomedia Sp. z o.o., of PLN 1,100 thousand, expiration date: June 2006,
- PEKAO Krakow - surety of a loan for Spolki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: March 2009,
- BPH Chrzanow - surety of a loan for Spolki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: May 2008,
- BH Warsaw - surety of a loan for Spolki Euronaft Trzebinia Sp. z o.o., PLN 4,800 thousand; expiration date: July 2006.
- PEKAO Krakow - surety of a loan for Spolki Euronaft Trzebinia Sp. z o.o., PLN 13,500 thousand; expiration date: January 2009.
- PEKAO Krakow - surety of a loan for Spolki Euronaft Trzebinia Sp. z o.o., PLN 5,250 thousand, expiration date: April 2009.
- ORLEN Asfalt Sp. z o.o. - surety of a loan in current account, PLN 7,200 thousand, expiration date: July 2005.
- Kompania Weglowa S.A. - surety of a loan for receivables resulting from purchase-sale agreement before 31 December 2005, PLN 500 thousand, expiration date: until repayment of liabilities.

• Ship-Service S.A.

Granted sureties:

- beneficiary: Bor-Farm Sp. z o.o., amount of the surety: PLN 100 thousand, the amount of secured loan PLN 100 thousand; expiring date: September 2005,
- beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 800 thousand, the amount of secured loan PLN 400 thousand; expiring date: March 2006,
- beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 1,000 thousand, the amount of secured loan PLN 500 thousand; expiring date: March 2007,

Granted guaranties:

- beneficiary: Customs Office in Gdynia, amount of the guarantee: PLN 1,000 thousand, expiring date: 20 February 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,500 thousand, expiring date: 20 February 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,000 thousand, expiring date: 24 May 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 3,000 thousand, expiring date: 3 May 2006,

• ORLEN Oil Sp. z o.o.

- The company granted a bill of exchange guarantee and the statement on self-enforcement of debt recovery up to the amount of PLN 40,000 thousand to Bank Przemyslowo-Handlowy in exchange for guaranties for excise tax liabilities on bonded warehouses of ORLEN OIL. The validity of those guarantees: 30 September 2005.

• ZBA S.A.

- Guarantee of proper accomplishment of a task for ALSTOM POWER for PLN 2,160 thousand, valid before July 2007.

• ORLEN PetroTank Sp. z o.o.

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- Unipetrol a.s.

- Kreditanstalt fur Wiederaufbau - bank guaranties for the total amount of CZK 2,016 million, expiring date: August 2012,
- Citibank N.A. - bank guarantees of total amount of CZK 653 million, expiring date: August 2012,
- Societe Generale Bank - bank guarantees of total amount of CZK 752 million, expiring date: June 2006,
- COMERZBANK AG - bank guarantees of total amount of CZK 820 million, expiring date: until rejection.

3.3.2 Bond issuance

Bonds issuance is a flexible and effective instrument of gathering financial funds used for payment of current liabilities and repayment of matured securities. The Company takes advantage of the Bond Issue Programme concluded in May 2001 with Bank Handlowy w Warszawie SA, Bank Pekao S.A. and BRE Bank S.A. A bank which offers the most favorable profitability of issued securities conducts the issuance.

Under the Bond Issue Program the Company is able to issue debenture bonds up to the total indebtedness amount not exceeding PLN 700 million before May 2006.

In the first half of 2005, the Parent Company did not issue any bonds and as at 30 June 2005 did not record any active issues. Within the PKN ORLEN Group companies, only the Unipetrol Group entities benefited form the programme. The resulting indebtedness at the end of June 2005 amounted to PLN 476.473 thousand.

3.4 PROFIT AND LOSS STATEMENT

3.4.1 Revenues

In the first half of 2005 the PKN ORLEN SA Group sales of finished products, goods for resale and materials (without excise tax) amounted to PLN 16,760,956 thousand, which is by 21.3% more than in the first half of 2004. The rise in the Group sales was accomplished due to favorable macroeconomic factors as well as the consolidation of the Unipetrol Group from June 2005, which contributed to Group sales with PLN 1,607,411.3. In the first half of 2005 the level of fuel prices quotations on the world stock exchanges (an increase of quotation of petrol by 27.9%, diesel by 54%, Ekoterm by 55% and air fuel Jet A-1 by 52.1%) remained on a high level compared to the first half of 2004. The share of the Parent Company sales in the total Capital Group sales amounted to 58.2% in the first half of 2005.

3.4.2 EBIT

Gross Profit on sales of the PKN ORLEN Group for the first half of 2005 amounted to PLN 3,349,448 thousand and it was higher by 22.3% in comparison to the profit on sales in the first half of 2004. The high profit growth was influenced by the financial result of the Parent Company, which generated gross profit on sales higher by 29.7% as compared to the first half of 2004. Such level of an increase of profit on sales was achieved by taking advantage of favourable circumstances on the market. The positive financial result was achieved thanks to intensification of trade activities and favorable trends in the macroeconomic factors (crack margin from quotations) and due to consolidation in June of the Czech Unipetrol Group companies. In the first half of 2005, very good results were recorded by Anwil S.A. whose gross for the first half of 2005 amounted to PLN 143,481 and ORLEN Oil of PLN 41,795 thousand and Rafineria Jedlicze of PLN 24,839 thousand. In the first half of 2005 the Parent Company realised 7.7% increase of the total sales with respect to the comparable period of of the prior year. The total Group sales increased by 10.8%.

In the first half of 2005 the profit on other operating activity amounted to PLN 1,609,723 thousand as compared to the first half of 2004 loss of PLN 183,161 thousand.

Unipetrol and the acquisition cost (PLN 2,005,027 thousand), which considerably increases other operating revenues and thus impacts the profit on other operating activity.

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In the first half of 2005, profit on other operating activity amounted to PLN 3,499,979 thousand and was higher by PLN 2,429,509 thousand than the other operating profit generated in the first half of 2004.

3.4.3 Financial activity

In the first half of 2005 gain on financial activities amounted to PLN 207,181 thousand, as compared to the PLN 58,842 thousand in the first half of 2004. The increase in gain on financial activity was caused by higher than in the first half of 2004 increase of financial revenues in comparison with increase of financial costs. Financial revenues in the first half of 2005 amounted to PLN 452,050 thousand and increased in comparison to the respective period of 2004 by PLN 294,949 thousand. The main factor impacting the increase in the revenues is the unrealized discount effect for the acquired Unipetrol receivables of PLN 204,532 thousand and payment of the dividend by Polkomtel SA of PLN 83,290 thousand. Also in the first half of 2005 the Group recorded increase in financial costs by PLN 146,610 thousand, compared to the first half of 2004, which was due to unrealized negative tendencies in negative foreign exchange differences (increase of financial costs by PLN 120,787) and increase of interest rate costs by PLN 6,777 thousand.

3.4.4 Gross profit, income tax and net result

The PKN ORLEN SA Group in the first half of 2005 generated gross profit of PLN 3,744,262 (increase by 227.9% in comparison with the first half of 2004) on all segments of activities. Increase in gross profit was accompanied by increase in income tax charge by 65.5%.

In the first half of 2005 the Group generated net profit in amount of PLN 3,336,098 thousand and was higher by 279.0% compared with the result of the first half of 2004.

3.5 BALANCE SHEET

3.5.1 Total assets

As at 30 June 2005 total assets of the Capital Group PKN ORLEN S.A. amounted to PLN 32,976,560 thousand and increased by PLN 12,861,689 thousand (by 63.9%) in comparison to 31 December 2004. Conserning assets, the fixed assets constitute the main caption amounting to 61.8% of total assets (60.4% as at 31 December 2004). In equity and liabilities, the major part is shareholders equity constituting 53.3% of total liabilities as at 30 June 2005 (64.5% as at 31 December 2004). Comparing certain balance sheet captions as at 30 June 2005 and 31 December 2004 the following can be noted:

- significant increase in non-current assets by 67.8% to PLN 20,386,470 thousand as a result of an increase in tangible fixed assets by PLN 7,206,329 thousand and in share in subordinated companies accounted for using the equity method by PLN 393,029 thousand
- increase in current assets by PLN 4,604,123 thousand, i.e. by 57,8% to PLN 12,567,398 thousand resulted mainly from significant growth of inventories by PLN 2,407,873 thousand and trade receivables and other receivables by PLN 2,406,688 thousand. The increase of those balance sheet items was related to revealing of Unipetrol in the consolidated financial statement. Comparing to 31 December 2004 cash and cash equivalents increased as well by 88,1%.
- increase in shareholders equity by PLN 4,605,572 thousand to PLN 17,583,174 was related mainly due to the growth of retained earnings - by PLN 2,422,650 thousand in comparison with 31 December 2004. Increase in retained earnings lower than increase in net profit for the first half of 2005 results from distribution of profit for 2004 (PKN ORLEN S.A. dividend amounting to PLN 911,020 thousand)
- increase of long-term liabilities by PLN 2,141,077 thousand to the level of PLN 5,274,805 thousand, mainly due to the growth of loans by PLN 1,179,913 thousand to the level of PLN 3,263,449 thousand (high level of

accruals by 4,324,858 thousand (among other things due to increase of crude oil prices). At the same period loans and short-term borrowings grew by PLN 1,273,846 thousand to the level of PLN 1,515,463 thousand.

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3.5.2 Net financial indebtedness

At at 30 June 2005 the level of long-term and short-term loans, borrowings and debt securities issued by the Capital Group PKN Orlen amounted to PLN 4,778,912 thousand and was higher by PLN 2,453,777 thousand in comparison to the level at the end of the year 2004. The net financial indebtedness of the Dominant Company as at 30 June 2005 (calculated as loans, borrowings and debt securities less cash and cash equivalents) decreased by PLN 1,384,799 thousand in comparison to 31 December 2004. The net financial indebtedness of the Capital Group as at 30 June 2005 increased by PLN 2,689,374 thousand, in comparison to the end of 2004, to PLN 3,154,541 thousand. Increase in net financial indebtedness and in equity led to growth of financial debt to equity ratio (loans, borrowings and debt securities less cash and cash equivalents to equity) from the level of 3.6% as at 31 December 2004 to 17.9% as at 30 June 2005. Such level of net financial indebtedness of equity remains at safe level.

3.6 STATEMENT OF CASH FLOWS

As at 30 June 2005 the net working capital (current assets less short-term liabilities) amounted to PLN 2,448,817 thousand and decreased by 38,2% as compared to the level as at 31 December 2004. This resulted from the larger rise in short-term liabilities than in current assets in the Group during the I half of 2005.

3.6.1 Operating activity

In first half of 2005 net cash flows from operating activities amounted to PLN 1,648,153 thousand and were lower by 5.2% than cash flows from operating activities in first half of 2004.

The most important factors influencing cash flows from operating activities in first half of 2005 were:

- net profit increasing level of cash by PLN 3,336,098 thousand,
- increase of inventories by PLN 1,299,286 thousand, whereas there was a increase in first half of 2004 by PLN 310,404 thousand,
- increase in the level of liabilities and accruals by PLN 1,196,151 thousand, whereas there was a increase in first half of 2004 by PLN 763,329 thousand,
- recognition in net profit significant items which do not generate cash
- difference between value of consolidated net assets of Unipetrol, and purchase price paid (PLN 2,005,027 thousand).

3.6.2 Investing activity

The net cash flow from the investing activity in first half of 2005 amounted to PLN (-) 1,313,475 thousand, whereas in first half of 2004 achieved the level of PLN (-) 949,341 thousand. Such high level of the net cash flow from the investing activity in first half of 2005 results mainly from purchase of share of Unipetrol and high expenditure for tangible assets. Increased net cash flow from the investing activity were balanced by cash inflows from sale of short-term securities.

3.6.3 Financial activity

In the first half of 2005 the net cash flow from the financing activity amounted to PLN 314,024 thousand whereas in the first half of 2004 amounted to PLN (-) 500,570 thousand. A positive result on this activity in 2005 was the consequence of a significant increase of inflows from obtained loans and borrowings.

Due to the described cash flows the cash level increased as at 30 June 2005 in

The average employment in the first falf of 2005 in the PKN ORLEN Capital Group (Dominant Company and consolidated subsidiaries) amounted to 21,413 persons compared to 14,621 persons in first half of 2004. As at 30 June 2005 the employment totaled 21,338 in Group, which constitute an increase by 6,940 employees compared with the level as at 30 June 2004. Increase in level of employment resulted from acquisition of Czech holding - Unipetrol.

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3.8 SEGMENTS

3.8.1 Refining Segment

| Refining Segment (in PLN thousand) | 1st half of 2005 | 1st half of 2004 |
|---|---|---|
| External sales | 13 834 418 | 11 588 7 |
| Intersegment sales | 2 342 322 | 1 911 2 |
| Total revenues | 16 176 740 | 13 500 0 |
| Segment result | 2 296 076 | 954 3 |
| EBITDA* | 2 646 142 | 1 368 5 |
| Total cost incurred to acquire property, plant and equipment and intangible assets | 338 616 | 260 6 |
| Share of the segment in the results of the Group | 65,6% | 89, |
| Share of the segment in EBITDA of the Group | 64,2% | 78, |
| Sale profitability | 14,2% | 7, |
| Segment result / segment's assets | 13,2% | 8, |
| Segment result /segment's equity ** | 20,4% | 11, |
| Debt ratio (debts /assets) | 35,2% | 29, |
| Assets turnover ration | 1,9 | 2 |
| CAPEX/EBITDA | 12,8% | 19, |

*) segment Results + depreciation

**) segment's assets - segment's liabilities

In the first half of the 2005 refining segment achieved sale income of PLN 16.176.740 thousand, which is by 19,8% more than in the first half of the 2004. External sales customers increased by 19,4%, while sale to other segments increased by 22,6%. Increase in sale revenues of the segment resulted mainly from increase in prices for petrol on international markets (increase by 27,9% in quotations of engine petrol, by 54,5% in quotations of diesel oil, by 55% for Ekoterm and by 52,1% for aircraft fuel Jet A-1), as well as from consolidation of entities within Unipetrol Holding , which in June 2005 made a sale income of PLN 1.169.949 thousand.

In first half of the 2005 result of the refining segment amounted to PLN 2.296.076 thousand and was by 140,6% higher than result of the comparable period in prior year. Such a significant increase in results was achieved due to effective utilization of favorable macro-economic factors, such as increase in margins in quotation for diesel oil, Eksterm and aviation fuel Jet A-1, as well as increase by approximately 43% in Ural/Brent diferential.

The result of the segment was also considerably influenced by the purchase of Unipetrol. Following that transaction, goodwill of PLN 823.930 thousand was recognized and financial results of Unipetrol in the amount of PLN 51.428 thousand were incorporated into refining segment (Unipetrol Group's companies are consolidated in chemical and in other segments).

In the first half of the 2005 there has been significant increase in sale volume of petrol (engine petrol, diesel oil, Ekoterm, Jet A-1 i LPG) in wholesale and retail segments by 9,9% up to 5.287.507 tones. At the same time domestic consumption was almost unchanged as compared to prior year (engine petrol, diesel oil, Ekoterm).

In the first half of the 2005 share of the refining segment in results of the Group decreased to the level of 65,6% which resulted from increase in share of other segments (impacted by results of consolidated entities from Czech Republic incorporated to chemical segment and to other activity).

product lines' management, centralized purchases and control over prices, in the first half of the 2005 the segment achieved significant increase in margins on non-petrol goods. As mentioned above, also margins realized on sale of petrol products were higher than in those realized in the first half of 2004.

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Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 252.785 thousand, which is by PLN 57.246 thousand more than in comparable period in prior year.

3.8.2 Chemical Segment

| Chemical Segment | I half of 2005 | I half of 2004 |
|---|---|---|
| (in PLN thousand) | | |
| External sales | 2 569 516 | 1 882 5 |
| Intersegments sales | 832 692 | 667 4 |
| Settlement of hedging transactions | 49 330 | 21 2 |
| Total revenues | 3 451 538 | 2 571 2 |
| Segment result | 1 614 086 | 342 1 |
| EBITDA* | 1 765 534 | 469 5 |
| Total cost incurred to acquire property, plant and equipment and intangible assets | 437 246 | 439 4 |
| Share of the segment in the results of the Group | 46,1% | 32, |
| Share of the segment in EBITDA of the Group | 42,8% | 27, |
| Sale profitability | 46,8% | 13, |
| Segment result / segment's assets | 14,5% | 8, |
| Segment result /segment's equity ** | 16,9% | 9, |
| Debt ratio (debts /assets) | 14,3% | 13, |
| Assets turnover ration | 0,6 | 1 |
| CAPEX/EBITDA | 24,8% | 93, |

*) segment Results + depreciation

**) segment's assets - segment's liabilities

In the first half of the 2005 chemical segment achieved sale revenues of PLN 3.451.538 thousand, which is by 34,2% more than in first half of the 2004. External sales increased by 36,5%, while intersegments sales increased by 24,8%. Sale volume of petrochemicals increased by 12,9% as compared to June 2004 and amounted to 1.191.813 tones. Lower dynamics in volumes than in values is attributable to repair break of the main installation used in the manufacturing process of ethylene and propylene in PKN ORLEN S.A. - Olefin II.

In June 2005, entities from Unipetrol a.s. from Czech Republic achieved sale revenues incorporated to his segment of PLN 139.792 thousand.

In the first half of 2005 the result of chemical segment amounted to PLN 1.614.086 thousand and was by 371,8% higher than result in the first half of 2004. Result of that segment was considerably influenced by the goodwill of PLN 1.076.642 thousand recognized following purchase of Unipetrol as well as incorporation of Unipetrol Holding results of PLN 14.349 thousand.

Results of the segment were also influenced by good slump on the petrochemicals market, especially on products sold by PKN ORLEN S.A. and ANWIL S.A. (increase by 20,9% in margins on ethylene up to the level of USD 576,28 /tonne or increase by 41,7% in margins on propylene up to the level of USD 515,72/tonne). Favorable market situation enabled Anwil S.A to generate an opearating profit as of end of June 2005 of PLN 78.592 thousand. Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 18.371 thousand (PLN 21.872 thousand in the first half of the 2004 ).

| (in thousand PLN) | 2005 | 2004 |
|---|---|---|
| External sales | 307 692 | 320 5 |
| Intersegments sales | 410 041 | 397 3 |
| Total revenues | 717 733 | 717 9 |
| Segment result | 308 512 | 29 7 |
| EBITDA* | 415 365 | 134 9 |
| Cost incurred to acquire segment property, plant and equipment and intangible assets | 53 909 | 29 4 |
| Share of the segment in the results of the Group | 8,8% | 2, |
| Share of segment in the Group EBITDA | 10,1% | 7, |
| Profitability of sales | 43,0% | 4, |
| Segment result / segment's assets | 7,6% | 1, |
| Segment result /segment's equity ** | 9,0% | 1, |
| Debt ratio (debts /assets) | 15,4% | 17, |
| Assets turnover ratio | 0,4 | 0 |
| CAPEX/EBITDA | 13,0% | 21, |

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*) segment result plus depreciation

**) segment assets - segment liabilities

In the first half of 2005 in the other activity segment sales revenue amounted to PLN 717.733 thousand, which was almost identical to sales revenue realised in the first half of 2004. External sales decreased by 4,0% and the value of intersegments sales increased by 3,2%. Segment revenues increased by PLN 27.863 thousand as a result of including companies of Unipetrol a.s. holding in consolidaton in June 2005.

Despite almost identical revenues, the segment result for the first half of 2005 was of PLN 308.512 thousand, while the result for the same period of 2004 was of PLN 29.749 thousand. The segment share in the Group results increased to 8,8%. The significant increase of the segment result was mainly attributable to disclosure in segment's other operating revenues a position resulting from takeover of Unipetrol (that is the excess of fair value of purchased net assets over their purchase price of PLN 274.541 thousand). Companies operating in the Unipetrol holding incurred loss in this segment in the amount of PLN 2.164 thousand.

The group of companies that constitute the segment "Other activity", apart from entities producing energy and rendering services for Dominant Company, consists also of entities that emerged in the restructuring process. These entities render transportation services, maintenance and construction services.

Realization of the Comprehensive Program of Operating Cost Reduction brought savings for this segment in the first half of 2005 in the amount of PLN 155.121 thousand (PLN 88.589 thousand in the first half of 2004).

## 3.9 DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET POSITIONS OF THE CAPITAL GROUP

As at 30 June 2005 the total value of guarantees granted for related entities amounted to PLN 1.462.776 thousand (increase by PLN 837.353 thousand) and guarantees granted for other entities amounted to PLN 102.040 thousand (increase by PLN 16.594 thousand). Additionally, off-balance sheet liabilities to other entities resulting from transfer of receivables and other restrictions on fixed assets amounted to PLN 42.560 thousand, whereas as at 30 June 2004 they amounted to PLN 45.723 thousand. Other off-balance sheet liabilities amounted to PLN 273.461 thousand and increased in comparison to 30 June 2004 by PLN 258.521 thousand.

## 3.10 SIGNIFICANT EVENTS WHICH HAVE CONSIDERABLE INFLUENCE ON THE GROUP'S ACTIVITIES, AND FINANCIAL RESULTS IN THE FIRST HALF OF THE 2005 OR IN THE FUTURE

The following factors may have significant influence on financial situation of the Capital Group PKN ORLEN in the future:

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products,;
- fluctuations in prices of finished products on international markets, which influenced through import parity on prices for petrol products and margins;
- tendency of petrol consumption in Poland resulting among other from economic growth and unemployment ratio,
- fluctuations of foreign exchange rates which influence costs of external financing, costs of purchases of petroleum and other raw materials purchased in foreign currencies as well as fluctuations in prices, margins and inland premium;
- realization of the announced strategy of PKN ORLEN S.A. and the retail sector development;
- economic benefits achieved due to implemented and newly introduced optimization programs and benefits from implementing of cost cutting programmes (Complex Cost Cutting Program, System of Margin Optimization, Risk Management System, Value Based Management, Capex Optimization System);
- effectiveness of operation on petrol stations in Germany,
- synergy resulting from taking control over UNIPETROL's assets;
- activity of JV - company from Basell Europe Holdings BV - which produces petrochemicals (effective beginning of 2005 based on new installations) ;
- putting into use Olefin II after re-wamping;
- expected change in fiscal policy as far as corporate income tax and excise is concerned;
- weak situation in agriculture and construction market which negatively influence operating activities of those entities within the Group, which offer products related to those two sectors, i.e fertilizers, PCV products ect.

## IV. MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT IN THE CAPITAL GROUP

Polski Koncern Naftowy S.A. has implemented certified Management Systems:

- Quality Management System compliant with ISO 9001;
- Environment Management System compliant with ISO 14001;
- Quality Management System compliant with AQAP 2120 (for NATO suppliers) applicable for fuel market;
- Industrial Safety Management System compliant with PN-N-18001;
- Qualioty Management System compliant with PN-EN ISO/IEC17025:2001/ Ap1.2003, implemented in PKN ORLEN SA Envitronmental Tests Laboratory.

In March 2005 Polish centre of Certifications and Polski Koncern Naftowy ORLEN S.A. concluded an agreement defining terms of cooperation and supervision as well as the parties' rights and obligations resulting from the certificate obtained in accordance with the above standard. The certificate was granted in March 2005. The certificate obtained for the laboratory is a necessary condition for conducting environmental tests.

In the first half of 2005 the following audits were conducted by the certifying entities, which positive results were the basis for keeping and development of the areas subject to the management systems:

- Supervision audit of the Environment Management System conducted by auditors of Bureeau Veritas Quality International in February and March 2005, which concerned organisational units of the Production Plant and the Company's Head Offices in Plock as well as Warehouses in Szczecin, OEwinoujoecie, Krakow-Olszanica and Warsaw-Mooeciska.
- Supervision audit conducetd in March and April 2005 by the auditors of the Central Institute of Labour connected with extansion of the system to four further units of the Production Plant (Hydrocracking Unit, Fuels Unit, Ethylene Oxide and Glycol Unit, and Dry Gas Unit). As a result of the audit, the Company was granted a certificate of compliance of the implemented Industrial Safety Management System with the requirements of PN-N-18001 in the scope extended to comprise the above organisational units.

Correctness of operation of the Management Systems was verified by internal audits in all the units included in the systems. Indentified incompatibilities were eliminated by corrective actions. Organisational changes in the Company

Polski Koncern Naftowy ORLEN S.A., due to the fact that it does not possess its own research laboratories or does not emply scisntists at regular research posts, commissions research and development work to research and development centres and organisations, universities and other institutions, companies asn assoctiations which provide such services.

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In the first half of 2005 there was much work done, crucisl for the Company, which were related to elaboration of new products technologies, improvement of quality of manufactured products, improvement of manufacure technology and more efficient use of components for production. The necessity to undertake such work resulted from PKN ORLEN S.A. care for customers interms both of assortment and quality of offered goods. The most important tasks accomplished in the area of production are the following:

1. "Development and implementation of technology for Power Diesel production of increased ecological and functionsl properties." Contractor: Institute of Oil technology in Krakow. Within the framework of that work physical, chemical and functional properties were tested in the Power Diesel base oil. Further, in accordance with the research assumptions, the oil containing a complex of upgrade additives Petropak 50 amd the additive increasing the Nitrocet 50 cetene number, was subjected to complex tests for its functional properties. As a result of the research, a new production technology was designed in PKN ORLEN S.A. in Plock for new Power Diesel oil of the cetene number not lower than 55, which is to replace the currently produced ONM Super fuel. The work embraced also research on compatibility of upgrade additives to fuel with selected motor fuels and design of the plant standard for the new fuel. The commission accepting the work on behalf of PKN ORLEN S.A. motions in the Acceptance Report No. 24/05 of 15 June 2005 for implementation of the technology for production of Super diesel of the minimum cetene number of 55 and increased expoitation parameters.

2. "Comparative analysis of functional and ecological properties of motor fuels produced in PKN ORLEN S.A." Contractors: Cetral Oil Laboratory in Warsaw and Institute of Car Transport in Warsaw. The objective of the work was to determine the impact of petrol produced by PKN ORLEN S.A. on functional parameters of engines with spark ingnition with respect to compliance with the following customers' requirements:

- differences in acceleration value,
- changes in power and engine torque,
- flexibility of engine operation,
- impact on the environment,
- fuel consumption.

Based on the comparison of test results for petrol types ES95, SP98, 100-octane produced by PKN ORLEN S.A. with that produced by Shell V-Power Racing petrol, it was concluded that:

1. all products comply with quality requirements for fuels contained in the Decree of the Ministry of Economy and Labour of 16 August 2004.
2. In the tested two samples of Shell V-Power Racing there was no product of the research octane number exceeding 100 units.
3. It was proved that petrol produced by Shell contained the following amounts of admissible chemical compounds:

- frangrances - almost upper level values (35.0% V/V), yet falling within repeatability measures of the FIA method;
- MTBE ether exceeding 13% (V/V);
- even four times higher than PKN petrol content of olefins and sulphur level reflecting the requirements for petrol projected for 1 January 2009.

4. PKN ORELEN SP98 and 100-octane petrol contain a lower amount of sulphur, even below 5 mg/kg.
5. All PKN ORLEN S.A. types of fuel comply with PN-EN-228 form 2005. Shell's petrol types meet the upper admissible levels or do not comply with the requirements of the above standard in terms of volatility index. The value of

not comply with any of the petrol classes (it refers to content of compound resins).

7. The amount of upgrade additives applied in production of Shell V-Power Racing fuels exceeds four times the amount of the complex added to PKN ORLEN petrol. Base don the conducted tests, it was concluded that use of the high concentration of additives (about 1600 ppm) and such as is present in Shell V-Power Racing produces apart from positive effects as:

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- increased oxydating and thermic stability - due to presence of an antioxidant,
- improved lubricating capacity at HFRR test - due to presence of a lubricating additive,
- reduction of resins - due to an antioxidant,

also negative consequences like:

- increased capacity to emulgate in contact with water,
- extraction of additives from petrol in lower temperatures,
- increased costs,
- increase in the amount of deposits in the combustion chamber.

8. Patrol components applied in production of Shell V-Power Racing do not allow production of petrol of the higher heating value, which is a characteristic of SP98 produced by PKN ORLEN. Moreover, the content of H:C is adequate in all petrol types from Plock in terms of dangerous gas emission, compared to Shell V-Power Racing.

9. SP98 produced by PKN ORLEN S.A. for its physical and chemical parameters is a product similar or even exceeding Shell V-Power Racing.

The conducted tests allowed comparative assessment of the quality of our fuels with those of the competition. The obtained results not only proved the high quality of petrol from Plock but also in some analyzed parameters recorded even advantage in terms of quality of PKN ORLEN products. The transparent presentation of the results to customers should be an encouraging factor to purchase PKN ORLEN petrol. The results will be used on an ongoing basis when introducing changes in the structure of petrol produced by PKN ORLEN S.A. in order to obtain a product of justified high functional standards.

3. "Laboratory and engine quality assessment of the Ekodiesel Ultra oil." - Contractor: Institute of Oil, Technology in Krakow. The objective of the work was to confirm compliance of quality parameters of Ekodiesel Ultra produced by PKN ORLEN S.A. with the Producer's Standard ZN/ITN- ORLEN/NF-229/2004 for Ekodiesel Ultra category B, D and F. Another stage was assessment of the smokiness level and dangerous substance emission in waste gas, in accordance with ECE R49 test for Ekodiesel Ultra B. The conducted tests confirmed that the analyzed fuels comply with all requirements of the above standard. Moreover, it was concluded that Ekodiesel Ultra B recorded good ecological properties. The emission for particular toxic components of emitted gas is much lower than the requirements of ECE R49/2B test. Additionally, results of smokiness measurement of emission in ECE R24 test conducted at fixed rotational speed levels and free acceleration prove that Ekodiesel Ultra B met the requirements of the test.

The discussed scope of research included a number of tests which the Company is required to conduct under regulations and formal requirements. The aim of all work is to limit the risk for environment resulting from the Company's operations, to improve safety of employees working at technological installations and the local community, to shape the Company's reliability in the business environment and among employees. The work in this respect comprises:

1. "The concept of fire alarming and gas detecting for PKN ORLEN S.A. Production Plant in Plock." - continued form 2004. Contractor: NOMA2 form Katowice. Modernisation of the existing fire alarm system in the Production Plant using state-of-the-art systems allowing fire detection in its earliest stage - it will improve safety of both employees and local community and enable avoidance or reduction of losses related to fire.

2. "Analyses of dust, atmospheric fallout and soil in accordance with the Decision of the Voivodeship Office". Contractor: ORLEN Laboratorium Spo (3)ka z o.o. in Plock. The decision of the Voivodeship Office, file no.

3. "Analyses of requirements for certification of fuels: Light Heating Oil Ekoterm Plus, Diesel Oil Municipal Super, BB Eurosuper 95". Contractor: Military Research and Development Centre MPS in Warsaw. The work is necessary in order to obtain a certificate of compliance with WTWT-MPS document.
4. "Guarantee measurements before and after modernization of the turbine set PR55-33/130/18/7 no. TG-3 in Power Generating Plant at PKN ORLEN S.A." Contractor: Zak(3)ad Badawczo-Projektowy "INWAT" Sp. z o.o. in £odY. Formal requirement - acquaintance with actual indices impacting the operationality of the turbine set will ensure its economic and safe use.
5. "Analysis and assessment of the insulation and securing of TG1,2,3,5 generators. Participation in interoperational and final analysis at the repair contractor and acceptance tests at the site of TG4 generator installation." Contractor: Power Engineering Institute in Warsaw. The objective of the work was to define the projected time scope for safe use of generators and scope and date for repairs. These tests are classified as "not harmful", performed during operation of the reviewed machines. The scope of the necessary tasks after the repair at the generator's location is defined by PNE.
6. Other work, which the Company is required to conduct by relevant regulations includes "Chracteristics Cards" for the Company's products, semi-products, waste, and "Written Instructions for Drivers". In accordance with the Decree of the Ministry of Health and Social Care of 21 August 1997 on hazardous substances producing hazard for health or life (as amended in 2005), the producer and supplier of harmful chemical substances has to possess the characteristics cards for those substances, make them available free of charge to customers and inform them of any introduced changes to the characteristics. Overall, the Institute of Organic Industry in Warsaw in the first half of 2005, upon PKN ORLEN SA request designed 6 new characteristics cards for medium vacuous distillate, vacuous distillate, desulphurised vacuous distillate, soft asphalt, waste calcium fluoride and petrol for thermal decomposition, 6 classifying certificates and 6 instructions for drivers. Characteristics card, instructions for drivers and certificates are submitted to Trade, Logistics, Chemical Safety Departments in the Plant and used in their ongoing operations..

In order to secure industrial safety of the employees engaged at work at the installations at the sites particularly hazardous due to exposure to corrosion and erosion, the Company conducts regular monitoring of the sites consisting in:

- Measurement of corrosives and deposits on construction materials of different installations,
- Measurement of hydrogen corrosion (in cooperation with the Institute of Physical Chemistry in Warsaw) on carbon steel, conducted quarterly or more frequently, depending on the corrosion exposure,
- Regular measurement of corrosion on carbon steel (using a probe and corrosion meter of Rohrback Cosasco Systems),
- And intervention activities in cases of failures in the safety ensurance process.

The current monitoring conducted using the above discussed methods allows the Company to obtain reliable information on the occurring exposure, which in turn makes it possible to effectively counteract its development. It ensures full control and assessment of effectiveness of the applied protection methods, including regular control of utilization of chemical products and optimisation of their use. Monitoring provides a source of crucial information on effeciveness of the applied safety products and their potential modification. Owing to work conducted in this respect, there was a decrease in failures of machines, increase in the useful life of the pipeline, condensers, radiators, columns, pumps and other equipment. Consequently, the increased effectiveness of the anti-corrosion process prolonds the inter-repair periods and reduces the scope of maintenance, which results in lowering of repair costs. In the first half of 2005, the following installations were subject to constant control: DRW II, DRW III, DRW IV, DRW VI and vapour generator at DRW II, Slot Distillation Unit, Cracking Installation for Catalyst II, Hydrocracking Installation, Ether Installation, and Isomerisation Installation. The work was conducted under the agreements concluded with the Research and Development Centre in Plock.

Major Capital Group companies recorded following progress in the field of research and technical development:

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1. Continuation of production of Biodiesel based on the invention "the way of creation of esters of aliphatic acids with monohydroxide alkyl alcohols and their use" P-WO 0075098.
2. Commencement of production of diesel oil (sulphur content up to 0.1 ppm) with added 20% esters of methyl fat acids.
3. Optimisation of the glycerin production.
4. Optymisation of deoiling of paraffins using Sulzer's method.
5. Completion of the construction of installation for hydrorefining of paraffins.
6. Launching of production of torches and candles.
7. Filing of an invention "Proecological diesel oil" P- 376555.
8. Filing of the Community Trade Mark "BIO 10" - No 004554242.

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- Rafineria Nafty Jedlicze S.A.

1. Laboratory design, made upon the company's request by ITN Krakow, of the technology for production of complex lithium lubricant using mineral oil utilised in the temperatures from -30 degreesC to +150degrees C and the complex lithium lubricant, produced using synthetic polyalphaolein oil and utilised in temperatures from -50 degreesC to +70 degreesC. The technology was verified on industrial scale and the conducted sample production of industrial lubricants confirmed compliance with technological parameters.

2. Test operation of installation for production of organic solvents using new raw materials.
3. Extension of the produced range of ecological heating oils.
4. Improvement of production technology for diesel oil with components form catalyst processing of plastics waste.
5. Improvement of production technology for diesel oil with FAME components.
6. Introduction of a new product - petrol for AP varnish.
7. Utilization of the distillation wastes from oil processed into asphalts (acceptance by ORLEN Asfalt Sp. z o.o.).

- ORLEN-Oil Sp. z o.o.

1. In the first half of 2005 a number of products were introduced to production and sale (diesel oil, hydraulic oil, lubricants and lubricating liquids, car cosmetics).

- Petrolot Sp. z o.o.

1. Superivision audits were carried out with positive results by all certifying entities (Kema Quality B.V., Bureau Veritas Quality International and Zaklad Systemow Jakooeci i Zarzadzania);

2. Civil Aviation Office prolonged for 2 years a certificate for land service agency.

A modern company is not able to operate without effective support from the information technology. IT secures all necessary sources relating to IT environment systems and architecture required to achieve the strategic goals of PKN ORLEN S.A.

The most important projects initiated and completed in the first half of 2005 in the Parent Company are:

1. VBM - Value Based Management - MBO support application and Strategic Business Score Card were introduced within the second phase of the project.

2. Design work was initiated in order to improve the distribution system for PKN ORLEN fuels. A complex approach to the analysis of the current state and to the recommendations of potential changes in the business and IT systems.

3. Following restructuring of the Retail Sale Group, the main business system, corporate network structure were restructured to adapt them to the changed organization conditions. The new work stations were equipped with capacities of mobile and remote work.

5. A project of upgrading of the main business system in the company was launched combined with adequate development of equipment.
6. A project for modernization of IT infrastructure was launched at petrol stations. Realization of the first stage: exchange of the obsolete fiscal printers.
7. The main business system and POS systems were prepared for petrol stations in order to introduce new fuels at the Company's stations.
8. E-Learning system implementation was commenced.
9. Optimization of telecommunications costs in cooperation with the mobile communications operator.
10. Modernization of the depository connections system.
11. Design of a standard freight system for the Company's warehouses and the programme for warehouse modernisation was launched.

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The most significant IT tasks carried out in the first half of 2005 in the Capital Group include:

- Anwil S.A.

1. Migration of SAP R/3 from 4.6 to 4.7.
2. Launching of the application for filtering websites - Symantec Web Security.
3. A new WWW site of the company was activated.

- ORLEN Gaz Sp. z o.o.

1. POLPAK PVC and VPN projects were launched.
2. Full realization of 6 installations POLPAK from the first half of 2005.
3. CALLCENTER project launched.
4. SIEMENS switchboard station installed with the registrator.
5. CALLCENTER application implemented.
6. Proposal process initiatied for implementation of ZSZ, class ERP and BPM.
7. Central data storage project launched.

- IKS Solino S.A.

1. Work commenced over financial reporting in INFOMEN module.
2. Commenced work on implementation of the safety monitoring system KS and PMRiP "Gora".
3. Work continued on upgrading access to internet and increase of security of the loacal computer network.

- ORLEN Laboratorium Sp. z o.o.

Implementation of the logistics application by Exact Software Poland Sp. z o.o.

- ORLEN Transport Plock Sp. z o.o.

Due to a business combination of three transportation companies, IT network was created between Plock and the new Company's branches. The accounting and payroll system was made uniform (SAP).

- ORLEN Projekt Sp. z o.o.

Implementation of the copyright IT system (designed in 100% by ORLEN Projekt) labeled "Si/Projekty" (application based on the Oracle data base) used for the company's management support and planning, control and settlement of production.

- ORLEN Deutschland AG

As at the beginning of 2005 the flota card was introduced for ORLEN and STAR brands.

Under the new act before the end of 2005 all cash terminals at the petrol stations must be exchanged. Since 1 January 2006 all terminals must comply with

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Moreover, in order to ensure the company's network security, the company installed a modern firewall protection. In order to lower telecommunications costs and to make the information exchange more efficient between the main office and the regional staff the company implemented VPN network, which allows safe data transfer between local networks.

- Basell Orlen Polyolefins Sp. z o.o.

1. Integration of SAP R/3 in PKN with SAP R/3 in Basell in order to facilitate all the logistic processes,
2. Implementation of SAP R/3, for a BOP's subsidiary, currently Agryppa Sp. z o.o., which as a commission agency will conduct sale of polyolefins on the Polish market.
3. Implementation of "EUREKA" system based on the data warehouse structure and used for planning and reporting activities.

## V. POLICIES CONCERNING DVELOPMENT OF THE PARENT COMPANY AND THE CAPITAL GROUP

- Strategy of PKN ORLEN S.A. development

In February 2005 the Supervisory Board approved a new strategy for PKN ORLEN S.A. determining trends till 2009, called "Value Creation Strategy of PKN ORLEN ". It bases on accomplishment of the three basic targets: improvement of an internal efficiency and investments, enhancement of the core business on the domestic markets and searching opportunities for development on new markets and areas of activity.

The increase in internal efficiency and generating maximal return on equity are the priorities of the Company. The investments in the core business of the Company (refining and retail sales), identification of actions in the petrochemical sector and development of the retail sales network are designed for achievement of the priorities. The increase of production potential in refining sector will ensure higher production of diesel, that has good business forecast in the future and will be the basis for strengthening the petrochemical segment. As for the retail sales the strategy is aimed at achieving the position of a regional retail sales leader (at least 30% share in the Polish market till 2009). The restructuring plan of the Capital Group assumes selling the entities of non-core business, simplifying and introducing a clear structure as well as implementing segment management.

Searching for opportunities to develop in new areas will concentrate mainly on regions with a high potential of growth, and all the possible investments will be subject to strict financial analysis to prove whether achieve profitability ensuring long term value growth of the Company.

The strategy determines financial goals to be achieved at the end of 2009:

| | |
|---|---|
| • EBITDA | over PLN 6 billion |
| • ROACE | 17.5% |
| • CAPEX between 2005-2009 | PLN 1.7 billion (annual average) |
| • Financial gearing | 30-40% |
| • The rate of dividend paid | 30% |

- Development of the retail sates

On 2 March 2005 PKN ORLEN S.A. announced "PKN ORLEN 2005-2009 Retail Sales Development Plan in Poland". Main elements of the plan are: restructuring of retail network till 2009 and potential acquisitions to strengthen the market position. Capital expenditures are necessary for optimization and restructuring of the chain through building new stations, rebranding and upgrading the stations, and through implementing new product strategies. The Company plans to increase its share of non-fuel products in total margin. There is also a need for reorganization of retail sales department. The prepared program for individual customers assumes segmentation into Premium and Economy brands. Premium under ORLEN brand will be addressed to the value and quality sensitive customers. Economy standard will be orientated for price sensitive customers. In

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- Integration with Unipetrol

On 4 June 2004 PKN ORLEN entered into an agreement with Czech National Property Fund ("NPF") in order to acquire 62.99% stake in Czech oil and petrochemicals group Unipetrol a.s. ("Unipetrol"). Those shares were offered in the public auction. This transaction will strengthen the position of PKN ORLEN S.A. in refinery and petrochemical sector in Middle-East Europe and also improve the Company's competitiveness as well as will be a strong point in the future consolidation process in the region. This will enable to introduce common better management standards to the acquired structures, and to more efficiently use the possessed assets through proper combining them into business chains, in order to achieve synergy effects.

With respect to future development of the Unipetrol holding, one of the most important issues is optimization of the use of processed crude oil by refineries belonging to the group.

An important factor impacting the future development of the Unipetrol group will be increased effectiveness of production processes and utilization of raw materials in cooperation between Unipetrol and PKN ORLEN SA.

The development in the area of car fuels produced by the holding companies will be focused on increase of the quality of the offered products, so as the quality would be compliant with the environmental requirements of the European Union.

Moreover, development objectives include: launching of a new unit for asphalt production in Paramo a.s., efficient use of raw materials in the ethylene unit. The future plans comprise also increase of capacity of the following units: steam cracker, PE, PP, styrene, PS and construction of new units, BTD and E-SBR.

- Activities of Basell Orlen Polyolefins Sp. z o.o.

Basell Orlen Polyolefins Sp. z o.o. started its business in the area of producing and selling polyolefin on 1 March 2003. Realization of the investment program concerning building new polyolefin production installation will set producing capabilities at the level of 400 thousand tons of polypropylene, and 320 thousand tons of polyethylene HPDE annually. The production of new units will help to cover all the needs of the fast developing market.

The company's development comprises:

- Launching of sales from new installations (HDPE - Hostalen and PP - Spheripol);
- Launching of the commission agency activities by a BOP subsidiary (the commission agency - Basell Orlen Polyolefins Sprzedaz Sp. z o.o. is still at the stage of establishment, statutory commercial activity will be started on 1 October 2005);
- Strategy of withdrawal from Malen P market (at the end of 2005 the installations PP1 and PP2, producing Malen P will be closed);
- Replacement of Malen P with Moplen (it will be produced among others at the new installation of polypropylene constructed in line with Spheripol technology);
- Introduction of a new rebate system;
- Continuation of remarketing of Hostalen and Moplen with NPP;
- Innovations, development of new applications for HDPE bimodal and PP copolymer;
- Optimization and rationalization of the product package (NPP: increased production volume and fewer number of product types).

- Retail activity in Germany

In 2002 the Parent Company purchased about 500 petrol stations in the area of northern Germany and has been operating using two brands: ORLEN and STAR. As a result of the purchase of petrol stations in Germany, the Parent Company possesses over 2.4 thousand petrol stations. Performance of PKN ORLEN S.A. in Germany allows to achieve more flexibility in the area of sales of its products and creates opportunities to conclude swap transactions with the largest

ORLEN Deutschland AG does not realize assumed business goals with the present scale of activities.

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- Develoment of activities in the ANWIL S.A. Group

The development plans of the ANWIL Group consist of the two basic tendencies:

- Investments aimed at increase of the exisitng production capacity of ANWIL S.A. In this scope the following undertakings are planned in the subsequent years which obejctives are:

- increase of production capacity of PCV installations from 260 to 330 thouand tons per year,
- increase of production capacity of PCV processing (granualtes, mixtures and blocks) to the level of 80 thousand tons per year,
- modernisation of the production line for production of fertilizers (in particular A Line ammonia) in order to achieve considerable improvement of technological parameters and reach the production capacity level in fertilizers at 880 thousand tons per year,
- investments in environment protection.

- Developmnet of the Group by acquisitions and mergers with other entities while maintaining the leading share in ANWIL. ANWIL S.A. considers the justification and profitability of purchase of chemical companies, which operations are similar to the principal activity of ANWIL. Potential positive result of the plans will contribute to discount the material and product synergy effect within the whole PKN ORLEN Group.

Achievement of the above objectives will for long increase considerably the ANWIL Group value.

- Comprehensive Operating Cost Cutting Programme in the Company

In December 2002 the Management Board of the Parent Company made a decision to implement comprehensive operational cost cutting program in years 2003-2005 within two phases. In the first stage the potential of cost reduction and the detail concept of the plan were identified and estimated, consisting in the definition of key initiatives and monitoring process. The second phase will include implementation of the initiatives and monitoring their results. As a result of the program implementation operating costs in all areas of activities will decrease significantly. In the first half of 2005 the implemented initiatives generated savings of PLN 416 million.

- Value Based Management

PKN ORLEN S.A. activities concentrate on realization of the principal strategic aim which consists in creating value for shareholders through building and maintaining competitive and structural advantage and achieving the highest standards of operational activity. The tool for realization of these plans is among other the implementation of the Value Based Management (VBM) program. The main objective of VBM program is to direct the strategy of PKN ORLEN S.A. towards creating value for shareholders. The principal purposes of the project are to establish a sound platform for the performance of strategic goals, to increase the financial potential and operational efficiency, to enhance the Parent Company's competitiveness in Poland and in the region, and to strengthen competence and motivation of the management throughout the Parent Company and the Capital Group. Value Based Management supports realization of the Parent Company's strategy, particularly achieving the leader position in the Central Europe and a constant increase in value for shareholders. VBM orders and facilitates management of numerous programs being realized in PKN ORLEN S.A. (margin optimization, wholesale increase and others). VBM implementation means introducing modern worldwide management methods. The central point of the program is that management systems are based on the Shareholders Value Added (SVA).

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The Development Proogramme for the production Plant in Plock projects realization of the following significant for its development investments:

- Paraxsylene and PTA complex
- HON VII complex
- Butadien Installation
- Ethylobenzene Installation
- Intensification of installation for HF Alkylation

And a number of minor tasks related to adaptation of the plant infrastructure to new legal and ecological requirements. The programme was presented at the meeting of the Management Board on 18 January 2005, and subsequently incorporated into the "Strategy of own value development", which was presented to the Supervisory Board of PKN ORLEN S.A., inverstors, Company's executive personnel and staff.

The 2005 plan includes the following main development tendencies in the investment activity:

- Technological investments in order to adapt the products to the EU standards and to lower production costs, including tasks related to production installations,
- Electric and power engineering undertakings, investments in environmental protection, in order to ensure safe and compliant with environmental requirements operation of the installations,
- Logistic units comprising tasks related to wholesale distribution of fuels in order to lower costs, and to meet Polish ecological regulations and requirements.

- Loyalty programmes in the Parent Company

The loyalty programs FLOTA POLSKA and VITAY (described in details in introduction) proved to be successful on the retail market. One of the targets of the above mentioned programs is to create strong relationships between a client and PKN ORLEN S.A. The FLOTA POLSKA program began expansion on external markets. A significant agreement with the association of Lithuanian land carriers was concluded. Introduction of so-called prepaid cards of "W" type strengthened the position of the Company as the leader in the area of card programs in Poland. Prepaid cards provide high level of security and have advantages of so-called "electronic purse".

In September 2004 PKN ORLEN S.A. and DKV EURO SERNICE GMBH signed an agreement concerning the introduction of new co-branded DKV/ORLEN card which will enable to purchase fuel, other products and services in above 40 countries in Europe without cash.

In the future the card programs of PKN ORLEN S.A. will be focused on both steady gaining of new clients and offering current clients new services and new more attractive forms of sales.

- Perspects of development of the PKN ORLEN S.A. Group companies

The mission of PKN ORLEN S.A. towards the Capital Group is "Creation of effective Capital Group generating long-term value added for shareholders of PKN ORLEN S.A. and ensuring the increase of the value of The goal of companies from the Capital Group is to support the core business of PKN ORLEN S.A. in the area of processing, distribution, logistics and sale of refining products.

The policy towards the Group will be realized by:

- Strengthening of the core activities in the companies and control over their activity via segment management;
- Restructuring of the strategic assets and their consolidation in order to continue building of the value of the Group companies;
- Disinvesting of non-core assets;
- Investments in the companies crucial for the Group which activities represent above average perspectives of market growth and bring about

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Rafineria Trzebinia S.A.

- The Company will remain within the PKN ORLEN S.A. Group, actions are undertaken to increase operational effectiveness of this company;
- The Company makes new investments in order to diversify and modernization of the activities, i.e. installation for hydrorefinig of paraffin and installation for biodiesel production;
- The target business activity is production of biodiesel and paraffin.

Rafineria Nafty Jedlicze S.A.

- The Company faces the necessity to undertake repair and restructuring actions;
- The restructuring project for the southern assets of the Group projects transfer of the fuel production unit to Rafineria Trzebinia S.A. and regenerate processed oils, and the production of lubricants and olis to ORLEN OIL;
- Further steps will be taken to close the remaining operations of Rafineria or merge it with ORLEN OIL.

ORLEN Oil Sp. z o.o.

- The Company carries out a strategy of consolidation of assets related to production of lubricating oils within the ORLEN structure, the aim is to create a uniform centre managing the oil segment of PKN ORLEN S.A.;
- In 2004 the company acquired assets of Oil Department of PKN ORLEN S.A.;
- It is planned to strengthen the company with oil assets of Unipetrol, and then sale of the company may be considered or quotation of its shares on the stock exchange.

Anwil S.A.

- The Company will remian inn the PKN ORLEN Group due to strong relation of its operations with the core business of the Company;
- The projected area of operations includes PCV and plastics production, the company is the largest recipient of ethylene from PKN ORLEN S.A.;
- A modern production chain for CV and PCV, a modern installation for nitro-chalk and other installations of the chain (ammonia, nitric acid, ammonium nitrate) place the company among the world leaders in the chemical sector;
- In the future support activities of the company may sold, in artificial fertilizers production, due to its weak relation with the Company's core business.

IKS Solino S.A.

- The Company will remain in the PKN ORLEN Group due to strong relation of its activities with PKN ORELN core business;
- The company's restructuring is necessary, including sale of the Salt Digester Plant, loosely related to the core business of PKN ORLEN S.A.;
- IKS uses post exploitation areas in salt deposits as unconventional storage sites for crude oil and fuels of PKN ORLEN S.A.;
- The Company participates in investment "Construction of the underground storage for crude oil and fuels", which last stage will be completed in 2006. It will be one of the largest underground warehouses in Europe.

Basell ORLEN Polyolefins Sp. z o.o.

- It is planned to keep the company in the PKN ORLEN group (the company conducts its operations in the area of core business);
- BOP constructs in Plock two world-largest production plants for polypropylene and polyethylene, which will be launched by the end of 2005. The investment cost is EUR 500 million;
- Production capacity of the new plants will be 400 thousand tons for Spheripol and 320 thousand tons for Hostalen.

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the effectiveness of its operations improves. The final decision on PKN ORLEN S.A. plans with respect to ORLEN Deutschland AG will be made after the analysis of the possibility of the scale effect on the German market;

- Owing to purchase for EUR 140 million of petrol stations with BP, Aral and EM Eggert logos, PKN ORLEN S.A. took over about 3% of the German market and 7% share in fuel market in the northern Germany;
- It is planned that in 2010 ORLEN Deutschland AG will gain 10% share in the northern market in Germany.

Fuel companies (regional market operators)

- The strategy towards fuel companies concerns changes in capital and aims at taking over full control over those entities;
- The actions consist of purchase of shares by the Company from minority shareholders - the shares were purchased in ORLEN Petroprofit and ORLEN Morena. Soon the purchase transaction for shares in ORLEN Petrozachod will be concluded;
- The process of increasing the capital engagement is aimed at identification in the companies of assets related to wholesale activity, retail trade, logistics and their incorporation to PKN ORLEN S.A.

Non-strategic companies (non core business)

Service companies

- The Company sold 8 service companies under staff privatization and management buy out (it was a form of privatization supported by employees of the privatized entities);
- A strong branch group was created at ORLEN Service Centre by purchase of shares in 7 service companies, which secures a strong position of those entities without external investors;
- The process of consolidation was completed successfully in case of the acquired in 2003-2004 by ORLEN Service Centre 5 service companies. Cureently they form one business entity.

Transport companies

- The branch group was formed at ORLEN Transport Plock by purchase of shares in 2 transport companies in Warsaw and Poznan, in 2005 the consolidation process will be continued;
- Transactions of sale of other transport companies are being negotiated with an external investor. In 2005 sale of the following 5 transport companies is projected:

- ORLEN Transport Kedzierzyn KoYle,
- ORLEN Transport Nowa Sol,
- ORLEN Transport Slupsk,
- ORLEN Transport Olsztyn,
- ORLEN Transport Szczecin.

- The Company intends to keep in the southern Poland ORLEN Transport Krakow as an integratot of the transport companies in the south of Poland, cooperation with Unipetrol is projected.

Hotel companies

- In 2005 the Company sold 3 hotel and leasure companies: DW Mazowsze Sp. z o.o., ZW Mazowsze Sp. o.o., ZAWITAJ OEwinoujoecie Sp. z o.o. Currently sale transition is being concluded for SAMRELAKS Machocice Sp. z o.o.

Maintenance companies

- The maintenance companies will remain in the PKN ORLEN Group due to their strong relation to the Company's core business and important role they play in maintenance of technical operationality of the main installations and machines.

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29 September 2005

PART 2

VI. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE FIRST HALF OF 2005 AND AFTER THAT DATE, UNTIL THE DAY OF FINANCIAL STATEMENTS APPROVAL ("AMENDED FINANCIAL STATEMENTS")

1. On 3 January 2005 the District Court in Opole registered a merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., headquartered in Opole (transferee company), with the following companies (offeree companies):
-Serwis Katowice Sp. z o.o., headquartered in Katowice,
-Serwis Kedzierzyn - Kozle Sp. z o.o., headquartered in Kedzierzyn - Kozle,
-Serwis Kielce Sp. z o.o., headquartered in Kielce,
-Serwis Lodz Sp. z o.o., headquartered in Lodz,
-Serwis Rzeszow Sp. z o.o., headquartered in Rzeszow.
The merger is effected through the take-over of the total assets of the offeree companies by Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. (merger by take-over).

2. On 4 January 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft, Shell Deutschland Oil GmbH for the total amounts of EUR 64m and USD 56m and a letter of guarantee to insurance institution Zurich Versicherung AG for the amount of EUR 25m to secure the liabilities of ORLEN Deutschland AG (PKN ORLEN's fuel 100% subsidiary in Germany). The guarantees come into force on 1 February 2005 and extend the period of validity currently binding until 31 January 2005. The guarantees given to Shell Deutschland Oil GmbH are valid till 30 June 2005; the guarantees given to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft and Zurich Versicherung AG are valid till 31 December 2005. PKN ORLEN holds a 100% stake in ORLEN Deutschland AG.

3. On January 19 2005 PKN ORLEN S.A. received a notice from PETROVAL S.A. stating that PETROVAL was halting the implementation of a forward contract to supply crude oil (dated December 21, 2002) due to a Force Majeure event which impeded the contract's performance. The Management Board of PKN ORLEN declares that the above described situation does not impede crude oil supply continuity thanks to previously undertaken contingencies. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts

4. Supervisory Board - authorized body according to l 8 section 11 pkt 5 of the Company Statute in relation to art. 66 section 4 of The Accounting Act, following its meetings on 21 January 2005, has appointed KPMG Audyt Sp. z o.o., ("KPMG Audyt"), based in Warsaw, to review PKN ORLEN's financial statements, and the Capital Group's consolidated financial statements for 2005, 2006 and 2007, according to the International Accounting Standards. In addition, KPMG will review PKN ORLEN and its Capital Group's unconsolidated and consolidated quarterly and half year financial statements starting from II quarter 2005 till IV quarter 2007.

5. On February 2nd 2005, the Company's Supervisory Board approved a new strategy for PKN ORLEN. PKN ORLEN will build its firm value primarily by harnessing its existing potential to a maximum extent. In line with the new strategy, the Company will continue to implement improvements in efficiency and invest in selective projects offering high returns. As part of focus on its core

6. On 1 March 2005 the Company's Supervisory Board approved "PKN ORLEN 2005-2009 Retail Sales Development Plan for Poland". The strategy assumes three fundamental strategic targets:

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1. Strengthening of market position.
2. Increased operational efficiency.
3. Creation of an efficient organizational structure

These targets will be achieved through the segmentation of the network into two standards: Premium and economy, managing of the distribution channels and changing of the stations managing manner. The offering for institutional customers will be adjusted to their individual expectations.

7. On 20 April 2005 PKN ORLEN S.A received notification from the European Commission dated 20 April, 2005 regarding approval for the purchase from the National Property Fund of the Czech Republic ("FNM") 114,224,038 bearer shares in Unipetrol a.s. ("Unipetrol"), representing 62.99% of all bearer, issued and existing, shares in Unipetrol.

8. On 26 April 2005 PKN ORLEN S.A. announced that it has received the decree of the Arbitration Court, based in Warsaw, which states that the agreement for the purchase of 168,000 shares in Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") by Polskie Sieci Elektroenergetyczne S.A. ("PSE") in Warsaw from Polski Koncern Naftowy ORLEN S.A. did not come into force because the suspending condition was not fulfilled, i.e. the lack of approval from PSE corporate organs for the deal. At the same time the counter action of PKN ORLEN for payment for the shares was declined.

9. On 24 May 2005 PKN ORLEN S.A. purchased:

a. 114,224,038 bearer shares of Unipetrol a.s ("Unipetrol Shares")., each having a nominal value of CZK 100 and representing approximately 62.99% of all issued and outstanding shares of Unipetrol, a.s ("Unipetrol") for a total of CZK 11,303,886,660 (PLN c.a. 1,562,197,136 as of May 23, 2005).
b. 745,000 bearer shares of Spolana a.s ("Spolana Shares")., each having a nominal value of CZK 655, and representing 9.76% of the share capital of Spolana a.s., for a total of CZK 1.0 million (PLN c.a.138,200 as of May 23, 2005),
c. receivables towards some of the companies of the Unipetrol Group ("Receivables") with a nominal value of approx. CZK 3.1 billion, EUR 9.5 million and USD 4.9 million, as of April 1, 2004, for approx. CZK 1.7 billion (PLN c.a. 234,940,000 as of May 23, 2005).

Following the acquisition of NPF's stake in Unipetrol, and in accordance with Czech law, PKN ORLEN will launch a mandatory tender offer to acquire the interests of minority shareholders in Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.). The intention of PKN ORLEN is to conduct a restructuring of the Unipetrol Group.

10. On 14 June 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd and Shell Deutschland Oil GmbH, for the total amount of EUR 64m, and a letter of guarantee to Bayerische-Hypo und Vereinsbank AG for the amount of EUR 25m to guarantee the liabilities of ORLEN Deutschland AG (PKN ORLEN's 100% fuel subsidiary in Germany). The approximate amount of PLN 359m in liabilities originates from ORLEN Deutschland's fuel trading operations. The guarantees given to Holborn European Marketing Company Ltd., Shell Deutschland Oil GmbH and Bayerische-Hypo und Vereinsbank AG are valid until 31 January 2006.

11. In relation to the purchase of shares representing 62,99% of UNIPETROL a.s. share capital and 9,76% of SPOLANA a.s. share capital, dated 24 May 2005, the Management Board of PKN ORLEN S.A. on 12 August 2005 applied to the Czech Securities Commission (the "SC") with applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s. The prices proposed by PKN ORLEN are: CZK 135 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one

12. On 6 September 2005 PKN ORLEN S.A. received a note informing it that Mr Piotr Osiecki will resign from his position as a member of the Supervisory Board of PKN ORLEN. The resignation will be valid from the date of the next General Meeting of Shareholders of PKN ORLEN, and follows his appointment to the position of Vice-President of the Management Board of PZU Asset Management S.A. Mr Piotr Osiecki was appointed to the Supervisory Bard of PKN ORLEN on 5 August 2004. He is a member of the Audit Committee and Corporate Governance Committee.

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The most important events that took place in other entities constituting the Capital Group of PKN ORLEN and were not mentioned in the standalone financial statements of the Parent Company are as follows:

- Rafineria Trzebinia S.A.

1. Sale of the organized part of the company in the form of transportation department to ORLEN Transport Krakow Sp. z o.o., seated in Krakow.

- Rafineria Nafty Jedlicze S.A.

Obligation to repay USD 1.122.500 with appropriate interests to Lurgi AG, Frankfurt am Main, Germany, resulting from unfavourable sentence of the Arbitrage Court in Warsaw on improper benefit of Rafineria Nafta Jedlicze S.A. made in April 2003 from so called Performance Bond hold under contract for Hydrorefining installation. Since the Company created partial allowance for this liability in 2003, the sentence will negatively affect the Company's result for the second quarter with the amount of PLN 2,745.4 thousand.

- ORLEN Deutschland AG

1. In the first half of 2005 there was a significant decrease in the company's retail margin. Accumulated retail margin for the first half of 2005 was approximately 21% lower than in the first half of 2004. Simultaneously, retail sales on petrol stations grew by almost 5% regardless the downturn of sales on the German petrol stations.

2. On 6 January 2005 ORLEN Deutschland signed the agreement with BP AG for fuel supply to the network of petrol stations in Germany in the period from 1 January 2005 till 31 December 2005. The agreement describes in details the fuel quality, destination and predicted size of deliveries, method of price calculation and other arrangements. Under this contract BP will deliver to ORLEN Deutschland 750 thousand tons of fuel (+/-10%) during the whole 2005. On 3 January 2005 ORLEN Deutschland signed the agreement with Shell Deutschland Oil GmbH for fuel supply to the network of petrol stations. The agreement is valid from 1 January 2005 till 31 December 2005 and also describes in detail destination and size of deliveries, method of price calculation, terms of payment, guarantees of supplies and other arrangements. The size of deliveries in the period covered by this contract amounts to about 615 thousand tons of fuel a year (-10%,+15%).

- Basell Orlen Polyolefins Sp. z o.o.

1. Completion of Logistic Platform.
2. Successful performance testing of Logistic Platform facilities.
3. Olefin installation stoppage in PKN ORLEN resulting in lower polyolefin output of BOP.
4. Foundation of tax capital group, involving BOP Sp. z o.o. and BOP Sprzedaz Sp. z o.o.

- ORLEN Transport Plock Sp. z o.o.

On 13 April 2005 the District Court in Warsaw, XXI Commercial Department of Commercial Register, registered an incorporation of ORLEN Transport Plock Sp. z o.o (transferee company) with ORLEN Transport Poznan Sp. z o.o., seated in Poznan and ORLEN Transport Warszawa Sp. z o.o., seated in Mooeciska (offeree companies). In result of this business combination the share capital of ORLEN

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2005 PKN ORLEN SA holds 51,566 shares of Transport Plock Sp. z o.o. worth PLN 25,783,000.

- ORLEN Transport Krakow Sp. z o.o.

On 1 April 2005 the Company's Management Board signed the agreement for purchase of the organized part of Euronaft Trzebinia Sp. z o.o. The aim of the transaction mentioned above was to rationalize transportation segment of the Group in the south-eastern region in order to optymalize the number of vehicles in use.

ADDITIONAL INFORMATION

INFORMATION ABOUT SIGNIFICANT AGREEMENTS

In the first half of the 2005 PKN Orlen S.A. concluded following important contracts:

1. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with BP Polska Spolka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to BP Polska Sp. z o.o in 2005. An estimated value of the transaction amounts to about PLN 2,377 million (gross).
2. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with SHELL Polska Spolka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to SHELL Polska Sp. z o.o. in 2005. An estimated value of the transaction amounts to PLN 1,905 million (gross).
3. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with ORLEN PetroCentrum Sp. z o.o. The subject of the deal is the sale of of gasoline and diesel fuels oil to ORLEN PetroCentrum Sp. z o.o. in 2005. An estimated value of the trasaction amounts to PLN 1,173 million (gross).
4. On 3 January 2005 ORLEN Deutschland AG concluded an agreement with Shell Deutschland Oil GmbH, Hamburg. The subject of the deal is the supplies of fuel to petrol stations belonging PKN ORLEN S.A. in Germany in the period from 1 January 2005 to 31 December 2005. An estimated value of the transaction is EUR 600 million (approximately PLN 2,443 million).
5. On 6 January 2005 ORLEN Deutschland AG concluded an annual agreement with Deutsche BP Aktiengesellschaft. The subject of the deal is the sale of gasoline and diesel fuels oil to ORLEN Deutschland AG in 2005. An estimated value of the transaction is EUR 700 million approximately PLN 2,852.5 million).
6. On 14 April 2005 PKN ORLEN S.A concluded a sale agreement relating to 24 stakes at the nominal value of 589,000 each and at a total nominal value of PLN 14,136,000 constituting as at the date of the signature of the agreement, 30.77% of the share capital Przedsiebiorstwo Prze(3)adunku Paliw Plynnych " Naftoport" Sp. z o.o. ("Naftoport") between PKN Orlen as a seller and PERN PrzyjaYn S.A. ("PERN") as a bayer. As a result of transaction PKN ORLEN S.A. holds 17,95% in share capital of Naftoport. Remaining shares are hold by following:

| | |
|---|---|
| a. PERN "PrzyjaYn" S.A. - | 67,95% |
| b. Grupa LOTOS S.A. - | 8,97% |
| c. Port Polnocny - | 3,85% |
| d. J & S Services Ltd. - | 1,28% |

Significant agreements signed by other entities within the Capital Group in the first half of the 2005 and not listed above:

- Rafineria Trzebinia S.A.

1. On 12 January 2005 PKN ORLEN S.A. concluded an annual agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline and diesel fuel to Rafineria Trzebinia S.A. in 2005. An estimated value of the transaction is PLN 343 million (gross).
2. PKN ORLEN S.A. concluded an agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline to Rafineria Trzebinia S.A. in the period from 11 January 2005 to 31 January 2005. An estimated value of the transaction is USD 1,084,257 USD (approximately PLN 3,369,763).

1. On 24 August 2005 PKN ORLEN S.A. granted a long-term loan of PLN 2,7 million to its subsidiary - ORLEN Transport Krakow Sp z o.o. The loan is to finance liabilities of ORLEN Transport Krakow Sp. z o.o. towards other entities within the Capital Group as well as to finance the subsidiary's working capital. The loan is to be repaid until 31 July 2009 in 48 monthly and fixed instilments. Interest is calculated at flexible interest rate established at market level. PKN ORLEN S.A. holds 98,41 % of the shares in share capital of ORLEN Transport Krakow Sp z o.o.

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INFORMATION ON PRIMARY PRODUCTS AND SERVICES, AND ON MARKETS AND SOURCES OF SUPPLY WITH ENUMERATION OF SUPPLIERS

| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers |
|---|---|---|---|
| | | Parent Company | |
| PKN ORLEN S.A. | petrol, unleaded petrol, diesel, heating and special oils, lubricants, bitumen, polyethylene, polypropylene ethylene, propylene, butadiene, glycols, phenol, acetone | domestic market and export | J&S Service&Investment Ltd |
| | | Subsidiaries | |
| Rafineria Trzebinia S.A.* | engine petrol, heating oils, biodiesel FAME, base oils. lubricants, crude oil products, other products, paraffin for candles and torches, paraffin oil and mass for wood, paraffin specifics, candle products. | Domestic market and export | PKN ORLEN S.A., BMP Trading GmbH, EWICO Sp.z o.o. Cheman Ciech Sp. z o.o., Siarkopol S.A. Tarnobrzeg, J&S Energy S.A., Fabryka Parafin Naftowax Sp. z o.o., Orlen Gaz Plock Sp. z o.o, PGNiG, ENION, RPWiK, PHU "ZOF-STAL", T.P. S.A., Orlen Oil, Dostawcy gaczow z TNK, Jukos, Kremienczug, Uzbekistan |
| Rafineria Nafty Jedlicze S.A.* | engine petrol, diesel and heating oils, lubricants and special, greases | domestic market and export | PKN ORLEN S.A.; ORLEN OIL; J&S Energy,Rafineria Jaslo, PGNiG S.A. (Warszawa), ORLEN PetroTank Sp. z o.o., Baltex S.A. (Warszawa), Konsorcjum Olejow Przepracowanych (Jedlicze), Unimot Express (Warszawa); Rafineria Trzebinia S.A.; SWS Handelsges (Niemcy); C.H.Erbsloh (Warszawa); Lubrizol (Francja); RohMax, (Niemcy); MOL (Wegry); Lotos Oil (Gdansk) |
| IKS Solino S.A. | brine, evaporated, iodinated salts, salt tablets, pickling salt, | Domestic market and export | Janikowskie Zaklady Sodowe Janikosoda S.A., Anwil S.A. (Wlocl awek), IZCH (Inowrocl |

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| | | | |
|---|---|---|---|
| Anwil S.A.* | polyvinyl chloride, sodium hydrate, ammonium nitrate, CANWIL - nitrochalk, granulated PCV plates | domestic market and export | PKN ORLEN S.A., PGNiG S.A., IKS SOLINO SA |
| UNIPETROL a.s.: | | | |
| Chemopetrol a.s. | polyetylen, polypropylen ethylen, propylen fuel, fraction C4, fraction C5, Fraction C9, BTX, ethanol, alkohols OXO, ammonia | Czech Republic and foreign markets | Unipetrol Rafinerie |
| Kaucuk a.s. | E-SBR, EPS, CPS, Butadien, Rafinat II, ABS | Czech Republic and foreign markets | Chemopetrol |
| Spolana a.s. | PCV, Kaprolaktam, NaOH | Czech Republic and foreign markets | Chemopetrol |
| Unipetrol Rafinerie a.s. | diesel oil, petrol, materials to pyrolisys , HCVD, LPG, Jet, aspfalt, propylen, raw materials to POX, oils | Czech Republic and foreign markets | |
| Paramo a.s. | materials to pirolisys , diesel oils, LFO, HFO, aspfalt, lubricants, oils | Czech Republic and foreign markets | Unipetrol Rafinerie |
| Benzina a.s. | Petrol, engine oil | Czech Republic | Unipetrol Rafinerie |
| Agrobochemie a.s. | amonia, urea | Czech Republic and foreign markets | Chemopetrol |
| Alliachem a.s. | dyes, pigments, organic chemicals, nitrocellulose, plastics, foils LDPE, LLDPE, BO PET | Czech Republic and foreign markets | Chemopetrol |
| ORLEN-Oil Sp. z o.o.* | lubricants, base oils, other oil products, exploiting liquids | domestic market and export | Rafineria Nafty Jedlicze S.A. |
| ORLEN Asfalt Sp. z o.o. | road, modificated and industrial asphalt, bitumen, transportation Services, slopes and dump. | domestic market and export (Hungary, Slovakia, Germany, Czech Republik) | PKN ORLEN S.A.<br>ORLEN Oil Sp. z o.o.,<br>Kraton Polymers North East Europe Sp. z o.o., Brenntag Polska Sp. z o.o. |
| ORLEN PetroTank Sp. z o.o. | engine oils, heating and liquidated gas | Poland | PKN ORLEN S.A., ORLEN Petrocentrum Sp. z o.o. |
| ORLEN PetroProfit Sp. z o.o.* | engine petrol,, heating and industrial oils, LPG, preparation and sale of refrigerating oils, polyethylene, | eastern Poland | PKN ORLEN S.A., ORLEN Petro Centrum Sp. z o.o., PetroZachod Sp. z o.o., ORLEN Oil Sp. z o.o. |

| | | | |
|---|---|---|---|
| Sp. z o.o. | liquidated gas | | |
| Petrolot Sp. z o.o. | Aircraft fuel, Jet A-1, aircraft petrol 100LL, car fuels | domestic and Foreing airlines,<br><br>Sale of car fuel in Warsaw | PKN ORLEN S.A.<br><br>Agencja Rezerw Material owych S. A., Grupa Lotos S.A. |
| ORLEN Morena Sp. z o.o. | Engine petrol, diesel, heating oils, propan-butan | northern Polska | Ooerodek Badawczo Rozwojowy Przemyslu Rafineryjnego w Plocku<br>PKN ORLEN S.A.<br><br>ORLEN PetroCentrum Sp. z o.o.<br>ROMGAZ |
| Ship - Service S.A. * | IFO- Intermediate Fuel Oil, MDO- Marine Diesel Oil, MGO - Marine Gas Oil, | domestic and Foreing harbours (inland navigation in Poland and abroad, Klajpeda, Lithuania), | PKN ORLEN S.A.,<br><br>Rafineria Trzebinia S.A.,<br><br>UAB Lietkomerc Limited, Nau Shipping, |
| ORLEN PetroZachod Sp. z o.o. | Engine petrol, diesel, heating oils, gas, petrygo liquid, plastics, goods on petrol stations | Poland, wielkopolskie, lubuskie, dolnooell skie regions | PKN ORLEN S.A.<br><br>ORLEN PetroCentrum Sp. z o.o., Basell ORLEN Polyolefins Sp. z o.o. |
| ORLEN Deutschland AG<br><br>Activities in Germany | engine petrol, diesel, heating oils | Northern Germany | BP/Aral, Shell, Mabanaft, Holborn, CONOCO, |
| ORLEN Gaz Sp. z o.o. | propan-butan, propan | Domestic market, export (Slowakia) | PKN ORLEN S.A., BP Polska Sp. z o.o., VOEST-ALPINE INTERTRADING AG, BA£TYK - GAZ SP. Z O.O., GASPOL S.A. |
| Zaklad Budowy Aparatury S.A. | shell-and-tube heat exchanger, double pipe heat Exchange, process column, air cooler, power condenser and heater, pressure vessel, stock tanks, value cap shelves for columns, steel stacks, air and exhaust gas ducts, steelworks, spare Parts, for pressure apparatus, maintenance of crane devices under UDT | Poland | OLKAM (Czestochowa), KuY nia Gdanska, PPHU APIS ( St. Wola), SILESIA (Katowice),<br><br>Rautaruukki Steel (Finlandia), DEMARK Sp. J. (Torun), Austenit Import (Torun), Petro-Kor (Plock),<br><br>Weisstaler GmbH (Niemcy) |
| Petrotel Sp. z o.o. | telecommunication services, GSM activation, goods and materials | Plock and commune of Stara Biala | Polkomtel S.A., Exatel, ERA GSM PTC |
| ORLEN Projekt S.A. | design and typographical services, start-up investments, realization of investments, investment supervision, printing | Domestic market and export | Dipl.-Ing.Scherzer (Niemcy), Petro Remont (Plock) |
| ORLEN Medica Sp. z o.o. | medical services | domestic market | CSK WIM; |

| | | | |
|---|---|---|---|
| | | | Pogotowia Ratunkowego i Transportu Sanitarnego; GlaxoSmithKline; Apteka VITA |
| ORLEN Automatyka Sp. z o.o. | installation services, repair and maintenance of control and measuring tools and devices | domestic market | Zaklady Automatyki POLNA S.A.<br><br>ASCO JOUCOMATIC Sp. z o.o.<br><br>Technopomiar Sp. z o.o. ASE Sp. z o.o. SEMA Sp. z o.o. PPH MAR-JAN S.J. AMPER , PHU ELGAL Emerson Process Management Sp. z o.o. INTROL Sp. z o.o. ABB Sp. z o.o. Honeywell Sp. z o.o. POLYCO PHU KLIMA-THERM Kujawska Fabryka Manometrow S.A. Linde Gaz Polska Sp. z o.o. Okregowy Urzad Miar |
| ORLEN Wir Sp. z o.o. | repair servies of compressors and turbines | Poland | Alfa Plock, P U H Transfer Bis, Biuro Handlowe EWAN s.c., AHW Sp. z o.o., BBT- Polska, Hydrof |
| ORLEN Transport Plock Sp. z o.o. | ADR transport, transport of goods and people, sedition, services relating to construction machines, repairs and services, sale of petrygo, ekoterm, fuels | Poland and Europe | PKN ORLEN S.A., |
| ORLEN Transport Szczecin Sp. z o.o. | transportation services | Poland<br><br>regions:<br><br>zachodniopomorskie, lubuskie, wielkopolskie, pomorskie | ORLEN Morena Sp. z o.o.<br><br>ORLEN Transport Plock Sp. z o.o. |
| ORLEN Transport Krakow Sp. z o.o. | transportation services | Poland and Europe | PKN ORLEN S.A.,<br><br>ORLEN PetroTank Sp. z o.o., ORLEN Oil Sp. z o., KrakGaz |
| ORLEN Transport Nowa Sol Sp. z o.o. | transportation service;<br><br>Sale of fuel, | Poland, regions: lubuskie, dolnooel(1) skie and part of zachodniopom. | ORLEN Morena Sp. z o.o.<br><br>Opony Serwis Piechnik (Nowa Sol), Ranioe & Rani oe Sp.Jawna (OEwietno) |
| ORLEN Transport Sa upsk Sp. z o.o. | Transportation and motorisation services, sale of fuel | domestic market and export | PKN ORLEN S.A., ORLEN Morena Sp. z o.o. |
| ORLEN Transport Olsztyn Sp. z o.o. | transportation services, sale of fuel | domestic market | PKN ORLEN S.A.<br><br>ORLEN Morena Sp. z o.o. |
| ORLEN Transport | transportation | Poland and Europe | PKN ORLEN S.A., |

| | | | |
|---|---|---|---|
| | fuel-liked | | Rafineria Trzebinia S.A, |
| ORLEN KolTrans Sp. z o.o. | leasing of tankers, and complementary activity, servicing of DEC compartments. | domestic market | Pro-Naft sp. z o.o. PKN ORLEN S.A., Transchem, Transpol, Hagans, Lotos i ZNTK Ol awa |
| ORLEN Budonaft Sp. z o.o. | construction, maintenance and modernisations of fuels stations | Polska | BRUGG GRUDNIK AGROSTAL |
| ORLEN Laboratorium Sp. z o.o. | laboratory services | domestic market and export (Germany) | ONINEN PKN ORLEN S.A. Petrotel Sp. z o.o. ORLEN Media Sp. z o.o. Inkom Instruments Co. Perkin Elmer Polska Sp. z o.o. P.U. Zielen Sp. z o.o. Polskie Odczynniki Chemiczne S.A. BOC Gazy Sp. z o.o. |
| ORLEN Powiernik Sp. z o.o. | trust services to PKN ORLEN S.A. | Plock | PKN ORLEN S.A. |
| | | Joint-venture company | |
| Basell Orlen Polyolefins Sp. z o.o. | polyethylene, polypropylene, sale of imported products, trust services to Basell Polyolefins Company | domestic market and export | PKN ORLEN S.A., |
| | | Assosiated companies | |
| Chemiepetrol GmbH | glycolisis, PVC, ksylen, MEG, rubber, soda | Germany | PKN ORLEN S.A., Dwory S.A., Ciech |

*) belongs to Capital Group

**) Sales of Unipetrolu a.s. relate to June 2005 only

TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities, where value of single transaction or total value of transactions during the the first half of the 2005exceeds a PLN equivalent of EUR 500 thousand:

| L.p. | Name of business partners | Sale in PLN thousand | Pur |
|---|---|---|---|
| 1. | ORLEN Gaz Sp. z o.o. | 150 869,8 | |
| 2. | ORLEN PetroProfit Sp. z o.o. | 52 872,5 | |
| 3. | ORLEN PetroTank Sp. z o.o. | 85 874,3 | |
| 4. | Inowroc(3)awskie Kopalnie Soli "SOLINO" S.A. | 495,8 | |
| 5. | ORLEN PetroCentrum Sp. z o.o. | 801 761,4 | |
| 6. | PETROLOT Sp. z o.o. | 169 358,1 | |
| 7. | Petrotel Sp. z o.o. | 872,7 | |
| 8. | Wisla Plock Sportowa S.A. | 16,7 | |
| 9. | Rafineria Trzebinia S.A. | 156 401,8 | |

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| | | |
|---|---|---|
| 13. | ORLEN Ochrona Sp. z o.o. | 1 028,2 |
| 14. | Zaklad Budowy Aparatury S.A. | 1 286,2 |
| 15. | ORLEN Transport Plock Sp. z o.o. (+ ORLEN Transport Warszawa. ORLEN Transport Poznan) | 29 550,5 |
| 16. | ORLEN Automatyka Sp.z o.o. | 213,5 |
| 17. | ORLEN Wir Sp. z o.o. | 271,1 |
| 18. | ORLEN Budonaft Sp. z o.o. | 433,7 |
| 19. | Rafineria Nafty Jedlicze S.A. | 3 006,1 |
| 20. | SHIP-SERVICE S.A. | 55 257,6 |
| 21. | ANWIL S.A. | 128 198,3 |
| 22. | ORLEN Oil Sp. z o.o. | 134 977,5 |
| 23. | Serwis Mazowsze Sp. z o.o. | 151,2 |
| 24. | ORLEN Transport Olsztyn Sp. z o.o. | 2 444,0 |
| 25. | ORLEN Transport Kedzierzyn-KoYle Sp. z o.o. | 2 560,8 |
| 26. | ORLEN Transport Slupsk Sp. z o.o. | 6 093,9 |
| 27. | ORLEN Transport Krakow Sp. z o.o. | 3 984,6 |
| 28. | ORLEN Transport Nowa Sol Sp. z o.o. | 329,2 |
| 29. | ORLEN Centrum Serwisowe (dawniej Zaklad Urzadzen Dystrybucyjnych) | 426,1 |
| 30. | ORLEN KolTrans Sp. z o.o. | 1 913,4 |
| 31. | ORLEN Asfalt Sp.z o.o. (dawniej Bitrex Sp. z o.o.) | 114 461,2 |
| 32. | ORLEN Morena Sp. z o.o. | 52 356,4 |
| 33. | BASELL ORLEN POLYOLEFINS Sp. z o.o. | 361 754,6 |
| 34. | ORLEN Laboratorium Sp. z o.o. | 1 132,0 |
| 35. | ORLEN Eko Sp. z o.o. | 2 045,2 |
| 36. | Unipetrol Rafinerie a.s. | 51 967,2 |
| 37. | Petro-Oil Malopolskie Centrum Sprzedazy Sp. z o.o. | 153,6 |
| 38. | Petro-Oil Wielkopolskie Centrum Sprzedazy Sp. z o.o. | 260,0 |
| 39. | Petro-Oil SEEWAX Sp. z o.o. | 136,2 |
| 40. | Petro - Oil OEllskie Centrum Sprzedazy Sp. z o.o. | 0,5 |
| 41. | Petro-Oil Dolnooelaskie Centrum Sprzedazy Sp. z o.o. | 10,0 |
| 42. | Petro-Oil Pomorskie Centrum Sprzedazy Sp. z o.o. | 1,2 |
| 43. | Petro-Oil łodzkie Centrum Sprzedazy | 0,0 |
| | Total | 2 448 327,7 |

In the reporting period the Company obtained the statements from the supervising persons on intra-group transactions in enlarged extend as required by amended IAS 24 "Information revealed concerning relating entities".

Transactions with related entities by the persons supervising the Company (in PLN thousand)

Div

| | Sales | Purchases | Receivables | Liabilities |
|---|---|---|---|---|
| Legal persons * | 12.598 | 24.242 | - | - |
| Natural persons ** | 443 | - | | |

* Transactions for the period of acting member of the key management by persons supervising the Company

** In the reporting we included transactions under EUR 500 thousand.

In the period presented in the financial Statement 11 persons acted as Members of Supervisory Board. The Company did not obtain the relevant extended statement from 1 former Member of the Supervisory Board.

In the first half of the 2005 members of the Management Board did not enter into transactions with related entities as understood under IAS 24 "Information revealed concerning relating entities".

REMUNERATION, INCLUDING PROFIT DISTRIBUTION, PAID TO MANAGEMENT BOARD, SUPERVISORY BOARD AND MEMBERS OF KEY MANAGEMENT ACCORDING TO IAS 24

Remuneration, including profit distribution, paid to Management Board, Supervisory Board and members of key management according to IAS 24 are

CHANGES IN THE COMPOSITION OF THE DOMINANT COMPANY AND IN THE CONSOLIDATED COMPANIES' MANAGEMENT AND SUPERVISORY BOARDS OF CAPITAL GROUP PKN ORLEN S.A. DURING THE 1st HALF OF THE YEAR 2005

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In the period from 1 January 2005 to 30 June 2005 the Management Board of PKN ORLEN S.A. consisted of the following members:

| | |
|---|---|
| Igor Chalupec | President of the Management Board, General Executive from 1 October 2004. |
| Wojciech Heydel | Vice-President of the Management Board from 1 Novembe<br>Vice-President of the Management Board, Retail and Cc Director from 2 November 2004 |
| Cezary Smorszczewski | Vice-President of the Management Board from 1 Novembe<br>Vice-President of the Management Board, Strategy and Investments Director from 2 November 2004 |
| Pawel Szymanski | Member of the Management Board from 18 October 2004<br>Member of the Management Board, Chief Financial Offic 2 November 2004 |
| Jan Maciejewicz | Vice-President of the Management Board, Cost Manageme Information Technology Director from 1 December 2004 |
| Andrzej Macenowicz | Member of the Management Board from 8 February 2002<br>Vice-President of the Management Board from 7 March 2 2005<br>Vice-President of the Management Board, Human Resourc Management Systems Director from 12 March 2002 to 1 N<br>Vice-President of the Management Board, Human Resourc and Administration Director from 2 November 2004 do 2 |
| Janusz Wioeniewski | Vice-President of the Management Board from 7 March 2 2005<br>Vice-President of the Management Board, Development a Director from 12 March 2002<br>Vice-President of the Management Board, Production, W and Logistics Director from 4 May 2004 to 1 November<br>Acting President of the Management Board and General August 2004 to 30 September 2004<br>Vice-President of the Management Board, Operating Dir 2 November 2004 to 29 June 2005 |

In the reporting period supervision over the activity of the Dominant Company was performed by the Supervisory Board constituted of following persons:

| | |
|---|---|
| Jacek Bartkiewicz | Member of the Supervisory Board from 25 March 2003 to<br>Chairman of the Supervisory Board from 5 August 2004 |
| Maciej Gierej | Member of the Supervisory Board from 21 February 2002<br>Chairman of the Supervisory Board from 28 June 2002 to<br>Member of the Supervisory Board from 5 August 2004 |
| Michal Stepniewski | Member of the Supervisory Board from 24 June 2004<br>Vice-Chairman of the Supervisory Board from 12 April 2 2005 |
| Raimondo Eggink | Member of the Supervisory Board from 5 August 2004 |
| Krzysztof Lis | Member of the Supervisory Board from 5 August 2004 to |
| Malgorzata Okonska - Zaremba | Member of the Supervisory Board from 5 August 2004 |
| Piotr Osiecki | Member of the Supervisory Board from 5 August 2004 |
| Ireneusz Wesolowski | Member of the Supervisory Board from 5 August 2004<br>Secretary of the Supervisory Board from 16 August 2004 |
| Krzysztof yndul | Member of the Supervisory Board from 5 August 2004<br>Vice-Chairman of the Supervisory Board from 16 August March 2005 |
| Andrzej Olechowski | Member of the Supervisory Board from 29 June 2005 |
| Adam Sek | Member of the Supervisory Board from 29 June 2005 |

Members of the Management and Supervisory Boards in companies of the Capital Group PKN ORLEN S.A. as at 30 June 2005 (presented below Supervisory Board members include only those representing the Dominant Entity)

The companies of a greatest meaning when considering turn-over and equity:

| | | |
|---|---|---|
| | Member of the Management Board | Marek Martyniak |
| | Supervisory Board | |
| | | Janusz Wioeniewski - Chairman of the S Board |
| | | Cezary Smorszczewski, |
| | | Grazyna Tomala, |
| | | Andrzej £obodzinski, |
| | | Krystian Pater |
| Rafineria Nafty Jedlicze S.A. | President | Krzysztof Janas |
| | Member of the Management Board | Adam Kozak, Ryszard Szyszlak |
| | Supervisory Board | |
| | | Pawel Szymanski - Chairman of the Supe Board |
| | | Czeslaw Bugaj, |
| | | Andrzej Stegenta, |
| | | Tomasz Woloch |
| IKS "Solino" S.A. | President | Czeslaw Misterski |
| | Member of the Management Board | Piotr Mrozinski, Jolanta Uzarczyk-Geru |
| | Supervisory Board | |
| | | Andrzej Macenowicz - Chairman of the S Board |
| | | Marek Bakula, |
| | | Elwira Lewtak, |
| | | Mariusz Pawlak, |
| | | Renata Rosiak |
| Anwil S.A. | President | Benedykt Michewicz |
| | Member of the Management Board | Teresa Szeligowska, Krzysztof Kaminski |
| | Supervisory Board | |
| | | Janusz Wioeniewski - Chairman of the S Board |
| | | Cezary Smorszczewski, |
| | | Pawel Szymanski, |
| | | Janusz Zielinski |
| Unipetrol a.s. | President | Pavel Svarc |
| | Member of the Management Board | Marek Mroczkowski, Adam yczkowski, Vit Frederik Emmich |
| | Supervisory Board | Igor Chalupec - Chairman of the Superv |
| | | Cezary Smorszczewski, |
| | | Pawel Szymanski, |
| | | Joanna Chmielewska, |
| | | Piotr Kearney, |
| | | Dariusz Formela, |
| | | Wojciech Lorenc |
| ORLEN -Oil Sp. z o.o. | President | Marian Andrzej lyko |
| | Member of the Management Board | Adam Gembala, Wojciech Glaziewicz |
| | Supervisory Board | |
| | | Wojciech Heydel - Chairman of the Supe |
| | | Czeslaw Bugaj |
| Basell Orlen Polyolefins Sp. z o.o. | President | Hartmut Luker |
| | Member of the Management Board | Karol Marek Sep, Willem Adolf Eduardus Robert Bednarski |
| | Supervisory Board | Janusz Wioeniewski - Chairman of the S Board |
| | | Jan Maciejewicz |
| ORLEN Asfalt Sp. z o.o. | Acting President | Miroslaw Wrona |
| | Member of the Management Board | Andrzej Zdzienicki |
| | Supervisory Board | |
| | | Tomasz Kwiecien - Chairman of the Supe |
| | | Dariusz Kusiak |

| | | | | |
|---|---|---|---|---|
| | | Member of the Management Board<br>Supervisory Board | | Roman Lew |
| | | | | Wieslaw E<br>Superviso<br>Tomasz Wo<br>Wojciech |
| ORLEN PetroProfit Sp. z o.o. | | President<br>Member of the Management Board<br>Supervisory Board | | Jan Serwa<br>Ewa Jooek |
| ORLEN PetroCentrum Sp. z o.o. | | President<br>Member of the Management Board<br>Supervisory Board | | Wieslaw E<br>Superviso<br>Wojciech<br>Aneta Pan<br>Pawel Wys<br>Aniela Mi<br>Janiszews |
| Petrolot Sp. z o.o. | | President<br>Member of the Management Board<br>Supervisory Board | | Wieslaw E<br>Superviso<br>Wojciech<br>Aneta Pan<br>Jan Kujaw<br>Wojciech<br>Czujkowsk |
| ORLEN PetroZachod Sp. z o.o. | | President<br>Member of the Management Board<br>Supervisory Board | | Kazimierz<br>Superviso<br>Tomasz Kw<br>Krzysztof<br>Przemysla<br>Gawron |
| Ship - Service S.A. | | Acting President<br>Member of the Management Board<br>Supervisory Board | | Wieslaw E<br>Superviso<br>Dariusz K<br>Bogdan Ze<br>Edmund Ka<br>Dariusz S |
| | | | | Bogdan Ze<br>Superviso<br>Tomasz Wo<br>Janusz Gi |
| Zaklad Budowy Aparatury S.A. | President<br>Member of the Management Board<br>Supervisory Board | Jakub Chmielewski<br>Leszek luniewski<br>Jacek Stanik,<br>Malgorzata Olaszkiewicz | President<br>Member of the Management Board<br>Supervisory Board | Izabella<br>Wanda Zub<br>Wieslaw E<br>Superviso<br>Wojciech<br>Krzysztof |
| Petrotel Sp. z o.o. | President<br>Member of the Management Board<br>Supervisory Board | Marian Ostrowski<br>Ewa Raczynska,<br>Janusz Sawicki<br>Andrzej lobodzinski - Chairman of the Supervisory Board<br>Piotr Wawak | | |
| ORLEN Projekt S.A. | President of the | Zbigniew Rakowiecki<br>Tomasz Sieradzki | | |

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| | | |
|---|---|---|
| | Member of the Management Board Supervisory Board | Chairman of the Supervisory Board Malgorzata Olaszkiewicz, Andrzej Czarzasty |
| ORLEN Medica Sp. z o.o. | President of the Management Board | Pawel Reszelski Monika Bernacka |
| | Member of the Management Board Supervisory Board | Jerzy Adamus - Chairman of the Supervisory Board Malgorzata Olaszkiewicz Jacek Bielecki |
| ORLEN Laboratorium Sp. z o.o. | President Member of the Management Board Supervisory Board | Andrzej Plewicki Adam Wioeniewski Dariusz Formela - Chairman of the Supervisory Board Agata OEmiechowska-Wieczkowska |
| ORLEN Morena Sp. z o.o. | | |
| ORLEN Deutschland AG | Acting President Member of the Management Board Supervisory Board | Josef Nie<br>Michal Jo<br>Igor Chal<br>Superviso<br>Jan Macie<br>Wojciech<br>Przemysla<br>Pawel Szy<br>Pawel Bro |

LPG trading companies:

| | | |
|---|---|---|
| ORLEN Gaz Sp. z o.o. | President<br>Member of the Management Board<br>Supervisory Board | Andrzej Rokicki<br>Bernard Cichocki<br>Wojciech Heydel - Chairman of the Supe<br>Dariusz Kusiak,<br>Grazyna Tomala,<br>Tomasz Kwiecien |

Companies established from restructuring of the Dominant Company:

Maintenance companies of the Dominant Company:

| | | |
|---|---|---|
| ORLEN Automatyka Sp. z o.o. | President<br>Member of the Management Board<br>Supervisory Board | Kazimierz Betlejewski<br>Jerzy Klatte<br>Zdzislaw Nicewicz - Chairman of the Su Board<br>Monika lobodzinska |
| ORLEN Wir Sp. z o.o. | President<br>Member of the Management Board<br>Supervisory Board | Jozef OEwiatczak<br>Witold Kapela |

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| | | |
|---|---|---|
| Transportation companies of the Dominant Company: | | |
| ORLEN Transport Plock Sp. z o.o. | President | Jerzy Jasinski |
| | Member of the Management Board | Roman Rutecki, Remigiusz Miecznikowski |
| | Supervisory Board | |
| | | Marek Bakula - Chairman of the Supervi |
| | | Anna Jasinska |
| ORLEN Transport Szczecin Sp. z o.o. | President | Pawel Hapczyk |
| | Member of the Management Board | Bogdan Biskupski |
| | Supervisory Board | |
| | | Artur Falkiewicz - Chairman of the Sup Board |
| | | Krzysztof Sobieraj |
| ORLEN Transport Krakow Sp. z o.o. | President | Robert Zaklika |
| | Member of the Management Board | Piotr Tuniewicz |
| | Supervisory Board | |
| | | Krzysztof Gawlowski - Chairman of the Board |
| | | Anna Jasinska |
| ORLEN Transport Nowa Sol Sp. z o.o. | President | Leszek Gnitecki |
| | Supervisory Board | Henryk Jaworski - Chairman of the Supe |
| | | Dagmara Gorzelana |
| ORLEN Transport Slupsk Sp. z o.o. | President | Wieslaw IdYkowski |
| | Member of the Management Board | Edward Klecha, Slawomir Myoelinski |
| | Supervisory Board | |
| | | Krzysztof Gawlowski - Chairman of the Board |
| | | Krzysztof Sobieraj |
| ORLEN Transport Olsztyn Sp. z o.o. | President | Tadeusz Kowalczyk |
| | Member of the Management Board | Stanislaw Mastylo |
| | Supervisory Board | |
| | | Krzysztof Gawlowski - Chairman of the Board |
| | | Dagmara Gorzelana |
| ORLEN Transport Kedzierzyn Ko Yle Sp. z o.o. | President | Michal Miklas |
| | Supervisory Board | Krzysztof Gaw(3)owski - Chairman of th Board |
| | | Dagmara Gorzelana |
| ORLEN KolTrans Sp. z o.o. | President | Andrzej Dorosz |
| | Supervisory Board | Marek Bakula - Chairman of the Supervi |
| | | Marcin Jezewski, |
| | | Adam WoYniak |
| Other companies: | | |
| Chemiepetrol GmbH | Management Board | Dariusz Dabrowa, Jurgen Kleiner |
| ORLEN Powiernik Sp. z o.o. | President | Arkadiusz Lewtak |
| | Member of the Management Board | Malgorzata Mioduska |
| | Revision Commission | |
| | | Bogdan Zegar - Chairman of the Revisio |
| | | Iwona Zawidzka |
| | | Grazyna Tomala |
| ORLEN Budonaft Sp. z o.o. | President | Wladyslaw Teterycz |
| | Member of the Management Board | Ewa Czernicka, Marek Truchan |
| | Supervisory Board | |
| | | Monika lobodzinska - Chairman of the S Board |
| | | Rafal Jedrzejewski |

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ENTITIES BEING HELD BY MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS OF THE DOMINANT COMPANY

As at 30 June 2005, 2,950 shares in PKN ORLEN S.A. were held by Raimondo Eggink, Member of the Supervisory Board. Other Members of the Management and Supervisory Board, as at 30 June 2005, did not possess any shares and stakes in PKN ORLEN S.A. and other companies of the Capital Group.

SHAREHOLDERS OF THE DOMINANT COMPANY

Shareholders of PKN ORLEN S.A. as at 30 June 2005:

| Shareholders | Number of shares | Number of voting rights | Par value of shares | S |
|---|---|---|---|---|
| Nafta Polska S.A | 74 076 299 | 74 076 299 | 92 595 374 | |
| Skarb Panstwa | 43 633 897 | 43 633 897 | 54 542 371 | |
| The Bank of New York | 52 031 578 | 52 031 578 | 65 039 473 | |
| Other * | 257 967 287 | 257 967 287 | 322 459 109 | |
| Total | 427 709 061 | 427 709 061 | 534 636 326 | |

* According to the current report no 33/2005 issued on 25 May 2005, FMR Corp. with directly a entities seated in Boston and Fidelity International Limited with directly and indirectly dep Bermuda Islands as at 24 May 2005 possessed 21 436 944 shares of PKN ORLEN, constituting 5,01 granting 21 436 944 voting rights at the general shareholders meeting and 5,01% of the total the general shareholders meeting of PKN ORLEN S.A.

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

Management Board Raport on Operations
of Polski Koncern Naftowy ORLEN Spolka Akcyjna Capital Group
for the 1st half of the year 2005
submitted by the Management Board composed of:

.....
Management Board President
Igor Chalupec

..... ..... .....
Management Board Vice-President Management Board Vice-President Management Boar
Wojciech Heydel Jan Maciejewicz Cezary Smo

..... .....
Management Board Member Management Board Member
Pawel Szymanski Dariusz Witkowski

Plock, 26 September 2005

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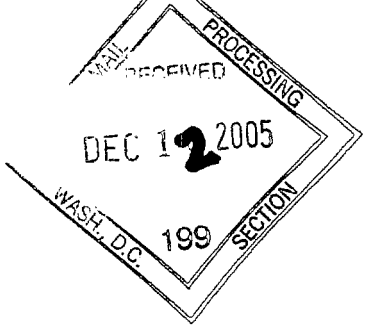


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# MANAGEMENT BOARD REPORT
# ON OPERATIONS OF
# THE POLSKI KONCERN NAFTOWY ORLEN
# SPÓŁKA AKCYJNA
# CAPITAL GROUP
# FOR THE FIRST HALF OF 2005

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## INTRODUCTION

This report has been prepared in accordance with the Council of Ministers' Decree dated 21 March 2005 concerning current and periodical information published by issuers of securities (Journal of Laws 05.49.463).

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

### 1.1 STRUCTURE OF THE CAPITAL GROUP AS AT 30 JUNE 2005

Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN S.A., Parent Company, Concern, Company) as at 30 June 2005 possessed directly shares and stakes in 76 commercial law companies, including:

- 43 subsidiaries in which PKN ORLEN S.A. holds above 50% shares,
- 2 jointly controlled companies with share in the capital equalling 50%,
- 3 associate companies with share in capital between 20% to 50%,
- 28 other minority interest companies with share in capital below 20%.

Capital engagement of PKN ORLEN S.A. as at the end of June 2005 amounted to PLN 3,960.724 thousand and increased by PLN 1,549,225 thousand in comparison to the end of the first half of 2005.

The subject to consolidation were 35 entities (33 direct subsidiaries, 1 jointly controlled company and 1 associate) of the PKN ORLEN S.A. Group:

1. **Most important companies in terms of sales and equity:**

- Rafineria Trzebinia S.A. located in Trzebinia (with its Capital Group),
- Rafineria Nafty Jedlicze S.A. located in Jedlicze (with its Capital Group),
- Inowrocławskie Kopalnie Soli "Solino" S.A. located in Inowrocław,
- Anwil S.A. located in Włocławek (with its Capital Group),
- ORLEN-Oil Sp. z o.o. located in Kraków (with its Capital Group),
- Basell Orlen Polyolefins Sp. z o.o. located in Płock,
- ORLEN Asfalt Sp. z o.o. located in Płock,
- Unipetrol a.s. located in Prague (with its Capital Group).

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**2. Liquid fuel trading companies:**

- ORLEN PetroTank Sp. z o.o. located in Widełka near Kolbuszowa,
- ORLEN PetroProfit Sp. z o.o. located in Niemce near Lublin (with its Capital Group),
- ORLEN PetroCentrum Sp. z o.o. located in Płock,
- Petrolot Sp. z o.o. located in Warszawa,
- ORLEN PetroZachód Sp. z o.o. located in Poznań,
- ORLEN Morena Sp. z o.o. located in Gdańsk,
- Ship-Service S.A. located in Warszawa (with its Capital Group),
- ORLEN Gaz Sp. z o.o. located in Płock (with its Capital Group),
- ORLEN Deutschland AG located in Elmshorn. (Germany)

**3. Companies established as a result of restructuring of the Parent Company:**

- Zakład Budowy Aparatury S.A. located in Płock,
- Petrotel Sp. z o.o. located in Płock,
- ORLEN Projekt S.A. located in Płock,
- ORLEN Medica Sp. z o.o. located in Płock (with its Capital Group),
- ORLEN Laboratorium Sp. z o.o. located in Płock.

**4. Maintenance companies:**

- ORLEN Automatyka Sp. z o.o. located in Płock,
- ORLEN Wir Sp. z o.o. located in Płock.

**5. Transportation companies:**

- ORLEN Transport Płock Sp. z o.o. located in Płock,
- ORLEN Transport Szczecin Sp. z o.o. located in Szczecin,
- ORLEN Transport Kraków Sp. z o.o. located in Kraków,
- ORLEN Transport Nowa Sól Sp. z o.o. located in Nowa Sól,
- ORLEN Transport Słupsk Sp. z o.o. located in Słupsk,
- ORLEN Transport Olsztyn Sp. z o.o. located in Olsztyn,
- ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. located in Kędzierzyn-Koźle,
- ORLEN KolTrans Sp. z o.o. located in Płock.

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**6. Other companies:**

- Chemiepetrol GmbH located in Hamburg,
- ORLEN Powiernik Sp. z o.o. located in Płock,
- ORLEN Budonaft Sp. z o.o. located in Kraków.

Additionally, this report includes comments on Polkomtel S.A., not consolidated, due to its great importance for the PKN ORLEN Group.

## 1.2 CHANGES IN THE CAPITAL GROUP IN THE FIRST HALF OF 2005

The key changes in structural and capital relations in the PKN ORLEN Group during the first half of 2005 until the date of preparation of this report include the following:

- On 3 January 2005 the District Court in Opole, VIII Economic Department of the National Court Register, registered a business combination of Zakład Urządzeń Dystrybucyjnych Sp. z o.o. located in Opole (bidder) with the following companies (targets):
  - Serwis Katowice Sp. z o.o. located in Katowice,
  - Serwis Kędzierzyn - Koźle Sp. z o.o. located in Kędzierzyn - Koźle,
  - Serwis Kielce Sp. z o.o. located in Kielce,
  - Serwis Łódź Sp. z o.o. located in Łódź, and
  - Serwis Rzeszów Sp. z o.o. located in Rzeszów,

  due to the take over of the total assets of the target companies by Zakład Urządzeń Dystrybucyjnych Sp. z o.o. (combination by incorporation). Consequently, amendments were introduced to the company's deed of Zakład Urządzeń Dystrybucyjnych Sp. z o.o., concerning increase of its share capital from PLN 6,536,500 to PLN 6,759,200, i.e. by PLN 222,700. Shares in the increased capital of the nominal value of PLN 50 each were taken by the existing shareholders of the target companies. As a result of the increase in the share capital of Zakład Urządzeń Dystrybucyjnych Sp. z o.o., PKN ORLEN S.A. stake decreased from 99.94 % to 96.65%.
- On 28 January 2005 the District Court in Kraków - Śródmieście, XII Economic Department of the National Court Register, registered a change of the amount and structure of the share capital of Rafineria Trzebinia S.A. located in Trzebinia. The share capital was reduced from PLN 43,041,890 to PLN 42,995,350 and is divided into 4,299,535 shares of the nominal value of PLN 10 each as a result of write off of 4,654 own shares of Rafineria Trzebinia S.A. After the decrease of share capital of Rafineria Trzebinia SA, PKN ORLEN S.A. stake in the share capital of the company amounts to 77.15%.
- On 25 March 2005, based on a shares sale agreement, PKN ORLEN S.A. sold all owned shares in Dom Wczasowy "Mazowsze" Sp. z o.o. located in Ustroń for the total amount of PLN 1,332,574.
- On 7 April 2005, under shares sale agreements, PKN ORLEN S.A. sold shares in two maintenance companies for the total amount of PLN 1,980,000, including:

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- 6,974 shares in Serwis Mazowsze Sp. z o.o. for the total amount of PLN 700,000;
- 12,608 shares in Serwis Nowa Wieś Wielka Sp. z o.o. for the total amount of PLN 1,280,000.

ORLEN Centrum Serwisowe Sp. z o.o. acquired both companies.

As a result of the sale of shares in the above two companies, PKN ORLEN S.A. will not have any shares in those entities. We also wish to inform that PKN ORLEN S.A. holds 99.94% in the share capital of ORLEN Centrum Serwisowe Sp. z o.o. The above transaction is another stage of the disposal process carried out by PKN ORLEN S.A. with respect to companies of supporting activities. The scope of those companies' operations includes service activities.

- On 14 April 2005 an agreement was concluded between PKN ORLEN, the seller, and PERN "Przyjaźń" S.A., the buyer, for the sale of 24 shares with a nominal value of PLN 589,000 each and the total nominal value of PLN 14,136,000, which, as at the agreement date accounted for 30.77% of the share capital of Przedsiębiorstwo Przeładunku Paliw Płynnych "Naftoport" Sp. z o.o. The key provisions of the sale agreement were:

  The selling price of one share amounts to PLN 2,820,512.82,

  Total selling cost of 24 shares is PLN 67,692,307.68,

  The payment will be pledged by a collateral on the disposed shares.

- On 1 February 2005 the Extraordinary Shareholders Meeting of Naftoport adopted amendments to the Deed of Naftoport. The amended Deed of the company secures PKN ORLEN S.A. and other Naftoport shareholders' interest in terms of deliveries.

  PKN ORLEN concluded also with Naftoport and PERN long-term trade contracts, which secure the safety of oil deliveries by land and sea. The contracts enable PKN ORLEN to maintain deliveries through Naftoport on terms which are not less advantageous than before the above transaction.

- On 20 April 2005 the European Commission adopted a decision with respect to approval for PKN ORLEN SA to take over control over Unipetrol a.s. by way of acquisition form the Czech National Property Fund of 114,224,038 bearer shares in UNIPETROL, which approximate 62.99% of all issued and existing shares of UNIPETROL.

- On 24 May 2005 PKN ORLEN S.A. purchased:

  - 114,224,038 bearer shares in Unipetrol a.s., of the nominal value CZK 100 each, which approximates 62.99% of all issued and existing Unipetrol a.s. shares. The initial price for the acquired Unipetrol shares was CZK 11,303,886,660 (about PLN 1,562,197,136 as at 23 May 2005).

  - 745,000 bearer shares in Spolana a.s. of the nominal value CZK 655 each, which is 9.76% of the share capital of Spolana a.s. The total price for the acquired Spolana shares amounted to CZK 1 million (about PLN 138,200 as at 23 May 2005).

  - receivables from some of the Unipetrol Group entities, with a nominal value as at 1 April 2004 of approximately CZK 3.1 billion, EUR 9.5 million and USD 4.9 million. The total acquisition cost of the receivables was CZK 1.7 billion (about PLN 234,940,000 as at 23 May 2005).

  The acquisition of Unipertol shares was made under an agreement concluded by PKN ORLEN S.A. on 4 June

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2004 with the Czech National Property Fund. The acquisition of Spolana's shares and receivables was performed under agreements concluded by PKN ORLEN S.A. on 4 June 2004 with Ceska Konsolidacni Agentura.

The acquisition of Unipetrol shares, and Spolana shares and receivables was covered in 90% from PKN ORLEN S.A. own resources and 10% from available credit limits.

After acquisition of Unipetrol shares, under the Czech law, PKN ORLEN was required to announce mandatory calls for minority shares of Unipetrol a.s. and its listed subsidiaries (Spolana a.s. and Paramo a.s.). PKN ORLEN authorised Patria Finance, a.s. to make the mandatory calls.

In accordance with the Czech regulations, conditions for mandatory calls are subject to approval from the Czech Securities and Exchange Commission, the respective application was filed at the CSEC within the required period on 30 June 2005.

On 18 July 2005 the Company was notified by the Czech Securities and Exchange Commission ("CSEC") that it had rejected PKN ORLEN's applications for obtaining a permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The prices offered by PKN ORLEN were: CZK 103 for one share of UNIPETROL, a.s., CZK 701 for one share of PARAMO, a.s. and CZK 100 for one share of SPOLANA, a.s.; the pricing was based on the discounted cash flow method performed by an independent Czech expert, NS Group.

On 12 August 2005 the PKN ORLEN SA reapplied to the Czech Securities and Exchange Commission for a permit to make mandatory calls for shares issued by UNIPETROL, PARAMO, a.s. and SPOLANA, a.s. The prices offered by PKN ORLEN are: CZK 135 for one UNIPETROL share, CZK 978 for one share of PARAMO, a.s. and CZK 155 for one share of SPOLANA, a.s. On 26 August 2005 PKN ORLEN obtained from the Czech Securities and Exchange Commission the permit for mandatory public calls for shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA, a.s. The accepted prices for one share offered for Unipetrol, Paramo and Spolana shares were adjusted and amount to CZK 139, CZK 978 and CZK 155 respectively.

The acquisition of UNIPETROL is one of the next significant steps in PKN's strategy, as it represents a perfect opportunity for PKN ORLEN to: expand its geographic presence, enter the attractive Czech market and to strengthen its position in the southern Poland.

1. On 26 April 2005 the received a judgment of the Arbitration Court in Warsaw. The judgment sattes that the agrement for acquisition by Polskie Sieci Elektroenergetyczne S.A. in Warsaw of 168,000 shares in the capital of Niezależny Operator Międzystrefowy Sp. z o.o. from Polski Koncern Naftowy ORLEN S.A. was not legally binding due to lack of compliance with the suspending condition, i.e. lack of approval of the PSE corporate bodies for the transaction. The counter claim of PKN ORLEN SA for payment for the shares was rejected. Consequently, PKN ORLEN S.A. still holds 168,000 shares in NOM of the total nominal value of PLN 84,000,000, which is 35 % of NOM's share capital.
2. On 20 April 2005, based on the shares sale agreement, PKN ORLEN S.A. sold 3,932 shares in Zespół Wypoczynkowy "Mazowsze" Sp. z o.o. located in Łeba representing 100% of its share capital. The shareholders of Przedsiębiorstwo Turystyczne "MAZOWSZE" Sp. z o.o. are managing personnel and staff of ZW Mazowsze.

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3. On 2 June 2005, based on the shares sale agreement PKN ORLEN S.A. sold 8,219 shares in ZAWITAJ Świnoujście Sp. z o.o. located in Świnoujście.

## 1.3 DESCRIPTION OF CONSOLIDATED COMPANIES OF THE CAPITAL GROUP

### 1.3.1 Consolidated subsidiaries

- **Rafineria Trzebinia S.A.**

Pursuant to the terms of a share purchase agreement dated 16 June 1997, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 74.88% of the shares in Rafineria Trzebinia. In 1999, an increase in the company's capital was recorded and as a result voting rights of the Company increased to 76.96%. On 14 September 2000 the agreement of the purchase of the remaining stake of Nafta Polska S.A. was finalised and as a result PKN ORLEN S.A. stake increased to 77.07% of the company's share capital.

On 30 June 2005 the share capital of Rafineria Trzebinia SA. amounted to PLN 42.995 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 77.15%
- State Treasury 9.19%
- Other 13.65%.

As at 30 June 2005 the shareholders equity of the company amounted to PLN 442,690 thousand.

The Rafineria Trzebinia Capital Group's business activities include:

- processing of crude oil,
- production and sale of fuels (including gasoline, ethylene, diesel fuels and oil heating fuel),
- blending and preparation of lubricants,
- processing of paraffin slack waxes,
- production of asphalt and asphalt products.

Rafineria Trzebinia's S.A. Capital Group business activities are focused on the manufacturing of specialist high-value products and in particular: a full range of lubricants, industrial oils (hydraulic and tempering oils) and a range of paraffin products.

At 30 June 2005 the company employed 187 people (Capital Group of Rafineria Trzebinia S.A. employed 717 people).

The net loss of Rafineria Trzebinia S.A. as at 30 June 2005 amounted to PLN 5,144 thousand, whereas sales amounted to PLN 405,398 thousand.

Rafineria Trzebinia S.A. holds shares in 6 subsidiaries ( 5 subsidiaries and 1 jointly controlled entity).

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**Rafineria Nafty Jedlicze S.A.**

Pursuant to the relevant provisions of a share purchase agreement and a shareholders' agreement of 19 November 1998, concluded between Nafta Polska S.A. and PKN ORLEN S.A., the latter acquired 75% of shares in Rafineria Nafty Jedlicze S.A. The above agreement came into effect on 1 January 1999.

On 30 June 2005 the company's share capital amounted to PLN 78,000 thousand.

Shareholders of the company are:

- PKN ORLEN S.A. 75.00%
- State Treasury 10.01%
- Other 14.99%

The Company's business activities include:

- transport, processing, storage and trade in crude oil and oil derived products, as well as in used oil and other waste products,
- collection of used oils,
- production of lubricating oils and other industrial fluids,
- production of oil solvents and fuels,
- production of lubricants and asphalt,
- production of packaging and preparation of oils and other industrial fluids.

The refinery also manufactures limited quantities of gasoline and heating oils. The company is the second largest lubricants producer in Poland (in terms of volume). Additionally, Rafineria Nafty Jedlicze S.A. regenerates used oil in its regeneration facilities, which have a processing capacity of 80 thousand tons a year. The collection of used oils is carried out through the network of companies associated with Rafineria Nafty Jedlicze S.A.

As at 30 June 2005 Rafineria Jedlicze S.A. employed 417 people (Capital Group of Rafineria Jedlicze SA employed 798 people).

The net profit of the company as at 30 June 2005 amounted to PLN 11,991 thousand, whereas sales amounted to PLN 221,614 thousand.

In the analysed period, the company focused on improving its profitability. The effects of increased efforts in this respect are noticeable within optimisation of operating costs.

- **Inowroclawskie Kopalnie Soli "Solino" S.A.**

Under the agreement dated 28 September 1996, PKN ORLEN SA purchased from the Ministry of Privatisation 723,465 registered shares in Inowroclawskie Kopalnie Soli "Solino" S.A. with a total par value of PLN 7,235 thousand which constituted 51% of the company's share capital. Following the acquisition of the new series of the shares in December 1999 and purchase of part of the employees' stake in 2000, PKN ORLEN S.A. share increased to 70.54%.

As at 30 June 2005 the share capital of Inowroclawskie Kopalnie Soli "Solino" S.A. amounted to PLN 19,146 thousand.

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The company's shareholders are:

- PKN ORLEN S.A. 70.54%
- State Treasury 25.20%
- Other 4.26%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 78,587 thousand.

The Company's business activities include:

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

The company is involved in mining and processing of salt, production of salt and industrial brine. The brine is supplied to such companies as Anwil S.A., a member of the PKN ORLEN S.A. Group.

As at 30 June 2005 the company employed 307 people.

For the first half of 2005 the company's sales amounted to PLN 55,651 thousand, whereas the net profit amounted to PLN 5,332 thousand.

The company's development plans focus on the same area as before i.e. salt oproduction and sales as well as on realisation of second stage of the second stage of construction of fuel and crude oil underground storage tanks.

- **Zaklady Azotowe Anwil S.A.**

Zaklady Azotowe Anwil S.A was entered in the Commercial Register on 14 April 1993. As at 30 June 2005 the share capital of the company amounted to PLN 135,415 thousand. PKN ORLEN acquired first Anwil shares as a result of conciliatory proceedings in 1995.

The company's shareholders are:

- PKN ORLEN S.A. 84.49 %
- Zaklad Energetyczny Torun S.A. 5.84%
- State Treasury 5.54%
- Other 4.13%.

As at 30 June 2005, the shareholders equity of the company amounted to PLN 1,107,018 thousand.

The Company's business activities include:

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

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Anwil is principally involved in the production of nitrogen fertilisers and PVC. The company is the largest PKN ORLEN's customer for ethylene (the main raw material for the manufacture of PVC).
As at 30 June 2005 the company employed 1,473 people. (Anwil Capital Group employed 2,462 people).

For the first half of 2005 Anwil achieved sales amounted to PLN 730.533 thousand, whereas net profit for the first half of 2005 amounted to PLN 66,706 thousand. .
Anwil helds shares in 4 subsidiaries and 5 assiotiates.

- **Unipetrol a.s.**

Persuant to the agremeent dated 4 June 2004 between PKN ORLEN S.A. and Czech National Property Fund, the latter acquiered on 24 Mai 2005 of 62.99% of the share capital of Unipetrol a.s.. Remaining share of Unipetrol a.s. are hold by minority shareholders.

The Unipetrol business activities include processing of crude oil, sals of products resulting from processing of crude oil, - chemicals, petrochemicals and fuel in Czech Republic and outside the Czech Republic.

Unipetrol a.s. helds the shares of the followings subsidiaries:

- Chemopetrol a.s. 100,00%
- Kaucuk a.s. 100,00%
- Spolana a.s 81,78%
- Ceska Rafinerska a.s 51,00%
- Unipetrol Rafinerie a.s. 100,00%
- Paramo a.s. 73,52%
- Benzina a.s. 100,00%
- Unipetrol Trade a.s. 100,00%

The number of employees as at 30 June 2005 amounted to 6.945 people.
The consolidated financial statements included the financial results of Unipetrol for the period beginning with acquisition day. For the first half year of 2005 Unipetrol achieved net profit amounted to PLN 22.541 thousand, whereas sales amounted to PLN 1.607.411 thousand.

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

ORLEN Oil Sp. z o.o. was established by four refineries. ORLEN Oil Sp. z o.o. was entered in the Commercial Register on 27 August 1998.

As at 30 June 2005 the company's share capital amounted to PLN 75,093 thousand.

The structure of shareholders as at 30 June 2005 is as follows:

- PKN ORLEN S.A. 47.22%
- Rafineria Trzebinia S.A. 43.84%
- Rafineria Nafty Jedlicze S.A. 4.47%
- Rafineria Czechowice S.A. 4.47%

At the end of the first half of 2005 the shareholders equity amounted to PLN 141,548 thousand.

The business activities of ORLEN Oil Sp. z o.o. include:

- production and sale of chemicals, lubricating oils, oil bases, and liquid fuels,
- trade in chemicals, refinery products and petrochemicals in Poland and abroad,
- services, including warehousing, transportation and R&D services,
- technical advisory services.

Trade activities are focused on high and low class motor oil, industrial oils, technological oils, lubricants, industrial fluids, exploitation fluids (hydraulic and tempering oils), automotive chemistry and cosmetics, basic oils.

As at 30 June 2005 the company employed 367 people.

The net profit at the end of the first half of 2005 amounted to PLN 16,555 thousand, whereas sales amounted to PLN 280,669 thousand.

Olren Oil Sp. z o.o. has shares in 2 subsidiaries and 10 associates.

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

On 31 May 2003 PKN ORLEN signed sale agreement of assets in its Zaklad Asfaltow to Bitrex Sp. z o.o. located in Trzebinia. Following the resolution of Ordinary Shareholders'Meeting of Bitrex PKN ORLEN contributed cash in exchange for shares in the increased share capital. The share capital increase was registered on 15 July 2003 along with the change of the company's name to ORLEN Asfalt Sp. z o.o.

As at 30 June 2005 the share capital of the company amounts to PLN 60,635 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 82.46%
- Rafineria Trzebinia S.A. 17.54%.

As at the end of the first half of 2005 the shareholders' equity of the company amounted to PLN 95,956 thousand.

The company's business activities include production and processing of crude oil. Primary products are road and industrial asphalt as well as other asphalt products. The company intends to develop activity in area of modified and special asphalts, simultaneously keeping its share in road asphalt market.

The number of employees as at 30 June 2005 amounted to 138.

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At the end of the first half of 2005 the company incurred net loss of PLN 7,427 thousand. The sales amounted to PLN 137,165 thousand.

- **ORLEN GAZ Sp. z o.o.**

ORLEN Petrogaz Plock Sp. z o.o. was entered in the Commercial Register on 15 December 1995. Since 16 April 1998 PKN ORLEN S.A. has been the company's sole shareholder. As at 30 June 2005 the share capital of the company amounted to PLN 24,823 thousand, and shareholders' equity amounted to PLN 50,495 thousand.

The Company's business activities include:

- wholesale trading of LPG, in bulk or in steel cylinders,
- retail sales of gas in containers,
- installation of ductless gas devices,
- supply of LPG to customers,
- design, maintenance and repair of gas installations; organisational and legal supervision over the construction of distribution plants and their subsequent use.

The company's trade activity focuses on following products: propane and propane-butane gas in steel cylinders (11, 30 and 33 kg), 11 kg FP gas for industrial vehicles, automotive gas sold in retail and wholesale, gas (propane and butane) for domestic, industrial and heating installations (so called Maly Luz and Duzy Luz). Moreover, the company offers domestic, industrial and automotive gas installations. Additionally, the company leases such installations, cylinders and containers, etc.

The number of employees as at 30 June 2005 amounted to 203 people.

In the first half of 2005 the company earned net profit of PLN 5,085 thousand. The sales amounted to PLN 230,746 thousand.

ORLEN GAZ Sp. z o.o. has sahers in two subsidiaries.

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

ORLEN PetroTank Sp. z o. was registered on 9 April 1996. On 23 December 2002 the company signed agreement with the second shareholder (Tankpol Sp. z o.o.) for cession of 470 shares in ORLEN PetroTank Sp. z o.o., as a result PKN ORLEN S.A. holds 100% in the company's share capital. The ceded shares pledged ORLEN PetroTank Sp. z o.o. receivables due from Tankpol Sp. z o.o.

As at 30 June 2005 the share capital amounted to PLN 11,750 thousand, and the shareholders' equity amounted to PLN 44,313 thousand.

The company's line of business is the wholesale and sales of fuels, gas and plastics as well as the preparation of Petrygo radiator liquid.

The number of employees as at 30 June 2005 was 148.

As at 30 June 2005 the company incurred net loss of PLN 626thousand, whereas sales amounted to PLN 357,655 thousand.

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- **ORLEN PetroProfit Sp. z o.o.**

ORLEN Petroprofit Sp. z o.o. located in Niemce near Lublin was registered on 14 September 1995. As at 30 June 2005 share capital of the company amounted to PLN 11,500 thousand. The only shareholder of ORLEN PetroProfit Sp. z o.o. is PKN ORLEN S.A.

The company's shareholders equity as at the end of the first half of 2005 amounted to PLN 33,678 thousand.

The company's business activities comprise of the wholesale and retail of fuels, Petrygo radiator fluid and plastics.

The number of employees as at 30 June 2005 was 60 people. The ORLEN PetroProfit Capital Group employed 116 people.

The net loss for the first half of 2005 amounted to PLN 583 thousand, whereas sales amounted to PLN 237,751 thousand.

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

ORLEN PetroCentrum Sp. z o.o. was entered in the Commercial Register on 25 September 1996. The share capital as at 30 June 2005 amounted to PLN 21,000 thousand and was wholly owned by PKN ORLEN S.A. As at the end of the first half of 2005, the shareholders equity amounted to PLN 32,656 thousand.

The company's business activities include wholesale and retail trading of fuels. The main source of income for PetroCentrum Sp. z o.o. is retail of liquid fuels in its own chain and in petrol stations managed by the company.

The number of employees as at 30 June 2005 was 35.

In the first half of 2005 the company earned net profit of PLN 1,817 thousand, whereas sales amounted to PLN 811,087 thousand.

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

Petrolot Sp. z o.o. was entered in the Commercial Register on 7 January 1997. As at 30 June 2005 the share capital of the company was PLN 20,039 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- PLL LOT S.A. 49.00 %.

As at 30 June 2005 the shareholders' equity amounted to PLN 54,717 thousand.

The company's basic line of business is sales and distribution of aviation fuel (JET A-1) and aviation petrol. The company's main customer is PLL LOT S.A. The company secures sales of about 60% of JET A-1 fuel produced by the company. Other company's key customers are the following foreign airlines: Lufthansa, British Airways, Air France, SAS, KLM, Swiss, Alitalia and Polish airlines: White Eagle and Air Polonia. The Poland's accession to the European Union, opening of the Polish market for foreign airlines and gaining new customers such as cheap airlines contributed substantially to an increase in sales.

As at 30 June 2005 the company employed 192 people. In the first half of 2005 net profit amounted to PLN 6,448 thousand.

As at 30 June 2005 the sales amounted to PLN 236,482 thousand.

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- **ORLEN PetroZachód Sp. z o.o.**

ORLEN PetroZachod Sp. z o.o. located in Poznań was entered in the Commercial Register on 19 January 1998. As at 30 June 2005 the share capital of ORLEN PetroZachod Sp. z o.o. amounted to PLN 17,749 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.83%
- BGW Wielobranzowe Przedsiebiorstwo Handlowe Sp. z o.o. 48.17%

As at 30 June 2005, the shareholders' equity amounted to PLN 22,459 thousand.

The Company's business activities include wholesale and retail trading in fuels and plastics.

The number of employees as at 30 June 2005 was 184.

In the first half of 2005 net profit amounted to PLN 154 thousand, whereas sales reached the level of PLN 264,471 thousand.

- **ORLEN Morena Sp. z o.o.**

ORLEN Morena Sp. z o.o. located in Gdańsk was entered in the Commercial Register on 10 September 2001. As at 30 June 2005 the share capital of the company was PLN 10,500 thousand. PKN ORLEN holds 100% in the share capital of the company.

As at 30 June 2005, the shareholders equity amounted to PLN 12,824 thousand.

The company's business activities include wholesale and retail trading in fuels, and logistic services provided by own warehouse base in Sławno for PKN ORLEN.

The number of employees as at 30 June 2005 was 39.

As at 30 June 2005, the company earned net profit of PLN 1,162 thousand. The sales amounted to PLN 172,184 thousand.

- **Ship - Service S.A.**

Ship-Service S.A. was established in 1991 as a result of privatisation of state owned company SPUP Ship-Service S.A.

In 2002 PKN ORLEN S.A. acquired 24,000 shares of nominal value of PLN 100 each.

As at 30 June 2005 the share capital of the company was PLN 3,943 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 60.86%
- Malgorzata Bubilek 7.61%
- Porta Baltic Service S.A. (official receiver) 4.95%
- Brends Sp. z o.o. 4.35%
- Other 22.23%

As at 30 June 2005, the shareholders' equity amounted to PLN 14,314 thousand.

The company's business activities include distribution of ship fuels within Polish harbours as well as at international market. Additionally, the company offers ship maintenance services in harbours, reloading services, land and sea freight services as well as water environment protection services.

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The number of employees as at 30 June 2005 was 183. Ship Service Capital Group employed 204 people.

The company incurred net loss of PLN 2,175 thousand for the end of the first half of 2005. The company's sales amounted to PLN 127,162 thousand.

Ship-Service has shares in two subsidiaries.

- **ORLEN Deutschland AG**

ORLEN Deutschland AG, the company which operates under the German law, was established as a result of a merger of ORLEN Deutschland GmbH and ORLEN Deutschland Immobilien GmbH, through which PKN ORLEN realized on 28 February 2003 the purchase of 494 petrol stations in Germany. Thanks to the purchase of petrol stations with logo of BP, Aral and EM Eggert for EUR 140 million, 3% of the German market was gained. In the northern Germany the company holds 7% share of the fuel market. PKN ORLEN SA Management Board perceives the transactions as an important step towards the strategy of regional expansion. In the first half of 2004, 6 companies of ORLEN Deutschland were merged into one joint stock company, ORLEN Deutschland AG. At the same time the share capital was increased from EUR 30 million to the amount of EUR 60 million. PKN ORLEN S.A. holds 100% of share capital in this entity.

As at the end of the first half of 2005 the share capital of the company amounted EUR 283,020 thousand. The shareholders' equity as at 30 June 2005 amounted to PLN 464,576 thousand.

The company as at the end of the first half of 2005 employed 116 persons.

For the first half of 2005 ORLEN Deutschland AG incurred net loss of PLN 14,919 thousand, whereas sales amounted to PLN 4,084,167 thousand.

- **ORLEN Wir Sp. z o.o.**

ORLEN Wir Sp. z o.o. was registered on 1 October 1999. The share capital of the company as at 30 June 2005 amounted to PLN 1,600 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- Employees 49.00%

As at 30 June 2005, the shareholders' equity amounted to PLN 4,545 thousand.

The company's business activity includes repair services. The company provides very specific services i.e.: repairs of rotors related to flow and displacement compressors, steam turbines, transmission devices and all kinds of pumps. The company safeguards the continuous work of compressors, turbines and raw material pumps of production installations of Production Plant in Płock.

The number of employees as at the end of June 2005 was 96 people.

The company earned net profit of PLN 945 thousand, whereas sales amounted to PLN 6,819 thousand.

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- **ORLEN Automatyka Sp. z o.o.**

ORLEN Automatyka Sp. z o.o. was registered on 30 April 1999. The share capital of the company as at 30 June 2005 amounted to PLN 2,400 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 52.42%
- Employees 47.58%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,206 thousand.

The company specializes in repair services.

The number of employees as at 30 June 2005 was 239.

The net profit for the first half of 2005 amounted to PLN 1,387 thousand, whereas sales amounted to PLN 12,471 thousand.

- **ORLEN Transport Płock Sp. z o.o.**

ORLEN Transport Płock Sp. z o.o. was entered in the Commercial Register on 23 December 1998 and commenced its operations as a subsidiary of the PKN ORLEN Capital Group on 3 January 1999. The company was established on the basis of the assets of the former Zakład Transportu Samochodowego Petrochemia Płock S.A.

As at 30 June 2005 the share capital of the company amounted to PLN 26,430 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 97.59%
- Employees 2.41%

As at 30 June 2005, the shareholders equity amounted to PLN 30,323 thousand.

The Company's business activities include:

- sales, service and repair of motor vehicles,
- road transport of passengers and freight,
- wholesale and retail sale of solid, liquid and gas fuels and service fluids for motor vehicles,
- hire of construction machinery and plant together with maintenance services.

The company provides wide range of services: road transport of liquid fuels, glycols and alcohols, road transport of passengers and freight, international freight transport, freight of unusual goods, wheeled cranes services, domestic and international forwarding, sale of heating oil Ekoterm Plus and engine oils (on petrol stations as well), Petrygo and Qal cooling liquids, preparation and sale, as well as a full range of repair, maintenance and other services for cars, construction vehicles and equipment with its own workshop together with washing stand and service station.

The number of employees as at the end of the first half of 2005 was 435.

The net profit for the first half of 2005 amounted to PLN 743 thousand, whereas sales amounted to PLN 43,356 thousand.

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- **ORLEN Transport Kędzierzyn Koźle Sp. z o.o.**

ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. was entered in the Commercial Register on 29 May 2000 and commenced its operations as a subsidiary of the PKN ORLEN Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

On 24 January 2003 a merger was registered of: Petromot Sp. z o.o. to ORLEN Transport Kędzierzyn Koźle Sp. z o.o. by transfer of the total assets of Petromot Sp. z o.o. to ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. (business combination).

As at 30 June 2005 the share capital of the company amounted to PLN 10,009 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 94.28%
- Employees 5.72%.

As at 30 June 2005, the shareholders' equity amounted to PLN 9,998 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products
- sale and service of FIAT car models.

The employment of the company at the end of the first half of 2005 was 106 people.

The net loss for the first half of 2005 amounted to PLN 502 thousand, whereas sales amounted to PLN 9,477 thousand.

- **ORLEN Transport Kraków Sp. z o.o.**

ORLEN Transport Krakow Sp. z o.o. was entered in the Commercial Register on 5 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN SA Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 12,465 thousand.

The company's shareholders are:

- PKN ORLEN S.A. ____98.41%
- Employees _____1.59%

As at 30 June 2005, the shareholders' equity amounted to PLN 8,424 thousand.

The Company's business activities include:

- domestic and international road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

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The number of employees at the end of the first half of 2005 was 104. The sales for the first half of 2005 amounted to PLN 14,101 thousand, whereas net profit PLN 76 thousand.

- **ORLEN Transport Olsztyn Sp. z o.o.**

ORLEN Transport Olsztyn Sp. z o.o. was entered in the Commercial Register on 29 May 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 8,464 thousand. The company's shareholders are:

- PKN ORLEN S.A. 94.88%
- Employees 5.12%.

As at 30 June 2005, the shareholders' equity amounted to PLN 9,669 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sales, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 70. The net loss for the first half of 2005 amounted to PLN 56 thousand, whereas sales amounted to PLN 8,283 thousand.

- **ORLEN Transport Nowa Sól Sp. z o.o.**

ORLEN Transport Nowa Sol Sp. z o.o. was entered in the Commercial Register on 9 June 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A. Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 10,091 thousand. The company's shareholders are:

- PKN ORLEN S.A. 96.79%
- Employees 3.21%

As at 30 June 2005, the shareholders' equity amounted to PLN 17,892 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees at the end of the first half of 2005 was 127. The net profit for the first half of 2005 amounted to PLN 79 thousand, whereas sales amounted to PLN 15,226 thousand.

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- **ORLEN Transport Slupsk Sp. z o.o.**

ORLEN Transport Slupsk Sp. z o.o. was entered in the Commercial Register on 23 June 2000 and commenced its operations as a subsidiary within the PKN ORLEN Group on 1 July 2000. The company was established from the assets of the former Zakład Transportu Samochodowego.

As at 30 June 2005 the share capital of the company amounted to PLN 8,644 thousand. The company's shareholders are:

- PKN ORLEN S.A. 97.10%
- Employees 2.90%.

As at the end of the first half of 2005, the shareholders' equity of the company amounted to PLN 11,548 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of regular posts as at 30 June 2005 was 81 people. The net profit for the first half of 2005 amounted to PLN 227 thousand, whereas sales amounted to PLN 11,872 thousand.

- **ORLEN Transport Szczecin Sp. z o.o.**

ORLEN Transport Szczecin Sp. z o.o. was entered in the Commercial Register on 15 June 2000 and commenced its operations as a subsidiary within the PKN ORLEN S.A. Group on 1 July 2000.The company was established from the assets of the former Zakład Transportu Samochodowego. As at 30 June 2005 the share capital of the company amounted to PLN 3,424 thousand. The company's shareholders are:

- PKN ORLEN S.A. 99.56%
- Employees 0.44%.

As at 30 June 2005 the shareholders' equity amounted to PLN 3,523 thousand.

The Company's business activities include:

- road transport and freight services,
- passenger transport services,
- sale, service and repair of motor vehicles,
- sale of solid, liquid and gas fuels and derived products.

The number of employees as at the end of June 2005 was 40. The net loss for the first half of 2005 amounted to PLN 114 thousand, whereas sales amounted to PLN 2,200 thousand.

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

ORLEN KolTrans Sp. z o.o. was entered in the Commercial Register on 13 December 2000 and commenced operations as a subsidiary company within the PKN ORLEN S.A Group at the beginning of 2001. The company took over from PKN ORLEN full range of activities conducted by department of tankers expedition unit of the Parent Company, i.e. operations relating to tanker exploitation, as well as a sewage plant and workshop.

As at 30 June 2005 the share capital of the company amounted to PLN 40,859 thousand.
The company's shareholders are:
□ PKN ORLEN S.A. 99.85%
□ Employees 0.15%
The company's business activities include the railroad servicing of loading and reloading points as well as transport of the Parent Company's products.
At the end of the first half of 2005, the shareholders' equity amounted to PLN 44,257 thousand.
The number of employees as at 30 June 2005 was 48.
The net profit for the first half of 2005 amounted to PLN 2,568 thousand, whereas sales amounted to PLN 22,417 thousand.

- **ORLEN Medica Sp. z o.o.**

ORLEN Medica Sp. z o.o. was registered on 24 November 1997. On 30 June 2005 the share capital amounted to PLN 13,273 thousand. PKN ORLEN is the sole shareholder of the company.
The company provides health-care services on domestic market. The services are provided to the employees of PKN ORLEN S.A. and employees of other companies of the Capital Group (labour medicine) as well as to their families in relation to both basic and specialist health care, based on the agreements concluded with the National Health Fund.
As at 30 June 2005, the shareholders' equity amounted to PLN 9,826 thousand.
The number of employees at the end of the first half of 2005 was 107.
In the first half of 2005 the company earned net profit of PLN 184 thousand, whereas sales amounted to PLN 6,545 thousand.

- **ORLEN Projekt S.A.**

ORLEN Projekt S.A. was registered on 28 May 1998. As at 30 June 2005 the share capital amounted to PLN 1,500 thousand. The company's shareholders are:

- PKN ORLEN S.A. 51.00%
- Employees 49.00%.

The company is involved in the providing design services in refining and petrochemical sector.
As at 30 June 2005 the shareholders' equity amounted to PLN 12,796 thousand.

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The number of employees at the end of the first half of 2005 was 177.

The net profit for the first half of 2005 amounted to PLN 450 thousand, whereas sales amounted to PLN 12,392 thousand.

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

Petrotel Sp. z o.o. was entered in the Commercial Register on 14 August 1997. As at 30 June 2005 the company's share capital amounted to PLN 8,200 thousand.

The company's shareholders are:

- PKN ORLEN S.A. 80.65%
- Employees 19.35%

The company provides telecommunications services.

As at 30 June 2005 the shareholders' equity amounted to PLN 29,636 thousand.

The number of employees at the end of the first half of 2005 was 112.

The net profit for the first half of 2005 amounted to PLN 2,522 thousand, whereas sales amounted to PLN 16,518 thousand.

- **Zakład Budowy Aparatury S.A.**

Zaklad Budowy Aparatury S.A. was entered in the Commercial Register on 27 October 1998. As at 30 June 2005, the company's share capital amounted to PLN 18 million.

The company's shareholders are:

- PKN ORLEN S.A. 96.57%
- Employees 3.43%

The Company's business activities include:

- production of chemical equipment (e.g. compressors) and similar products,
- renovation and repair of instrumentation,
- design of construction documentation for instrumentation and appliances.

As at the end of the first half of 2005 the shareholders' equity amounted to PLN 16,563 thousand.

The number of employees at the end of the first half of 2005 was 232.

The net loss as at 30 June 2005 amounted to PLN 1,419 thousand, whereas sales amounted to PLN 11,010 thousand.

- **ORLEN Powiernik Sp. z o.o.**

ORLEN Powiernik Sp. z o.o. was registered on 19 July 2000. As at the end of June 2005 the company's share capital amounted to PLN 25 thousand. PKN ORLEN S.A. is the company's sole shareholder.

The company is involved in providing trust services for PKN ORLEN S.A. in relation with the implementation of the Management Motivation Program.

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As at 30 June 2005 the shareholders' equity amounted to PLN 87 thousand. The number of employees at the end of the year remained unchanged and amounted to 2 people. The net loss for the first half of 2005 amounted to PLN 8 thousand.

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

ORLEN Budonaft Sp. z o.o was registered on 2 January 1997. PKN ORLEN S.A. is the sole shareholder in the company. As at 30 June 2005 the share capital amounted to PLN 3,795 thousand.

The company is involved in providing construction and modernization services for petrol stations.

As at 30 June 2005 the shareholders' equity amounted to PLN 205 thousand. The number of employees as at the end of the first half of 2005 was 181.

The net profit for the first half of 2005 amounted to PLN 82 thousand, whereas sales amounted to PLN 21,702 thousand.

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

ORLEN Laboratorium Sp. z o.o. was registered on 13 February 2003.

The company's shareholders are:

- PKN ORLEN S.A. ___94.94%
- Employees _____ 5.06%

As at 30 June 2005 the share capital amounted to PLN 9,915 thousand. The company specializes in providing laboratory and research services, as well as expertise and analyses. As at 30 June 2005 the shareholders' equity amounted to PLN 12,442 thousand. The number of employees as at 30 June 2005 was 309. The net profit in 2004 amounted to PLN 2,513 thousand, whereas sales amounted to PLN 18,405 thousand.

### 1.3.2 Conslidated jointly controlled entities

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

On 30 September 2002 PKN ORLEN SA and Basell Europe Holdings B.V. signed the joint venture agreement with Basell Orlen Polyolefins Sp. z o.o.

The company's shareholders are:

- PKN ORLEN S.A. _____50%
- Basell Europe Holdings B.V. ___50%.

As at 30 June 2005 the share capital amounted to PLN 907,398 thousand.

At the end of the first half of 2005 the shareholders equity was PLN 1,065,289 thousand.

The company is engaged in production of plastics and the wholesale of chemical products.

Initially the company used the installations contributed by PKN ORLEN SA (polyethylene production plant of capacity of 150,000 tons/year and the polypropylene production plant of capacity 140,000 tons/year). Currently the extensive construction work is in progress on a polypropylene production plant of capacity of 400,000 tons/year and a polyethylene

production plant of capacity of 300,000 tons/year. Launching of commercial production in new plants is planned for the end of 2005.

The number of employees as at 30 June 2005 was 396.

The net profit as at 30 June 2005 amounted to PLN 19,877 thousand, whereas sales amounted to PLN 507,603 thousand.

Until the completion of construction of new installation (NPP), there will be two production lines LDPE and two PP production lines in motion, which were contributed by PKN ORLEN S.A. After setting in motion of NPP three of the four installations will be closed and new capacities will allow the company to increase production from 290 thousand tons to 830 thousand tons.

It is assumed that the NPP project will be financed from two sources: internal (cash from operating activity) and external (bank loan – BOP concluded a loan agreement with the bank consortium supervised by Societe Generale).

NPP was granted a prize "European Transaction of the Year in Petrochemical Industry" by Project Finance Magazine. The event proves the significance, scope and complexity of the project and the level of engagement of the people involved.

### 1.3.3 Consolidated associated companies

Consolidated directly associates of the Parent Company within PKN ORLEN SA Capital Group are:

- **Chemiepetrol GmbH**

Chemiepetrol GmbH was established on 1 January 1984. PKN ORLEN S.A. purchased shares in the company on 28 April 1993. As at 30 June 2005 the share capital of the company amounted to EUR 51,1 thousand (PLN 207 thousand).

The company's shareholders are:

- PKN ORLEN S.A. 20%
- CIECH S.A. 60%
- Jurgen Kleiner 20%.

The company's business activities include trading and agency services in all types of goods, in particular trade in chemical products on foreign markets.

As at 30 June 2005 the shareholders equity amounted to PLN 3,683 thousand.

The number of employees at the end of the first half of 2005 was 8 people.

The net profit for the first half of 2005 amounted to PLN 474 thousand, whereas sales amounted to PLN 17,605 thousand.

### 1.3.4 Unconsolidated company of considerable importance for the Capital Group – Polkomtel S.A.

The company was established on 19 December 1995. The company's share capital as at 30 June 2005 amounted to PLN 2,050 million and PKN ORLEN capital envolvement in the company PLN 436,495 thousand. PKN ORLEN SA holds 19.61% of shares and voting rights on the General Shareholders' Meeting.

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Since 23 February 1996 Polkomtel S.A. has been one of the three entities which have a license for the development of a GSM mobile telephony network (Systems GSM 900 and DCS 1800). On 1 October 1996 the company commenced its commercial activity in Warsaw under the trade mark of "Plus GSM". Since 20 December 2000 the company has a license for UMTS mobile communications services.
The company's shareholders are:

- PKN ORLEN S.A. 19.61%
- KGHM Polska Miedz S.A. 19.61%
- TDC Mobile International A/S 19.61%
- Vodafone Americas Asia, Inc. 19.61%
- Polskie Sieci Elektroenergetyczne S.A. 16.05%
- Weglokoks S.A. 4.00%
- Tel-Energo S.A. 1.01%
- Tel Bank S.A. 0.50%

The company's business activities include:

- design, installation, operation and management of a GSM system,
- mobile telecommunications services,
- sale of GSM systems-related products and services.

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## II. CHANGES IN ORGANISATION AND MANAGEMENT OF THE PARENT COMPANY AND PKN ORLEN SA GROUP COMPANIES AND IMPACT OF EXTERNAL AND INTERNAL FACTORS ON OPERATIONS OF THE CAPITAL GROUP

In the first half of 2005 the Framework Organizational Rules and Regulations of PKN ORLEN S.A. approved by the Management Board on 6 December 2004 was in force. According to the Regulations, the organisational structure of the Parent Company consists of Head Offices in Płock and Warszawa, Production Plant in Płock and 12 Regional Organizational Offices in Białystok, Gdańsk, Katowice, Kraków, Lublin, Nowa Wieś Wielka, Płock, Poznań, Rzeszów, Szczecin, Warszawa and Wrocław, having the status of an employer under the wording of Art. 3 of the Labour Code. Regional Organizational Offices are composed of Regional Wholesale and Logistics Offices, Regional Retail Trade Offices, Regional Investment and Maintenance Offices, Regional Financial Offices and Financial Offices.

The Supervisory Board of PKN ORLEN S.A. decided on 18 October 2004 to extend the number of the Members of the Management Board from 6 to 7. In accordance with the decision of the Framework Organizational Rules and Regulations of the Company the responsibilities of Members of the Management Board is as follows:

- President of the Management Board, General Executive Officer,
- Member of the Management Board, Chief Financial Officer,
- Vice-President of the Management Board, Human Resources Management and Administration,
- Vice-President of the Management Board, Cost Management and Information Technology,
- Vice-President of the Management Board, Operational Activities,
- Vice-President of the Management Board, Retail and Commercial Sales,
- Vice-President of the Management Board, Chief Investment Officer,

The structure of President of the Board Group consisted of: Audit Department, Control and Security Department, Legal Department, Public Relations Department, Investor Relations Department, Business Strategy Department, Management Board Department and Proxy for Protection of Confidential Information.

The Group of Vice-President of the Board for strategy and capital Investments comprised: Capital Group Department, UNIPETROL Holding Integration Department, Capital Investments Department.

The new Group established as of 1 December 2004, supervised by Vice-President of the Board for Cost Management and Information Technology comprised: IT Department, Crude Oil Trading Department and newly created Purchase Department and Cost Management Department. The departments of the newly created group supervised realization of the raw material supply of the Parent Company (with exclusion of energy, fuels for resale, and non-fuel products), they are responsible for turnover of natural gas, purchases of fuel raw materials, cost management, optimization of IT solutions and IT standards implementations, and for activities within sector of crude oil and natural gas searching and mining.

The structure of Vice-president for Human Resources and Administration Group was formed of: Administrative Department, Organization and Restructuring Department, Personnel Department and Human Resource Management Department.

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The structure of Vice-President of the Board for Retail Sales Group comprised: the structures of Director for Investments in Retail Sales and Director of Sales Management, Department of Planning and Retail Sales Analysis, Department for Purchase of Non-Fuel Products and Category Management, and Marketing Department.

Within the process of integration of PKN ORLEN SA and UNIPETROL Holding, particular Reporting Directors commenced analytical research concerning the integration process with respect to aspects of their competencies in order to achieve the synergy effect.

In the first half of 2005, the Company continued work on the initiated last year project of a new concept of segment management, based on standards adopted in the international oil concerns. The drafts of procedures necessary for the operation of the segment management were prepared and the Company assigned particular companies of the Group to appropriate segments. A new organizational structure was also suggested, adapted to development strategy and increase of PKN ORLEN SA goodwill.

In the first half of 2005 the Company conducted work within the restructuring project for regional offices in the area of retail sales, investments and maintenance of petrol stations and finance, which was aimed at design of trade effective structures ensuring maximum sales and economic result. The new regional structures in retail sales, investments and maintenance of petrol stations and finance were implemented on 1 July 2005.

Apart from the above organizational and legal changes in the Company, significant changes in two companies of the Capital Group were noticed:

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

In the first half of 2005 there were further changes in the work organization in the company aiming at improving its functioning and optimization of activity costs, and effectiveness of task performance. The most important of those changes are as follows:

- liquidation of the Trade unit and replacing it with Sales unit, directly supervised by the Trade Director; the number of posts of the sales unit was increased, while decreasing the number of posts in the former Supplies Team;
- establishment of Purchases and Logistics unit, supervised by Trade Director thus replacing the Supplies Team; the unit supervises Supplies Warehouse;
- separation of Oil and Lubricants Warehouse from the former Trade unit, which is currently supervised directly by the Director of the Oil and Lubricants production unit;
-establishment of an independent post of Coordinator for production and sales, supervised directly by the Director of the Oil and Lubricants production unit;
- liquidation of the technology and Production Development Team in the Optimization and Settlement of Production unit, and formation of the optimizations and settlement of production team; moreover, expert engineers were assigned to particular production units;
- widening of scope of professional duties of up to now Representative of Bonded Warehouse with simultaneous change of the name of this position to Representative to Excise Tax Products.

The most important external factors having an impact on the results of Capital Group are the following:

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- **Economic growth**

An increase in GDP in the first half of 2005 amounted to 2.4% whereas in the first half of 2004 to 6.5%. The domestic demand in the first half of 2005 increased by 0.4%. The projections for the year 2005 assume an increase in GDP by 4%. Rapid race of the economic growth in Poland and the deomestic demand may have a positive impact on rise in the consumption of liquid fuels.

- **Unemployment rate**

At the end of the first half of 2005 the unemployment rate was lower compared to the end of the first half of 2004 and amounted for 18% compared to 19.40% at the end of the first half of 2004. There was a smaller number of the newly registered unemployed and at the same time there was an increase in number of the unemployed deregistered from the employment agency evidence. The high unemployment rate in Poland is still one of the factors, which limits internal demand and adversely influences the level of sales of the Capital Group products.

- **Inflation**

According to data published by the Central Statistics Office, the average annual increase in prices of consumer goods and services in the first half of 2005 was higher than in the first half of 2004 (2.9% compared to 2.5% respectively).

- **Prices of crude oil, refinery products and margins**

Changes in crude oil prices as well as significant fluctuations in finished goods prices on world markets, cause significant variations in margins generated by the Capital Group. In the first half of 2005 there were large fluctuations in crude oil prices. The average annual price of Brent barrel from quotations increased in comparison to the first half of 2004 by 47.4% to the level of USD 49.67/bbl. Additionally, during the first half of 2005 there were considerables increases in product margins (crack), which positively influenced the results of PKN ORLEN S.A. and the Capital Group companies producing and trading in fuels. Margins on petrol increased by 78.3% to the level of USD 128.92/ton, on Ekoterm by 94.1% to the level of USD 90.33/ton, and on Jet A-1 by 65.2% to the level of USD 146.62/ton. An insignificant decrease was recorded for margins on petrol (decrease by 13.4% to the level of USD 106.12/ton). The margins on petrochemical products recorded significant increases, among others, on ethylene by 20.9% to the level of USD 576.28/ton and on propylene by 41.7% to USD 515.72/ton.

- **Fluctuation of exchange rates**

The exchange rate fluctuations have significant impact on sales revenue and results of the PKN ORLEN Capital Group (by means of adjusting the fuel prices on the basis of import parity), costs of crude oil and other raw materials as well as financial costs related to debt denominated in foreign currencies. Purchases of crude oil and other raw materials realised by PKN ORLEN S.A. are denominated in USD and EUR, although the majority of revenues are realized in PLN. As a result of the above trends, changes in the exchange rate of PLN to foreign currencies have a significant impact on the results

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achieved by the Parent Company. The average annual USD exchange rate decreased by 17.6% to the level of PLN 3.18 (calculated as arithmetical average of daily NBP exchange rates within period from 1 January to 30 June 2005). Simultaneously, the EUR exchange rate increased by 13.7% to the level of PLN 4.08.

- **Changes in fiscal policy and current legal regulations**

Any changes in VAT regulations and excise tax will also be of great importance for the economic situation of the Capital Group. Fiscal policy is characterized by enlarging its subject range and increasing of excise tax rates for crude oil products. While prices of products are on high level, it is an additional barrier preventing form full transfer of operational costs on products selling prices.

The year 2005 is another period of changes in the structure of demand for engine fules due to increase demand for automotive liquid gas and diesel oil, while the petrol market remained on the comparable level. Since 1 January 2005 the quality requirements have been more restrictive for petrol and diesel oil. In case of petrol, the sulphur content was limited to 50 ppm (from 150 ppm) and the content of fragrances to 32% of the capacity (from 42% of the capacity). In case of diesel oil, the content of sulphur was limited to 50 ppm (from 350 ppm), and the excise tax allowance was introduced for sulphur-free diesel oil (sulphur content <10 ppm).

The above changes had an impact on limitation of flexibility in the motor fuels production and increased the unit cost of production. The excise tax allowance for sulphur-free diesel oil enabled PKN ORLEN SA to optimise its production in his area. Some investment decisions has been also made aiming at improvement of production flexibility and lowering of production costs of low-sulphur motor fuels.

- **Mandatory reserves**

Owing to obligations resulting from the Polish accession to the European Union, Poland is compelled to reach the level of 90-days mandatory reserves of liquid fuels, constituting the assurance of the energy safety for the country. Thus, the producers and importers of fuels operating in Poland are obliged to make mandatory reserves. Effective 1 July 2005 an Amendement of the Act on State Reserves and Mandatory Reserves (Journal of Laws No. 143, item 1201) came into force, which provides for the issues related to the Poland's accession to the European Union. The current schedule of making liquid fuels reserves is based on the production volume, intracommunity purchases and imports, carried out by an entrepreneur in the prior year, less intracommunity supplies and exports. Starting from 1999 the required level of mandatory reserves has increased by 7 days yearly, to reach the number of 76 days at the end of 2008. Moreover, the the Ministry Material Reserves Agency is responsible for state reserves of liquid fuels in the amount equal 14-day consumption of fuels in a given year. PKN ORLEN SA makes and maintains mandatory reserves of fuels, semi-products and crude oil. For storing the reserves the Parent Company uses mainly the underground warehouses of crude oil and fuels of storage tanks in IKS "Solino" S.A., its own warehouses located around the country and warehouses belonging to Naftobazy Sp. z o.o. The cost of underground storage of crude oil and fuels is much lower than the cost of ground warehouses.

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- **Decrease in car sales**

During the first half of 2005 lower demand on the domestic market of newly produced cars was observed. According to companies analysing the automobile market, car sales in the first half of 2005 decreased by about 33% as compared to the first half of 2004, i.e. to the level of over 129 thousand cars. The decrease of sales was influenced considerably by the increased import of second-hand cars. The number of cars imported to Poland was over three times higher than sales od brand new cars. The level of sales of new cars influences fuel consumption.

- **Domestic fuel consumption**

In the first half of 2005 the total estimated domestic fuel consumption in Poland, based on data from Nafta Polska S.A., amounted to 6,245 thousand tons, that is was at the level comparable with the respective period of 2004. In the first half of 2005 pertol consumption decreased by 5% with regards to the level of 2004. The basic factor caused the decrease is a dymamic development of the automotive gas market. In accordance with the data provided by the Polish Organisation for Liquid Gas (POLG), in 2004 the LPG consumption increased compared with 2003 by about 35% and amounted to 1, 440 thousand tons (i.e. 34% of the consumption volume of pertol in 2004). In compliance with POLG estimates, the Polish liquid gas market is the first in Europe considering the number of vehicles powered with LPG, and the second in the world (after the South Korea). The number of vehicles powered with this type of fuel is currently estimated at almost 2 million.

The consumption of the diesel oil in the first half of 2005 increased only by 1% with respect to the first half of 2004, which is mainly due to very ineffective second quarter (2% decrease in consumption). The reason for such a situation is considerable, of about 16%, increase of retail DO prices in the first half of 2005 and the related possible rise in light heating oil usage for illegal powering of Diesel engine vehicles (this may be evidenced also by 5% increase in LHO consumption).

In accordance with Nafta Polska S.A. data, in the first half of 2005 the consumption of light heating oil increased by 5% with reference to the comparable period of 2004. The main factor which generated rise in LHO consumption was the Decree of the Ministry of Finance under which the excise tax rate on this fuel was increased to the level of DO. Consequently, in May 2005 LHO consumption was over 40% higher than in May of the prior year. Finally, the Decree was withdrawn yet it definitely influenced significantly the medium distillate market and the whole situation proved how strongly the government's fiscal policy influences the Polish fuel market.

In the first half of 2005 the demand for fuels was satisfied mainly from domestic refineries, which due to increasing imports recorded 5% fall of the total fuel sales in Poland.

- **Imports of fuels**

The estimated total import sof fuels to pOland in the first half of 2005 increased with respekt to the comparable period of 2004 by about 285 thousand tons.

In the first half of 2005 pertrol imports remained at the volume level of the first half of 2004 (decrease only by 12 thousand tons), while imports of medium distillates considerably increased: diesel oil (by 210 thousand tons) and light heating oil (by 87 thousand tons).

A high level of imports of diesel oil to Poland was due mainly attributable to very high crack margins in the first half of 2005 for this product – on average USD 129/ton compared with USD 76 /ton in the first half of 2004.

Due to dynamic rise of imports of medium distillates, it is estimated that in the first half of 2005, as in the comparable period of 2004, PKN ORLEN S.A. reached 55% share in the fuels market, including approximate 2 percentage points gained on the petrol market and the same amount given up on the diesel oil market.

Still high fuel prices and the related high crack margins justify the assumption that imports of fuels will continue to be profitable and its high volume will in the near future decrease the share in sales of Polish refineries on the domestic market.

- **Interest rates**

At the end of the first half of 2005, pawn loan interest rates reached the level of 6.5%, whereas bill of exchange discount rate 5.5% (at the end of the first half of 2004 6.75% and 5.75% respectively).

The average LIBOR 3M rate for United States Dollar increased by 1.9 pp in comparison to the end of June 2004, whereas the average EURIBOR 3M rate for Euro decreased by 0.1 pp. The level of interest rates influences cost of the Capital Group debt.

- **The situation on the Polish retail market**

Considerable increase of the number of Neste and shopping centers stations which are aimed at low prices and high volume of sales (due to localization and pricing policy) impacts the fuel retail market in Poland and currently, using "volume factor" constitutes the significant portion of that market.

Despite increase in PKN ORLEN S.A. franchising stations and the nominal rise in the number of petrol stations, PKN ORLEN S.A.'s share in the total number of petrol stations decreases (by 1.2%).

The following internal factors influenced the results achieved by of the PKN ORLEN S.A. Group in the first half of 2005:

- **Loyalty programs developed in the Parent Company**

VITAY program is a loyalty scheme aimed at individual customers visiting ORLEN petrol stations on a regular basis. VITAY was launched on 14 February 2001.Customers making purchases within the program gain VITAY points, which may be subsequently exchanged for fuel or gifts.

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Flota Polska Program is designed for institutional customers operating their own means of transport. The most numerous participants of the program include: shipping companies, production and service companies, banks, offices of central and local administration and foreign branch offices. We offer two kinds of Flota cards for our clients: K-type cards, issued to the driver's name and S-type cards issued for a specific vehicle registration number. Each card can be loaded with individual limit for fuel volume as well as products and services value and frequency of transactions. Additionally, Flota managers can visit a personalized web-page, which provides tools assisting in Flota management.

In 2004, owing to cooperation of two strong partners and brands a new co-branded card was introduced. ORLEN/DKV card is the first one in Europe, which unites a microchip technology of Polish FLOTA card with magnetic strip of DKV network.

In 2004, owing to cooperation of two strong partners and brands, there is a new co-branded Flota card on offer. ORLEN/DKV is the first fuel card in Europe which combines microprocessor technology of the Polish FLOTA card with the DKV magnetic card.

In the first half of 2005, the share of Flota sales in the total fuel sales in the own petrol stations increased to 10.4% from 8.6% in the first half of 2004.

- **PKN ORLEN S.A. investment program**

In the first half of 2005, the Parent Company's Management Board approved of the following investment projects:

- adaptation of HON VI installation for production of diesel oil of sulphur content below 10 ppm. The completion deadline is: October 2006. Objective: to adaptat of the instrumentation of HON VI to the new catalyst necessary for production of diesel oil of sulphur content up to 10 ppm.
- modernization of the Warehouse No. 94 in Świnoujście. Completion deadline: September 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 81 in Kraków – Olszanica. Completion deadline: September 2007. Objective: to maintain distribution capacity of the warehouse by reconstruction of the obsolete technical utilities and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 82 in Żurawica. Completion deadline: August 2007. Objective: to maintain reloading capacity of the warehouse by modernization of the existing infrastructure and to adapt the warehouse to the requirements resulting from the binding regulations.
- modernization of the Warehouse No. 112 in Bolesławiec. Completion deadline: July 2007. Objective: to adapt the existing technical utilities of the building to the technical safety, fire, ecological and work safety requirements resulting from the binding regulations and to improve the operations of the warehouse.
- PKN ORLEN SA engagement in construction of a complex of fragrances extraction installation of capacity of 395 thousand tons/year for paraxylene PX and 600 thousand tons/year for PTA terephthalate acid. The projected deadline of completion: September 2009. Objective: to launch from 2009 the PX + PTA installation of capacity of 600 thousand tons/year as components for production of polyterephthalate ethylene (PET).

In the first half of 2005, in accordance with Investment Operations Plan the following projects were accepted, transferred for use and settled within the projected budgets:

- Construction of three feeding units for auto tanks for toluene, pharbasole and xylene in Production Plant in Płock. The investment was accepted on 20 January 2005. Objective: to move production of the above solvents from Warehouse No. 13 to PKN ORLEN S. A. Vehicle Terminal.
- Adaptation of technological furnaces F201 at installations HON II and HON III for their UDT supervision. The project was accepted on 28 January 2005. Objective: to modernize furnaces in order to subject them to UDT supervision, to ensure further exploitation of the furnaces and installations HON II and HON III, to increase technical safety and decrease a negative impact on environment by limitation of gas emission.
- A unit for feeding auto tanks with heating fuel. The project was accepted on 9 March 2005. Objective: to improve technical, fire and ecological safety at loading of heavy heating oil to auto tanks.
- Improvement of separation of liquids from wet gas from 1-V-06 at installation DRW VI. The project was accepted on 10 March 2005. Objective: to improve separation of liquids from we gas at installation DRW VI, to reduce the amount of desalted crude oil, to limit the number of breaks in the process.
- Development of the warehouse network for antifreezeing liquids. The project was accepted on 25 March 2005. Objective: to meet the trade needs by increase of the range of produced antifreezing liquids: PETRYGO liquid and concentrate, QAL liquid and concentrate.
- Modification of the soft asphalt cooling unit. The project was accepted on 30 March 2005. Objective: to ensure safety of installation HOG during its rest.
- Infrastructure of Polyethylene III and Polypropylene III. The date of acceptance: 31 March 2005. Objective: to secure supplies of raw materials, support products and electric power to the basic installations of Poliolefin III constructed by JV.
- Optimisation of the sulphur content in the diesel fuel and Ekoterm light heating oil. The project was accepted on 31 March 2005. Objective: to opitimise the sulphur content in accordance with the European Union requirements, to reduce the amount of reblendings and to eliminate control analyses.
- Installation for petrol feeding to raiway tanks in the Warehouse No. 74 in Ostrów Wielkopolski. The project was accepted on 24 May 2005. Objective: to decrease transportation costs of fuels on the route Płock – warehouses located in the south-western Poland, using the existing product pipeline Płock - Ostrów Wielkopolski.
- Modernisation of H101 and H102 furnaces at Paraxylene Installation. The project was accepted on 30 May 2005. Objective: to modernise furnaces in order to subject them for UDT supervision; to allow firther use of the furnaces and paraxylene installation; to increase technical safety and reduce a negative impact on environment by limitation of gas emission.
- Revamping Infrastructure at Olefin II. The project was accepted on 28 June 2005. Objective: to ensure supplies of raw materials, support products and electric power to Olefin II after revamping, and to ensure expedition of all product lines.

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- Intensification of Fragrances Extraction Installation with facilities. The project was accepted on 13 June 2005. Objective: to increase capacity of the installation from 480 thousand tons/year to 550 tons/year, to manage the BT fraction line from II after revamping, to remove bezene from reformate which will make it possible to decrease the benzene content in fuels (the required petrol quality in the EU in 2005); to increase the quality of the produced benzene and toluene in compliance with ASTM standards, which will increase sale capacity.
- Revamping at Olefin II, intensification of IFP, pyrotol and butadiene emission – installations of I category. The scope of the project accepted on 29 June 2005. Objective: to complete the necessary stages in order to launch the installation with capacity of 360 thousand tons/year and to gradually launch technological units increasing ethylene production volume to 700 thousand tons/year.

- **BONUS Project in the Parent Company**

In April 2005 the Company launched BONUS project. Its objective is mainly to significantly reduce costs related to external purchases and to make the purchases more effective. The Project is carried out with advisory support from A.T. Kearney, which provides similar services to the largest global companies. In June the Company completed the first stage of the project consisting of review of all external expanses of the Parent Company and selected companies of the Capital Group. Currently, the project embraces the operating implementation of savings in particular purchase areas. Within the first stage the project projects even PLN 100 milion of savings per year.

- **OPTIMA - Programme of operating cost reduction**

OPTIMA, a programme of operating cost reduction is follower of the previous programme launched in 2004, called KPRKO. OPTIMA is to embrace the whole Capital Group. By the end of 2005 PKN ORLEN SA will have finished KPRKO. Under this programme, before the end of 2004, 340 savings initiatives were implemented. OPTIMA is a more extensive programme than KPRKO as it embraces the Group companies and refers to many more issues. OPTIMA does not comprise the parallel programme of Total Margin Optimisation. Implementation of OPTIMA will result in reduction of operating costs by minimum PLN 600 million in 2009, i.e. above the final result of KPRKO with respect to 2005. It will also help to reduce e investment expenditure by minimum PLN 600 million in the years 2006-2009 at unchanged investment schedule included in the development strategy of PKN ORLEN SA. The savings will result from more rational expenditures and not from reduction of investments.

- **Risk Management System in PKN ORLEN S.A.**

Financial results of the Parent Company may be subject to fluctuations in relation to market factors, particularly to quotations of products, exchange rates and interest rates. PKN ORLEN S.A. manages the risk, to which it is exposed, limits variability of the future cash flows and limits potential economic losses arising as a consequence of the events that may have a negative impact on the result of the Company. The policy and the strategy of using derivatives is determined and supervised by the Management Board.

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In case of the exposition USD/PLN related to operating activity there is a natural hedging, i.e. the exchange rate risk from purchase of crude oil is offset against the revenues from the sale of products, which prices depend on the USD/PLN exchange rate.

Moreover, swap transactions concluded in the year 2003 stabilizing cash flows in EUR generated by sales of petrochemical products were realized in 2005. Maturity date of the mentioned hedging transactions is 2006.

The Parent Company applies the cash flow hedge accounting for the swap transactions using a system supporting management of hedge transactions. In order to formalize the risk management process relevant procedures were implemented and the Risk Committee was set up to control the Parent Company exposure to risk and to make decisions on concluding hedging transactions.

- **Implementation of efficiency plans in the Parent Company**

At the end of 2002, the Parent Company's Management Board decided to implement two significant efficiency systems during the period 2003-2005 – value based management system and a comprehensive operational cost cutting programme. The first plan will allow the Company to introduce modern management methods, take optimal decisions and improve managers' competency, which will help to increase Company's value and improve the shareholders' perception of the Company. The latter plan will ensure a decrease in a significant part of operating expenses in all areas of the PKN ORLEN S.A. activities. The detailed description of those programs is included in the part V of the statement.

- **Investment programme in ANWIL S.A.**

Investment projects carried out in last years improved to a significant extent competitiveness of Anwil S.A. The company timely discounted the effects of investment undertakings from prior years thus settling all its financial liabilities, particularly rapid special loan instalments. This way it achieved a liabilities structure which makes it possible to launch other development projects. The scope of investment carried out in this period concerned continued investments related with environment protection and improvement of business effectiveness and cost competitiveness of the company:

- the company continued the task the commenced in 2004 "Change of technology of producing chlorine from diaphragm to membrane" at Chlorine and Sodium Wax Production Plant. This investment is supplementary to the earlier realized projects in PCV production chain, necessary to reach production capacity at the level of about 330 thousand tons/year. The closing budget amounts to PLN 247 million.
- to reduce impact on the environment ANWIL SA modernised the waste disposal system by constructing and acceptance for use of Biological Sewage Treatment Plant (BSTP)
- the company continued the following main projects:
    - modernisation of cracking installation – heat retrieval,
    - construction of CANWIL warehouse (the trade name),
    - modernization of CV and PCV installations.

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## III. CURRENT AND PROJECTED FINANCIAL POSITION OF THE CAPITAL GROUP

### 3.1 PRODUCTION

In the first half of 2005 crude oil processing in the PKN ORLEN SA Group companies amounted to 6,548 thousand tons and was by 9.9% higher in comparison to the comparable period of the previous year (2005 includes Unipetrol – June). There was an increase of the processing of crude oil by 6.0% to the level of 6,047 thousand tons in the Dominant Company. The proceeds on refined products amounted to 81.37% and was higher by 0.2 pp than in the first half of 2004.

The most important events in the first half of 2005 in the area of production were:

1. Production of lead-free fuels in compliance with the requirements EN 228:2004 for motor fuels effective from 1 January 2005. The acceptable levels were restricted in two parameters: fragrances content is lowered from 42% (of the volume) to 35% (of the volume) and sulphur content from 150 mg/kg to 50 mg/kg.

2. Production of diesel oil Ekodiesel Ultra of the sulphur content below 10 mg/kg in accordance with ZN/ITN-ORLEN/NF-229/2004, which was included in PKN ORLEN S.A. offer from 1 January 2005. The oil meets the highest quality and ecological standards for high-pressure engine fuels in the EU. The low level of sulphur in the diesel oil will be adopted in the EU states as obligatory in 2009.

3. Agreement with AXENS (basic design, license and catalyst delivery) for diesel fuel stabilising installation in Desulphurisation of Cracking Fuel concluded in January 2005. The launching of the installation is planned for the end of 2007.

4. The necessity to process the mixture of Rebco crude oil and low-sulphur oil in order to produce low-sulphur fuel for Power Plant due to the planned rest of HOG installation (29.04-12.06). The share of low-sulphur oil in the total processed raw material amounted to 1.6%.

5. Due to conducted modernisation of petrochemical installations (Olefin II, Butadiene II, Hydrogenetion of Petrol, Pyrotol) and maintenance rests at other installations: Ethylene Oxide I and II, Glycol I and II and Phenol, the production of petrochemical products was limited.

6. In May and June the major modernisation work at installation in Olefin II, which allowed launching of new units without excluding the existing part of the installation. The completion of the project is planned for September. The production capacity of the modernised installation is 702 thousand tons of ethylene/year.

7. By the end of June 2005, launching of the modernised Fragrances Extraction Installation producing benzene and toluene based on raw materials from Reforming V and Olefin II. The production capacity of the modernised installation is 27.4 t /h for toluene and 22.4 t/h benzene.

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## 3.2 INFORMATION CONCERNING BASIC PRODUCTS AND SERVICES, SALES MARKET AND SUPPLY SOURCES FOR COMPANIES OF THE CAPITAL GROUP

Information concerning the basic products and services as well as sales market and supply sources for the Capital Group companies are presented further in the Additional Information.

## 3.3 FINANCIAL RESPURCES MANAGEMENT

At the end of the first half of 2005 the level of net financial indebtedness of the Parent Company with respect to 31 December 2004 increased by PLN 1,385. Capital investments, in this period reaching PLN 1,995 million, were financed with an excess from the current operating activity (PLN 718 million), with liquid assets and deposits (PLN 757 million), assets obtained from repayment of the loan granted by the Company in 2004 to its subsidiary ORLEN Deutschland AG (PLN 244 million) and with increased external indebtedness (PLN 280 million).

The most significant investment expense item at the Parent Company in the first half of 2005 was acquisition of 62.99% shares in Unipetrol, 9.76% of shares in Spolana and purchase of receivables of some of the Unipetrol Group companies for the total amount of PLN 1,797 million.

Increase in external indebtedness of the Company was a result of signing of two loan agreements in CZK of the total amount of PLN 207 million and increase by PLN 134 million, compared to the state at 31 December 2004, of available credit lines at current accounts. In accordance with consortium agreement concerning the optional currency (dollar), a portion of the dollar drawings (PLN 61 million) of the consortium loan was repaid, yet the carrying amount of the loan denominated in PLN increased due to changes in exchange rates.

The Parent Company is a party to 8 loan agreements, of which 7 are of a short-term type and one is a long-term loan agreement. All short-term loans were granted to the Company under bilateral agreements. The long-term loan is a currency loan granted by the consortium of 19 banks, both Polish and international. The maturity date for four of the short-term loans with statistical interest accumulated as at 30 June 2005 falls in 2005 (in line with the balance as at 30 June 2005: PLN 338 million), for three loans in 2006 (in line with the balance as at 30 June 2005: PLN 5 million), and for the long-term loan in 2008 (in line with the balance as at 30 June 2005: PLN 1,423 million).

Detailed information on maturity dates for the loans were presented in Note 16 of the consolidated financial statements of the PKN ORLEN Group for the first half of 2005.

In the first half of 2005, the Parent Company did not grant any loan within the Capital Group.

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The amount and structure of financial liabilities, both in terms of their maturity and currency in which they are denominated, are as follows:

| Share of loans in the Company: | 31 December 2004 | | 30 June 2005 | |
|---|---|---|---|---|
| | in PLN million | % | in PLN million | % |
| Long-term | 1,408 | 100% | 1,423 | 81% |
| Short-term | 6 | 0% | 343 | 19% |
| in USD | 709 | 50% | 732 | 41% |
| in EUR | 702 | 50% | 695 | 39% |
| in CZK | 0 | 0% | 202 | 12% |
| in PLN | 3 | 0% | 137 | 8% |

The Company's liquidity as at the end of the first half of 2005 remains at the secure level. The available current financial assets amount to PLN 520 million, the Company takes advantage of unused credit lines and the Programme of Bond Issue. As at 30 June 2005, under short-term loan agreements the Company may use PLN 272 million, under the long-term agreement PLN 606 million (i.e. in the loan currency EUR 150 million) and PLN 700 million within the Programme of Bond Issue (moreover after the balance sheet date, in July 2005, the Company signed another renewable loan agreement for PLN 100 million with a year maturity).

The financial safety of the Company is positively influenced also by a large lending capacity which allows obtaining additional external resources in a relatively quick and inexpensive way.

Currently, the Company intends to continue optimization of its financing within the PKN ORLEN SA Group.

In the first half of 2005 the Group companies (excluding the Parent Company) drew and were granted the following significant loans:

- **Anwil S.A.**

ANWIL SA in the first half of 2005 signed 2 new loan agreements:

- preferential loan agreement related to environment protection; amount due: PLN 3,500,000; maturity date: 30 December 2010;
- preferential loan agreement related to environment protection; amount due: PLN 63,000,000; maturity date: 30 March 2011.

- **IKS SOLINO S.A.**

- investment loan; amount due: PLN 121,651 thousand; maturity date: June 2017;

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

- loan in Bank PEKAO S.A. Warsaw; of PLN 10,000 thousand for financing of current operations; amount due PLN 10,000 thousand; maturity date: May 2008
- loan in ING Bank Śląski S.A. of PLN 29,688.7 thousand for the investment project "Hydrorefining Installation"; amount due: PLN 10,391 thousand; maturity date: December 2006,
- loan in Bank PEKAO S.A. Warsaw of PLN 30,000 thousand for financing of current operations; amount due: PLN 17,329 thousand; maturity date: May 2007,
- loan in BPH S.A. of PLN 20,000 thousand for financing of current operations; amount due: PLN 150 thousand; maturity date: November 2007,
- loan in BRE Bank S.A. of PLN 5,000 thousand for financing of current operations, amount due: PLN 39 thousand; maturity date: December 2006,
- loan in PKO Bank Polski S.A. of PLN 20,000 thousand for financing of current operations, amount due: 5.242; maturity date: December 2006,
- loan in the National Fund for Environment Protection and Water Management of PLN 50,000 thousand for subsidising the investment project "Hydrorefining Installation"; amount due: PLN 15,000 thousand; maturity date: December 2006.

- **Rafineria Trzebinia S.A.**

- investment loan in BOŚ Warsaw, amount due: PLN 1,500 thousand; maturity date: April 2006,
- investment loan in BOŚ Warsaw, amount due: PLN 1,950 thousand; maturity date: July 2006,
- investment loan in PEKAO Warsaw, amount due: PLN 30,000 thousand; maturity date: October 2007,
- short-term loan in BPH PBK S.A., amount due: PLN 29,016 thousand; maturity date: May 2006,
- short-term loan in CITIBANK, amount due: PLN 18,589.4 thousand; maturity date: November 2005,
- short-term loan in PEKAO Warsaw, amount due: PLN 18,788.4 thousand; maturity date: December 2005,
- short-term loan in PEKAO Warsaw, amount due: PLN 20,000 thousand; maturity date: February 2007,
- short-term loan in BH Warsaw, amount due: PLN 3,735 thousand; maturity date: January 2006,
- short-term loan in PEKAO Kraków, amount due: PLN 11,311 thousand; maturity date: January-April 2006,

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

- current account loan in Bank Handlowy in Warsaw, amount due: PLN 17,087 thousand; maturity date: November 2005;

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

- Before 19 December 2004 Basell Orlen Polyolefins was granted a loan for Project Implementation (EUR 350

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million) and a short-term loan (EUR 20 million). The first is an investment loan and is devoted to finance new polypropylene and plyethylene installations; the latter is used to cover deficiencies in the operating capital. The first instalment of the Project Implementation loan was partially used in January 2005 to repay the auxiliary loan drawn in 2003 (EUR 30 million). The loan repayment will start in July 2006, and the maturity date will fall in the half of 2015. Financial assumptions of creditors project an earlier repayment of the loan (half of 2012). In order to finance NPP investment and repay the accumulated interest the company continues to draw from the loan. The withdrawals within a given drawings are possible before the end of 2005. After that date the repayment of the loan will be commenced. As at the end of June 2005 the amount of the loan used for the project amounted to EUR 190.6 million (PLN 840.7 million), and the renewable short-term loan was not used.

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

- medium-term loan in Bank BPH S.A., amount due: PLN 14,482.5 thousand; maturity date: May 2006,
- short-term loan in Bank Handlowy S.A., of PLN 20,000 thousand, amount due: PLN 19,728 thousand; maturity date: December 2005,
- investment loan, in Bank BPH S.A. (in CHF) amount due: PLN 9,906 thousand (CHF 3,799.5 thousand); maturity date: December 2006,

- **ORLEN PetroProfit sp. z o.o.**

- short-term loan in Bank Handlowy O/Lublin, of PLN 5,000 thousand, amount due: PLN 4,034 thousand; maturity date: undefined, renewable every 7 days no longer than to 28 September 2005
- short-term loan in PKO S.A. V O/Lublin, of PLN 5,000 thousand, amount due: PLN 4,331 thousand; maturity date: December 2005,
- short-term loan in Kredyt Bank S.A. O/Lublin, of PLN 4,200 thousand; amount due: 2.975 thousand; maturity date: June 2006,
- short-term loan in Bank Handlowy S.A. O/Lublin of PLN 3,500 thousand; amount due: PLN 3,500 thousand; maturity date: January 2006,

- **ORLEN PetroZachód Sp. z o.o.**

- short-term loan in, PEKAO S.A. Poznań, of PLN 9,000 thousand, amount due: 7.552,5 thousand; maturity date: June 2006,
- short-term loan in PKO BP S.A. Poznań, of PLN 2,200 thousand, amount due: PLN 394 thousand; maturity date: December 2005,
- short-term loan in Bank Handlowy Warsaw, of PLN 5,000 thousand, amount due: PLN 3,324 thounsand; maturity date: December 2005,
- short-term loan in Bank BWE, of PLN 4,000 thousand, amount due: PLN 4,000 thousand; maturity date:

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September 2005,

- short-term loan in Bank BWE, of PLN 2,000 thousand, amount due: 269 thousand; maturity date: September 2005,
- long-term investment loan in Bank Handlowy Warsaw, of PLN 6,500 thousand, amount due: PLN 977 thousand; maturity date: March 2006.

- **Ship Service S.A.**

- loan of PLN 8,000 thousand, in Bank PEKAO S.A., amount due: PLN 7,458 thousand; maturity date: March 2006,
- loan of PLN 6,700 thousand, BNP PARIBAS, amount due: PLN 1,614 thousand; maturity date: June 2005.
- loan of PLN 3,000 thousand, BRE Bank S.A., amount due: PLN 2,128 thousand; maturity date: September 2009,
- loan of USD 4,000 thousand, Bank PEKAO S.A., amount due: PLN 10,553 thousand; maturity date: August 2006,
- loan of USD 1,450 thousand, BRE Bank S.A., amount due: PLN 4,544 thousand; maturity date: November 2006,
- loan of USD 400 thousand, BRE Bank S.A., amount due: PLN 1,156 thousand; maturity date: September 2008,

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

- current account loan in BRE Bank S.A. up to PLN 10,000 thousand; as at 30 June 2005 amount due: PLN 1,445 thousand,
- current account loan in Bank Handlowy in Warsaw; amount due as at 30 June 2005 PLN 18 thousand, maturity date: July 2005,
- current account loan in BPH S.A. in Warsaw up to PLN 15,000 thousand; as at 30 June 2005 the loan was not used,
- investment loan in ING Bank Śląski S.A. of PLN 11,200 thousand, amount due as at 30 June 2005 PLN 5,058 thousand; maturity date: December 2009.

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

- investment loan in BGZ S.A. of PLN 6,000 thousand, amount due as at 30 June 2005 PLN 4,500 thousand, maturity date: June 2008,
- loan in PKO BP S.A. of PLN 5,400 thousand, amount due as at 30 June 2005 PLN 5,400 thousand, maturity date: 2008-2010,

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

- short-term current account loan in Bank Pekao S.A. of PLN 4,400 thousand; amount due as at 30 June 2005: PLN 1,497 thousand; maturity date: September 2005.
- short-term current account loan in Bank Handlowy in Warsaw CITIBANK of PLN 5,500 thousand; amount due as at 30 June 2005: PLN 1,700 thousand; maturity date: January 2006.

- **Unipetrol a.s.**

- loan in Ceska sporitelna a.s. of CZK 2,069 million, amount due as at 30 June 2005 PLN 2,069 million; maturity date: July 2011,
- loan in Ceska sporitelna a.s. of CZK 832 million, amount due as at 30 June 2005 PLN 832 million; maturity date: July 2011,

- **ORLEN Deutschland GmbH**

- loan of EUR 15,834 thousand in HSH,
- other loans of EUR 9,183 thousand.

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

- investment loan in Bank Pekao S.A. of PLN 672 thousand; amount due as at 30 June 2005: PLN 420 thousand; maturity date: April 2007
- investment loan in Bank BPH S.A. of PLN 1,522 thousand; amount due as at 30 June 2005: PLN 1,208 thousand; maturity date: June 2008.
- investment loan in PKO BP S.A. of PLN 2,705 thousand; amount due as at 30 June 2005: PLN 2,181 thousand; maturity date: June 2008.
- loan in Bank Pekao S.A. of PLN 1,504 thousand; amount due as at 30 June 2005: PLN 504 thousand; maturity date: December 2005
- loan in Bank BPH S.A. of PLN 2,100 thousand; amount due as at 30 June 2005: PLN 630 thousand; maturity date: December 2005.
- loan in PKO BP S.A. of PLN 3,490 thousand; amount due as at 30 June 2005: PLN 1,047 thousand; maturity date: January 2006.

- **ORLEN Transport Nowa Sól Sp. z o.o.**

- loan of PLN 2,000 thousand, in Bank Przemysłowo Handlowy; amount due: PLN 909 thousand; maturitydate: September 2005.

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### 3.3.1 Loans, sureties and guarantees granted to employees and companies of the Capital Group

In the first half of 2005 the Prent Company did not grant any loans within the Capital Group, therefore as at 30 June 2005 the Company was not a party to any loan agreement within the Group. In the discussed period the loan was rapid granted in 2004 to ORLEN Deutschland, a subsidiary, for EUR 60 million with accumulated interest.

The closing balance of borrowings granted from the Company's Social Fund to employees and pensioners of PKN ORLEN S.A. as at 30 June 2005 amounted to PLN 13,500 thousand, and the closing balance of borrowings granted to employees of the consolidated Group companies, which signed an agreement with PKN ORLEN SA for conducting common social activity, amounted to PLN 5,973 thousand.

As at 30 June 2005 the Parent Company' total off-balance sheet liabilities resulting from guarantees, sureties and other forms of hedges for other entities' liabilities amounted to PLN 997,224 thousand. Those liabilities include guarantees and sureties for liabilities of subsidiaries of the amount of PLN 690,720 thousand, for liabilities a jointly controlled entity PLN 151,504 thousand, and for third party liabilities PLN 155,000 thousand.

The key item of off-balance sheet pledges (74%) are the sureties granted to the banks in the form of guarantee letters and corporate warrantees with aim to hedge liabilities of ORLEN Deutschland AG resulting from its fuel trade activity.

A considerable portion of the off-balance sheet items will expire before the end of 2005 (41%), the largest portion will expire in the fist half of 2006 (53%), and other insignificant liabilities (6%) will expire in 2008. The above structure proves the short-term nature of the off-balance sheet liabilities.

Moreover, the Company has an effective pledge established in 2003 on stakes held in Basell Orlen Polyolefins Sp. z o.o. of PLN 453,699 thousand in order to secure financial liabilities of that company.

The other companies of the PKN ORLEN Group in the first half of 2005 granted the following borrowings, sureties and guarantees:

- **Anwil S.A.**

- Anwil S.A. in the first half of 2005 kept the surety for its subsidiary AGRO-AZOTY II WŁOCŁAWEK in Łąka due to current account loan agreement and investment loan (October and September 2005). The total amount of the surety as at 30 June 2005 was PLN 83 thousand.
- Bank Handlowy w Warszawie SA at the beginning of February 2004 granted guarantees (EUR 17,505,000) upon ANWIL SA application for Uhde GmbH due to the conducted investment in change of the production technology of chlorine from diaphragm to membrane, the value of the guarantee is decreased by the invoices settled by the company and as at 30 June amounted to EUR 9,294,746.

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- **Rafineria Trzebinia S.A.**

- BH Warsaw – surety of a loan for Energomedia Sp. z o.o., of PLN 1,100 thousand, expiration date: June 2006,
- PEKAO Kraków – surety of a loan for Spółki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: March 2009,
- BPH Chrzanów – surety of a loan for Spółki Naftowax Sp. z o.o., PLN 12,000 thousand, expiration date: May 2008,
- BH Warsaw – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 4,800 thousand; expiration date: July 2006.
- PEKAO Kraków – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 13,500 thousand; expiration date: January 2009.
- PEKAO Kraków – surety of a loan for Spółki Euronaft Trzebinia Sp. z o.o., PLN 5,250 thousand, expiration date: April 2009.
- ORLEN Asfalt Sp. z o.o. – surety of a loan in current account, PLN 7,200 thousand, expiration date: July 2005.
- Kompania Węglowa S.A. – surety of a loan for receivables resulting from purchase–sale agreement before 31 December 2005, PLN 500 thousand, expiration date: until repayment of liabilities.

- **Ship-Service S.A.**

Granted sureties:

- beneficiary: Bor-Farm Sp. z o.o., amount of the surety: PLN 100 thousand, the amount of secured loan PLN 100 thousand; expiring date: September 2005,
- beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 800 thousand, the amount of secured loan PLN 400 thousand; expiring date: March 2006,
- beneficiary: Ship-Service Agro Sp. z o.o. amount of the surety: PLN 1,000 thousand, the amount of secured loan PLN 500 thousand; expiring date: March 2007,

Granted guaranties:

- beneficiary: Customs Office in Gdynia, amount of the guarantee: PLN 1,000 thousand, expiring date: 20 February 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,500 thousand, expiring date: 20 February 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 5,000 thousand, expiring date: 24 May 2006,
- beneficiary: Customs Office in Warsaw, amount of the guarantee: PLN 3,000 thousand, expiring date: 3 May 2006,

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

– The company granted a bill of exchange guarantee and the statement on self-enforcement of debt recovery up to the amount of PLN 40,000 thousand to Bank Przemysłowo-Handlowy in exchange for guaranties for excise tax liabilities on bonded warehouses of ORLEN OIL. The validity of those guarantees: 30 September 2005.

- **ZBA S.A.**

– Guarantee of proper accomplishment of a task for ALSTOM POWER for PLN 2,160 thousand, valid before July 2007.

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

– BRE S.A. – pledge on sale and lease back for LOCUM., PLN 24,299 thousand, repayment date: June 2012,

- **Unipetrol a.s.**

– Kreditanstalt fur Wiederaufbau – bank guaranties for the total amount of CZK 2,016 million, expiring date: August 2012,
– Citibank N.A. – bank guarantees of total amount of CZK 653 million, expiring date: August 2012,
– Societe Generale Bank – bank guarantees of total amount of CZK 752 million, expiring date: June 2006,
– COMERZBANK AG – bank guarantees of total amount of CZK 820 million, expiring date: until rejection.

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### 3.3.2 Bond issuance

Bonds issuance is a flexible and effective instrument of gathering financial funds used for payment of current liabilities and repayment of matured securities. The Company takes advantage of the Bond Issue Programme concluded in May 2001 with Bank Handlowy w Warszawie SA, Bank Pekao S.A. and BRE Bank S.A. A bank which offers the most favorable profitability of issued securities conducts the issuance.

Under the Bond Issue Program the Company is able to issue debenture bonds up to the total indebtedness amount not exceeding PLN 700 million before May 2006.

In the first half of 2005, the Parent Company did not issue any bonds and as at 30 June 2005 did not record any active issues. Within the PKN ORLEN Group companies, only the Unipetrol Group entities benefited form the programme. The resulting indebtedness at the end of June 2005 amounted to PLN 476.473 thousand.

## 3.4 PROFIT AND LOSS STATEMENT

### 3.4.1 Revenues

In the first half of 2005 the PKN ORLEN SA Group sales of finished products, goods for resale and materials (without excise tax) amounted to PLN 16,760,956 thousand, which is by 21.3% more than in the first half of 2004. The rise in the Group sales was accomplished due to favorable macroeconomic factors as well as the consolidation of the Unipetrol Group from June 2005, which contributed to Group sales with PLN 1,607,411.3. In the first half of 2005 the level of fuel prices quotations on the world stock exchanges (an increase of quotation of petrol by 27.9%, diesel by 54%, Ekoterm by 55% and air fuel Jet A-1 by 52.1%) remained on a high level compared to the first half of 2004. The share of the Parent Company sales in the total Capital Group sales amounted to 58.2% in the first half of 2005.

### 3.4.2 EBIT

Gross Profit on sales of the PKN ORLEN Group for the first half of 2005 amounted to PLN 3,349,448 thousand and it was higher by 22.3% in comparison to the profit on sales in the first half of 2004. The high profit growth was influenced by the financial result of the Parent Company, which generated gross profit on sales higher by 29.7% as compared to the first half of 2004. Such level of an increase of profit on sales was achieved by taking advantage of favourable circumstances on the market. The positive financial result was achieved thanks to intensification of trade activities and favorable trends in the macroeconomic factors (crack margin from quotations) and due to consolidation in June of the Czech Unipetrol Group companies. In the first half of 2005, very good results were recorded by Anwil S.A. whose gross for the first half of 2005 amounted to PLN 143,481 and ORLEN Oil of PLN 41,795 thousand and Rafineria Jedlicze of PLN 24,839 thousand. In the first half of 2005 the Parent Company realised 7.7% increase of the total sales with respect to the comparable period of of the prior year. The total Group sales increased by 10.8%.

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In the first half of 2005 the profit on other operating activity amounted to PLN 1,609,723 thousand as compared to the first half of 2004 loss of PLN 183,161 thousand.

The consolidated financial statements of PKN ORLEN S.A.Group present the difference was between the fair value of the consolidated net assets of Unipetrol and the acquisition cost (PLN 2,005,027 thousand), which considerably increases other operating revenues and thus impacts the profit on other operating activity.

In the first half of 2005, profit on other operating activity amounted to PLN 3,499,979 thousand and was higher by PLN 2,429,509 thousand than the other operating profit generated in the first half of 2004.

### 3.4.3 Financial activity

In the first half of 2005 gain on financial activities amounted to PLN 207,181 thousand, as compared to the PLN 58,842 thousand in the first half of 2004. The increase in gain on financial activity was caused by higher than in the first half of 2004 increase of financial revenues in comparison with increase of financial costs. Financial revenues in the first half of 2005 amounted to PLN 452,050 thousand and increased in comparison to the respective period of 2004 by PLN 294,949 thousand. The main factor impacting the increase in the revenues is the unrealized discount effect for the acquired Unipetrol receivables of PLN 204,532 thousand and payment of the dividend by Polkomtel SA of PLN 83,290 thousand. Also in the first half of 2005 the Group recorded increase in financial costs by PLN 146,610 thousand, compared to the first half of 2004, which was due to unrealized negative tendencies in negative foreign exchange differences (increase of financial costs by PLN 120,787) and increase of interest rate costs by PLN 6,777 thousand.

### 3.4.4 Gross profit, income tax and net result

The PKN ORLEN SA Group in the first half of 2005 generated gross profit of PLN 3,744,262 (increase by 227.9% in comparison with the first half of 2004) on all segments of activities. Increase in gross profit was accompanied by increase in income tax charge by 65.5%.

In the first half of 2005 the Group generated net profit in amount of PLN 3,336,098 thousand and was higher by 279.0% compared with the result of the first half of 2004.

## 3.5 BALANCE SHEET

### 3.5.1 Total assets

As at 30 June 2005 total assets of the Capital Group PKN ORLEN S.A. amounted to PLN 32,976,560 thousand and increased by PLN 12,861,689 thousand (by 63.9%) in comparison to 31 December 2004. Conserning assets, the fixed assets constitute the main caption amounting to 61.8% of total assets (60.4% as at 31 December 2004). In equity and liabilities, the major part is shareholders equity constituting 53.3% of total liabilities as at 30 June 2005 (64.5% as at 31 December 2004). Comparing certain balance sheet captions as at 30 June 2005 and 31 December 2004 the following can be noted:

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- significant increase in non-current assets by 67.8% to PLN 20,386,470 thousand as a result of an increase in tangible fixed assets by PLN 7,206,329 thousand and in share in subordinated companies accounted for using the equity method by PLN 393,029 thousand
- increase in current assets by PLN 4,604,123 thousand, i.e. by 57,8% to PLN 12,567,398 thousand resulted mainly from significant growth of inventories by PLN 2,407,873 thousand and trade receivables and other receivables by PLN 2,406,688 thousand. The increase of those balance sheet items was related to revealing of Unipetrol in the consolidated financial statement. Comparing to 31 December 2004 cash and cash equivalents increased as well by 88,1%.
- increase in shareholders equity by PLN 4,605,572 thousand to PLN 17,583,174 was related mainly due to the growth of retained earnings – by PLN 2,422,650 thousand in comparison with 31 December 2004. Increase in retained earnings lower than increase in net profit for the first half of 2005 results from distribution of profit for 2004 (PKN ORLEN S.A. dividend amounting to PLN 911,020 thousand)
- increase of long-term liabilities by PLN 2,141,077 thousand to the level of PLN 5,274,805 thousand, mainly due to the growth of loans by PLN 1,179,913 thousand to the level of PLN 3,263,449 thousand (high level of external financing of Unipetrol)
- increase of short-term liabilities by PLN 6,115,040 thousand resulting mainly from significant growth of trade liabilities and other liabilities and accruals by 4,324,858 thousand (among other things due to increase of crude oil prices). At the same period loans and short-term borrowings grew by PLN 1,273,846 thousand to the level of PLN 1,515,463 thousand.

### 3.5.2 Net financial indebtedness

At at 30 June 2005 the level of long-term and short-term loans, borrowings and debt securities issued by the Capital Group PKN Orlen amounted to PLN 4,778,912 thousand and was higher by PLN 2,453,777 thousand in comparison to the level at the end of the year 2004. The net financial indebtedness of the Dominant Company as at 30 June 2005 (calculated as loans, borrowings and debt securities less cash and cash equivalents) decreased by PLN 1,384,799 thousand in comparison to 31 December 2004. The net financial indebtedness of the Capital Group as at 30 June 2005 increased by PLN 2,689,374 thousand, in comparison to the end of 2004, to PLN 3,154,541 thousand. Increase in net financial indebtedness and in equity led to growth of financial debt to equity ratio (loans, borrowings and debt securities less cash and cash equivalents to equity) from the level of 3.6% as at 31 December 2004 to 17.9% as at 30 June 2005. Such level of net financial indebtedness of equity remains at safe level.

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## 3.6 STATEMENT OF CASH FLOWS

As at 30 June 2005 the net working capital (current assets less short-term liabilities) amounted to PLN 2,448,817 thousand and decreased by 38,2% as compared to the level as at 31 December 2004. This resulted from the larger rise in short-term liabilities than in current assets in the Group during the I half of 2005.

### 3.6.1 Operating activity

In first half of 2005 net cash flows from operating activities amounted to PLN 1,648,153 thousand and were lower by 5.2% than cash flows from operating activities in first half of 2004.

The most important factors influencing cash flows from operating activities in first half of 2005 were:

- net profit increasing level of cash by PLN 3,336,098 thousand,
- increase of inventories by PLN 1,299,286 thousand, whereas there was a increase in first half of 2004 by PLN 310,404 thousand,
- increase in the level of liabilities and accruals by PLN 1,196,151 thousand, whereas there was a increase in first half of 2004 by PLN 763,329 thousand,
- recognition in net profit significant items which do not generate cash – difference between value of consolidated net assets of Unipetrol, and purchase price paid (PLN 2,005,027 thousand).

### 3.6.2 Investing activity

The net cash flow from the investing activity in first half of 2005 amounted to PLN (-) 1,313,475 thousand, whereas in first half of 2004 achieved the level of PLN (-) 949,341 thousand. Such high level of the net cash flow from the investing activity in first half of 2005 results mainly from purchase of share of Unipetrol and high expenditure for tangible assets. Increased net cash flow from the investing activity were balanced by cash inflows from sale of short-term securities.

### 3.6.3 Financial activity

In the first half of 2005 the net cash flow from the financing activity amounted to PLN 314,024 thousand whereas in the first half of 2004 amounted to PLN (-) 500,570 thousand. A positive result on this activity in 2005 was the consequence of a significant increase of inflows from obtained loans and borrowings.

Due to the described cash flows the cash level increased as at 30 June 2005 in comparison to 30 June 2004 by PLN 462,927 thousand to PLN 1,384,234 thousand.

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## 3.7 EMPLOYEMENT

The average employment in the first falf of 2005 in the PKN ORLEN Capital Group (Dominant Company and consolidated subsidiaries) amounted to 21,413 persons compared to 14,621 persons in first half of 2004. As at 30 June 2005 the employment totaled 21,338 in Group, which constitute an increase by 6,940 employees compared with the level as at 30 June 2004. Increase in level of employment resulted from acquisition of Czech holding – Unipetrol.

## 3.8 SEGMENTS

### 3.8.1 Refining Segment

| Refining Segment (in PLN thousand) | 1st half of 2005 | 1st half of 2004 | % |
|---|---|---|---|
| External sales | 13 834 418 | 11 588 786 | 19,4% |
| Intersegment sales | 2 342 322 | 1 911 235 | 22,6% |
| Total revenues | 16 176 740 | 13 500 021 | 19,8% |
| Segment result | 2 296 076 | 954 351 | 140,6% |
| EBITDA* | 2 646 142 | 1 368 585 | 93,3% |
| Total cost incurred to acquire property, plant and equipment and intangible assets | 338 616 | 260 613 | 29,9% |
| **Share of the segment in the results of the Group** | **65,6%** | **89,2%** | -26,4% |
| Share of the segment in EBITDA of the Group | 64,2% | 78,7% | -18,5% |
| Sale profitability | 14,2% | 7,1% | 100,8% |
| Segment result / segment's assets | 13,2% | 8,4% | 57,3% |
| Segment result /segment's equity ** | 20,4% | 11,9% | 71,9% |
| Debt ratio (debts /assets) | 35,2% | 29,2% | 20,5% |
| Assets turnover ration | 1,9 | 2,4 | -21,7% |
| CAPEX/EBITDA | 12,8% | 19,0% | -32,8% |

*) segment Results + depreciation
**) segment's assets – segment's liabilities

In the first half of the 2005 refining segment achieved sale income of PLN 16.176.740 thousand, which is by 19,8% more than in the first half of the 2004. External sales customers increased by 19,4%, while sale to other segments increased by 22,6%. Increase in sale revenues of the segment resulted mainly from increase in prices for petrol on international markets (increase by 27,9% in quotations of engine petrol, by 54,5% in quotations of diesel oil, by 55% for Ekoterm and by 52,1% for aircraft fuel Jet A-1), as well as from consolidation of entities within Unipetrol Holding , which in June 2005 made a sale income of PLN 1.169.949 thousand.

In first half of the 2005 result of the refining segment amounted to PLN 2.296.076 thousand and was by 140,6% higher than result of the comparable period in prior year. Such a significant increase in results was achieved due to effective utilization of favorable macro-economic factors, such as increase in margins in quotation for diesel oil, Eksterm and aviation fuel Jet A-1, as well as increase by approximately 43% in Ural/Brent diferential.

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The result of the segment was also considerably influenced by the purchase of Unipetrol. Following that transaction, goodwill of PLN 823.930 thousand was recognized and financial results of Unipetrol in the amount of PLN 51.428 thousand were incorporated into refining segment (Unipetrol Group's companies are consolidated in chemical and in other segments).

In the first half of the 2005 there has been significant increase in sale volume of petrol (engine petrol, diesel oil, Ekoterm, Jet A-1 i LPG) in wholesale and retail segments by 9,9% up to 5.287.507 tones. At the same time domestic consumption was almost unchanged as compared to prior year (engine petrol, diesel oil, Ekoterm).

In the first half of the 2005 share of the refining segment in results of the Group decreased to the level of 65,6% which resulted from increase in share of other segments (impacted by results of consolidated entities from Czech Republic incorporated to chemical segment and to other activity).

In the retail segment the Group has been undertaking the activities aiming in wining new customers and increasing its market share. What is more, due to product lines' management, centralized purchases and control over prices, in the first half of the 2005 the segment achieved significant increase in margins on non-petrol goods. As mentioned above, also margins realized on sale of petrol products were higher than in those realized in the first half of 2004.

Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 252.785 thousand, which is by PLN 57.246 thousand more than in comparable period in prior year.

### 3.8.2 Chemical Segment

| Chemical Segment (in PLN thousand) | I half of 2005 | I half of 2004 | Change % |
|---|---|---|---|
| External sales | 2 569 516 | 1 882 567 | 36,5% |
| Intersegments sales | 832 692 | 667 441 | 24,8% |
| Settlement of hedging transactions | 49 330 | 21 241 | 132,2% |
| Total revenues | 3 451 538 | 2 571 249 | 34,2% |
| Segment result | 1 614 086 | 342 143 | 371,8% |
| EBITDA* | 1 765 534 | 469 540 | 276,0% |
| Total cost incurred to acquire property, plant and equipment and intangible assets | 437 246 | 439 415 | -0,5% |
| **Share of the segment in the results of the Group** | **46,1%** | **32,0%** | 44,3% |
| Share of the segment in EBITDA of the Group | 42,8% | 27,0% | 58,5% |
| Sale profitability | 46,8% | 13,3% | 251,4% |
| Segment result / segment's assets | 14,5% | 8,4% | 72,7% |
| Segment result /segment's equity ** | 16,9% | 9,7% | 74,2% |
| Debt ratio (debts /assets) | 14,3% | 13,5% | 5,8% |
| Assets turnover ration | 0,6 | 1,3 | -50,9% |
| CAPEX/EBITDA | 24,8% | 93,6% | -73,5% |

*) segment Results + depreciation

**) segment's assets – segment's liabilities

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In the first half of the 2005 chemical segment achieved sale revenues of PLN 3.451.538 thousand, which is by 34,2% more than in first half of the 2004. External sales increased by 36,5%, while intersegments sales increased by 24,8%. Sale volume of petrochemicals increased by 12,9% as compared to June 2004 and amounted to 1.191.813 tones. Lower dynamics in volumes than in values is attributable to repair break of the main installation used in the manufacturing process of ethylene and propylene in PKN ORLEN S.A. – Olefin II.

In June 2005, entities from Unipetrol a.s. from Czech Republic achieved sale revenues incorporated to his segment of PLN 139.792 thousand.

In the first half of 2005 the result of chemical segment amounted to PLN 1.614.086 thousand and was by 371,8% higher than result in the first half of 2004. Result of that segment was considerably influenced by the goodwill of PLN 1.076.642 thousand recognized following purchase of Unipetrol as well as incorporation of Unipetrol Holding results of PLN 14.349 thousand.

Results of the segment were also influenced by good slump on the petrochemicals market, especially on products sold by PKN ORLEN S.A. and ANWIL S.A. (increase by 20,9% in margins on ethylene up to the level of USD 576,28 /tonne or increase by 41,7% in margins on propylene up to the level of USD 515,72/tonne). Favorable market situation enabled Anwil S.A to generate an opearating profit as of end of June 2005 of PLN 78.592 thousand. Realization of Complex Costs Cutting Program resulted in savings for the refining segment in the first half of the 2005 in the amount of PLN 18.371 thousand (PLN 21.872 thousand in the first half of the 2004 ).

### 3.8.3 Other activity

| Other activity (in thousand PLN) | 1st half of the year 2005 | 1st half of the year 2004 | Change % |
|---|---|---|---|
| External sales | 307 692 | 320 558 | -4,0% |
| Intersegments sales | 410 041 | 397 389 | 3,2% |
| Total revenues | 717 733 | 717 947 | 0,0% |
| Segment result | 308 512 | 29 749 | 937,0% |
| EBITDA* | 415 365 | 134 970 | 207,7% |
| Cost incurred to acquire segment property, plant and equipment and intangible assets | 53 909 | 29 496 | 82,8% |
| **Share of the segment in the results of the Group** | **8,8%** | **2,8%** | 217,2% |
| Share of segment in the Group EBITDA | 10,1% | 7,8% | 29,7% |
| Profitability of sales | 43,0% | 4,1% | 937,4% |
| Segment result / segment's assets | 7,6% | 1,5% | 412,9% |
| Segment result /segment's equity ** | 9,0% | 1,8% | 402,9% |
| Debt ratio (debts /assets) | 15,4% | 17,1% | -9,6% |
| Assets turnover ratio | 0,4 | 0,7 | -50,6% |
| CAPEX/EBITDA | 13,0% | 21,9% | -40,6% |

*) segment result plus depreciation
**) segment assets – segment liabilities

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In the first half of 2005 in the other activity segment sales revenue amounted to PLN 717.733 thousand, which was almost identical to sales revenue realised in the first half of 2004. External sales decreased by 4,0% and the value of intersegments sales increased by 3,2%. Segment revenues increased by PLN 27.863 thousand as a result of including companies of Unipetrol a.s. holding in consolidaton in June 2005.

Despite almost identical revenues, the segment result for the first half of 2005 was of PLN 308.512 thousand, while the result for the same period of 2004 was of PLN 29.749 thousand. The segment share in the Group results increased to 8,8%. The significant increase of the segment result was mainly attributable to disclosure in segment's other operating revenues a position resulting from takeover of Unipetrol (that is the excess of fair value of purchased net assets over their purchase price of PLN 274.541 thousand). Companies operating in the Unipetrol holding incurred loss in this segment in the amount of PLN 2.164 thousand.

The group of companies that constitute the segment „Other activity", apart from entities producing energy and rendering services for Dominant Company, consists also of entities that emerged in the restructuring process. These entities render transportation services, maintenance and construction services.

Realization of the Comprehensive Program of Operating Cost Reduction brought savings for this segment in the first half of 2005 in the amount of PLN 155.121 thousand (PLN 88.589 thousand in the first half of 2004).

## 3.9 DESCRIPTION OF SIGNIFICANT OFF-BALANCE SHEET POSITIONS OF THE CAPITAL GROUP

As at 30 June 2005 the total value of guarantees granted for related entities amounted to PLN 1.462.776 thousand (increase by PLN 837.353 thousand) and guarantees granted for other entities amounted to PLN 102.040 thousand (increase by PLN 16.594 thousand). Additionally, off-balance sheet liabilities to other entities resulting from transfer of receivables and other restrictions on fixed assets amounted to PLN 42.560 thousand, whereas as at 30 June 2004 they amounted to PLN 45.723 thousand. Other off-balance sheet liabilities amounted to PLN 273.461 thousand and increased in comparison to 30 June 2004 by PLN 258.521 thousand.

## 3.10 SIGNIFICANT EVENTS WHICH HAVE CONSIDERABLE INFLUENCE ON THE GROUP'S ACTIVITIES, AND FINANCIAL RESULTS IN THE FIRST HALF OF THE 2005 OR IN THE FUTURE

The following factors may have significant influence on financial situation of the Capital Group PKN ORLEN in the future:

- fluctuations in prices of petroleum which influence costs incurred by the Parent Company and cause fluctuations in margins realized on particular products,;
- fluctuations in prices of finished products on international markets, which influenced through import parity on prices for petrol products and margins ;
- tendency of petrol consumption in Poland resulting among other from economic growth and unemployment ratio,

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- fluctuations of foreign exchange rates which influence costs of external financing, costs of purchases of petroleum and other raw materials purchased in foreign currencies as well as fluctuations in prices, margins and inland premium;
- realization of the announced strategy of PKN ORLEN S.A. and the retail sector development;
- economic benefits achieved due to implemented and newly introduced optimization programs and benefits from implementing of cost cutting programmes (Complex Cost Cutting Program, System of Margin Optimization, Risk Management System, Value Based Management, Capex Optimization System);
- effectiveness of operation on petrol stations in Germany,
- synergy resulting from taking control over UNIPETROL's assets;
- activity of JV - company from Basell Europe Holdings BV – which produces petrochemicals (effective beginning of 2005 based on new installations) ;
- putting into use Olefin II after re-wamping;
- expected change in fiscal policy as far as corporate income tax and excise is concerned;
- weak situation in agriculture and construction market which negatively influence operating activities of those entities within the Group, which offer products related to those two sectors, i.e fertilizers, PCV products ect.

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## IV. MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT IN THE CAPITAL GROUP

Polski Koncern Naftowy S.A. has implemented certified Management Systems:

- Quality Management System compliant with ISO 9001;
- Environment Management System compliant with ISO 14001;
- Quality Management System compliant with AQAP 2120 (for NATO suppliers) applicable for fuel market;
- Industrial Safety Management System compliant with PN-N-18001;
- Qualioty Management System compliant with PN-EN ISO/IEC17025:2001/Ap1.2003, implemented in PKN ORLEN SA Envitronmental Tests Laboratory.

In March 2005 Polish centre of Certifications and Polski Koncern Naftowy ORLEN S.A. concluded an agreement defining terms of cooperation and supervision as well as the parties' rights and obligations resulting from the certificate obtained in accordance with the above standard. The certificate was granted in March 2005. The certificate obtained for the laboratory is a necessary condition for conducting environmental tests.

In the first half of 2005 the following audits were conducted by the certifying entities, which positive results were the basis for keeping and development of the areas subject to the management systems:

- Supervision audit of the Environment Management System conducted by auditors of Bureeau Veritas Quality International in February and March 2005, which concerned organisational units of the Production Plant and the Company's Head Offices in Płock as well as Warehouses in Szczecin, Świnoujście, Kraków-Olszanica and Warsaw-Mościska.
- Supervision audit conducetd in March and April 2005 by the auditors of the Central Institute of Labour connected with extansion of the system to four further units of the Production Plant (Hydrocracking Unit, Fuels Unit, Ethylene Oxide and Glycol Unit, and Dry Gas Unit). As a result of the audit, the Company was granted a certificate of compliance of the implemented Industrial Safety Management System with the requirements of PN-N-18001 in the scope extended to comprise the above organisational units.

Correctness of operation of the Management Systems was verified by internal audits in all the units included in the systems. Indentified incompatibilities were eliminated by corrective actions. Organisational changes in the Company result in the necessity of ongoing updates of the system procedures and documents. The documentation respective for the changes is introduced and made available in the NND information system.

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Polski Koncern Naftowy ORLEN S.A., due to the fact that it does not possess its own research laboratories or does not emply scisntists at regular research posts, commissions research and development work to research and development centres and organisations, universities and other institutions, companies asn assoctiations which provide such services.

In the first half of 2005 there was much work done, crucisl for the Company, which were related to elaboration of new products technologies, improvement of quality of manufactured products, improvement of manufacure technology and more efficient use of components for production. The necessity to undertake such work resulted from PKN ORLEN S.A. care for customers interms both of assortment and quality of offered goods. The most important tasks accomplished in the area of production are the following:

1. "Development and implementation of technology for Power Diesel production of increased ecological and functionsl properties." Contractor: Institute of Oil technology in Kraków. Within the framework of that work physical, chemical and functional properties were tested in the Power Diesel base oil. Further, in accordance with the research assumptions, the oil containing a complex of upgrade additives Petropak 50 amd the additive increasing the Nitrocet 50 cetene number, was subjected to complex tests for its functional properties. As a result of the research, a new production technology was designed in PKN ORLEN S.A. in Płock for new Power Diesel oil of the cetene number not lower than 55, which is to replace the currently produced ONM Super fuel. The work embraced also research on compatibility of upgrade additives to fuel with selected motor fuels and design of the plant standard for the new fuel. The commission accepting the work on behalf of PKN ORLEN S.A. motions in the Acceptance Report No. 24/05 of 15 June 2005 for implementation of the technology for production of Super diesel of the minimum cetene number of 55 and increased expoitation parameters.
2. "Comparative analysis of functional and ecological properties of motor fuels produced in PKN ORLEN S.A." Contractors: Cetral Oil Laboratory in Warsaw and Institute of Car Transport in Warsaw. The objective of the work was to determine the impact of petrol produced by PKN ORLEN S.A. on functional parameters of engines with spark ingnition with respect to compliance with the following customers' requirements:
   - differences in acceleration value,
   - changes in power and engine torque,
   - flexibility of engine operation,
   - impact on the environment,
   - fuel consumption.

   Based on the comparison of test results for petrol types ES95, SP98, 100-octane produced by PKN ORLEN S.A. with that produced by Shell V-Power Racing petrol, it was concluded that:
   1. all products comply with quality requirements for fuels contained in the Decree of the Ministry of Economy and Labour of 16 August 2004.
   2. In the tested two samples of Shell V-Power Racing there was no product of the research octane number exceeding 100 units.

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3. It was proved that petrol produced by Shell contained the following amounts of admissible chemical compounds:
   - frangrances – almost upper level values (35.0% V/V), yet falling within repeatability measures of the FIA method;
   - MTBE ether exceeding 13% (V/V);
   - even four times higher than PKN petrol content of olefins and sulphur level reflecting the requirements for petrol projected for 1 January 2009.
4. PKN ORELEN SP98 and 100-octane petrol contain a lower amount of sulphur, even below 5 mg/kg.
5. All PKN ORLEN S.A. types of fuel comply with PN-EN-228 form 2005. Shell's petrol types meet the upper admissible levels or do not comply with the requirements of the above standard in terms of volatility index. The value of this parameter was exceeded in one of the samples.
6. All PKN ORLEN S.A. petrol types in categories 1-3 meet the recommendations of the World Fuel Chart, whereas Shell V-Power Racing samples do not comply with any of the petrol classes (it refers to content of compound resins).
7. The amount of upgrade additives applied in production of Shell V-Power Racing fuels exceeds four times the amount of the complex added to PKN ORLEN petrol. Base don the conducted tests, it was concluded that use of the high concentration of additives (about 1600 ppm) and such as is present in Shell V-Power Racing produces apart from positive effects as:
   - increased oxydating and thermic stability – due to presence of an antioxidant,
   - improved lubricating capacity at HFRR test – due to presence of a lubricating additive,
   - reduction of resins – due to an antioxidant,

   also negative consequences like:
   - increased capacity to emulgate in contact with water,
   - extraction of additives from petrol in lower temperatures,
   - increased costs,
   - increase in the amount of deposits in the combustion chamber.
8. Patrol components applied in production of Shell V-Power Racing do not allow production of petrol of the higher heating value, which is a characteristic of SP98 produced by PKN ORLEN. Moreover, the content of H:C is adequate in all petrol types from Płock in terms of dangerous gas emission, compared to Shell V-Power Racing.
9. SP98 produced by PKN ORLEN S.A. for its physical and chemical parameters is a product similar or even exceeding Shell V-Power Racing.

The conducted tests allowed comparative assessment of the quality of our fuels with those of the competition. The obtained results not only proved the high quality of petrol from Płock but also in some analyzed parameters recorded even advantage in terms of quality of PKN ORLEN products. The transparent presentation of the results to customers should be an encouraging factor to purchase PKN ORLEN petrol. The results will be used

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on an ongoing basis when introducing changes in the structure of petrol produced by PKN ORLEN S.A. in order to obtain a product of justified high functional standards.

3. "Laboratory and engine quality assessment of the Ekodiesel Ultra oil." – Contractor: Institute of Oil, Technology in Kraków. The objective of the work was to confirm compliance of quality parameters of Ekodiesel Ultra produced by PKN ORLEN S.A. with the Producer's Standard ZN/ITN- ORLEN/NF-229/2004 for Ekodiesel Ultra category B, D and F. Another stage was assessment of the smokiness level and dangerous substance emission in waste gas, in accordance with ECE R49 test for Ekodiesel Ultra B. The conducted tests confirmed that the analyzed fuels comply with all requirements of the above standard. Moreover, it was concluded that Ekodiesel Ultra B recorded good ecological properties. The emission for particular toxic components of emitted gas is much lower than the requirements of ECE R49/2B test. Additionally, results of smokiness measurement of emission in ECE R24 test conducted at fixed rotational speed levels and free acceleration prove that Ekodiesel Ultra B met the requirements of the test.

The discussed scope of research included a number of tests which the Company is required to conduct under regulations and formal requirements. The aim of all work is to limit the risk for environment resulting from the Company's operations, to improve safety of employees working at technological installations and the local community, to shape the Company's reliability in the business environment and among employees. The work in this respect comprises:

1. "The concept of fire alarming and gas detecting for PKN ORLEN S.A. Production Plant in Płock." – continued form 2004. Contractor: NOMA2 form Katowice. Modernisation of the existing fire alarm system in the Production Plant using state-of-the-art systems allowing fire detection in its earliest stage – it will improve safety of both employees and local community and enable avoidance or reduction of losses related to fire.
2. "Analyses of dust, atmospheric fallout and soil in accordance with the Decision of the Voivodeship Office". Contractor: ORLEN Laboratorium Spółka z o.o. in Płock. The decision of the Voivodeship Office, file no. OS.I.7640/4/97 of 23 December 1997, under which the Company is required to monitor environment.
3. "Analyses of requirements for certification of fuels: Light Heating Oil Ekoterm Plus, Diesel Oil Municipal Super, BB Eurosuper 95". Contractor: Military Research and Development Centre MPS in Warsaw. The work is necessary in order to obtain a certificate of compliance with WTWT-MPS document.
4. "Guarantee measurements before and after modernization of the turbine set PR55-33/130/18/7 no. TG-3 in Power Generating Plant at PKN ORLEN S.A." Contractor: Zakład Badawczo-Projektowy "INWAT" Sp. z o.o. in Łódź. Formal requirement – acquaintance with actual indices impacting the operationality of the turbine set will ensure its economic and safe use.
5. "Analysis and assessment of the insulation and securing of TG1,2,3,5 generators. Participation in interoperational and final analysis at the repair contractor and acceptance tests at the site of TG4 generator installation." Contractor: Power Engineering Institute in Warsaw. The objective of the work was to define the projected time scope for safe use of generators and scope and date for repairs. These tests are classified as "not

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harmful", performed during operation of the reviewed machines. The scope of the necessary tasks after the repair at the generator's location is defined by PNE.

6. Other work, which the Company is required to conduct by relevant regulations includes "Chracteristics Cards" for the Company's products, semi-products, waste, and "Written Instructions for Drivers". In accordance with the Decree of the Ministry of Health and Social Care of 21 August 1997 on hazardous substances producing hazard for health or life (as amended in 2005), the producer and supplier of harmful chemical substances has to possess the characteristics cards for those substances, make them available free of charge to customers and inform them of any introduced changes to the characteristics. Overall, the Institute of Organic Industry in Warsaw in the first half of 2005, upon PKN ORLEN SA request designed 6 new characteristics cards for medium vacuous distillate, vacuous distillate, desulphurised vacuous distillate, soft asphalt, waste calcium fluoride and petrol for thermal decomposition, 6 classifying certificates and 6 instructions for drivers. Characteristics card, instructions for drivers and certificates are submitted to Trade, Logistics, Chemical Safety Departments in the Plant and used in their ongoing operations..

In order to secure industrial safety of the employees engaged at work at the installations at the sites particularly hazardous due to exposure to corrosion and erosion, the Company conducts regular monitoring of the sites consisting in:

- Measurement of corrosives and deposits on construction materials of different installations,
- Measurement of hydrogen corrosion (in cooperation with the Institute of Physical Chemistry in Warsaw) on carbon steel, conducted quarterly or more frequently, depending on the corrosion exposure,
- Regular measurement of corrosion on carbon steel (using a probe and corrosion meter of Rohrback Cosasco Systems),
- And intervention activities in cases of failures in the safety ensurance process.

The current monitoring conducted using the above discussed methods allows the Company to obtain reliable information on the occurring exposure, which in turn makes it possible to effectively counteract its development. It ensures full control and assessment of effectiveness of the applied protection methods, including regular control of utilization of chemical products and optimisation of their use. Monitoring provides a source of crucial information on effeciveness of the applied safety products and their potential modification. Owing to work conducted in this respect, there was a decrease in failures of machines, increase in the useful life of the pipeline, condensers, radiators, columns, pumps and other equipment. Consequently, the increased effectiveness of the anti-corrosion process prolonds the inter-repair periods and reduces the scope of maintenance, which results in lowering of repair costs. In the first half of 2005, the following installations were subject to constant control: DRW II, DRW III, DRW IV, DRW VI and vapour generator at DRW II, Slot Distillation Unit, Cracking Installation for Catalyst II, Hydrocracking Installation, Ether Installation, and Isomerisation Installation. The work was conducted under the agreements concluded with the Research and Development Centre in Płock.

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Major Capital Group companies recorded following progress in the field of research and technical development:

- **Rafineria Trzebinia S.A.**
  1. Continuation of production of Biodiesel based on the invention "the way of creation of esters of aliphatic acids with monohydroxide alkyl alcohols and their use" P-WO 0075098.
  2. Commencement of production of diesel oil (sulphur content up to 0.1 ppm) with added 20% esters of methyl fat acids.
  3. Optimisation of the glycerin production.
  4. Optymisation of deoiling of paraffins using Sulzer's method.
  5. Completion of the construction of installation for hydrorefining of paraffins.
  6. Launching of production of torches and candles.
  7. Filing of an invention "Proecological diesel oil" P- 376555.
  8. Filing of the Community Trade Mark "BIO 10" – No 004554242.

- **Rafineria Nafty Jedlicze S.A.**
  1. Laboratory design, made upon the company's request by ITN Kraków, of the technology for production of complex lithium lubricant using mineral oil utilised in the temperatures from -30 °C to +150° C and the complex lithium lubricant, produced using synthetic polyalphaolein oil and utilised in temperatures from –50 °C to +70 °C. The technology was verified on industrial scale and the conducted sample production of industrial lubricants confirmed compliance with technological parameters.
  2. Test operation of installation for production of organic solvents using new raw materials.
  3. Extension of the produced range of ecological heating oils.
  4. Improvement of production technology for diesel oil with components form catalyst processing of plastics waste.
  5. Improvement of production technology for diesel oil with FAME components.
  6. Introduction of a new product – petrol for AP varnish.
  7. Utilization of the distillation wastes from oil processed into asphalts (acceptance by ORLEN Asfalt Sp. z o.o.).

- **ORLEN-Oil Sp. z o.o.**
  1. In the first half of 2005 a number of products were introduced to production and sale (diesel oil, hydraulic oil, lubricants and lubricating liquids, car cosmetics).

- **Petrolot Sp. z o.o.**
  1. Superivision audits were carried out with positive results by all certifying entities (Kema Quality B.V.,

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Bureau Veritas Quality International and Zakład Systemów Jakości i Zarządzania);

2. Civil Aviation Office prolonged for 2 years a certificate for land service agency.

A modern company is not able to operate without effective support from the information technology. IT secures all necessary sources relating to IT environment systems and architecture required to achieve the strategic goals of PKN ORLEN S.A.

The most important projects initiated and completed in the first half of 2005 in the Parent Company are:

1. VBM – Value Based Management – MBO support application and Strategic Business Score Card were introduced within the second phase of the project.
2. Design work was initiated in order to improve the distribution system for PKN ORLEN fuels. A complex approach to the analysis of the current state and to the recommendations of potential changes in the business and IT systems.
3. Following restructuring of the Retail Sale Group, the main business system, corporate network structure were restructured to adapt them to the changed organization conditions. The new work stations were equipped with capacities of mobile and remote work.
4. Long-term plan was continued to increase safety of the IT systems operation gin the Company (regarded also as business safety) by implementation investments projects.
5. A project of upgrading of the main business system in the company was launched combined with adequate development of equipment.
6. A project for modernization of IT infrastructure was launched at petrol stations. Realization of the first stage: exchange of the obsolete fiscal printers.
7. The main business system and POS systems were prepared for petrol stations in order to introduce new fuels at the Company's stations.
8. E-Learning system implementation was commenced.
9. Optimization of telecommunications costs in cooperation with the mobile communications operator.
10. Modernization of the depository connections system.
11. Design of a standard freight system for the Company's warehouses and the programme for warehouse modernisation was launched.

The most significant IT tasks carried out in the first half of 2005 in the Capital Group include:

- **Anwil S.A.**

1. Migration of SAP R/3 from 4.6 to 4.7.
2. Launching of the application for filtering websites – Symantec Web Security.
3. A new WWW site of the company was activated.

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

1. POLPAK PVC and VPN projects were launched.
2. Full realization of 6 installations POLPAK from the first half of 2005.
3. CALLCENTER project launched.
4. SIEMENS switchboard station installed with the registrator.
5. CALLCENTER application implemented.
6. Proposal process initiatied for implementation of ZSZ, class ERP and BPM.
7. Central data storage project launched.

- **IKS Solino S.A.**

1. Work commenced over financial reporting in INFOMEN module.
2. Commenced work on implementation of the safety monitoring system KS and PMRiP "Góra".
3. Work continued on upgrading access to internet and increase of security of the loacal computer network.

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

Implementation of the logistics application by Exact Software Poland Sp. z o.o.

- **ORLEN Transport Płock Sp. z o.o.**

Due to a business combination of three transportation companies, IT network was created between Płock and the new Company's branches. The accounting and payroll system was made uniform (SAP).

- **ORLEN Projekt Sp. z o.o.**

Implementation of the copyright IT system (designed in 100% by ORLEN Projekt) labeled "Si/Projekty" (application based on the Oracle data base) used for the company's management support and planning, control and settlement of production.

- **ORLEN Deutschland AG**

As at the beginning of 2005 the flota card was introduced for ORLEN and STAR brands.

Under the new act before the end of 2005 all cash terminals at the petrol stations must be exchanged. Since 1 January 2006 all terminals must comply with OPT (Online Personalisierung von Terminals) standards and EMV (European MasterCard Visa). ORLEN Deutschland decided to install the terminals CP600 by ICP. Before 30 June 2005 the process was not started.

Moreover, in order to ensure the company's network security, the company installed a modern firewall protection. In order to lower telecommunications costs and to make the information exchange more efficient between the main office and the regional staff the company implemented VPN network, which allows safe data transfer between local networks.

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

1. Integration of SAP R/3 in PKN with SAP R/3 in Basell in order to facilitate all the logistic processes,
2. Implementation of SAP R/3, for a BOP's subsidiary, currently Agryppa Sp. z o.o., which as a commission agency will conduct sale of polyolefins on the Polish market.
3. Implementation of "EUREKA" system based on the data warehouse structure and used for planning and reporting activities.

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## V. POLICIES CONCERNING DVELOPMENT OF THE PARENT COMPANY AND THE CAPITAL GROUP

- **Strategy of PKN ORLEN S.A. development**

In February 2005 the Supervisory Board approved a new strategy for PKN ORLEN S.A. determining trends till 2009, called "Value Creation Strategy of PKN ORLEN". It bases on accomplishment of the three basic targets: improvement of an internal efficiency and investments, enhancement of the core business on the domestic markets and searching opportunities for development on new markets and areas of activity.

The increase in internal efficiency and generating maximal return on equity are the priorities of the Company. The investments in the core business of the Company (refining and retail sales), identification of actions in the petrochemical sector and development of the retail sales network are designed for achievement of the priorities. The increase of production potential in refining sector will ensure higher production of diesel, that has good business forecast in the future and will be the basis for strengthening the petrochemical segment. As for the retail sales the strategy is aimed at achieving the position of a regional retail sales leader (at least 30% share in the Polish market till 2009). The restructuring plan of the Capital Group assumes selling the entities of non-core business, simplifying and introducing a clear structure as well as implementing segment management.

Searching for opportunities to develop in new areas will concentrate mainly on regions with a high potential of growth, and all the possible investments will be subject to strict financial analysis to prove whether achieve profitability ensuring long term value growth of the Company.

The strategy determines financial goals to be achieved at the end of 2009:

| | |
|---|---|
| • EBITDA | over PLN 6 billion |
| • ROACE | 17.5% |
| • CAPEX between 2005-2009 | PLN 1.7 billion (annual average) |
| • Financial gearing | 30-40% |
| • The rate of dividend paid | 30% |

- **Development of the retail sates**

On 2 March 2005 PKN ORLEN S.A. announced "PKN ORLEN 2005-2009 Retail Sales Development Plan in Poland". Main elements of the plan are: restructuring of retail network till 2009 and potential acquisitions to strengthen the market position. Capital expenditures are necessary for optimization and restructuring of the chain through building new stations, rebranding and upgrading the stations, and through implementing new product strategies. The Company plans to increase its share of non-fuel products in total margin. There is also a need for reorganization of retail sales department. The prepared program for individual customers assumes segmentation into Premium and Economy brands. Premium under ORLEN brand will be addressed to the value and quality sensitive customers. Economy standard will be orientated for price sensitive customers. In 2009 the planned structure of the network will comprise of around 1,000 Premium stations

(under the ORLEN brand) and around 900 Economy stations.

- **Integration with Unipetrol**

On 4 June 2004 PKN ORLEN entered into an agreement with Czech National Property Fund ("NPF") in order to acquire 62.99% stake in Czech oil and petrochemicals group Unipetrol a.s. ("Unipetrol"). Those shares were offered in the public auction. This transaction will strengthen the position of PKN ORLEN S.A. in refinery and petrochemical sector in Middle-East Europe and also improve the Company's competitiveness as well as will be a strong point in the future consolidation process in the region. This will enable to introduce common better management standards to the acquired structures, and to more efficiently use the possessed assets through proper combining them into business chains, in order to achieve synergy effects.

With respect to future development of the Unipetrol holding, one of the most important issues is optimization of the use of processed crude oil by refineries belonging to the group.

An important factor impacting the future development of the Unipetrol group will be increased effectiveness of production processes and utilization of raw materials in cooperation between Unipetrol and PKN ORLEN SA.

The development in the area of car fuels produced by the holding companies will be focused on increase of the quality of the offered products, so as the quality would be compliant with the environmental requirements of the European Union.

Moreover, development objectives include: launching of a new unit for asphalt production in Paramo a.s., efficient use of raw materials in the ethylene unit. The future plans comprise also increase of capacity of the following units: steam cracker, PE, PP, styrene, PS and construction of new units, BTD and E-SBR.

- **Activities of Basell Orlen Polyolefins Sp. z o.o.**

Basell Orlen Polyolefins Sp. z o.o. started its business in the area of producing and selling polyolefin on 1 March 2003. Realization of the investment program concerning building new polyolefin production installation will set producing capabilities at the level of 400 thousand tons of polypropylene, and 320 thousand tons of polyethylene HPDE annually. The production of new units will help to cover all the needs of the fast developing market.

The company's development comprises:

- Launching of sales from new installations (HDPE – Hostalen and PP – Spheripol);
- Launching of the commission agency activities by a BOP subsidiary (the commission agency – Basell Orlen Polyolefins Sprzedaż Sp. z o.o. is still at the stage of establishment, statutory commercial activity will be started on 1 October 2005);
- Strategy of withdrawal from Malen P market (at the end of 2005 the installations PP1 and PP2, producing Malen P will be closed);
- Replacement of Malen P with Moplen (it will be produced among others at the new installation of polypropylene constructed in line with Spheripol technology);
- Introduction of a new rebate system;
- Continuation of remarketing of Hostalen and Moplen with NPP;

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- Innovations, development of new applications for HDPE bimodal and PP copolymer;
- Optimization and rationalization of the product package (NPP: increased production volume and fewer number of product types).

- **Retail activity in Germany**

In 2002 the Parent Company purchased about 500 petrol stations in the area of northern Germany and has been operating using two brands: ORLEN and STAR. As a result of the purchase of petrol stations in Germany, the Parent Company possesses over 2.4 thousand petrol stations. Performance of PKN ORLEN S.A. in Germany allows to achieve more flexibility in the area of sales of its products and creates opportunities to conclude swap transactions with the largest customers in the region, which contributes to further increase in efficiency and competitiveness of PKN ORLEN S.A. On the other hand the competitiveness of the German market revealed among others in narrowing retail margins causes that ORLEN Deutschland AG does not realize assumed business goals with the present scale of activities.

- **Develoment of activities in the ANWIL S.A. Group**

The development plans of the ANWIL Group consist of the two basic tendencies:

- Investments aimed at increase of the exisitng production capacity of ANWIL S.A. In this scope the following undertakings are planned in the subsequent years which obejctives are:
  - increase of production capacity of PCV installations from 260 to 330 thouand tons per year,
  - increase of production capacity of PCV processing (granualtes, mixtures and blocks) to the level of 80 thousand tons per year,
  - modernisation of the production line for production of fertilizers (in particular A Line ammonia) in order to achieve considerable improvement of technological parameters and reach the production capacity level in fertilizers at 880 thousand tons per year,
  - investments in environment protection.
- Developmnet of the Group by acquisitions and mergers with other entities while maintaining the leading share in ANWIL. ANWIL S.A. considers the justification and profitability of purchase of chemical companies, which operations are similar to the principal activity of ANWIL. Potential positive result of the plans will contribute to discount the material and product synergy effect within the whole PKN ORLEN Group.

Achievement of the above objectives will for long increase considerably the ANWIL Group value.

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- **Comprehensive Operating Cost Cutting Programme in the Company**

In December 2002 the Management Board of the Parent Company made a decision to implement comprehensive operational cost cutting program in years 2003-2005 within two phases. In the first stage the potential of cost reduction and the detail concept of the plan were identified and estimated, consisting in the definition of key initiatives and monitoring process. The second phase will include implementation of the initiatives and monitoring their results. As a result of the program implementation operating costs in all areas of activities will decrease significantly. In the first half of 2005 the implemented initiatives generated savings of PLN 416 million.

- **Value Based Management**

PKN ORLEN S.A. activities concentrate on realization of the principal strategic aim which consists in creating value for shareholders through building and maintaining competitive and structural advantage and achieving the highest standards of operational activity. The tool for realization of these plans is among other the implementation of the Value Based Management (VBM) program. The main objective of VBM program is to direct the strategy of PKN ORLEN S.A. towards creating value for shareholders. The principal purposes of the project are to establish a sound platform for the performance of strategic goals, to increase the financial potential and operational efficiency, to enhance the Parent Company's competitiveness in Poland and in the region, and to strengthen competence and motivation of the management throughout the Parent Company and the Capital Group. Value Based Management supports realization of the Parent Company's strategy, particularly achieving the leader position in the Central Europe and a constant increase in value for shareholders. VBM orders and facilitates management of numerous programs being realized in PKN ORLEN S.A. (margin optimization, wholesale increase and others). VBM implementation means introducing modern worldwide management methods. The central point of the program is that management systems are based on the Shareholders Value Added (SVA).

- **Investment programme in PKN ORLEN S.A.**

The Development Proogramme for the production Plant in Płock projects realization of the following significant for its development investments:

- Paraxsylene and PTA complex
- HON VII complex
- Butadien Installation
- Ethylobenzene Installation
- Intensification of installation for HF Alkylation

And a number of minor tasks related to adaptation of the plant infrastructure to new legal and ecological requirements. The programme was presented at the meeting of the Management Board on 18 January 2005, and subsequently incorporated into the "Strategy of own value development", which was presented to the Supervisory Board of PKN ORLEN S.A., inverstors, Company's executive personnel and staff.

The 2005 plan includes the following main development tendencies in the investment activity:

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- Technological investments in order to adapt the products to the EU standards and to lower production costs, including tasks related to production installations,
- Electric and power engineering undertakings, investments in environmental protection, in order to ensure safe and compliant with environmental requirements operation of the installations,
- Logistic units comprising tasks related to wholesale distribution of fuels in order to lower costs, and to meet Polish ecological regulations and requirements.

- **Loyalty programmes in the Parent Company**

The loyalty programs FLOTA POLSKA and VITAY (described in details in introduction) proved to be successful on the retail market. One of the targets of the above mentioned programs is to create strong relationships between a client and PKN ORLEN S.A. The FLOTA POLSKA program began expansion on external markets. A significant agreement with the association of Lithuanian land carriers was concluded. Introduction of so-called prepaid cards of "W" type strengthened the position of the Company as the leader in the area of card programs in Poland. Prepaid cards provide high level of security and have advantages of so-called "electronic purse".

In September 2004 PKN ORLEN S.A. and DKV EURO SERNICE GMBH signed an agreement concerning the introduction of new co-branded DKV/ORLEN card which will enable to purchase fuel, other products and services in above 40 countries in Europe without cash.

In the future the card programs of PKN ORLEN S.A. will be focused on both steady gaining of new clients and offering current clients new services and new more attractive forms of sales.

- **Perspects of development of the PKN ORLEN S.A. Group companies**

The mission of PKN ORLEN S.A. towards the Capital Group is „Creation of effective Capital Group generating long-term value added for shareholders of PKN ORLEN S.A. and ensuring the increase of the value of The goal of companies from the Capital Group is to support the core business of PKN ORLEN S.A. in the area of processing, distribution, logistics and sale of refining products.

The policy towards the Group will be realized by:

- Strengthening of the core activities in the companies and control over their activity via segment management;
- Restructuring of the strategic assets and their consolidation in order to continue building of the value of the Group companies;
- Disinvesting of non-core assets;
- Investments in the companies crucial for the Group which activities represent above average perspectives of market growth and bring about increase of the economic value of the Group.

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**Strategic companies (core business)**

Rafineria Trzebinia S.A.

- The Company will remain within the PKN ORLEN S.A. Group, actions are undertaken to increase operational effectiveness of this company;
- The Company makes new investments in order to diversify and modernization of the activities, i.e. installation for hydrorefinig of paraffin and installation for biodiesel production;
- The target business activity is production of biodiesel and paraffin.

Rafineria Nafty Jedlicze S.A.

- The Company faces the necessity to undertake repair and restructuring actions;
- The restructuring project for the southern assets of the Group projects transfer of the fuel production unit to Rafineria Trzebinia S.A. and regenerate processed oils, and the production of lubricants and olis to ORLEN OIL;
- Further steps will be taken to close the remaining operations of Rafineria or merge it with ORLEN OIL.

ORLEN Oil Sp. z o.o.

- The Company carries out a strategy of consolidation of assets related to production of lubricating oils within the ORLEN structure, the aim is to create a uniform centre managing the oil segment of PKN ORLEN S.A.;
- In 2004 the company acquired assets of Oil Department of PKN ORLEN S.A.;
- It is planned to strengthen the company with oil assets of Unipetrol, and then sale of the company may be considered or quotation of its shares on the stock exchange.

Anwil S.A.

- The Company will remian inn the PKN ORLEN Group due to strong relation of its operations with the core business of the Company;
- The projected area of operations includes PCV and plastics production, the company is the largest recipient of ethylene from PKN ORLEN S.A.;
- A modern production chain for CV and PCV, a modern installation for nitro-chalk and other installations of the chain (ammonia, nitric acid, ammonium nitrate) place the company among the world leaders in the chemical sector;
- In the future support activities of the company may sold, in artificial fertilizers production, due to its weak relation with the Company's core business.

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IKS Solino S.A.

- The Company will remain in the PKN ORLEN Group due to strong relation of its activities with PKN ORELN core business;
- The company's restructuring is necessary, including sale of the Salt Digester Plant, loosely related to the core business of PKN ORLEN S.A.;
- IKS uses post exploitation areas in salt deposits as unconventional storage sites for crude oil and fuels of PKN ORLEN S.A.;
- The Company participates in investment "Construction of the underground storage for crude oil and fuels", which last stage will be completed in 2006. It will be one of the largest underground warehouses in Europe.

Basell ORLEN Polyolefins Sp. z o.o.

- It is planned to keep the company in the PKN ORLEN group (the company conducts its operations in the area of core business);
- BOP constructs in Płock two world-largest production plants for polypropylene and polyethylene, which will be launched by the end of 2005. The investment cost is EUR 500 million;
- Production capacity of the new plants will be 400 thousand tons for Spheripol and 320 thousand tons for Hostalen.

ORLEN Deutschland AG

- It is planned to keep the company in the PKN ORLEN S.A. Group provided the effectiveness of its operations improves. The final decision on PKN ORLEN S.A. plans with respect to ORLEN Deutschland AG will be made after the analysis of the possibility of the scale effect on the German market;
- Owing to purchase for EUR 140 million of petrol stations with BP, Aral and EM Eggert logos, PKN ORLEN S.A. took over about 3% of the German market and 7% share in fuel market in the northern Germany;
- It is planned that in 2010 ORLEN Deutschland AG will gain 10% share in the northern market in Germany.

Fuel companies (regional market operators)

- The strategy towards fuel companies concerns changes in capital and aims at taking over full control over those entities;
- The actions consist of purchase of shares by the Company from minority shareholders – the shares were purchased in ORLEN Petroprofit and ORLEN Morena. Soon the purchase transaction for shares in ORLEN Petrozachód will be concluded;
- The process of increasing the capital engagement is aimed at identification in the companies of assets related to wholesale activity, retail trade, logistics and their incorporation to PKN ORLEN S.A.

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**Non-strategic companies (non core business)**

Service companies

- The Company sold 8 service companies under staff privatization and management buy out (it was a form of privatization supported by employees of the privatized entities);
- A strong branch group was created at ORLEN Service Centre by purchase of shares in 7 service companies, which secures a strong position of those entities without external investors;
- The process of consolidation was completed successfully in case of the acquired in 2003-2004 by ORLEN Service Centre 5 service companies. Cureently they form one business entity.

Transport companies

- The branch group was formed at ORLEN Transport Płock by purchase of shares in 2 transport companies in Warsaw and Poznań, in 2005 the consolidation process will be continued;
- Transactions of sale of other transport companies are being negotiated with an external investor. In 2005 sale of the following 5 transport companies is projected:
  - ORLEN Transport Kędzierzyn Koźle,
  - ORLEN Transport Nowa Sól,
  - ORLEN Transport Słupsk,
  - ORLEN Transport Olsztyn,
  - ORLEN Transport Szczecin.
- The Company intends to keep in the southern Poland ORLEN Transport Kraków as an integratot of the transport companies in the south of Poland, cooperation with Unipetrol is projected.

Hotel companies

- In 2005 the Company sold 3 hotel and leasure companies: DW Mazowsze Sp. z o.o., ZW Mazowsze Sp. o.o., ZAWITAJ Świnoujście Sp. z o.o. Currently sale transition is being concluded for SAMRELAKS Mąchocice Sp. z o.o.

Maintenance companies

- The maintenance companies will remain in the PKN ORLEN Group due to their strong relation to the Company's core business and important role they play in maintenance of technical operationality of the main installations and machines.

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## VI. IMPORTANT EVENTS THAT WERE SUBJECT OF CURRENT REPORTS IN THE FIRST HALF OF 2005 AND AFTER THAT DATE, UNTIL THE DAY OF FINANCIAL STATEMENTS APPROVAL ("AMENDED FINANCIAL STATEMENTS")

1. On 3 January 2005 the District Court in Opole registered a merger of Zaklad Urzadzen Dystrybucyjnych Sp. z o.o., headquartered in Opole (transferee company), with the following companies (offeree companies):
   -Serwis Katowice Sp. z o.o., headquartered in Katowice,
   -Serwis Kedzierzyn - Kozle Sp. z o.o., headquartered in Kedzierzyn - Kozle,
   -Serwis Kielce Sp. z o.o., headquartered in Kielce,
   -Serwis Lodz Sp. z o.o., headquartered in Lodz,
   -Serwis Rzeszow Sp. z o.o., headquartered in Rzeszow.
   The merger is effected through the take-over of the total assets of the offeree companies by Zaklad Urzadzen Dystrybucyjnych Sp. z o.o. (merger by take-over).

2. On 4 January 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft, Shell Deutschland Oil GmbH for the total amounts of EUR 64m and USD 56m and a letter of guarantee to insurance institution Zurich Versicherung AG for the amount of EUR 25m to secure the liabilities of ORLEN Deutschland AG (PKN ORLEN's fuel 100% subsidiary in Germany). The guarantees come into force on 1 February 2005 and extend the period of validity currently binding until 31 January 2005. The guarantees given to Shell Deutschland Oil GmbH are valid till 30 June 2005; the guarantees given to Holborn European Marketing Company Ltd, Deutsche BP Aktiengesellschaft and Zurich Versicherung AG are valid till 31 December 2005. PKN ORLEN holds a 100% stake in ORLEN Deutschland AG.

3. On January 19 2005 PKN ORLEN S.A. received a notice from PETROVAL S.A. stating that PETROVAL was halting the implementation of a forward contract to supply crude oil (dated December 21, 2002) due to a Force Majeure event which impeded the contract's performance. The Management Board of PKN ORLEN declares that the above described situation does not impede crude oil supply continuity thanks to previously undertaken contingencies. Crude oil deliveries are expected to be executed according to plan, thanks to term and supplementary crude oil delivery spot contracts

4. Supervisory Board – authorized body according to § 8 section 11 pkt 5 of the Company Statute in relation to art. 66 section 4 of The Accounting Act, following its meetings on 21 January 2005, has appointed KPMG Audyt Sp. z o.o., ("KPMG Audyt"), based in Warsaw, to review PKN ORLEN's financial statements, and the

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Capital Group's consolidated financial statements for 2005, 2006 and 2007, according to the International Accounting Standards. In addition, KPMG will review PKN ORLEN and its Capital Group's unconsolidated and consolidated quarterly and half year financial statements starting from II quarter 2005 till IV quarter 2007.

5. On February 2nd 2005, the Company's Supervisory Board approved a new strategy for PKN ORLEN. PKN ORLEN will build its firm value primarily by harnessing its existing potential to a maximum extent. In line with the new strategy, the Company will continue to implement improvements in efficiency and invest in selective projects offering high returns. As part of focus on its core businesses, PKN ORLEN S.A. wants to strengthen the Company's presence in its key business areas in the relevant markets, while continuing to restructure our asset portfolio.

6. On 1 March 2005 the Company's Supervisory Board approved "PKN ORLEN 2005-2009 Retail Sales Development Plan for Poland". The strategy assumes three fundamental strategic targets:
   1. Strengthening of market position.
   2. Increased operational efficiency.
   3. Creation of an efficient organizational structure

   These targets will be achieved through the segmentation of the network into two standards: Premium and economy, managing of the distribution channels and changing of the stations managing manner. The offering for institutional customers will be adjusted to their individual expectations.

7. On 20 April 2005 PKN ORLEN S.A received notification from the European Commission dated 20 April, 2005 regarding approval for the purchase from the National Property Fund of the Czech Republic ("FNM") 114,224,038 bearer shares in Unipetrol a.s. ("Unipetrol"), representing 62.99% of all bearer, issued and existing, shares in Unipetrol.

8. On 26 April 2005 PKN ORLEN S.A. announced that it has received the decree of the Arbitration Court, based in Warsaw, which states that the agreement for the purchase of 168,000 shares in Niezalezny Operator Miedzystrefowy Sp. z o.o. („NOM") by Polskie Sieci Elektroenergetyczne S.A. („PSE") in Warsaw from Polski Koncern Naftowy ORLEN S.A. did not come into force because the suspending condition was not fulfilled, i.e. the lack of approval from PSE corporate organs for the deal. At the same time the counter action of PKN ORLEN for payment for the shares was declined.

9. On 24 May 2005 PKN ORLEN S.A. purchased:
   a. 114,224,038 bearer shares of Unipetrol a.s ("Unipetrol Shares")., each having a nominal value of CZK 100 and representing approximately 62.99% of all issued and outstanding shares of Unipetrol, a.s ("Unipetrol") for a total of CZK 11,303,886,660 (PLN c.a. 1,562,197,136 as of May 23, 2005).

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b. 745,000 bearer shares of Spolana a.s ("Spolana Shares")., each having a nominal value of CZK 655, and representing 9.76% of the share capital of Spolana a.s., for a total of CZK 1.0 million (PLN c.a.138,200 as of May 23, 2005),

c. receivables towards some of the companies of the Unipetrol Group ("Receivables") with a nominal value of approx. CZK 3.1 billion, EUR 9.5 million and USD 4.9 million, as of April 1, 2004, for approx. CZK 1.7 billion (PLN c.a. 234,940,000 as of May 23, 2005).

Following the acquisition of NPF's stake in Unipetrol, and in accordance with Czech law, PKN ORLEN will launch a mandatory tender offer to acquire the interests of minority shareholders in Unipetrol a.s. and its listed subsidiaries (Spolana a.s and Paramo a.s.). The intention of PKN ORLEN is to conduct a restructuring of the Unipetrol Group.

10. On 14 June 2005 PKN ORLEN S.A. issued parent company guarantees to Holborn European Marketing Company Ltd and Shell Deutschland Oil GmbH, for the total amount of EUR 64m, and a letter of guarantee to Bayerische-Hypo und Vereinsbank AG for the amount of EUR 25m to guarantee the liabilities of ORLEN Deutschland AG (PKN ORLEN's 100% fuel subsidiary in Germany). The approximate amount of PLN 359m in liabilities originates from ORLEN Deutschland's fuel trading operations. The guarantees given to Holborn European Marketing Company Ltd., Shell Deutschland Oil GmbH and Bayerische-Hypo und Vereinsbank AG are valid until 31 January 2006.

11. In relation to the purchase of shares representing 62,99% of UNIPETROL a.s. share capital and 9,76% of SPOLANA a.s. share capital, dated 24 May 2005, the Management Board of PKN ORLEN S.A. on 12 August 2005 applied to the Czech Securities Commission (the "SC") with applications for consent to PKN ORLEN's announcements of mandatory tender offers for the shares issued by UNIPETROL, a.s., PARAMO, a.s. and SPOLANA a.s. The prices proposed by PKN ORLEN are: CZK 135 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one SPOLANA share. On 26 August the Company obtained the SC acceptance. Finally approved tender offers contained the following prices: CZK 139 per one UNIPETROL share; CZK 978 per one PARAMO share; and, CZK 155 per one SPOLANA share.

12. On 6 September 2005 PKN ORLEN S.A. received a note informing it that Mr Piotr Osiecki will resign from his position as a member of the Supervisory Board of PKN ORLEN. The resignation will be valid from the date of the next General Meeting of Shareholders of PKN ORLEN, and follows his appointment to the position of Vice-President of the Management Board of PZU Asset Management S.A. Mr Piotr Osiecki was appointed to the Supervisory Bard of PKN ORLEN on 5 August 2004. He is a member of the Audit Committee and Corporate Governance Committee.

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The most important events that took place in other entities constituting the Capital Group of PKN ORLEN and were not mentioned in the standalone financial statements of the Parent Company are as follows:

- **Rafineria Trzebinia S.A.**

1. Sale of the organized part of the company in the form of transportation department to ORLEN Transport Krakow Sp. z o.o., seated in Krakow.

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

Obligation to repay USD 1.122.500 with appropriate interests to Lurgi AG, Frankfurt am Main, Germany, resulting from unfavourable sentence of the Arbitrage Court in Warsaw on improper benefit of Rafineria Nafta Jedlicze S.A. made in April 2003 from so called Performance Bond hold under contract for Hydrorefining installation. Since the Company created partial allowance for this liability in 2003, the sentence will negatively affect the Company's result for the second quarter with the amount of PLN 2,745.4 thousand.

- **ORLEN Deutschland AG**

1. In the first half of 2005 there was a significant decrease in the company's retail margin. Accumulated retail margin for the first half of 2005 was approximately 21% lower than in the first half of 2004. Simultaneously, retail sales on petrol stations grew by almost 5% regardless the downturn of sales on the German petrol stations.
2. On 6 January 2005 ORLEN Deutschland signed the agreement with BP AG for fuel supply to the network of petrol stations in Germany in the period from 1 January 2005 till 31 December 2005. The agreement describes in details the fuel quality, destination and predicted size of deliveries, method of price calculation and other arrangements. Under this contract BP will deliver to ORLEN Deutschland 750 thousand tons of fuel (+/-10%) during the whole 2005. On 3 January 2005 ORLEN Deutschland signed the agreement with Shell Deutschland Oil GmbH for fuel supply to the network of petrol stations. The agreement is valid from 1 January 2005 till 31 December 2005 and also describes in detail destination and size of deliveries, method of price calculation, terms of payment, guarantees of supplies and other arrangements. The size of deliveries in the period covered by this contract amounts to about 615 thousand tons of fuel a year (-10%,+15%).

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

1. Completion of Logistic Platform.
2. Successful performance testing of Logistic Platform facilities.
3. Olefin installation stoppage in PKN ORLEN resulting in lower polyolefin output of BOP.
4. Foundation of tax capital group, involving BOP Sp. z o.o. and BOP Sprzedaż Sp. z o.o.

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- **ORLEN Transport Płock Sp. z o.o.**

On 13 April 2005 the District Court in Warsaw, XXI Commercial Department of Commercial Register, registered an incorporation of ORLEN Transport Płock Sp. z o.o (transferee company) with ORLEN Transport Poznań Sp. z o.o., seated in Poznań and ORLEN Transport Warszawa Sp. z o.o., seated in Mościska (offeree companies). In result of this business combination the share capital of ORLEN Transport Płock Sp. z o.o. was increased from PLN 26,420 thousand to PLN 26,429.5 thousand. Consequently, the share hold by PKN ORLEN S.A. in ORLEN Transport Płock Sp. z o.o. increased from 97.55 % to 97.59 %. As at 30 June 2005 PKN ORLEN SA holds 51,566 shares of Transport Płock Sp. z o.o. worth PLN 25,783,000.

- **ORLEN Transport Kraków Sp. z o.o.**

On 1 April 2005 the Company's Management Board signed the agreement for purchase of the organized part of Euronaft Trzebinia Sp. z o.o. The aim of the transaction mentioned above was to rationalize transportation segment of the Group in the south-eastern region in order to optymalize the number of vehicles in use.

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# ADDITIONAL INFORMATION

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## INFORMATION ABOUT SIGNIFICANT AGREEMENTS

In the first half of the 2005 PKN Orlen S.A. concluded following important contracts:

1. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with BP Polska Spółka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to BP Polska Sp. z o.o in 2005. An estimated value of the transaction amounts to about PLN 2,377 million (gross).

2. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with SHELL Polska Spółka z o.o. The subject of the deal is the sale of gasoline and diesel fuels to SHELL Polska Sp. z o.o. in 2005. An estimated value of the transaction amounts to PLN 1,905 million (gross).

3. On 3 January 2005 PKN ORLEN S.A. concluded annual contract with ORLEN PetroCentrum Sp. z o.o. The subject of the deal is the sale of of gasoline and diesel fuels oil to ORLEN PetroCentrum Sp. z o.o. in 2005. An estimated value of the trasaction amounts to PLN 1,173 million (gross).

4. On 3 January 2005 ORLEN Deutschland AG concluded an agreement with Shell Deutschland Oil GmbH, Hamburg. The subject of the deal is the supplies of fuel to petrol stations belonging PKN ORLEN S.A. in Germany in the period from 1 January 2005 to 31 December 2005. An estimated value of the transaction is EUR 600 million (approximately PLN 2,443 million).

5. On 6 January 2005 ORLEN Deutschland AG concluded an annual agreement with Deutsche BP Aktiengesellschaft. The subject of the deal is the sale of gasoline and diesel fuels oil to ORLEN Deutschland AG in 2005. An estimated value of the transaction is EUR 700 million approximately PLN 2,852.5 million).

6. On 14 April 2005 PKN ORLEN S.A concluded a sale agreement relating to 24 stakes at the nominal value of 589,000 each and at a total nominal value of PLN 14,136,000 constituting as at the date of the signature of the agreement, 30.77% of the share capital Przedsiębiorstwo Przeładunku Paliw Płynnych „Naftoport" Sp. z o.o. („Naftoport") between PKN Orlen as a seller and PERN Przyjaźń S.A. ("PERN") as a bayer. As a result of transaction PKN ORLEN S.A. holds 17,95% in share capital of Naftoport. Remaining shares are hold by following:
   a. PERN „Przyjaźń" S.A. – 67,95%
   b. Grupa LOTOS S.A. – 8,97%
   c. Port Północny – 3,85%
   d. J & S Services Ltd. – 1,28%

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Significant agreements signed by other entities within the Capital Group in the first half of the 2005 and not listed above:

- **Rafineria Trzebinia S.A.**

1. On 12 January 2005 PKN ORLEN S.A. concluded an annual agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline and diesel fuel to Rafineria Trzebinia S.A. in 2005. An estimated value of the transaction is PLN 343 million (gross).
2. PKN ORLEN S.A. concluded an agreement with Rafineria Trzebinia S.A. The subject of the deal is the sale of gasoline to Rafineria Trzebinia S.A. in the period from 11 January 2005 to 31 January 2005. An estimated value of the transaction is USD 1,084,257 USD (approximately PLN 3,369,763).

- **ORLEN Transport Kraków Sp. z o.o.**

1. On 24 August 2005 PKN ORLEN S.A. granted a long-term loan of PLN 2,7 million to its subsidiary - ORLEN Transport Kraków Sp z o.o. The loan is to finance liabilities of ORLEN Transport Kraków Sp. z o.o. towards other entities within the Capital Group as well as to finance the subsidiary's working capital. The loan is to be repaid until 31 July 2009 in 48 monthly and fixed instilments. Interest is calculated at flexible interest rate established at market level. PKN ORLEN S.A. holds 98,41 % of the shares in share capital of ORLEN Transport Kraków Sp z o.o.

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**INFORMATION ON PRIMARY PRODUCTS AND SERVICES, AND ON MARKETS AND SOURCES OF SUPPLY WITH ENUMERATION OF SUPPLIERS**

| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| **Parent Company** | | | | |
| PKN ORLEN S.A. | petrol, unleaded petrol, diesel, heating and special oils, lubricants, bitumen, polyethylene, polypropylene ethylene, propylene, butadiene, glycols, phenol, acetone | domestic market and export | J&S Service&Investment Ltd | 9 748 797 |
| **Subsidiaries** | | | | |
| Rafineria Trzebinia S.A.* | engine petrol, heating oils, biodiesel FAME, base oils. lubricants, crude oil products, other products, paraffin for candles and torches, paraffin oil and mass for wood, paraffin specifics, candle products. | Domestic market and export | PKN ORLEN S.A., BMP Trading GmbH, EWICO Sp.z o.o. Cheman Ciech Sp. z o.o., Siarkopol S.A. Tarnobrzeg, J&S Energy S.A., Fabryka Parafin Naftowax Sp. z o.o., Orlen Gaz Płock Sp. z o.o, PGNiG, ENION, RPWiK, PHU „ZOF-STAL", T.P. S.A., Orlen Oil, Dostawcy gaczów z TNK, Jukos, Kremienczug, Uzbekistan | 405 398 |
| Rafineria Nafty Jedlicze S.A.* | engine petrol, diesel and heating oils, lubricants and special, greases | domestic market and export | PKN ORLEN S.A.; ORLEN OIL; J&S Energy,Rafineria Jasło, PGNiG S.A. (Warszawa), ORLEN PetroTank Sp. z o.o., Baltex S.A. (Warszawa), Konsorcjum Olejów Przepracowanych (Jedlicze), Unimot Express (Warszawa); Rafineria Trzebinia S.A.; SWS Handelsges (Niemcy); C.H.Erbsloh (Warszawa); Lubrizol (Francja); RohMax, (Niemcy); MOL (Węgry); Lotos Oil (Gdańsk) | 221 614 |
| IKS Solino S.A. | brine, evaporated, iodinated salts, salt tablets, pickling salt, compact salt, fuel storage | Domestic market and export | Janikowskie Zakłady Sodowe Janikosoda S.A., Anwil S.A. (Włocławek), IZCH (Inowrocław) | 55 651 |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| | service in PMRiP | | | |
| Anwil S.A.* | polyvinyl chloride, sodium hydrate, ammonium nitrate, CANWIL – nitrochalk, granulated PCV plates | domestic market and export | PKN ORLEN S.A., PGNiG S.A., IKS SOLINO SA | 730 533 |
| UNIPETROL a.s.: | | | | 1 607 411 ** |
| Chemopetrol a.s. | polyetylen, polypropylen ethylen, propylen fuel, fraction C4, fraction C5, Fraction C9, BTX, ethanol, alkohols OXO, ammonia | Czech Republic and foreign markets | Unipetrol Rafinerie | - |
| Kaucuk a.s. | E-SBR, EPS, CPS, Butadien, Rafinat II, ABS | Czech Republic and foreign markets | Chemopetrol | - |
| Spolana a.s. | PCV, Kaprolaktam, NaOH | Czech Republic and foreign markets | Chemopetrol | - |
| Unipetrol Rafinerie a.s. | diesel oil, petrol, materials to pyrolisys , HCVD, LPG, Jet, aspfalt, propylen, raw materials to POX, oils | Czech Republic and foreign markets | | - |
| Paramo a.s. | materials to pirolisys , diesel oils, LFO, HFO, aspfalt, lubricants, oils | Czech Republic and foreign markets | Unipetrol Rafinerie | - |
| Benzina a.s. | Petrol, engine oil | Czech Republic | Unipetrol Rafinerie | - |
| Agrobochemie a.s. | amonia, urea | Czech Republic and foreign markets | Chemopetrol | - |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| Alliachem a.s. | dyes, pigments, organic chemicals, nitrocellulose, plastics, foils LDPE, LLDPE, BO PET | Czech Republic and foreign markets | Chemopetrol | - |
| ORLEN-Oil Sp. z o.o.* | lubricants, base oils, other oil products, exploiting liquids | domestic market and export | Rafineria Nafty Jedlicze S.A. | 280 669 |
| ORLEN Asfalt Sp. z o.o. | road, modificated and industrial asphalt, bitumen, transportation Services, slopes and dump. | domestic market and export (Hungary, Slovakia, Germany, Czech Republik) | PKN ORLEN S.A. ORLEN Oil Sp. z o.o., Kraton Polymers North East Europe Sp. z o.o., Brenntag Polska Sp. z o.o. | 137 165 |
| ORLEN PetroTank Sp. z o.o. | engine oils, heating and liquidated gas | Poland | PKN ORLEN S.A., ORLEN Petrocentrum Sp. z o.o. | 357 655 |
| ORLEN PetroProfit Sp. z o.o.* | engine petrol,, heating and industrial oils, LPG, preparation and sale of refrigerating oils, polyethylene, polypropylene | eastern Poland | PKN ORLEN S.A., ORLEN Petro Centrum Sp. z o.o., PetroZachód Sp. z o.o., ORLEN Oil Sp. z o.o. | 237 751 |
| ORLEN PetroCentrum Sp. z o.o. | engine petrol,, heating oils and liquidated gas | Poland | PKN ORLEN S.A. | 811 087 |
| Petrolot Sp. z o.o. | Aircraft fuel, Jet A-1, aircraft petrol 100LL, car fuels | domestic and Foreing airlines, Sale of car fuel in Warsaw | PKN ORLEN S.A. Agencja Rezerw Materiałowych S. A., Grupa Lotos S.A. Ośrodek Badawczo Rozwojowy Przemysłu Rafineryjnego w Płocku | 236 482 |
| ORLEN Morena Sp. z o.o. | Engine petrol, diesel, heating oils, propan-butan | northern Polska | PKN ORLEN S.A. ORLEN PetroCentrum Sp. z o.o. ROMGAZ | 172 184 |
| Ship - Service S.A. * | IFO-Intermediate Fuel Oil, MDO-Marine Diesel Oil, MGO - Marine Gas Oil, | domestic and Foreing harbours (inland navigation in Poland and abroad, Klajpeda, Lithuania), | PKN ORLEN S.A., Rafineria Trzebinia S.A., UAB Lietkomerc Limited, Nau Shipping, | 127 162 |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| ORLEN PetroZachód Sp. z o.o. | Engine petrol, diesel, heating oils, gas, petrygo liquid, plastics, goods on petrol stations | Poland, wielkopolskie, lubuskie, dolnośląskie regions | PKN ORLEN S.A. ORLEN PetroCentrum Sp. z o.o., Basell ORLEN Polyolefins Sp. z o.o. | 264 471 |
| ORLEN Deutschland AG Activities in Germany | engine petrol, diesel, heating oils | Northern Germany | BP/Aral, Shell, Mabanaft, Holborn, CONOCO, | 4 084 167 |
| ORLEN Gaz Sp. z o.o. | propan-butan, propan | Domestic market, export (Slowakia) | PKN ORLEN S.A., BP Polska Sp. z o.o., VOEST-ALPINE INTERTRADING AG, BAŁTYK - GAZ SP. Z O.O., GASPOL S.A. | 230 746 |
| Zakład Budowy Aparatury S.A. | shell-and-tube heat exchanger, double pipe heat Exchange, process column, air cooler, power condenser and heater, pressure vessel, stock tanks, value cap shelves for columns, steel stacks, air and exhaust gas ducts, steelworks, spare Parts, for pressure apparatus, maintenance of crane devices under UDT | Poland | OLKAM (Częstochowa), Kuźnia Gdańska, PPHU APIS ( St. Wola), SILESIA (Katowice), Rautaruukki Steel (Finlandia), DEMARK Sp. J. (Toruń), Austenit Import (Toruń), Petro-Kor (Płock), Weisstaler GmbH (Niemcy) | 11 010 |
| Petrotel Sp. z o.o. | telecommunicati on services, GSM activation, goods and materials | Płock and commune of Stara Biała | Polkomtel S.A., Exatel, ERA GSM PTC | 16 518 |
| ORLEN Projekt S.A. | design and typographical services, start-up investments, realization of investments, investment supervision, printing | Domestic market and export | Dipl.-Ing.Scherzer (Niemcy), Petro Remont (Płock) | 12 392 |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| ORLEN Medica Sp. z o.o. | medical services | domestic market | CSK WIM; LEWANDPOL; Euromed Sp. z o.o.; Wojewódzka Stacja Pogotowia Ratunkowego i Transportu Sanitarnego; GlaxoSmithKline; Apteka VITA | 6 545 |
| ORLEN Automatyka Sp. z o.o. | installation services, repair and maintenance of control and measuring tools and devices | domestic market | Zakłady Automatyki POLNA S.A. ASCO JOUCOMATIC Sp. z o.o. Technopomiar Sp. z o.o. ASE Sp. z o.o. SEMA Sp. z o.o. PPH MAR-JAN S.J. AMPER , PHU ELGAL Emerson Process Management Sp. z o.o. INTROL Sp. z o.o. ABB Sp. z o.o. Honeywell Sp. z o.o. POLYCO PHU KLIMA-THERM Kujawska Fabryka Manometrów S.A. Linde Gaz Polska Sp. z o.o. Okręgowy Urząd Miar | 12 471 |
| ORLEN Wir Sp. z o.o. | repair servies of compressors and turbines | Poland | Alfa Płock, P U H Transfer Bis, Biuro Handlowe EWAN s.c., AHW Sp. z o.o., BBT-Polska, Hydrof | 6 819 |
| ORLEN Transport Płock Sp. z o.o. | ADR transport, transport of goods and people, sedition, services relating to construction machines, repairs and services, sale of petrygo, ekoterm, fuels | Poland and Europe | PKN ORLEN S.A., | 43 356 |
| ORLEN Transport Szczecin Sp. z o.o. | transportation services | Poland regions: zachodniopomorskie, lubuskie, wielkopolskie, pomorskie | ORLEN Morena Sp. z o.o. ORLEN Transport Płock Sp. z o.o. | 2 200 |
| ORLEN Transport Kraków Sp. z o.o. | transportation services | Poland and Europe | PKN ORLEN S.A., ORLEN PetroTank Sp. z o.o., ORLEN Oil Sp. z o., KrakGaz | 14 101 |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| ORLEN Transport Nowa Sól Sp. z o.o. | transportation service; Sale of fuel, | Poland, regions: lubuskie, dolnośląskie and part of zachodniopom. | ORLEN Morena Sp. z o.o. Opony Serwis Piechnik (Nowa Sól), Raniś & Raniś Sp.Jawna (Świętno) | 15 226 |
| ORLEN Transport Słupsk Sp. z o.o. | Transportation and motorisation services, sale of fuel | domestic market and export | PKN ORLEN S.A., ORLEN Morena Sp. z o.o. | 11 872 |
| ORLEN Transport Olsztyn Sp. z o.o. | transportation services, sale of fuel | domestic market | PKN ORLEN S.A. ORLEN Morena Sp. z o.o. | 8 283 |
| ORLEN Transport Kędzierzyn Koźle Sp. z o.o. | transportation services, servicing, sale of fuel, sale of vehicles and fuel-liked | Poland and Europe | PKN ORLEN S.A., Fiat Auto Poland S.A., Rafineria Trzebinia S.A, Pro-Naft sp. z o.o. | 9 477 |
| ORLEN KolTrans Sp. z o.o. | leasing of tankers, and complementary activity, servicing of DEC compartments. | domestic market | PKN ORLEN S.A., Transchem, Transpol, Hagans, Lotos i ZNTK Oława | 22 417 |
| ORLEN Budonaft Sp. z o.o. | construction, maintenance and modernisations of fuels stations | Polska | BRUGG GRUDNIK AGROSTAL ONINEN | 21 702 |
| ORLEN Laboratorium Sp. z o.o. | laboratory services | domestic market and export (Germany) | PKN ORLEN S.A. Petrotel Sp. z o.o. ORLEN Media Sp. z o.o. Inkom Instruments Co. Perkin Elmer Polska Sp. z o.o. P.U. Zieleń Sp. z o.o. Polskie Odczynniki Chemiczne S.A. BOC Gazy Sp. z o.o. | 18 405 |
| ORLEN Powiernik Sp. z o.o. | trust services to PKN ORLEN S.A. | Płock | PKN ORLEN S.A. | 0 |
| **Joint-venture company** | | | | |
| Basell Orlen Polyolefins Sp. z o.o. | polyethylene, polypropylene, sale of imported products, trust services to Basell Polyolefins Company | domestic market and export | PKN ORLEN S.A., | 507 603 |

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| Consolidated companies | Basic Products and services | Markets (area of operation) | Dominating suppliers | Sale Income (in PLN thousand) |
|---|---|---|---|---|
| **Assosiated companies** | | | | |
| Chemiepetrol GmbH | glycolisis, PVC, ksylen, MEG, rubber, soda | Germany | PKN ORLEN S.A., Dwory S.A., Ciech | 17 605 |

*) belongs to Capital Group

**) Sales of Unipetrolu a.s. relate to June 2005 only

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## TRANSACTIONS WITH RELATED ENTITIES

Transactions with related entities, where value of single transaction or total value of transactions during the the first half of the 2005exceeds a PLN equivalent of EUR 500 thousand:

| L.p. | Name of business partners | Sale in PLN thousand | Purchases in PLN thousand |
|---|---|---|---|
| 1. | ORLEN Gaz Sp. z o.o. | 150 869,8 | 154 133,1 |
| 2. | ORLEN PetroProfit Sp. z o.o. | 52 872,5 | 2 440,2 |
| 3. | ORLEN PetroTank Sp. z o.o. | 85 874,3 | 5 350,6 |
| 4. | Inowrocławskie Kopalnie Soli "SOLINO" S.A. | 495,8 | 15 590,4 |
| 5. | ORLEN PetroCentrum Sp. z o.o. | 801 761,4 | 2 919,2 |
| 6. | PETROLOT Sp. z o.o. | 169 358,1 | 885,1 |
| 7. | Petrotel Sp. z o.o. | 872,7 | 4 515,5 |
| 8. | Wisła Płock Sportowa S.A. | 16,7 | 5 711,4 |
| 9. | Rafineria Trzebinia S.A. | 156 401,8 | 3 897,9 |
| 10. | ORLEN Medica Sp. z o.o | 88,4 | 2 616,2 |
| 11. | ORLEN PetroZachód Sp. z o.o. | 73 097,3 | 10 127,6 |
| 12. | ORLEN Projekt S.A. | 215,5 | 10 066,2 |
| 13. | ORLEN Ochrona Sp. z o.o. | 1 028,2 | 14 934,4 |
| 14. | Zakład Budowy Aparatury S.A. | 1 286,2 | 6 154,6 |
| 15. | ORLEN Transport Płock Sp. z o.o. (+ ORLEN Transport Warszawa. ORLEN Transport Poznań) | 29 550,5 | 10 801,0 |
| 16. | ORLEN Automatyka Sp.z o.o. | 213,5 | 10 155,2 |
| 17. | ORLEN Wir Sp. z o.o. | 271,1 | 3 531,1 |
| 18. | ORLEN Budonaft Sp. z o.o. | 433,7 | 21 398,4 |
| 19. | Rafineria Nafty Jedlicze S.A. | 3 006,1 | 350,0 |
| 20. | SHIP-SERVICE S.A. | 55 257,6 | 34,2 |
| 21. | ANWIL S.A. | 128 198,3 | 1 113,7 |
| 22. | ORLEN Oil Sp. z o.o. | 134 977,5 | 41 723,1 |
| 23. | Serwis Mazowsze Sp. z o.o. | 151,2 | 3 855,1 |
| 24. | ORLEN Transport Olsztyn Sp. z o.o. | 2 444,0 | 2 585,6 |
| 25. | ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. | 2 560,8 | 2 920,8 |
| 26. | ORLEN Transport Słupsk Sp. z o.o. | 6 093,9 | 2 519,4 |
| 27. | ORLEN Transport Kraków Sp. z o.o. | 3 984,6 | 3 190,3 |
| 28. | ORLEN Transport Nowa Sól Sp. z o.o. | 329,2 | 5 851,4 |
| 29. | ORLEN Centrum Serwisowe (dawniej Zakład Urządzeń Dystrybucyjnych) | 426,1 | 8 458,7 |
| 30. | ORLEN KolTrans Sp. z o.o. | 1 913,4 | 15 944,8 |
| 31. | ORLEN Asfalt Sp.z o.o. (dawniej Bitrex Sp. z o.o.) | 114 461,2 | 1 343,7 |
| 32. | ORLEN Morena Sp. z o.o. | 52 356,4 | 148,0 |
| 33. | BASELL ORLEN POLYOLEFINS Sp. z o.o. | 361 754,6 | 3 071,1 |
| 34. | ORLEN Laboratorium Sp. z o.o. | 1 132,0 | 15 663,2 |
| 35. | ORLEN Eko Sp. z o.o. | 2 045,2 | 7 414,1 |
| 36. | Unipetrol Rafinerie a.s. | 51 967,2 | 0,0 |
| 37. | Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o. | 153,6 | 3 136,3 |

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| L.p. | Name of business partners | Sale in PLN thousand | Purchases in PLN thousand |
|---|---|---|---|
| 38. | Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o. | 260,0 | 3 792,7 |
| 39. | Petro-Oil SEEWAX Sp. z o.o. | 136,2 | 5 656,3 |
| 40. | Petro - Oil Śląskie Centrum Sprzedaży Sp. z o.o. | 0,5 | 2 612,5 |
| 41. | Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o. | 10,0 | 4 982,9 |
| 42. | Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o. | 1,2 | 5 523,2 |
| 43. | Petro-Oil Łódzkie Centrum Sprzedaży | 0,0 | 2 104,9 |
| | **Total** | **2 448 327,7** | **429 224,2** |

In the reporting period the Company obtained the statements from the supervising persons on intra-group transactions in enlarged extend as required by amended IAS 24 „Information revealed concerning relating entities".

Transactions with related entities by the persons supervising the Company (in PLN thousand)

| | Sales | Purchases | Receivables | Liabilities | Dividend paid |
|---|---|---|---|---|---|
| **Legal persons *** | 12.598 | 24.242 | - | - | - |
| **Natural persons **** | 443 | - | | | |

* Transactions for the period of acting member of the key management by persons supervising the Company
** In the reporting we included transactions under EUR 500 thousand.

In the period presented in the financial Statement 11 persons acted as Members of Supervisory Board. The Company did not obtain the relevant extended statement from 1 former Member of the Supervisory Board.
In the first half of the 2005 members of the Management Board did not enter into transactions with related entities as understood under IAS 24 „Information revealed concerning relating entities".

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## REMUNERATION, INCLUDING PROFIT DISTRIBUTION, PAID TO MANAGEMENT BOARD, SUPERVISORY BOARD AND MEMBERS OF KEY MANAGEMENT ACCORDING TO IAS 24

Remuneration, including profit distribution, paid to Management Board, Supervisory Board and members of key management according to IAS 24 are presented in Note 32 of the consolidated financial statements.

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## CHANGES IN THE COMPOSITION OF THE DOMINANT COMPANY AND IN THE CONSOLIDATED COMPANIES' MANAGEMENT AND SUPERVISORY BOARDS OF CAPITAL GROUP PKN ORLEN S.A. DURING THE 1st HALF OF THE YEAR 2005

In the period from 1 January 2005 to 30 June 2005 the Management Board of PKN ORLEN S.A. consisted of the following members:

| | |
|---|---|
| Igor Chalupec | President of the Management Board, General Executive Officer from 1 October 2004. |
| Wojciech Heydel | Vice-President of the Management Board from 1 November 2004<br>Vice-President of the Management Board, Retail and Commercial Sales Director from 2 November 2004 |
| Cezary Smorszczewski | Vice-President of the Management Board from 1 November 2004<br>Vice-President of the Management Board, Strategy and Capital Investments Director from 2 November 2004 |
| Paweł Szymański | Member of the Management Board from 18 October 2004<br>Member of the Management Board, Chief Financial Officer from 2 November 2004 |
| Jan Maciejewicz | Vice-President of the Management Board, Cost Management and Information Technology Director from 1 December 2004 |
| Andrzej Macenowicz | Member of the Management Board from 8 February 2002<br>Vice-President of the Management Board from 7 March 2002 to 29 June 2005<br>Vice-President of the Management Board, Human Resources and Management Systems Director from 12 March 2002 to 1 November 2004<br>Vice-President of the Management Board, Human Resources Management and Administration Director from 2 November 2004 do 29 June 2005 |

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| | |
|---|---|
| Janusz Wiśniewski | Vice-President of the Management Board from 7 March 2002 to 29 June 2005<br>Vice-President of the Management Board, Development and Production Director from 12 March 2002<br>Vice-President of the Management Board, Production, Wholesale Trade and Logistics Director from 4 May 2004 to 1 November 2004<br>Acting President of the Management Board and General Director from 16 August 2004 to 30 September 2004<br>Vice-President of the Management Board, Operating Director from 2 November 2004 to 29 June 2005 |

In the reporting period supervision over the activity of the Dominant Company was performed by the Supervisory Board constituted of following persons:

| | |
|---|---|
| Jacek Bartkiewicz | Member of the Supervisory Board from 25 March 2003 to 1 March 2004<br>Chairman of the Supervisory Board from 5 August 2004 |
| Maciej Gierej | Member of the Supervisory Board from 21 February 2002 to 28 June 2002<br>Chairman of the Supervisory Board from 28 June 2002 to 8 April 2004 r<br>Member of the Supervisory Board from 5 August 2004 |
| Michał Stępniewski | Member of the Supervisory Board from 24 June 2004<br>Vice-Chairman of the Supervisory Board from 12 April 2005 to 30 June 2005 |
| Raimondo Eggink | Member of the Supervisory Board from 5 August 2004 |
| Krzysztof Lis | Member of the Supervisory Board from 5 August 2004 to 31 January 2005 |
| Małgorzata Okońska - Zaremba | Member of the Supervisory Board from 5 August 2004 |
| Piotr Osiecki | Member of the Supervisory Board from 5 August 2004 |
| Ireneusz Wesołowski | Member of the Supervisory Board from 5 August 2004<br>Secretary of the Supervisory Board from 16 August 2004 |

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| | |
|---|---|
| Krzysztof Żyndul | Member of the Supervisory Board from 5 August 2004<br>Vice-Chairman of the Supervisory Board from 16 August 2004 to 30 March 2005 |
| Andrzej Olechowski | Member of the Supervisory Board from 29 June 2005 |
| Adam Sęk | Member of the Supervisory Board from 29 June 2005 |

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**Members of the Management and Supervisory Boards in companies of the Capital Group PKN ORLEN S.A. as at 30 June 2005 (presented below Supervisory Board members include only those representing the Dominant Entity)**

The companies of a greatest meaning when considering turn-over and equity:

| | | |
|---|---|---|
| *Rafineria Trzebinia S.A.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Grzegorz Ślak*<br>*Marek Martyniak*<br><br>*Janusz Wiśniewski – Chairman of the Supervisory Board*<br>*Cezary Smorszczewski,*<br>*Grażyna Tomala,*<br>*Andrzej Łobodziński,*<br>*Krystian Pater* |
| *Rafineria Nafty Jedlicze S.A.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Krzysztof Janas*<br>*Adam Kozak, Ryszard Szyszlak*<br><br>*Paweł Szymański - Chairman of the Supervisory Board*<br>*Czesław Bugaj,*<br>*Andrzej Stegenta,*<br>*Tomasz Wołoch* |
| *IKS „Solino" S.A.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Czesław Misterski*<br>*Piotr Mroziński, Jolanta Uzarczyk-Gerus,*<br><br>*Andrzej Macenowicz - Chairman of the Supervisory Board*<br>*Marek Bakuła,*<br>*Elwira Lewtak,*<br>*Mariusz Pawlak,*<br>*Renata Rosiak* |
| *Anwil S.A.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Benedykt Michewicz*<br>*Teresa Szeligowska, Krzysztof Kamiński,*<br><br>*Janusz Wiśniewski - Chairman of the Supervisory Board*<br>*Cezary Smorszczewski,*<br>*Paweł Szymański,*<br>*Janusz Zieliński* |
| *Unipetrol a.s.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Pavel Svarc*<br>*Marek Mroczkowski, Adam Życzkowski, Vit Subert,*<br>*Frederik Emmich*<br>*Igor Chalupec - Chairman of the Supervisory Board*<br>*Cezary Smorszczewski,*<br>*Paweł Szymański,*<br>*Joanna Chmielewska,*<br>*Piotr Kearney,*<br>*Dariusz Formela,*<br>*Wojciech Lorenc* |

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| | | |
|---|---|---|
| *ORLEN -Oil Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Marian Andrzej Łyko*<br>*Adam Gembala, Wojciech Głaziewicz*<br><br>*Wojciech Heydel - Chairman of the Supervisory Board*<br>*Czesław Bugaj* |
| *Basell Orlen Polyolefins Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Hartmut Luker*<br>*Karol Marek Sęp, Willem Adolf Eduardus Waelput, Robert Bednarski*<br>*Janusz Wiśniewski - Chairman of the Supervisory Board*<br>*Jan Maciejewicz* |
| *ORLEN Asfalt Sp. z o.o.* | *Acting President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Mirosław Wrona*<br>*Andrzej Zdzienicki*<br><br>*Tomasz Kwiecień - Chairman of the Supervisory Board*<br>*Dariusz Kusiak* |

Fuel companies:

| | | |
|---|---|---|
| *ORLEN PetroTank Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Jan Serwa*<br>*Roman Lewandowski*<br><br>*Wiesław Ejdys - Chairman of the Supervisory Board*<br>*Tomasz Wołoch,*<br>*Wojciech Ostrowski* |
| *ORLEN PetroProfit Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>Supervisory Board | Jan Serwa<br>Ewa Jośko<br><br>*Wiesław Ejdys - Chairman of the Supervisory Board*<br>Wojciech Ostrowski,<br>Aneta Pankowska |
| *ORLEN PetroCentrum Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Paweł Wysocki*<br>*Aniela Michalik, Józef Janiszewski*<br><br>*Wiesław Ejdys - Chairman of the Supervisory Board*<br>Wojciech Ostrowski,<br>*Aneta Pankowska* |
| *Petrolot Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Jan Kujawa*<br>*Wojciech Weiss, Krzysztof Czujkowski*<br><br>*Kazimierz Kłęk - Chairman of the Supervisory Board*<br>*Tomasz Kwiecień* |

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| | | |
|---|---|---|
| *ORLEN PetroZachód Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Krzysztof Badura*<br>*Przemysław Leśnik, Zenon Gawron*<br><br>*Wiesław Ejdys - Chairman of the Supervisory Board*<br>*Dariusz Kusiak* |
| *Ship – Service S.A.* | *Acting President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Bogdan Zegar*<br>*Edmund Kazimierz Runowicz, Dariusz Sabalski*<br><br>*Bogdan Zegar - Chairman of the Supervisory Board*<br>*Tomasz Wołoch*<br>*Janusz Girszewski* |

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| | | |
|---|---|---|
| *ORLEN Morena Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>*Supervisory Board* | *Izabella Olszewska*<br>*Wanda Zubrycka*<br>*Wieslaw Ejdys - Chairman of the Supervisory Board*<br>Wojciech Ostrowski,<br>*Krzysztof Sobieraj* |
| Zakład Budowy Aparatury S.A. | | |
| Petrotel Sp. z o.o. | | |
| ORLEN Projekt S.A. | | |
| *ORLEN Medica Sp. z o.o.* | | |
| ORLEN Laboratorium Sp. z o.o. | | |

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| | | |
|---|---|---|
| *ORLEN Deutschland AG* | *Acting President*<br>*Member of the Management Board*<br>*Supervisory Board* | Josef Niedworok<br>Michał Jończyński<br><br>*Igor Chalupec - Chairman of the Supervisory Board*<br>*Jan Maciejewicz,*<br>*Wojciech Heydel,*<br>*Przemysław Grabowski,*<br>*Paweł Szymański,*<br>*Paweł Brochocki* |

LPG trading companies:

| | | |
|---|---|---|
| *ORLEN Gaz Sp. z o.o.* | *President*<br>*Member of the Management Board*<br>Supervisory Board | Andrzej Rokicki<br>Bernard Cichocki<br><br>*Wojciech Heydel - Chairman of the Supervisory Board*<br>Dariusz Kusiak,<br>Grażyna Tomala,<br>Tomasz Kwiecień |

Companies established from restructuring of the Dominant Company:

Maintenance companies of the Dominant Company:

| | | |
|---|---|---|
| ORLEN Automatyka Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Kazimierz Bętlejewski<br>Jerzy Klatte<br><br>*Zdzisław Nicewicz - Chairman of the Supervisory Board*<br>Monika Łobodzińska |
| ORLEN Wir Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Józef Świątczak<br>Witold Kapela<br><br>*Zbigniew Belka – Chairman of the Supervisory Board*<br>Monika Łobodzińska |

Transportation companies of the Dominant Company:

| | | |
|---|---|---|
| ORLEN Transport Płock Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Jerzy Jasiński<br>Roman Rutecki, Remigiusz Miecznikowski<br><br>*Marek Bakuła - Chairman of the Supervisory Board*<br>Anna Jasińska |

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| | | |
|---|---|---|
| ORLEN Transport Szczecin Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Paweł Hapczyk<br>Bogdan Biskupski<br><br>*Artur Falkiewicz - Chairman of the Supervisory Board*<br>Krzysztof Sobieraj |
| ORLEN Transport Kraków Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Robert Zaklika<br>Piotr Tuniewicz<br><br>*Krzysztof Gawłowski - Chairman of the Supervisory Board*<br>Anna Jasińska |
| ORLEN Transport Nowa Sól Sp. z o.o. | *President*<br>Supervisory Board | Leszek Gnitecki<br>*Henryk Jaworski - Chairman of the Supervisory Board*<br>Dagmara Gorzelana |
| ORLEN Transport Słupsk Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Wiesław Idźkowski<br>Edward Klecha, Sławomir Myśliński<br><br>*Krzysztof Gawłowski - Chairman of the Supervisory Board*<br>Krzysztof Sobieraj |
| ORLEN Transport Olsztyn Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Supervisory Board | Tadeusz Kowalczyk<br>Stanisław Mastyło<br><br>*Krzysztof Gawłowski - Chairman of the Supervisory Board*<br>Dagmara Gorzelana |
| ORLEN Transport Kędzierzyn Koźle Sp. z o.o. | *President*<br>Supervisory Board | Michał Miklas<br>*Krzysztof Gawłowski - Chairman of the Supervisory Board*<br>Dagmara Gorzelana |
| ORLEN KolTrans Sp. z o.o. | *President*<br>Supervisory Board | Andrzej Dorosz<br>*Marek Bakuła - Chairman of the Supervisory Board*<br>Marcin Jeżewski,<br>Adam Woźniak |

Other companies:

| | | |
|---|---|---|
| Chemiepetrol GmbH | Management Board | Dariusz Dąbrowa, Jurgen Kleiner |
| ORLEN Powiernik Sp. z o.o. | *President*<br>*Member of the Management Board*<br>Revision Commission | Arkadiusz Lewtak<br>Małgorzata Mioduska<br><br>*Bogdan Zegar - Chairman of the Revision Commission*<br>Iwona Zawidzka<br>Grażyna Tomala |

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| | | |
|---|---|---|
| ORLEN Budonaft Sp. z o.o. | *President*<br>*Member of the Management Board* | Władysław Teterycz<br>Ewa Czernicka, Marek Truchan |
| | Supervisory Board | *Monika Łobodzińska - Chairman of the Supervisory Board*<br>Rafał Jędrzejewski<br>Walenty Cywiński |

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## TOTAL NUMBER OF SHARES OF THE DOMINANT COMPANY AND OF OTHER CAPITAL GROUP ENTITIES BEING HELD BY MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS OF THE DOMINANT COMPANY

As at 30 June 2005, 2,950 shares in PKN ORLEN S.A. were held by Raimondo Eggink, Member of the Supervisory Board. Other Members of the Management and Supervisory Board, as at 30 June 2005, did not possess any shares and stakes in PKN ORLEN S.A. and other companies of the Capital Group.

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## SHAREHOLDERS OF THE DOMINANT COMPANY

Shareholders of PKN ORLEN S.A. as at 30 June 2005:

| Shareholders | Number of shares | Number of voting rights | Par value of shares | Share in share capital |
|---|---|---|---|---|
| Nafta Polska S.A | 74 076 299 | 74 076 299 | 92 595 374 | 17,32% |
| Skarb Państwa | 43 633 897 | 43 633 897 | 54 542 371 | 10,20% |
| The Bank of New York | 52 031 578 | 52 031 578 | 65 039 473 | 12,17% |
| Other * | 257 967 287 | 257 967 287 | 322 459 109 | 60,31% |
| Total | **427 709 061** | **427 709 061** | **534 636 326** | **100,00%** |

* According to the current report no 33/2005 issued on 25 May 2005, FMR Corp. with directly and indirectly dependent entities seated in Boston and Fidelity International Limited with directly and indirectly dependent entities seated on Bermuda Islands as at 24 May 2005 possessed 21 436 944 shares of PKN ORLEN, constituting 5,01% of share capital, granting 21 436 944 voting rights at the general shareholders meeting and 5,01% of the total number of voting rights at the general shareholders meeting of PKN ORLEN S.A.

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

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# Management Board Raport on Operations of Polski Koncern Naftowy ORLEN Spolka Akcyjna Capital Group for the 1st half of the year 2005 submitted by the Management Board composed of:

.....
**Management Board President**
Igor Chalupec

| | | |
|---|---|---|
| ..... | ..... | ..... |
| **Management Board Vice-President** | **Management Board Vice-President** | **Management Board Vice-President** |
| Wojciech Heydel | Jan Maciejewicz | Cezary Smorszczewski |

| | |
|---|---|
| ..... | ..... |
| **Management Board Member** | **Management Board Member** |
| Paweł Szymański | Dariusz Witkowski |

Płock, 26 September 2005