Minister of Economy

POLICY OF THE GOVERNMENT OF THE
REPUBLIC OF POLAND

With respect to the oil industry in Poland

Warsaw, 6 February 2007.
Preliminary assumptions

Adoption of the Policy of the Government of the Republic of Poland with respect to the oil industry in Poland, as replacing the document called The Strategy for Oil Industry as adopted by the Council of Ministers on September 24, 2002 is necessary for the following reasons:

- The most important objectives of the Strategy for the Oil Industry, as adopted by the Council of Ministers on September 24, 2002 have been achieved;
- In the recent period there were significant developments in the energy carrier market throughout the Central and Eastern Europe (breakdowns in supply of such carriers, change of ownership in case of several refineries, changes in logistics);
- Strategies with respect to oil industries of other countries of the region also changed, specifically towards key raw material suppliers;
- In view of completion of its tasks, the NAFTA POLSKA SA will be subject to liquidation and, thereby, the system of organisation of corporate governance by the State Treasury within the oil sector and the sector of High Chemical Synthesis will change.

This Policy is addressed to the bodies of government administration.

Decisions of governing bodies of companies held by the State Treasury should be made in accordance with objectives defined hereunder. Furthermore, actions undertaken by persons representing the State Treasury in companies where the State Treasury is not the only shareholder should take account of objectives defined hereunder.

This Policy addresses the needs and the situation of oil companies that perform their business operations involving production and processing of crude oil as well as entities in possession of the logistics systems used for transmission and storage of oil and liquid fuels.

This Policy is made up of two major Programmes:

- **The oil sector restructuring programme** including objectives to be achieved by the State, as an owner of shares in companies operating within the oil sector.
- **The Schedule of legislative work with respect to the oil sector** involving objectives to be achieved through changes in laws pertaining to the oil sector.

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1 Hereinafter referred to as: “the Policy”
2 Hereinafter referred to as: „NAFTA POLSKA”

**Submitting:** The Minister of Economy
Introduction

The oil sector generates an important impact upon energy security of the country by ensuring continuity of supplies of energy carriers and by ensuring lowest possible prices of energy.

Among the factors under control of the government administration, the key are as follows:

- Corporate governance and ownership policy vis a vis oil sector companies that might lead to abuse, by oil and liquid fuel infrastructure owners of monopolistic position;
- Fuel production potential in the territory of the Republic of Poland;
- Model of taxation imposed upon the oil sector (taxation scope, level of tax rates);
- Regulatory policy, specifically anti-monopoly policy and protection of consumer rights;
- The number of active sources and routes of supplies of energy carriers in the territory of the Republic of Poland;
- Quality of regulations regarding capital projects in infrastructure;
- Level of the domestic production of energy carriers.

I. The Objectives of the Oil Sector Restructuring Programme

In order to increase the level of energy safety of the Republic of Poland, the Council of Ministers has adopted the Oil Sector Restructuring Programme.

Improving energy safety of the Republic of Poland will be facilitated by:

- Increasing diversification of sources of oil supplies including obtaining oil from different regions of the world, different suppliers, intermediaries and using alternative transport routes;
- Increasing the level of competition within the sector to minimise negative impacts on the economy of global raw material price increases;
- Maintaining or increasing the shareholding of the State Treasury in oil sector companies (oil sector companies listed out in the Regulation of the Council of Ministers of December 13,

3 Hereinafter referred to as: “The Restructuring Programme”
2005 on the list of companies of significant importance to the public law and order or public safety)\(^4\),

- Reducing the risk of aggressive takeovers of entities conducting the business of crude oil processing, rendering services in the area of transmission and storage of oil and oil related products;
- Expansion of the system of logistics relative to oil and liquid fuels;
- Increasing the volume of oil transiting the territory of the Republic of Poland;
- Ensuring infrastructure to facilitate transport of oil, to Polish receivers, from the Caspian Sea Region;
- Obtaining, by the Polish enterprises of access to their own oil deposits located outside of the borders of the Republic of Poland\(^5\);
- Poland’s access to the International Energy Agency\(^6\), - participation in the anti-crisis mechanisms adopted by the IEA member states;
- Expanding, by the sector, of innovativeness of production processes.

II. Tasks to be performed by the members of the Council of Ministers, as necessary to ensure implementation of the Oil Sector Restructuring Programme

The main task for the minister responsible for matters of the State Treasury, with respect to implementation of objectives of the Restructuring Programme, is to supervise restructuring process and implementation, by the oil sector entities held by the State Treasury, of their statutory objectives. In case the implementation of the Restructuring Programme turns out to be impossible due to provisions of Charters regulating operations of such entities, the minister responsible for matters of the State Treasury shall undertake actions to change relevant provisions.

The main objective designated for the minister responsible for matters of economy with respect to implementation of the Restructuring Programme is to undertake and carry out activities to increase energy safety of the country and increase competition within the sector, counteract initiatives

\(^5\) Hereinafter referred to as: „upstream”
\(^6\) Hereinafter referred to as: „IEA”
reducing the level of energy safety of the country by participation in international organisations dealing with energy policies and supporting Polish enterprises in their actions to obtain access to oil sources outside of the territory of the Republic of Poland.

The main objective of the minister responsible for matters of foreign affairs, under implementation of the above objectives, is to provide support to the Polish enterprises in their actions to obtain access to own sources of oil located outside of the territory of the Republic of Poland.

The main objective of the minister responsible for matters of public finance, under implementation of the said Programme, is to initiate fiscal policies to facilitate diversification of the liquid fuel market (petrol, Diesel oil, biofuels, LPG) or CNG.

III. Actions undertaken by the representatives of the Government of Poland at the level of the European Union.

Members of the Council of Ministers and representatives of the Government of Poland will support activities of the EU bodies with respect to, as follows:

- Construction of international infrastructure facilitating transmission of oil to member state from the Central and Eastern European Region, specifically expansion of the Odessa – Brody pipeline onward to Płock;

IV. Production segment (upstream)

Introduction

To increase the energy safety of the Republic of Poland with respect to liquid fuel supplies it is necessary to ensure sustainable development of all components of the supply chain. The supply chain includes obtaining of raw material, transmission, processing, storing and introduction to distribution.
The weakness of the Polish oil sector is the relatively small deposits of oil and no access, by the Polish companies, to the hydrocarbon raw material deposits located outside the borders of the Republic of Poland. Thus, it is necessary for the Polish Companies to obtain relevant production rights. The need to undertake immediate actions in this area is related to the following facts:

- Availability of oil deposits is shrinking. Thus, the oil prices are increasing as well as the risk of limitation of supplies of the raw material to refineries. At the same time, geographic structure of the global oil consumption is changing (e.g. increasing demand in China and India – countries more and more competing against supplies with Europe) and, therefore, transport routes;
- Capitalisation of global oil corporations having their own oil fields is higher than that of the corporation without such access; assuming the increase in oil demand the above mentioned situation could be considered to be sustainable.
- High oil prices translate into lower return on upstream investments i.e. prospecting and production of oil fields.

**Recommended actions**

In the light of the strategic supplies of energy raw materials into Poland, the scale of oil production projects and the fact that the state has instruments, under the international relationships, regarding prospecting and production of oil requires undertaking of sector-wide actions to benefit, *inter alia*, Polski Koncern Naftowy ORLEN S.A., Grupa LOTOS S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. and the State Treasury due to increase in value of the said companies.

Strategic recommendations to the companies with participation of the State Treasury:

- Establishment of a company to deal with external data bases on global oil resources. Geological conditions, local political and legal environment and operation risks;
- Determining, by individual companies, geographic priorities by way of performance of investment risk analysis;

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8 Hereinafter referred to as: PKN ORLEN
9 Hereinafter referred to as: GRUPA LOTOS
10 Hereinafter referred to as: PGNiG
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- Implementation, by companies, of internal IT systems to support planning and implementation of CAPEX in the area of prospecting and production of oil deposits and supporting relevant international projects and initiatives.

Strategic recommendations to the minister responsible for matters of economy are, as follows:

- Supporting initiatives and international projects in the area of prospecting and production;
- Supporting prospecting and production related activities undertaken by companies of the Polish oil sector in the Baltic shelf.

Furthermore, The Government of the Republic of Poland shall support activities undertaken by the Polish companies in the area of upstream operations by governmental, diplomatic and administrative contacts with governments of states owning the oil reserves as well as key oil sector companies.

V. Plans regarding individual enterprises

The minister responsible for matters of the State Treasury, under performance of corporate governance duties, will supervise implementation of the objectives of individual oil companies, as referred to in this chapter.

1. NAFTA POLSKA S.A. - Liquidation

In view of exhaustion of the tasks to be performed by NAFTA POLSKA, the company will be liquidated. The Council of Ministers will adopt the following schedule of the NAFTA POLSKA liquidation process:

a) NAFTA POLSKA shall prepare a document under the name Assumptions to the process of liquidation of the NAFTA POLSKA company SA. Following approval of the said document by the General Meeting of Shareholders of NAFTA POLSKA the company will be liquidated in line with procedure provided for in the said document.

b) The shares in oil sector companies held by the NAFTA POLSKA shall be transferred to the State Treasury under the process of liquidation of the company or redemption of its shares.

2. Two refinery centres in the Republic of Poland

Consolidation of PKN ORLEN and GRUPA LOTOS shall be excluded in view on as follows:

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a) Increasing risk of aggressive takeover of the consolidated entity (takeover of an entity having a dominating position in the Central and Eastern Europe market);

b) The risk of increasing monopolisation of the internal market.

3. POLSKI KONCERN NAFTOWY ORLEN S.A.

The Council of Ministers will adopt the following activities with respect to PKN ORLEN:

a) The company shares held by the NAFTA POLSKA shall be transferred to the State Treasury.

b) The State Treasury will retain at least its existing shareholding in the equity capital of the company, as calculated by the sum of shares held, currently by the State Treasury and NAFTA POLSKA.

c) Activities undertaken by the governing bodies of the Company to develop operations in prospecting and production of hydrocarbons and prospecting for the new sources of raw material supplies will be supported.

d) Activities undertaken by the Company Management Board to obtain stable and continuous deliveries of oil at competitive prices (according to the principles of obtaining such deliveries directly from producers) and to ensure transparency of the Company procedures of concluding the crude oil supply contracts.

e) The activities undertaken by the Company Management Board to conclude long term contracts between PKN ORLEN and PPPP NAFTOPORT sp. z o.o. with respect of provision of a stand-by service to act under situation of reduced supplies of crude oil will be supported.

f) The minister responsible for matters of economy, in co-operation with the Company Management Board, will prepare procedures governing cooperation in case of interruption of supplies of crude oil to the Company’s refineries.

4. GRUPA LOTOS S.A.

The Council of Ministers has adopted the following direction of actions vis a vis the GRUPA LOTOS:

a) The Company shares held, currently by NAFTA POLSKA shall be transferred to the State Treasury.

b) The State Treasury will remain, at least, the majority shareholder in the Company.

11 Hereinafter referred to as: „NAFTOPORT”
c) The Government will support activities undertaken by the Company's governing bodies to develop operations in the area of prospecting and production of hydrocarbons and obtaining new sources of the raw material.

d) The Government will support activities undertaken by the Company Management Board to ensure stable and uninterrupted deliveries of oil at lowest possible prices (according to the principles of obtaining such deliveries directly from producers) and to ensure transparency of the Company procedures of concluding the crude oil supply contracts..

e) The Programme of Comprehensive Technological Development will be implemented with a particular focus upon its part regarding increase of processing capacity of the refinery by 4 million tpy and obtaining supplies of crude oil from new directions.

f) In order to support the Company Management Board actions to structure the Groups corporate governance structure and to improve potential of the Group development programme financing, including, in particular, prospecting and production – the shares of the State Treasury (so-called remaining shares) in: LOTOS CZECHOWICE S.A. (5%), LOTOS JASŁO S.A. (5%) and RAFINERIA NAFTY GLIMAR S.A. under bankruptcy (2.1%) and in PETROBALTIC S.A. (30.36%) will be disposed of by the State Treasury to the GRUPA LOTOS.

g) The Government will support activities undertaken by the Company Management Board to ensure conclusion of long term contracts between the GRUPA LOTOS and NAFTOPORT for standby to act in case of interruptions in deliveries of oil to the Company's refineries.

h) The minister responsible for matters of economy, in collaboration with the Company Management Board, will prepare procedures governing collaboration in cases of interruption of supplies of crude oil to Company’s refineries.

5. **PRZEDSIĘBIORSTWO EKSPLOATACJI RUROCIĄGÓW NAFTOWYCH „PRZYJAŹŃ” S.A. (Oil Pipeline Operation Enterprise)**

The Council of Minister has adopted the following approach to PERN „Przyjaźń” S.A.:

a) The State Treasury will remain the only shareholder in the Company.

b) Appropriate governing bodies of the Company will review currently applied transit oil transmission rates in view of optimising revenue and, at the same time, optimising the use of existing infrastructure.
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c) The Company will conclude construction of the so-called „third line“ of the Polish stretch of the „Przyjaźń“ pipeline.

d) The Government will support actions undertaken by the Company Management Board to introduce transparent procedures and principles of equality of the use by customers of the oil transporting infrastructure to NAFTOPORT.

e) The Company will focus its activities on ensuring the country’s energy safety by rendering services in the area of transmission and storage of crude oil.

f) The Management Board of the Company will, within the period of three months from adoption hereof, prepare an infrastructure expansion strategy, taking account of processing capacity of Polish refineries and their growing needs in terms of logistics of storage of oil, to be submitted to the minister responsible for matters of economy.

Furthermore, the Council of Ministers will commit the minister responsible for matters of the State Treasury, as the minister authorised to perform the rights under the shares held by the State Treasury, to:

a) Support actions undertaken by the representatives of the Company in the governing bodies of NAFTOPORT to ensure, that the NAFTOPORT governing bodies perform a review of currently applied price rates for transhipment of oil and liquid fuels, to optimise the Company’s revenue while ensuring optimum used of the NAFTOPORT infrastructure.

b) Support the actions undertaken by the Company governing bodies focusing on increasing the volumes of oil transported through the territory of the Republic of Poland.

c) Support actions undertaken by the governing bodies of the Company to spin off an organised part of an enterprise, dealing with transmission of liquid fuels, to contribute thereof into the Logistics Operator of Liquid Fuels Ltd.12

d) Support activities undertaken by the Company governing bodies with respect to construction of the transport corridor for energy carriers from the Caspian Sea region (Odessa-Brody-Płock) including, in particular, involvement of partner companies from the region (specifically Kazakh and Azerbaijan companies) as well as other entities capable of ensuring supplies of oil from Caspian Sea region. When allowed by the progress in the project of expansion of the pipeline, the assessment of the impact of the capital project upon environment will be carried out and conclusion thereof will be taken into account in implementation of subsequent phases of the project.

12 Hereinafter referred to as: “OLPP”

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e) Support activities undertaken by the Company governing bodies to purchase, within the Central and Eastern Europe Region, of oil transmission infrastructure.

f) Support the activities undertaken by the Company representatives in the governing bodies of NAFTOPORT, as undertaken to ensure its operations in the situation when the scale of operations fails to ensure financial liquidity. In particular, such representatives will ensure, with due diligence, that contracts for delivery of stand-by services in case the circumstances referred to in previous sentence occur, are concluded between NAFTOPORT and PKN ORLEN and GRUPA LOTOS.

6. OPERATOR LOGISTYCZNY PALIW PŁYNNYCH sp. z o.o. (Liquid fuel logistics operator - OLPP)

The OLPP is to be established in order to ensure integration of fuel logistics assets held by the State Treasury into a single entity rendering integrated, comprehensive logistics service in the area of liquid fuels (storage, transhipment, transmission) to all customers in an non-discriminatory fashion. Thus, OLPP establishment should follow the following assumptions:

- Corporate governance by the State of the liquid fuel logistics system;
- Integrated management of key elements of the liquid fuel logistics system;
- Capacity to develop of the logistics system within the territory of the Republic of Poland including construction of cross-border fuel pipelines;
- Increasing the competitiveness level of the Polish liquid fuel market;
- Provision of third party access to fuel infrastructure (storage depots, pipelines) in keeping with principles of transparency and equal treatment.

The OLPP will be incorporate OLPP assets as well as an organised part of PERN operating within the liquid fuels’ market. The OLPP Management Board to conduct negotiations with PKN ORLEN and GRUPA LOTOS to acquire additional components of liquid fuel logistics system from the two latter companies.

OLPP will be established in effect of the following actions:

1) The Company shares held by NAFTA POLSKA will be transferred to the State Treasury.

2) PERN Management Board will spin off an organised part of the enterprise conducting operations related to the liquid fuel logistics.

3) PERN will separate the organised part of the enterprise conducting operations in the area of liquid fuel logistics in order to contribute thereof to OLPP.

Submitting: The Minister of Economy
In case there are any legal issues that cannot be resolved in a short time related to separation of PERN assets, all obligations with respect to such assets will be transferred to OLPP until such outstanding legal issues are resolved.

The Council of Ministers will adopt the following concept of OLPP operations:

a) In view of the strategic importance of fuel logistics the State Treasury will remain the sole shareholder in OLPP.

b) In view of the fact that OLPP is expected to be the operator of cross-border product pipelines, any changes in the Company Charter should take account of international dimension of its operations.

c) The Management Board of the Company will, within the period of three months from adoption hereof, prepare a multi-year development plan for OLPP to be submitted to the minister responsible for matters of economy.

Furthermore, the Council of Ministers will commit the minister responsible for matters of the State Treasury to:

a) Support the process of Company restructuring to prepare the Company for performance of its role of the liquid fuel logistics operator including, in particular, to ensure transparency and lowest possible levels of costs of operations.

b) Support actions of the Company governing bodies undertaken in order to develop a new tariff policies taking into account diversification of market customers and level of comprehensiveness of services rendered.

7. POLSKIE GÓRNICTWO NAFTOWE I GAZOWNICTWO S.A. (Polish Oil and Gas Company – POGC)

Activities undertaken by the Company to develop its operations in the area of prospecting and production of hydrocarbons both within the territory of the Republic of Poland and abroad will be supported.

Submitting: The Minister of Economy
Schedule of legislation work with respect to the oil sector

I. Structure of the mandatory reserve stock system

In view of the schedule in place to achieve 90-days mandatory liquid fuel reserve stocks, new respective legal regulations are expected to be adopted.

Both the organisation and structure of the system of mandatory fuel reserve stocks itself as well as that of its financing, as based upon experience of the EU member states, should ensure creation of an investment market for new storage capacities, as required to ensure storage of the needed volumes of fuel.

The new mandatory fuel reserve stock system should be designed to meet the following requirements:

a) Universality – duties of maintaining mandatory reserve stocks should be imposed upon all entities conducting operations in the area of production or introduction to trading, within the territory of the Republic of Poland, of all motor fuels (including LPG, CNG).

b) No discrimination – duties to maintain mandatory reserve stocks should not lead to actual discrimination of certain liquid fuel market players against other (e.g. with respect to the nature of operations conducted – production/trading in fuels, or level of sales generated).

c) Abolition of the need to maintain physical stocks by enterprises substituted by a special purpose charge collected to finance maintenance of reserve stock by a public law enterprise.

The relevant draft acts of legislation will be prepared by the minister responsible for matters of economy. The draft should provide, precisely, for the system’s sources of financing.

II. Third party access to fuel infrastructure

In the light of the importance of fuel infrastructure (product pipelines and fuel depots) for the energy safety of the Republic of Poland and the impact of owners of such infrastructure upon market competition conditions, principles of equity of access of the fuel market players to transmission and storing services should be provided for in the law.

Submitting: The Minister of Economy
The relevant draft regulations will be prepared by the minister responsible for the matters of economy.

Until the relevant draft regulations are prepared the competences of the Company supervisory board will include, *inter alia*, observance of the principle of equity in access by the fuel market players to services rendered by OLPP.

**III. Overcoming barriers to capital projects in oil sector infrastructure**

The minister responsible for matters of economy in collaboration with the oil sector enterprises will prepare a list of barriers to capital projects in infrastructure in the Republic of Poland.

Ministers responsible for matters of: construction, spatial economy and housing, maritime economy, transport, public finance, and the State Treasury will, on the basis of materials submitted by the minister responsible for matters of economy, determine the scope of legislative work, as necessary to overcome such barriers and to facilitate fast track implementation of necessary infrastructural investments in the oil sector taking account, in particular, the basic elopements of such infrastructure i.e. raw material and product pipelines, storage depots and oil sea terminals.

**IV. Monitoring of implementation of the Programme**

The minister responsible for matters of economy, in collaboration with interested line ministers, will prepare, by June 30, 2007, a schedule of Programme implementation.

**V. Entry of the Programme into force**

*The Oil Sector Restructuring and Privatisation Programme*, as adopted by the Council of Ministers on September 24, 2002 will be abolished upon adoption hereof by the Council of Ministers.
Assessment of Implementation of „the Strategy for the Oil Industry” as adopted by the Council of Ministers on September 24, 2002.

This document constitutes the Exhibit to the Policy of the Government of the Republic of Poland with respect to the oil industry in Poland, as adopted by the Council of Ministers on ____________ 2007.

The objective of this document is to assess implementation of individual tasks determined under the Strategy for the oil industry in Poland, as adopted by the Council of Ministers on September 24, 2002.¹³

According to the herein adopted methodology, the issues have been grouped into groups regarding each individual business entity or thematic issue.

PKN ORLEN S.A.

With respect to the Company PKN ORLEN:

- The Strategy permits for its consolidation with Rafineria Gdańska S.A. or participation of PKN ORLEN in privatisation of Rafineria Gdańska S.A.

According to the Government failure to undertake implementation of the consolidation process of both Polish refineries should receive a positive assessment. Presence, on the Polish market, of two independent entities conducting business operations in the area of oil processing increases the competitive pressures upon the domestic fuel markets.

Furthermore, retaining the current ownership structure in GRUPA LOTOS and PKN ORLEN renders any attempts of aggressive takeover of the entire refinery industry operating in the territory of the Republic of Poland impossible.

- The Strategy permits, also the establishment of a cross-border trade fuel entity, with participation of PKN ORLEN by disposal of minority stakes in such company, as held by NAFTA POLSKA or by way of establishing a group with participation of foreign entities, with PKN ORLEN performing a leading role.

The cross-border fuel entity failed to be established.

¹³ Hereinafter referred to as: „the Strategy”.

Submitting: The Minister of Economy
The Strategy permits for a trade sale of PKN ORLEN shares held by NAFTA POLSKA, floatation on the Warsaw Stock Exchange or foreign stock exchanges.

The shares held by NAFTA POLSKA were not disposed of.

RAFINERIA GDAŃSKA S.A. (GRUPA LOTOS since June, 2003.)

With respect to Rafineria Gdańska S.A.:

- **Strategy permits for its consolidation with PKN ORLEN.**
  As in the case of PKN ORLEN neglecting consolidation should be assessed positively. Thus, the liquid fuel market competition has been retained.
  The current ownership structure of either Company prohibits implementation of aggressive takeover of the entire refinery industry in Poland.

- **The Strategy assumes privatisation of RAFINERIA GDAŃSKA S.A.**
  In June, 2005 the shares of GRUPA LOTOS were introduced to trading on the Warsaw Stock Exchange. In effect of the IPO, GRUPA LOTOS obtained, from the stock exchange trading, more than PLN 1 billion.
  Currently the State Treasury holds 58.84% of the Company’s share capital (including 51.91% held by NAFTA POLSKA).

- **The Strategy provides for the further participation of RAFINERIA GDAŃSKA S.A. in the process of privatisation of the Southern Refineries (i.e. CZECHOWICE, GLIMAR, and JASŁO).**
  On January 13, 2005 NAFTA POLSKA transferred all its shares in refineries CZECHOWICE, JASŁO, and GLIMAR to GRUPA LOTOS S.A.
  The District Court for Nowy Sącz with its verdict of January 19, 2005 declared insolvency, including liquidation of assets, of the REFINERY GLIMAR S.A. The insolvency proceedings are, at present, under way.

- **The Strategy provides for increasing of the share capital in RAFINERIA GDAŃSKA S.A. by contribution of shares or assets of PETROBALTIC Sp. z o.o.**
  On February 3, 2005 GRUPA LOTOS purchased from NAFTA POLSKA 69% of shares in the share capital of the prospecting-production company PETROBALTIC S.A.
NAFTOBAZY sp. z o.o.

- The Programme provided for the trade sale of up to 65% of shares in share capital of NAFTOBAZY sp. z o.o.\(^{14}\) The remaining portion of the share capital was to remain in the hands of NAFTA POLSKA. NAFTA POLSKA was encouraged to consider providing GRUPA LOTOS and PKN ORLEN with minority stakes in NAFTOBAZY.

The privatisation of NAFTOBAZY was not completed. Holding up of the NAFTOBAZY privatisation process should be assessed positively. Exercising corporate governance over the fuel logistics the State can effectively monitor implementation of the energy safety policy. By ensuring equal access for fuel companies to transmission and storage infrastructure the level of competitiveness of the Polish fuel market will increase.

- To prohibit PKN ORLEN from abusing its monopolistic position, according to the Strategy no components of the logistics infrastructure were to be made formally dependent upon PKN ORLEN.

The above has been implemented.

- To increase the use of fuel transmission infrastructure and to increase competition in the fuel sector, the Strategy proposed to integrate product pipelines managed by PERN into NAFTOBAZY.

On September 21, 2006 the Court registered a change of the company name NAFTOBAZY into the OPERATOR LOGISTYCZNY PALIW PŁYNNYCH with the transfer of the head office from Warsaw to Płock. OLPP has been assumed to be established by contribution to NAFTOBAZY of PERN spinned off pipelines.

PERN „Przyjaźń” S.A.

- To prohibit PKN ORLEN from abusing its monopolistic position the Strategy proposed that no components of the logistics infrastructure were to be made formally dependent upon PKN ORLEN.

The above proposal has been implemented. However, in the case of fuel pipelines PKN ORLEN remains the only and sole customer of PERN and the use of fuel pipelines remains under 50% of their capacity.

\(^{14}\) Hereinafter referred to as: NAFTOBAZY
In order to optimise the use of fuel transmission infrastructure and to increase competition levels in the fuel sector the Strategy points out to the need to consider takeover by NAFTOBAZY of the product pipelines owned currently by PERN.

On July 10, 2006, the General Meeting of PERN Shareholders adopted the resolution committing the Management Board to undertake actions to spin off product pipelines from the Company. Project implementation will be monitored and supervised by the minister responsible for matters of economy.

According to the Strategy a portfolio of PERN shares will remain in the hands of the State Treasury.

The State Treasury remains a sole shareholder in PERN.

The Strategy failed to mention expansion of the pipeline Odessa – Brody; however, in July, 2004 PERN and UkrTransNafta established a limited liability company under the name of Sarmatia with its registered head office located in Warsaw, by undertaking 50% shares each in the new company. The share capital of the new company amounted to PLN 2 million. The main objective of the Company is to develop a project regarding expansion of the Odessa-Brody pipeline onward to Płock, including relevant feasibility study, as prepared upon request by the European Commission.

**NAFTOPORT sp. z o.o.**

According to the Strategy, the indirect supervision by the State Treasury over NAFTOPORT should be strengthened and actions directed at increasing the ownership of PERN in the ownership structure of the Company are to be supported (in 2002, the NAFTOPORT ownership structure was, as follows: PKN ORLEN - 49%, RAFINERIA GDAŃSKA S.A. - 25%, PERN - 18%, PORT PÓŁNOCNY - 4%, J&S Service - 4%).

The Strategy objective has been achieved. The current ownership structure of the Company is as follows: PERN - 66.6%, PKN ORLEN - 17.95%, GRUPA LOTOS - 8.97%, PORT PÓŁNOCNY - 3.86%, State Treasury - 1.28%, J&S - 1.28%.

**Upstream operations**
The Strategy provides for development and expansion of the upstream (production) sector in the structures of the Polish fuel companies and undertaking actions to obtain access to deposits abroad.

The above assumptions have been implemented only in case of PETROBALTIC S.A. GRUPA LOTOS acquired 69% of shares in the Company in 2005. Task to obtain access to foreign deposits has not been accomplished to be defined as an act of negligence.

Creation and maintaining oil and liquid fuel reserve stocks

According to the Strategy, NAFTA POLSKA is expected to prepare a draft act to provide for comprehensive regulation of creation and maintenance of reserve stocks of oil and liquid fuels.

NAFTA POLSKA has prepared the relevant draft but to work thereon has been suspended.

Under currently effective law on state reserve stocks and mandatory fuel reserve stock, there is a possibility to maintain mandatory fuel reserve stocks by relevant entities in their own storage facilities, in stores provided by storing entities (under both cases the entity having the duty to maintain reserve stocks remains an owner of the fuel stored) or to make use of so-called ticket service i.e. when the enterprise requests another entity to create mandatory reserve stock on its behalf.