



The State Treasury of
The Republic of Poland
Represented by
The Minister of Finance

€5,000,000,000

Euro Medium Term Note Programme

Application has been made to list notes ("Notes") issued under the Euro Medium Note Programme (the "Programme") described in this Offering Circular during the period of twelve months after the date hereof on the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed with the Republic.

Arranger

DEUTSCHE BANK

Dealers

BNP PARIBAS

DEUTSCHE BANK

JPMORGAN

SCHRODER SALOMON SMITH BARNEY

CREDIT SUISSE FIRST BOSTON

DRESDNER KLEINWORT WASSERSTEIN

MERRILL LYNCH INTERNATIONAL

UBS WARBURG

3 February 2003

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IMPORTANT NOTICES

The State Treasury of the Republic of Poland represented by the Minister of Finance ("Poland" or the "Republic") accepts responsibility for the information contained in this document.

This Offering Circular should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Pricing Supplement (as defined herein).

The Republic has confirmed to the Dealers named under "Subscription and Sale" below that this Offering Circular (including for this purpose, each relevant Pricing Supplement) contains all information which is (in the context of the Programme and the issue of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that this Offering Circular does not omit to state any material fact necessary to make such information (in the context of the Programme and the issue of the Notes) not misleading in any material respect.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and, if given or made, such information or representation should not be relied upon as having been authorised by the Republic or any Dealer.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and none of the Dealers and any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic, political or otherwise) of the Republic since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Republic and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Notes, see "Subscription and Sale". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Republic, the Dealers or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition of the Republic.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €5,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "Subscription and Sale".

In this Offering Circular, unless otherwise specified, references to "U.S.\$", "U.S. dollars" or "dollars" are to United States dollars, references to "EUR" or "euro" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended and references to "zloty" or "PLN" are to Polish zloty. Translations of amounts from zloty to U.S. dollars or euro are solely for the convenience of the reader and, unless otherwise stated, are made at year end exchange rates. No representation is made that zloty, U.S. dollar or euro amounts referred to herein could have been or could be converted into U.S. dollar, euro or zloty, as the case may be, at any particular rate at all. The National Bank of Poland's foreign exchange rate for U.S. dollars on 31 January 2003, was PLN 3.8173 = U.S.\$1, whilst the National Bank of Poland's foreign exchange rate for euro on the same day was PLN 4.1286 = €1.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years.

The Republic is party to the 1958 New York Convention on recognition and enforcement of arbitration awards and the 1988 Lugano Convention on jurisdiction and enforcement of judgments in civil and commercial matters (together the "Conventions"); foreign arbitration awards and foreign court judgments made or delivered in the countries party to the respective Conventions are generally recognised and enforceable in the Republic provided that the conditions of enforcement set out in the respective Conventions are met (subject to the exceptions concerning judgments relating to the lease of real property made in the Republic's ratification document in relation to the Lugano Convention). Foreign court judgments delivered in the countries which are not party to the Lugano Convention are enforceable in the Republic only: (a) if their enforceability is envisaged in a relevant international treaty (bilateral or multilateral) to which the Republic of Poland is a party, or (b) on the condition of reciprocity, and provided that certain further conditions are satisfied.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of any Tranche of Notes under the Programme, the Dealer (if any) which is specified in the relevant Pricing Supplement as the Stabilising Manager (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

All amendments and supplements to this Offering Circular prepared by the Republic from time to time shall be deemed to be incorporated in, and to form part of, this Offering Circular, *provided, however, that* any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The Republic will, at the specified offices of the Paying Agents, provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Written or oral requests for such documents should be directed to the specified office of any Paying Agent or the specified office of the Listing Agent in Luxembourg.

SUPPLEMENTARY OFFERING CIRCULAR

The Republic has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if there shall occur any adverse change in the business or financial position of the Republic or any change in the information set out under “Terms and Conditions of the Notes”, that is material in the context of issuance under the Programme, the Republic will prepare or procure the preparation of an amendment or supplement to this Offering Circular or, as the case may be, publish a new Offering Circular, for use in connection with any subsequent issue by the Republic of Notes to be listed on the Luxembourg Stock Exchange.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in "Forms of the Notes" or "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer:	The State Treasury of the Republic of Poland represented by The Minister of Finance.
Arranger:	Deutsche Bank AG London.
Dealers:	BNP PARIBAS, Credit Suisse First Boston (Europe) Limited, Deutsche Bank AG London, Dresdner Bank Aktiengesellschaft London Branch, J.P. Morgan Europe Limited, Merrill Lynch International, Salomon Brothers International Limited, UBS AG, acting through its business group UBS Warburg and any other Dealer appointed from time to time by the Republic either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent:	Deutsche Bank AG London.
Luxembourg Listing Agent:	Deutsche Bank Luxembourg S.A.
Listing	Each Series may be listed on the Luxembourg Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Republic and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.
Clearing Systems:	Clearstream, Luxembourg and/or Euroclear and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Pricing Supplement.
Initial Programme Amount:	Up to €5,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Pricing Supplements:	Each Tranche will be the subject of a Pricing Supplement which, for the purposes of that Tranche only, supplements the Terms and Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Terms and Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.
Forms of Notes:	Notes may only be issued in bearer form. Each Tranche of Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in

accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Currencies:

Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Issues of Notes with a maturity of more than one year denominated in Swiss Francs or carrying a Swiss Franc-related element (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under these regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "Swiss Dealer"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the date of issue of the relevant Notes.

Status of the Notes:

Notes will be issued on an unsubordinated basis.

Issue Price:

Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.

Maturities:

Any maturity subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Republic in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of Financial Services and Markets Act 2000 (the "FSMA") by the Republic .

Redemption:

Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.

Optional Redemption:

Notes may be redeemed before their stated maturity at the option of the Republic (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.

Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Denominations:	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (<i>Negative Pledge</i>). Subject to certain exceptions, so long as any Note remains outstanding, the Republic shall not, and shall not permit any Agency to, create or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon any of the Republic's assets or revenues, present or future, to secure any Public External Indebtedness of the Republic or of any other Person or any guarantee or indemnity thereof unless the Republic's obligations under the Notes, at the same time or prior thereto, are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Noteholders. "Public External Indebtedness" means any obligation for borrowed money (a) evidenced by bonds, notes or other securities which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market and (b) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Republic.
Cross Default:	Prior to (and excluding) the date on which the Republic becomes a member state of the European Union, the Notes will have the benefit of a cross default as described in Condition 13 (<i>Events of Default</i>).
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Republic of Poland, unless the withholding is required by law. In that event, the Republic will (subject as provided in Condition 12 (<i>Taxation</i>)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Redenomination:	In respect of any Tranche of Notes, if the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Notes may be redenominated in euro in accordance with Condition 22 (<i>Redenomination, Renominalisation and Reconventioning</i>) if so specified in the relevant Pricing Supplement
Governing Law:	English law.
Enforcement of Notes in Global Form:	In the case of Global Notes, investors' rights against the Republic will be supported by a Deed of Covenant dated 3 February 2003, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, the Republic of Poland, Japan, Switzerland and the Federal Republic of Germany, see "Subscription and Sale" below.

FORMS OF THE NOTES

Each Tranche of Notes will initially be in the form of either a temporary global note (the “Temporary Global Note”), without interest coupons, or a permanent global note (the “Permanent Global Note”), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “Global Note”) will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Clearstream Banking, société anonyme, Luxembourg (“Clearstream, Luxembourg”) and/or Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”) and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “TEFRA C Rules”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “TEFRA D Rules”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Republic shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form (“Definitive Notes”):

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) both Clearstream, Luxembourg or Euroclear and any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 13 (Events of Default) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (ii) at any time, if so specified in the relevant Pricing Supplement; or
- (iii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) both Clearstream, Luxembourg or Euroclear and any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “Terms and Conditions of the Notes” below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. Introduction

- (a) *Programme*: The State Treasury of the Republic of Poland represented by The Minister of Finance (the "Republic") has established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to €5,000,000,000 in aggregate principal amount of notes (the "Notes").
- (b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "Series") and each Series may comprise one or more tranches (each a "Tranche") of Notes. Each Tranche is the subject of a pricing supplement (the "Pricing Supplement") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 3 February 2003 (the "Agency Agreement") between the Republic, Deutsche Bank AG London as fiscal agent (the "Fiscal Agent", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).
- (d) *The Notes*: All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available during normal business hours at the Specified Office of the Fiscal Agent and the Paying Agent in Luxembourg.
- (e) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to its detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons, if any, (the "Couponholders" and the "Coupons", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Interpretation

- (a) *Definitions*: In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Pricing Supplement;

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Additional Financial Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

"Agency" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic of Poland or the government thereof (whether or not such statutory corporation is autonomous) and any corporation or other entity (but not any commercial corporation or other commercial entity) which is directly or indirectly controlled (whether by reason of whole or partial ownership, control over voting or other relevant decision making power to direct management, the composition of management or otherwise) by the Republic of Poland or the government thereof and/or one or more Agencies;

“Business Day” means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “Following Business Day Convention” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) “Modified Following Business Day Convention” or “Modified Business Day Convention” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “Preceding Business Day Convention” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) “FRN Convention”, “Floating Rate Convention” or “Eurodollar Convention” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:
 - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) “No Adjustment” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Fiscal Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“Coupon Sheet” means, in respect of a Note, a coupon sheet relating to the Note;

“Day Count Fraction” means, in respect of the calculation of an amount for any period of time (the “Calculation Period”), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if “Actual/Actual (ISMA)” is so specified, means:
 - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

- (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if “Actual/365” or “Actual/Actual (ISDA)” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if “Actual/365 (Fixed)” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if “Actual/360” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if “30/360” is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

“Early Termination Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

“EU Accession Date” means the date on which the Republic of Poland becomes a member state of the European Union;

“Extraordinary Resolution” means a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority of not less than three quarters of the votes cast;

“Final Redemption Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Fixed Coupon Amount” has the meaning given in the relevant Pricing Supplement;

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

“Interest Determination Date” has the meaning given in the relevant Pricing Supplement;

“Interest Payment Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

“Issue Date” has the meaning given in the relevant Pricing Supplement;

“Margin” has the meaning given in the relevant Pricing Supplement;

“Maturity Date” has the meaning given in the relevant Pricing Supplement;

“Maximum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Minimum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Date (Call)” has the meaning given in the relevant Pricing Supplement;

“Optional Redemption Date (Put)” has the meaning given in the relevant Pricing Supplement;

“Participating Member State” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“Payment Business Day” means:

- (i) if the currency of payment is euro, any day which is:

- (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
- (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

- (ii) if the currency of payment is not euro, any day which is:

- (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
- (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“Permitted Security Interest” means:

- (i) any Security Interest which secures the Republic’s U.S.\$934.67 million Collateralised Par Bonds due 2024 and U.S.\$891.07 million Collateralised RSTA Bonds due 2024 each issued (in part) on 27 October 1994 and which is either existing on the date hereof in relation to, or contemplated by the terms of, such bonds; or
- (ii) any Security Interest upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a

class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or

- (iii) any Security Interest existing on property at the time of its acquisition; or
- (iv) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or
- (v) any Security Interest securing or providing for the payment of Public External Indebtedness incurred in connection with any Project Financing provided that such Security Interest applies to (A) properties which are the subject of such Project Financing or (B) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties; or
- (vi) the renewal or extension of any Security Interest described in subparagraphs (i) to (v) above, provided that the principal amount of the Public External Indebtedness secured thereby is not increased;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other jurisdiction or entity, including with limitation, state or agency of a state or other entity, whether or not having separate legal personality;

“Project Financing” means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and the revenues (including insurance proceeds) generated by such project;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency *provided, however, that:*

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (ii) in relation to Australian dollars, it means both Sydney and Melbourne and, in relation to New Zealand dollars, it means both Wellington and Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“Public External Indebtedness” means any obligation for borrowed money (A) evidenced by bonds, notes or other securities which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market and (B) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Republic;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

“Reference Banks” has the meaning given in the relevant Pricing Supplement or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Pricing Supplement;

“Reference Rate” has the meaning given in the relevant Pricing Supplement;

“Regular Period” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “Regular Date” means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

“Relevant Date” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“Relevant Financial Centre” has the meaning given in the relevant Pricing Supplement;

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, the Reuter Money 3000 Service and the Moneyline Telerate Service) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Pricing Supplement;

“Reserved Matter” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“Security Interest” means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of the Republic or any other type of preferential arrangement having similar effect over any assets or revenues of the Republic;

“Specified Currency” has the meaning given in the relevant Pricing Supplement;

“Specified Denomination(s)” has the meaning given in the relevant Pricing Supplement;

“Specified Office” has the meaning given in the Agency Agreement;

“Specified Period” has the meaning given in the relevant Pricing Supplement;

“Talon” means a talon for further Coupons;

“TARGET Settlement Day” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

“Treaty” means the Treaty establishing the European Communities, as amended; and

“Zero Coupon Note” means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes; and
- (viii) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

3. Form Denomination and Title

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

4. Status

The Notes constitute direct, general and unconditional obligations of the Republic and will at all times rank *pari passu* and without any preference among themselves. The full faith and credit of the Republic is pledged for the due and punctual payment of the principal of, and interest on, the Notes and the performance of all the Republic's other obligations under the Notes. The payment obligations of the Republic under the Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Republic, save only for any obligation which may be preferred by mandatory provisions of applicable law.

5. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement), the Republic shall not, and shall not permit (to the extent the Republic has the power to refuse such permission) any Agency to, create or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon any of the Republic's assets or revenues, present or future, to secure any Public External Indebtedness of the Republic or of any other Person or any guarantee or indemnity of the Republic in respect of Public External Indebtedness of any other Person unless, at the same time or prior thereto, the Republic's obligations under the Notes are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Noteholders.

6. Fixed Rate Note Provisions

- (a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose a "sub-unit" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note and Index-Linked Interest Note Provisions

- (a) *Application*: This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
 - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
 - (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the

Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.
- (e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.
- (f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction.
- (h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

- (i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than four Business Days after the relevant Interest Determination Date. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- (j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Republic, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Zero Coupon Note Provisions

- (a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

- (a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments*).
- (b) *Redemption at the option of the Republic*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Republic in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Republic's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Republic to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

- (c) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(b) (*Redemption at the option of the Republic*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10(b) (*Redemption at the option of the Republic*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (d) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Republic shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(d), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(d), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(d), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.
- (e) *No other redemption*: The Republic shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (d) above.
- (f) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(f) or, if none is so specified, a Day Count Fraction of 30E/360.

- (g) *Purchase*: The Republic and its Agencies may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.
- (h) *Cancellation*: All Notes so redeemed or purchased by the Republic, and any unmatured Coupons attached to or surrendered with them may be cancelled or held and resold (provided that such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any Notes so purchased, while held by or on behalf of the Republic or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so cancelled will not be reissued.

11. Payments

- (a) *Principal*: Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).
- (b) *Interest*: Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Republic has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "Relevant Coupons") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note

pursuant to Condition 10(d) (*Redemption at the option of Noteholders*), Condition 10(b) (*Redemption at the option of the Republic*) or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Taxation

All payments of principal and interest in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Poland or any political subdivision or any authority thereof or therein having power to tax (together, "Taxes"), unless such withholding or deduction is required by law. In that event, the Republic shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

- (a) presented for payment by a holder which is liable to such Taxes in respect of such Note or Coupon by reason of its having some connection with the Republic of Poland other than the mere holding of such Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had presented such Note or Coupon on the last day of such period of 30 days.

13. Events of Default

If any of the following events occurs and is continuing:

- (a) any amount of interest in respect of the Notes is not paid within 30 days of the due date for payment thereof; or

- (b) the Republic fails duly to perform or observe any of its material obligations under or in respect of the Notes which failure continues unremedied for 45 days after written notice thereof has been delivered by any Noteholder to the Republic at the Specified Office of the Fiscal Agent; or
- (c) prior to (and excluding) the EU Accession Date (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public External Indebtedness of the Republic, (ii) the Republic defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable, and such default continues for more than the period of grace, if any, originally applicable thereto or (iii) the Republic defaults in the payment when due and called upon (after the expiry of the period of grace, if any, originally applicable thereto) of any guarantee or indemnity of the Republic in respect of any Public External Indebtedness of any other Person; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this paragraph (c) have occurred equals or exceeds U.S.\$50,000,000 or its equivalent; or
- (d) prior to (and excluding) the EU Accession Date, a moratorium on the payment of principal of, or interest on, the Public External Indebtedness of the Republic is declared by the Republic,

then (i) in the case of an event referred to in (a) or (d) above, any Noteholder may, by notice in writing to the Republic at the Specified Office of the Fiscal Agent, declare such Note to be immediately due and payable and (ii) in the case of any event referred to in (b) or (c) above, the Fiscal Agent shall, upon receipt of written requests to the Republic at the Specified Office of the Fiscal Agent from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Notes, declare the Notes due and payable, whereupon, they shall become due and payable at their Early Termination Amount, in each case, together with accrued interest without further action or formality.

14. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

15. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority, stock exchange and/or quotation system), subject to all applicable laws and listing authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

16. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Republic and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Republic reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent and additional or successor paying agents; *provided, however, that:*

- (a) the Republic shall at all times maintain a Fiscal Agent; and
- (b) if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, the Republic will ensure that they maintain a Paying Agent in an European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing such conclusions or any law implementing or complying with, or introduced to conform to, such Directive; and

- (c) if a Calculation Agent is specified in the relevant Pricing Supplement, the Republic shall at all times maintain a Calculation Agent; and
- (d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system (as agreed to in writing by the Republic) the rules of which require the appointment of a Paying Agent in any particular place, the Republic shall maintain a Paying Agent having its Specified Office in the place required by the rules of such listing authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

17. Meetings of Noteholders; Modification and Waiver

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Republic and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Republic shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

18. Further Issues

The Republic may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

19. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Notes which are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

20. Currency Indemnity

If any sum due from the Republic in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in

which the same is payable under these Conditions or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Republic, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Republic shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Republic and shall give rise to a separate and independent cause of action.

21. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

22. Redenomination, Renominalisation and Reconventioning

- (a) *Application*: This Condition 22 (*Redenomination, Renominalisation and Reconventioning*) is applicable to the Notes only if it is specified in the relevant Pricing Supplement as being applicable.
- (b) *Notice of redenomination*: If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Republic may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the "Redenomination Date"), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.
- (c) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
 - (i) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however, that*, if the Republic determines, with the agreement of the Fiscal Agent then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Republic shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
 - (ii) if Notes have been issued in definitive form:
 - (A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the "Euro Exchange Date") on which the Republic gives notice (the "Euro Exchange Notice") to the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

- (B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Republic thereunder (including the obligation to exchange such Notes in accordance with this Condition 22) shall remain in full force and effect; and
- (C) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (iii) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.
- (d) *Interest*: Following redenomination of the Notes pursuant to this Condition 22, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.
- (e) *Interest Determination Date*: If the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination date shall be deemed to be the second TARGET Settlement Day before the first day of the relevant Interest Period.

23. Arbitration

- (a) *Arbitration*: The Republic agrees that, in relation to any claim by any Noteholder in respect of any dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a dispute or difference as to the breach, existence or validity of the Notes) (each a "Dispute"), such Noteholder may elect, by notice in writing to the Republic to settle such claim by arbitration in accordance with the provisions of Condition 23(b).
- (b) *London Court of International Arbitration Rules*: The Republic hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the London Court of International Arbitration Rules (the "Rules") as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English.
- (c) *Written Notice*: In the absence of any written notice as contemplated by Condition 23(a), the provisions of Condition 24 shall apply.

24. Governing Law and Jurisdiction

- (a) *Governing law*: The Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law.
- (b) *English courts*: The courts of England have exclusive jurisdiction to settle any Dispute arising from or connected with the Notes.
- (c) *Appropriate forum*: The Republic agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England*: Condition 24(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 24 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

- (e) *Consent to enforcement etc.*: For the purposes of the State Immunity Act 1978, the Republic consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.
- (f) *Service of Process*: The Republic irrevocably appoints Fleetside Legal Representative Services Limited, 9 Cheapside, London EC2V 6AD, England as its authorised agent for the service of process in England. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.
- (g) *Waiver of immunity*: To the extent that the Republic may in any jurisdiction claim for itself or its properties, assets or revenues immunity (whether sovereign, diplomatic or other) from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Republic or its properties, assets or revenues, the Republic agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction *provided however, that* immunity is not waived in respect of present or future "premises of the mission" as such term is defined in the Vienna Convention on Diplomatic Relations signed in 1961, or "consular premises" as such term is defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets of the Republic related thereto.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Pricing Supplement but denotes directions for completing the Pricing Supplement.

Pricing Supplement dated ●

**The State Treasury of
The Republic of Poland
Represented by
The Minister of Finance**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the [insert Programme Amount]

Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 3 February 2003. This Pricing Supplement must be read in conjunction with such Offering Circular.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1. Issuer: The State Treasury of The Republic of Poland
Represented by The Minister of Finance.
2. [(i) [Series Number:] []]
[(ii) [Tranche Number: []]
(If fungible with an existing Series,
details of that Series, including the
date on which the Notes become
fungible).]
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
[(i)] [Series:] []
[(ii) [Tranche: []]
5. [(i)] Issue Price: [] per cent. of the Aggregate Nominal
Amount [plus accrued interest from [insert date] (in
the case of fungible issues only, if applicable)]
[(ii) Net proceeds: [] (Required only for listed issues)]
6. Specified Denominations: []
7. [(i)] Issue Date: []
[(ii) Interest Commencement Date (if
different from the Issue Date): []]
8. Maturity Date: [specify date or (for Floating Rate Notes) Interest
Payment Date falling in the relevant month and
year]

[If the Maturity Date is less than one year from the
Issue Date and either (a) the issue proceeds are
received by the Republic in the United Kingdom or
(b) the activity of issuing the Notes is carried on
from an establishment maintained by the Issuer in

the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]

9. Interest Basis: ☐ % Fixed Rate
[[specify reference rate] +/- ☐ % Floating Rate]
[Zero Coupon]
[Index-Linked Interest]
[Other (specify)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index-Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (specify)]
11. Change of Interest or Redemption/
Payment Basis: [Specify details of any provision for convertibility of
Notes into another interest or redemption/
payment basis]
12. Put/Call Options: [Investor Put]
[Republic Call]
[(further particulars specified below)]
13. Status: Senior
14. Listing: [Application has been made for the Notes to be
listed on the Luxembourg Stock Exchange/other
(specify)/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining
sub-paragraphs of this paragraph)
 - (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/
semi-annually/quarterly/monthly] in arrear]
 - (ii) Interest Payment Date(s): [] in each year
 - (iii) Fixed Coupon Amount(s): [] [per Note of [] Specified
Denomination and per Note of [] Specified
Denomination]
 - (iv) Day Count Fraction: [30/360]/[Actual/Actual (ISMA)]/[If neither of these
options applies, give details]
 - (v) Broken Amount(s): [Insert particulars of any initial or final broken
interest amounts which do not correspond with the
Fixed Coupon Amount(s)]
 - (vi) Other terms relating to the method of
calculating interest for Fixed Rate
Notes: [Not Applicable/give details]
(Consider if day count fraction, particularly for Euro
denominated issues, should be on an Actual/Actual
basis. Also consider what should happen to
unmatured Coupons in the event of early
redemption of the Notes.)

17. Floating Rate Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph. Also consider whether EURO BBA LIBOR or EURIBOR is the appropriate reference rate)</i>
(i) Specified Period(s)/Specified Interest Payment Dates:	[]
(ii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other <i>(give details)</i>]
(iii) Additional Business Centre(s):	[Not Applicable/ <i>give details</i>]
(iv) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other <i>(give details)</i>]
(v) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Fiscal Agent]):	[[Name] shall be the Calculation Agent <i>(no need to specify if the Fiscal Agent is to perform this function)</i>]
(vi) Screen Rate Determination:	
– Reference Rate:	[For example, LIBOR or EURIBOR]
– Relevant Screen Page:	[For example, Moneyline Telerate page 3750/248]
– Interest Determination Date(s):	[]
– Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
– Relevant Financial Centre:	[For example, London/Euro-zone <i>(where Euro-zone means the region comprised of the countries whose lawful currency is the euro)</i>]
(vii) ISDA Determination:	
– Floating Rate Option:	[]
– Designated Maturity:	[]
– Reset Date:	[]
(viii) Margin(s):	[+/-][] per cent. per annum
(ix) Minimum Rate of Interest:	[] per cent. per annum
(x) Maximum Rate of Interest:	[] per cent. per annum
(xi) Day Count Fraction:	[]
(xii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
18. Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) [Amortisation/Accrual] Yield:	[] per cent. per annum
(ii) Reference Price:	[]

- (iii) Any other formula/basis of determining amount payable: *[Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [10(f)]]*
19. Index-Linked Interest Note Provisions *[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: *[Give or annex details]*
- (ii) Calculation Agent responsible for calculating the interest due: []
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Specified Period(s)/Specified Interest Payment Dates: []
- (vi) Business Day Convention: *[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]*
- (vii) Additional Business Centre(s): []
- (viii) Minimum Rate of Interest: [] per cent. per annum
- (ix) Maximum Rate of Interest: [] per cent. per annum
- (x) Day Count Fraction: []
20. Dual Currency Note Provisions *[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: *[Give details]*
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. Call Option *[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Optional Redemption Date(s) (Call): []
- (ii) Optional Redemption Amount(s) (Call) and method, if any, of calculation of such amount(s): []
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []

- (iv) Notice period (if other than as set out in the Conditions): []
22. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): []
- (iii) Notice period (if other than as set out in the Conditions): []
23. Final Redemption Amount [Par/other/see Appendix]
24. Early Redemption Amount
Early Redemption Amount(s) payable on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable (if the Early Termination Amount is the principal amount of the Notes/specify the Early Termination Amount if different from the principal amount of the Notes)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: Bearer Notes:
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note.]
- [Temporary Global Note exchangeable for Definitive Notes on [] days' notice.]
- [Permanent Global Note exchangeable for Definitive Notes on [] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the place of payment, and not interest period end dates, to which item 17(iii) relates]
27. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to partly paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Republic to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
29. Details relating to instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 22 (Redenomination, Renominatisation and

Reconventioning)] [annexed to this Pricing Supplement] apply]

31. Consolidation provisions: [Not Applicable/The provisions [in Condition 18 (*Further Issues*)] [annexed to this Pricing Supplement] apply]

32. Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/*give names*]

(ii) Stabilising Manager (if any): [Not Applicable/*give name*]

34. If non-syndicated, name of Dealer: [Not Applicable/*give name*]

35. TEFRA: [Not Applicable/The [C/D] Rules are applicable]

36. Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

37. ISIN Code: []

38. Common Code: []

39. Any clearing system(s) other than Clearstream, Luxembourg and Euroclear and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

40. Delivery: Delivery [against/free of] payment

41. Additional Paying Agent(s) (if any): []

[LISTING APPLICATION]

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the €5,000,000,000 Euro Medium Term Note Programme of The State Treasury of the Republic of Poland Represented by The Minister of Finance.]

RESPONSIBILITY

The Republic accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Republic:

By:

Duly authorised

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system, will be that depositary or common depositary.

Each of the persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "Accountholder") must look solely to Clearstream, Luxembourg and/or Euroclear and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Republic to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Clearstream, Luxembourg and Euroclear and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Republic in respect of payments due under the Notes and such obligations of the Republic will be discharged by payment to the bearer of the Global Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Republic shall procure:

- (a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or
- (b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system and received by the Fiscal Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or
- (c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m.

(London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 3 February 2003 (the “Deed of Covenant”) executed by the Republic). Under the Deed of Covenant, persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Republic all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Republic shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Republic all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Republic in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Republic shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 10(f) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(d) (*Redemption at the option of the Republic*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Republic in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices: Notwithstanding Condition 19 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary for Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 (*Notices*) on the date of delivery to Clearstream, Luxembourg and/or Euroclear and/or any other relevant clearing system provided, however, that so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Redenomination: If the Notes are redenominated pursuant to Condition 22 (*Redenomination, Renominalisation and Reconventioning*), then following redenomination:

- (a) if Definitive Notes are required to be issued, they shall be issued at the expense of the Republic in the denominations of euro 0.01, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the Fiscal Agent shall determine and notify to the Noteholders; and
- (b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

THE REPUBLIC OF POLAND

Overview

Poland is one of the largest countries in Central Europe with a total land area of 322,577 square kilometres. Situated on the Baltic Sea, Poland has a coastline of 788 kilometres and is bordered by Germany, the Czech Republic, the Slovak Republic, Ukraine, Belarus, Lithuania and the Russian Federation. Poland's terrain is comprised largely of lowlands, traversed by its main river, the Vistula, with lakes, rivers and marshes throughout the northern and central regions and several mountain ranges, including the Tatras, in the south. Poland has approximately 90,000 square kilometres of forest (approximately 27.9 per cent. of Poland's total land area) and 185,000 square kilometres of arable land (approximately 57.4 per cent. of Poland's total land area).

Poland is also one of the most populous countries in Central Europe, having a population of approximately 38.7 million. Population density is estimated at approximately 124 persons per square kilometre, with approximately 62 per cent. of the population living in urban areas. Warsaw, the capital of Poland and its largest city, has an estimated population of over 1.6 million. Twenty other urban centres each have populations in excess of 200,000.

In Poland, education is compulsory and free for children between the ages of seven and eighteen. At present, approximately 97 per cent. of children continue their education at the secondary school level. The adult literacy rate is estimated to exceed 98 per cent.

Poland is an ethnically and religiously homogeneous country. Approximately 98 per cent. of the population are ethnically Polish and speak Polish as a first language. Germans constitute the largest minority group, numbering approximately 350,000 persons and concentrated in Silesia. Smaller ethnic and national groups have cultural ties to such neighbouring states as Ukraine, Belarus and Lithuania. It is estimated that approximately 90 per cent. of the population are Roman Catholic.

Constitution, Government and Political Parties

Background

After being partitioned by Russia, Prussia and the Austro-Hungarian Empire from the late eighteenth century to the early twentieth century, Poland re-emerged as an independent and democratic state after World War I. In September 1939, the German and Soviet invasions of Poland commenced six years of military, social and economic devastation. At the conclusion of World War II, the Yalta and Potsdam Agreements resulted in the subordination of Poland to the Soviet Union.

For the next 45 years, the Communist Party dominated the Government. Government policy during this period was guided by a programme of nationalisation of industry, expropriation of large landholdings, central planning of the economy and the suppression of political dissent. In 1952, Poland adopted a constitution that institutionalised a Stalinist system of *de facto* one-party rule by the Communist Party. Frequent political and economic crises occurred in the 1960s and 1970s.

Solidarity, the first independent trade union in the Soviet bloc, was formed in 1980 and soon consolidated the growing popular discontent with the communist Government. On 13th December, 1981, in reaction to the threat of general strikes, the Government declared martial law and outlawed Solidarity. Martial law continued for 18 months until July 1983. In the following years, the Government attempted to implement incremental political liberalisation (although Solidarity remained banned) and economic austerity, but the economy continued to falter.

In April 1989, the communist Government and the democratic opposition led by Solidarity agreed to a power sharing arrangement and competitive elections to a bicameral Parliament. In June 1989, the overwhelming victory of Solidarity candidates in elections for available seats in the Parliament signalled the end of the political monopoly of the Communist Party. In May 1990, local elections were held in which Solidarity achieved a similar victory. In November 1990, the first free national election for President in the post World War II era resulted in the election of Lech Walesa, who had played an historic role in the formation and leadership of Solidarity. In October 1991, the first free election for the entire Parliament was held. The last Russian troops, units of which had been stationed in Poland since the end of World War II, were withdrawn in 1993.

The Constitution and Political System

A new constitution was approved by Parliament and by a national referendum in 1997. Under the constitution, a bicameral Parliament (comprising an upper chamber, known as the Senate, and a lower chamber, known as the Sejm) is elected by general proportional election for a four-year term. The Sejm consists of 460 members and the Senate consists of 100 members. Generally, electoral rules for the Sejm stipulate that a minimum 5 per cent. share of the popular vote must be gained by a party (8 per cent. for party coalitions) to gain seats. All legislation must be approved by the Sejm and the Senate and signed by the President. The Sejm also has the power to overrule the Senate by a simple majority vote and to overrule the President by a 60 per cent. majority vote achieved in the presence of at least half of the total number of members. The President (with the approval of the Senate) or the Sejm may call a referendum on matters of extreme importance to the country.

Under the constitution, fascist, communist and racist political parties are banned. The constitution also confirms the independence of the National Bank of Poland, or NBP, Poland's central bank, which is charged with the responsibility of maintaining the value of the national currency, and grants to the NBP the exclusive power of setting and implementing monetary policy. Under the constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties as a result of which public debt would exceed 60 per cent. of annual gross domestic product, or GDP, and there are certain budget-related requirements that apply if public debt exceeds 50 per cent. of GDP (under the Public Finance Act of 1998). In addition, under the constitution, a budget act cannot provide for financing of the budget deficit by the NBP after the 1999 budget. These limitations are intended to safeguard the fiscal health of the economy.

Under the constitution, the President is elected by direct vote for a five-year term and may be re-elected only once. Presidential powers include the right to initiate legislation, to veto certain legislative acts and, in certain instances, to dissolve Parliament. The President's power to dissolve Parliament is limited to instances where (i) the Sejm fails to present the annual budget act for the President's signature within four months of receipt thereof from the Government, or (ii) the Sejm fails to pass a vote of confidence in the Government following attempts to nominate a government in the manner provided under the constitution. The President commands the armed forces, represents the state in its foreign relations, appoints the first and other presidents of the Supreme Court and nominates the Prime Minister and the president of the NBP, subject to approval by the Parliament. The current President, Aleksander Kwaśniewski, was elected in November 1995 and re-elected in 2000. The next Presidential election will take place during the second half of 2005.

The Prime Minister is the head of the Council of Ministers and, subject to confirmation by the President, is responsible for forming the Government, which must then receive a vote of confidence from the Sejm.

In January 1999, regional administration in Poland underwent major reform. Poland was divided into 16 (previously 49) provinces, known as *voivodships*, with self governing powers. Each *voivodship* is represented by a provincial governor, or *voivode*, appointed by the Government, who represents the Government at a local level. A new intermediate level of local government, in the form of 308 counties, known as *poviats*, was also introduced in the local government reforms. The basic units of locally elected government, however, are the 2,489 *gminas*, (including 65 cities with *poviat* status), which are financially autonomous. The *gminas* are established pursuant to a special law, and are entitled under the Constitution to exercise such powers that are not designated as powers of other public authorities. The *gminas* are financed by a share of national taxes and by their own revenues, such as local taxes and fees. The *gminas* are independent of the Government and the Prime Minister may limit their activities only to the extent that their actions conflict with national law.

Judicial authority is vested in the Supreme Court and appellate, regional and lower courts. A separate Constitutional Tribunal has jurisdiction over all matters relating to the interpretation of the provisions of the Constitution.

Current Government and Politics

The most recent parliamentary elections were held on 23rd September, 2001. As a result of such elections a coalition Government, led by Leszek Miller, was formed by an electoral coalition of the Democratic Left Alliance, or SLD, Labour Union, or UP, and the Polish Peasants' Party, or PSL, all left-of-centre, popular parties. The SLD-UP received 41.04 per cent. of the votes in the elections, whereas PSL received 8.98 per cent. The SLD-UP and PSL won 46.9 and 9.1 per cent. of the seats

in the Sejm respectively (and 75 and 4 per cent. of seats in the Senate, respectively). SLD is a social-democrat party of communist descent, with a significant number of leaders (including Prime Minister Leszek Miller) who played a part in the pre-1989 political scene. PSL is a party which largely represents rural interests. SLD and PSL have previously governed together, between 1993 and 1997. The main opposition party, Civic Platform, or PO, which won 14.1 per cent. of seats, comprises mainly market-oriented, liberal groups of businessmen and professional persons. These elections also saw, for the first time, a strongly anti-European party, the Polish Families League, or LPR, win seats in the Parliament. Eurosceptic groups are also present in PSL and the populist *Samoobrona* "Self-Defence" party. The main goals of the governing coalition are economic reform, privatisation and Poland's accession to the European Union.

The following table shows a breakdown of the distribution of seats in the Sejm (by party) and the Senate (by caucus) as at mid-January 2003:

														Seats
Democratic Left Alliance (SLD)	..	..	..	..	..	..	..	..	..	..	..	..	..	196
Labour Union (UP)	..	..	..	..	..	..	..	..	..	..	..	..	..	16
Civic Platform (PO)	..	..	..	..	..	..	..	..	..	..	..	..	..	57
Self-Defence (Samoobrona)	..	..	..	..	..	..	..	..	..	..	..	..	..	42
Law and Justice (PiS)	..	..	..	..	..	..	..	..	..	..	..	..	..	43
Polish Peasants' Party (PSL)	..	..	..	..	..	..	..	..	..	..	..	..	..	40
Polish Families League (LPR)	..	..	..	..	..	..	..	..	..	..	..	..	..	29
Popular Conservative Party (SKL)	..	..	..	..	..	..	..	..	..	..	..	..	..	8
Unaffiliated	..	..	..	..	..	..	..	..	..	..	..	..	..	13
Popular Democratic Party	..	..	..	..	..	..	..	..	..	..	..	..	..	4
Movement for the Reconstruction of Poland	..	..	..	..	..	..	..	..	..	..	..	..	..	3
National Catholic Movement	..	..	..	..	..	..	..	..	..	..	..	..	..	5
Polish Popular Block	..	..	..	..	..	..	..	..	..	..	..	..	..	4
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	460

														Seats
Democratic Left Alliance and Labour Union Parliamentary Group (SLD-UP)	..	..	..	..	..	..	..	..	..	..	..	..	..	75
Senat 2001	..	..	..	..	..	..	..	..	..	..	..	..	..	14
Peasants' and Independent Parliamentarians Group	..	..	..	..	..	..	..	..	..	..	..	..	..	5
Unaffiliated	..	..	..	..	..	..	..	..	..	..	..	..	..	6
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	100

The next parliamentary elections are scheduled to be held in September 2005. Local elections were held on 27th October, 2002.

International Relations

Poland is a founding member of the United Nations, belongs to most international organisations and maintains diplomatic relations with 173 countries. In 1967, Poland joined the General Agreement on Tariffs and Trade, or GATT, and is a member of the World Trade Organisation, or WTO, the successor to GATT. In 1986, Poland rejoined the International Bank for Reconstruction and Development, known as the World Bank, and the International Monetary Fund, known as the IMF, having withdrawn its original memberships in 1950. Poland is also a member of the International Finance Corporation, or IFC, and was a founding member of the European Bank for Reconstruction and Development, or EBRD. In 1996, Poland was accepted for full membership in the Organisation for Economic Co-operation and Development, known as the OECD.

In November 1992, Poland signed an agreement on free trade with the member countries of the European Free Trade Association, known as EFTA. By 2001, and in accordance with the terms of this agreement, Poland had removed tariff barriers for almost all industrial goods from EFTA Countries.

In March 1993, Poland was among the founding members of the Central European Free Trade Association, or CEFTA, which currently includes Poland, Bulgaria, Hungary, the Czech Republic, Romania, Slovenia and Slovakia. The underlying Central European Free Trade Agreement consists of

a series of bilateral trade agreements and provides for the establishment of a free trade zone among CEFTA member countries by 2001. A free trade zone with CEFTA member countries for industrial products had been established from 1st January, 2002.

On 12th March, 1999, Poland became a member of the North Atlantic Treaty Organisation.

European Union Accession

In December 1991, Poland signed a “*Europe Agreement*” with the European Community, now the European Union, or EU, establishing a trade and political association between Poland and the EU. The Europe Agreement became fully effective in 1994, and on 8th April, 1994, Poland submitted a formal application for full EU membership.

The accession negotiations between Poland and the EU lasted for more than 4 years, being officially launched on 31st March, 1998 and finalised at the Copenhagen summit on 13th December, 2002. The negotiations were split into 31 chapters, including financial framework for the forthcoming EU enlargement. The outstanding issues of the highest importance and sensitivity, namely Poland’s net budgetary position in relation to the EU budget, the level of financial assistance from the EU structural funds and direct payments for Polish farmers, were eventually agreed in Copenhagen. This agreement made it possible to pave the way for EU enlargement as from 1st May, 2004. As a result of the agreement, the newly accepted countries will participate in the elections for the European Parliament in 2004 as full members.

However, before accession takes place, according to the timetable drawn up at the Copenhagen summit in December 2002, Poland and nine other candidate countries will sign the Accession Treaty with the European Union at a ceremony on 16th April, 2003 in Athens. However, the Polish membership finally requires the consent of its citizens in a referendum. The national poll on this matter in Poland is likely to take place on 8th June, 2003.

Although this phase of accession negotiations has been concluded, considerable further effort is needed in order to enable Poland to reap the benefits from the EU membership to the highest possible extent. Thus, implementation of remaining *acquis communautaire*, reinforcement of administrative and judicial capacity, as well as effective institution building, still remain high priorities in the short term.

As membership in the Economic and Monetary Union and the adoption of the single currency in 2006 or 2007 have been set as objectives of the Polish government, the economic dialogue between Poland and the EU has recently been significantly strengthened. The aim of the Pre-Accession Economic Program, or PEP, which is prepared by the Polish authorities and evaluated by the European Commission, and the overall Pre-Accession fiscal surveillance procedure, is to bring Poland closer to the economic policy co-ordination procedures that it will follow when it has become a member state of the EU. The PEP is discussed at meetings between the Economic & Financial Committee and candidate countries. The European Commission then reports its assessment of the PEP estimations, fiscal notifications and conclusions of the meeting to the ECOFIN Council and the final opinion on the PEP is eventually communicated. As a member state, Poland will be obliged to comply with a Convergence Program (preparing a member state with a derogation for the adoption of the euro to achieve a high standard of sustainable convergence and meet the Maastricht criteria) and the Stability Program (helping a Member State which meets the Maastricht criteria and has adopted the euro to maintain a high degree of sustainable convergence). The most recent version of Poland’s PEP was sent to the European Commission on 14th August, 2002.

THE ECONOMY

Background

On 1st January, 1990, the first post-communist Government introduced the economic reform programme known as the "*Economic Transformation Programme*" or the "Balcerowicz Plan", named after the first post-communist Deputy Prime Minister and Minister of Finance. This radical economic reform programme was designed to stabilise the economy and promote structural reforms. Key elements include drastic reductions of state subsidies to state enterprises, the elimination of administrative controls on most prices, the introduction of partial convertibility of the zloty and the opening of the economy to external competition.

After the implementation of the Balcerowicz Plan and throughout the mid 1990s, the average GDP growth rate exceeded 5 per cent., although in 1998, the rate fell to 4.8 per cent. (primarily as a result of the Russian economic crisis in August of that year which is estimated to have reduced the GDP growth rate by 1.5 per cent. to 2 per cent.). GDP continued to grow in 1999 and 2000, albeit at reduced levels, reaching 4.1 per cent. and 4.0 per cent. respectively. A slowdown of the Polish economy in the first half of 1999 was, to a certain extent, offset by the revival of the economy in the second half of 1999, although this was accompanied by a surge in inflation, with headline inflation reaching 9.8 per cent. in December 1999. The annual average rate of inflation for 1999 was 7.3 per cent.

In 2001, primarily as a result of stronger than predicted effects of restrictive monetary policy, real GDP growth was 1.0 per cent. Preliminary estimates indicate that the growth of the economy in 2002 will be about 1.3 per cent.

Twelve years of post-communist reforms have resulted in deep structural changes in the economy, the most significant change being the development of the private sector. Since 1990, the private sector has grown substantially and its contribution to production and employment has significantly increased, due to the growth of newly established private enterprises and privatisation of state-owned assets and enterprises. In 2001, 74.8 per cent. of the Polish workforce was working in the private sector, producing 72 per cent. of total value added.

Between 1998 and mid-2000, Poland experienced a volatile rate of inflation, reaching its peak year-on-year inflation rate, measured by the consumer price index, or CPI, of 11.6 per cent. in July 2000. However, since then, inflationary pressure has eased and inflation dropped to 8.5 per cent. in December 2000. Restrictive monetary policy and low domestic demand in 2001 and 2002 resulted in a continued lowering of inflation to 3.6 per cent. in December 2001 and below 0.8 per cent. in December 2002 according to preliminary data.

As a general principle, the Government considers it to be inappropriate for it to own and manage businesses. The primary goal of the privatisation of state and local government properties is, therefore, to reduce the role of the Government in the Polish economy and to create a favourable environment for private sector development.

In January 2002, the Government approved a four-year economic plan, entitled "*Entrepreneurship—Development—Labour*", known as the EDL Plan, to lower unemployment, develop infrastructure and restore economic growth to 5 per cent. per year by 2005. The EDL Plan also includes proposals for the amendment of Poland's restrictive labour code, the reduction of bureaucratic obstacles to business (by reducing the number of approvals and permits required to conduct business), the mobilisation of new financing for Poland's infrastructure (by using state guarantees to generate private financing) and the encouragement of employers to hire new graduates (by subsidising employers' social security contributions and supporting volunteer jobs in local administration). To improve the quality of housing and to increase activity in the housing construction sector, the Government plans to implement a programme of long-term fixed rate mortgage loans. The structure of expenditures in the budget will be reorganised by redirecting spending away from social transfers to infrastructure modernisation projects. The EDL Plan also assumes that Poland will accede to the EU in 2004 and, therefore, aims to prepare the economy for the absorption of pre-accession and structural funds.

Recent Economic Performance

GDP

Real GDP grew by 4.1 per cent. in 1999, compared to 4.8 per cent. in 1998 and 6.8 per cent. in 1997. The deceleration of the growth rate of real GDP in 1998 and 1999 was primarily caused by the Russian

economic crisis in August of 1998. In 2000, despite very tight monetary conditions, the growth remained relatively constant at 4.0 per cent. In 2001, a slump in domestic demand continued due to stronger than expected effects of the restrictive monetary policy implemented in September 1999. As a result, notwithstanding positive export performance and an increase in consumer demand, the GDP growth was 1.0 per cent. In the first three-quarters of 2002, the rate of GDP growth was 0.9 per cent. The real growth of domestic demand (of 1.1 per cent.) was noticed in the first three-quarters of 2002. This resulted from relatively high individual consumption and increasing government consumption, in real terms, due to inflation being lower than previously forecast.

The following table sets out nominal and real GDP during the years 2000 to 2002:

								2000	2001	2002 ⁽²⁾
Nominal GDP (in PLN billions)	..	..	..	..	..	..	..	712.3	749.3 ⁽¹⁾	557.2 ⁽¹⁾
U.S.\$ equivalent (in billions)	..	..	..	..	..	..	..	163.9	183.0	136.1 ⁽¹⁾
Real GDP growth (per cent.)	..	..	..	..	..	..	..	4.0	1.0	0.9 ⁽¹⁾
Nominal per capita GDP	..	..	..	..	..	..	..	18,432	19,392 ⁽¹⁾	—
U.S.\$ equivalent (in billions)	..	..	..	..	..	..	..	4,240	4,737 ⁽¹⁾	—
% change (year-on-year)	..	..	..	..	..	..	..	1.7	11.7	—
zloty/\$ Exchange Rate (average)	..	..	..	..	..	..	..	4.3464	4.0939	4.0951
% Change (year-on-year)	..	..	..	..	..	..	..	9.6	(5.8)	—

Note:

(1) Preliminary data.

(2) Preliminary data January to September 2002.

Source: GUS — Central Statistical Office

Inflation

Since 1990, the year-on-year CPI inflation rate has been gradually declining, from almost 250 per cent. at the end of 1990 to 3.6 per cent. in 2001. The only exception to this trend was in 1999, when inflation rose from 8.6 per cent. at the end of 1998 to 9.8 per cent. at the end of 1999. Since the second half of 2000, the CPI rate has decreased steadily as a result of a high level of supply of agricultural products (which caused inflation in food prices to fall), low demand pressure, declining global crude oil prices and the appreciation of the zloty against other currencies. In December 2000, the inflation rate was 8.5 per cent. (10.1 per cent. yearly average) and in December 2001, it had declined to 3.6 per cent. (5.5 per cent. yearly average). In 2002 inflation has continued to decline, mainly due to low domestic demand and low food prices. In December 2002, the annual rate of inflation was 0.8 per cent. according to preliminary data.

An anti-inflation policy has always been a core policy of the stabilisation programme in Poland. In September 1998, the Monetary Policy Council, or MPC, adopted a "*Medium Term Strategy in Monetary Policy 1999-2003*", which aims to lower the inflation rate to under 4 per cent. by 2003. The inflation rate targets to be met under this strategy were 8.0 per cent. to 8.5 per cent. (6.6 per cent. to 7.8 per cent. after amendment) in 1999, 5.4 per cent. to 6.8 per cent. in 2000, 6.0 per cent. to 8.0 per cent. in 2001, 5.0 per cent. +/-1.0 percentage point (3.0 per cent. +/-1.0 percentage point after amendment in June 2002) in 2002 and 3.0 per cent. +/-1.0 percentage point in 2003.

The year-on-year annual increase in the producer price index, or PPI, has fallen from nearly 193 per cent. at the end of 1990 to 5.6 per cent. at the end of 2000. Over the course of 2001, annual growth in the PPI contracted further and in December 2001, producer prices were 0.4 per cent. lower compared with December 2000. During 2002, producer prices increased slightly (to a level of 2.2 per cent. in November 2002).

The following table shows the year-on-year rates of CPI and PPI for the years ended December 2000 to 2002:

								2000	2001	2002 ⁽¹⁾
Consumer Prices (CPI)	..	..	..	..	..	..	..	8.5	3.6	0.8
CPI (yearly average)	..	..	..	..	..	..	..	10.1	5.5	1.9
Producer Prices (PPI)	..	..	..	..	..	..	..	5.6	(0.4)	2.2
PPI (yearly average)	..	..	..	..	..	..	..	7.8	1.6	1.1

Notes:

(1) Preliminary data.

Source: GUS — Central Statistical Office

Wages

The following table shows the percentage change in nominal and real wages during the years 2000 to 2002:

											<u>2000</u>	<u>2001</u>	<u>2002⁽²⁾</u>
											<i>(per cent.)</i>		
All Sectors:													
Nominal Wages	..	..	..	..	..	..	..	..	..	..	11.1	8.0	3.5
Real Wages	..	..	..	..	..	..	..	..	..	..	1.0	2.5	1.3
Enterprise Sector ⁽¹⁾ :													
Nominal Wages	..	..	..	..	..	..	..	..	..	..	11.4	7.1	4.1
Real Wages	..	..	..	..	..	..	..	..	..	..	1.3	1.6	1.9

Notes:

(1) Includes forestry, logging and related service activities, sea fishing, mining, quarrying, manufacturing, electricity, gas, steam and hot water supply, construction, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communication, real estate activities, renting and business activities, sewage and refuse disposal, sanitation and similar activities, recreational, cultural and sporting activities and other service activities.

(2) January 2002 to September 2002.

Source: GUS — Central Statistical Office

Under Polish law, wage levels for employees are determined by negotiations between employees and management, guided by indicative norms set by a tripartite commission of representatives of the Government, employees and employers. This commission sets annual limits for permissible increases in nominal wages for employees of state-owned enterprises. These limits were 17 per cent. in 1997, 12.5 per cent. in 1998, 10.5 per cent. in 1999, 6.8 per cent. in 2000, 9.2 per cent. in 2001, 5.6 per cent. in 2002 and 3.0 per cent. in 2003.

Employment

Before 1989, unemployment was not officially recognised in Poland for political reasons, and overemployment was evident in many enterprises. Having reached a peak of 16.4 per cent. in 1993, the unemployment rate fell to 10.4 per cent. at the end of 1998 before rising to 15.1 per cent. in 2000, 17.5 per cent. in 2001 and 17.8 per cent. in November 2002. The rises in 2000 and 2001 were mainly attributed to slower growth, demographic effects, ongoing restructuring of industry and an increase in the number of people registering as unemployed as a result of the increased benefits due to the health system reforms implemented at the beginning of 1999 (see "*Public Finance — Social Expenditure — Health Service Reform*").

The following table shows the unemployment rate in Poland for the years ended 31st December, 2000 to 2002⁽¹⁾:

	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
			<i>(per cent.)</i>
	15.1	17.5	18.1

Note:

(1) Preliminary data.

Source: GUS Central Statistical Source

The following table shows the number of persons employed in Poland by major sector (excluding budgetary entities involved in national defence and public safety) for the years 2000 to 2002:

	2000	2001	2002 ⁽¹⁾⁽²⁾
	<i>(thousands)</i>		
Agriculture, hunting and forestry	4,305	4,290	122
Fishing	10	7	4
Industry	3,134	2,964	2,516
Construction	815	737	460
Trade and repair	2,075	1,969	875
Hotels and restaurants	226	217	107
Transport, storage and communication	779	714	540
Financial intermediation	299	287	228
Real estate and business activities	823	842	552
Public administration and defence	493	526	522
Education	903	908	882
Health and social work	908	869	762
Other community, social and personal service activities ..	391	341	185
Total Employed Persons	15,159	14,671	7,755

Notes:

(1) Data covers non-complete statistical population, excluding private farmers and economic entities employing up to 9 persons.

(2) As of 30th September, 2002.

Source: GUS—Central Statistical Office

Strikes, a frequent form of political and economic protest in the 1980s, have changed in nature and frequency during recent years. The number of strikes in Poland decreased from 6,351 in 1992 to 44 in 2000. The number of working days lost through strikes also declined from 2,360,392 in 1992 to 74,266 in 2000. The sharp decline in the number of strikes during this period was, among other things, a consequence of the overall improved performance of the economy. There were 11 strikes during 2001 and the number of working days lost was 4,201.

The Privatisation Process

After 12 years of implementation, the sweeping process of ownership transfers in Poland brought the number of state enterprises down significantly from the original figure of 8,453 in 1990. Revenue from privatisation amounted to PLN 73.1 billion between 1990 and December 2002, of which about 94 per cent. has been derived from capital privatisation (See "Capital Privatisation"). Poland has utilised several methods to facilitate the transfer of assets from state control to private ownership, including privatisation, liquidation, bankruptcy and transfers to municipalities.

The privatisation process accelerated in the mid-1990s with the passing of the law on commercialisation and privatisation of state enterprises in 1996. Whilst privatisation proceeds accounted for only PLN 800 million in 1993, revenues were PLN 13.3 billion in 1999 and reached PLN 27 billion in 2000 when receipts were increased by the privatisation of the incumbent telecommunications operator — TP S.A., for approximately PLN 18 billion.

However, since 2000 revenues from privatisation have fallen, amounting to PLN 6.8 billion in 2001. By the end of December 2002 some PLN 2.9 billion had been realised. The main reason for this decrease is a difficult situation in the capital markets since 2000 that has led to a fall in asset prices. Moreover, the Government's current policy is to use privatisation primarily as a means of restructuring particular sectors rather than as a means of financing the budget deficit.

The primary methods for the transfer of state owned enterprises and assets to private ownership are direct privatisation and capital (indirect) privatisation.

Direct Privatisation

Direct privatisation involves the sale of the assets of a state enterprise or the entering into a joint venture or leasing arrangement with a potential investor. As at the end of November 2002, out of 2,121 entities approved by the Minister of the State Treasury for direct privatisation, transactions in respect of 1,988 (93.7 per cent.) had been completed and such entities were removed from the

register of state-owned companies. Between 1990 and the end of December 2002, direct privatisation accounted for about PLN 4.5 billion of privatisation revenue receipts.

Capital Privatisation

Capital (or indirect) privatisation involves the commercialisation of a state enterprise prior to sale. The state entity is first converted into a joint stock company owned and operated by the Ministry of the State Treasury, the process known as "commercialisation", and, thereafter, the shares in such company are sold either as part of a public offer or directly to a strategic investor. As at the end of November 2002, of the 1,526 entities converted into state-owned joint stock companies, shares or stakes in 990 of such companies had been sold, including:

- 334 companies by way of indirect privatisation (of which 129 were acquired, in whole or in part, by foreign investors);
- 512 companies, the shares of which were transferred to National Investment Funds under the National Investment Fund Programme, known as the NIF Programme; and
- the remaining 144 companies were privatised through other methods of privatisation.

The NIF Programme, which was established in 1993, was developed with the intention of facilitating the privatisation process and, at the same time, reducing administration costs. All eligible adult citizens were entitled to participate in the NIF Programme by purchasing a universal share certificate entitling them to one share in each of the NIFs for a nominal amount of PLN 20. Approximately 94 per cent. (25.8 million) of those eligible purchased a universal share certificate. As of 31st December, 2002, 27 companies in the NIF Programme were listed on the Warsaw Stock Exchange, or WSE, and a further 17 companies were listed on the CeTO market, a regulated, secondary, public, over-the-counter market. In addition, 86 (as of 31st December, 2002) companies had either been liquidated or were undergoing bankruptcy proceedings.

With the exception of one NIF, the State Treasury's ownership does not exceed 15 per cent. of the shares of any NIF. In addition, the state's ownership of the portfolio of companies within the NIF Programme does not exceed 25 per cent. in any individual company.

Between 1990 and the end of December 2002, indirect privatisation accounted for about PLN 68,6 billion of privatisation revenue receipts.

As a result of privatisation processes being implemented in Poland, as of end September 2002 the State Treasury was the owner of 636 operating state companies, of which 136 have received the approval of the Minister of the State Treasury for the commencement of the direct privatisation process, that is to say they have entered the final stage of privatisation. For 828 other state-owned enterprises legal proceedings were in progress aimed at ending their activities with 183 state-owned enterprises being liquidated and 645 bankruptcies announced. The State Treasury owned the shares in about 1,700 commercial code companies. In about $\frac{1}{3}$ of these companies it was the holder of a majority stake (in the majority of cases these companies are currently being prepared for privatisation).

Poland, as a country open for foreign investments, provides foreign investors access to participation in the privatisation of state property with rights equal to those of domestic investors, based on transparent principles and procedures. Due to the complicated nature of many agreements and the relatively long term of their validity, occasionally disputes arise during their lifetime. The main disputes between the State Treasury and investors concern failure to fulfil price obligations (payment of a price) and obligations not related to price payment (particularly investment and social obligations). In order to secure proper execution of agreements, the Ministry of State Treasury conducts monitoring of the performance of investors' obligations. In cases where the obligations are not performed, relevant legal remedies are undertaken provided for by the agreements signed with the investor, e.g. imposing contractual penalties.

However, the cases of disputes with participation of foreign investors are relatively low if compared to the total number of concluded privatisation agreements (13 cases for 2,307 privatisation transactions concluded by September 2002) and the amount of potential liability resulting from such litigation is not significant to the State Treasury.

Under the EDL Plan, the Government has provided that the bulk of the privatisation process should be completed by 2005, leaving Poland's ownership structure similar to those of EU member states. Poland will, however, continue to exercise full state control of infrastructure and network companies,

including air and sea ports, railway infrastructure, the electricity grid and gas transmission pipelines. In addition, Poland will continue to exercise state control over public utilities and certain other state monopolies (including gambling and lottery).

The primary goals of the privatisation policy in 2003 will be to increase the efficiency of privatised entities, improve their competitiveness, support restructuring processes and work on development of the capital markets. Detailed objectives in 2003 will comprise:

- further implementation of activities aiming at privatisation in strategic and infrastructure sectors, in accordance with the restructuring and privatisation timetables prepared for particular sectors of the economy (energy, oil and gas, bulk chemicals, pharmaceutical, sugar);
- support of restructuring processes in the so-called "sensitive" sectors, especially in the context of their adjustment to the competitive EU single market (steel, hard coal, defence industry);
- continuation of privatisation in banking, insurance and alcoholic beverages sector;
- accelerated finalisation of direct privatisation and transformation into companies with only minority Treasury stakes.

Restitution

Prior to 1990 many individuals and businesses were deprived of their property under post-war communist nationalisation or expropriation laws. Under the current law, restitution claims may be enforced only if the property was nationalised illegally. Claims for restitution have been successful both in cases where the plaintiffs have used administrative procedures, as well as in cases where civil procedures have been used. Property owned by the religious communities continues to be returned under current restitution proceedings contained in the Administrative Code.

At present the draft *Law on Compensation for the Loss of Real Estate* is being elaborated in the Ministry of the Treasury. It states that citizens of those states with which Poland concluded (after the Second World War) agreements to compensate properly their governments for the value of their property lost due to its takeover by the State Treasury shall not be subject to the law. At the same time, work is in progress on the matter of satisfying the so-called "Polish Bug territory" claims. For legislative and legal reasons, regulation of both issues (i.e. reprivatisation and the problem of the post-resettled from the former Polish Bug territory) in one legal act would not be appropriate as the questions raise separate issues relating to the legal basis for the loss of property (in the case of nationalisation, acts of national law and in case of the resettlement from the former Polish Bug territory international agreements) and the scope of particular types of claims and the manner of their vindication.

The draft assumptions apply not only to persons who may vindicate their claims by virtue of violation of nationalisation acts or regulations but also those that lack such legal grounds but were unjustly deprived of property from the point of view of the social justice principle and who therefore should be granted compensation. Those persons who lost their real estate on the basis of nationalisation acts issued in the period 1944–1962 are entitled to compensation, as are their statutory heirs. The level of compensation will be determined on the basis of an assessed value of the lost real estate, including its components, according to the legal and factual state of affairs as of the day of its nationalisation. The forms of compensation include real estate of the Treasury, real estate held by state legal persons, real estate created after liquidation of state-owned enterprises and securities issued by the Treasury with several years' buyout period. The form and amount of compensation will depend on current economic prospects of the State. Applications will be filed and examined according to administrative procedure. It is anticipated that a final time limit will be fixed for filing of applications. On 3rd December, 2002, the Parliamentary Treasury Commission (Sejmowa Komisja Skarbu Państwa) was informed by the Minister of the Treasury of the progress of work on the restitution law. In its statement the Commission stated that its members recognise the complexity of the restitution issue and its legal and economic aspects as well as the financial situation of the State and that the Commission simultaneously supports sending the draft law to parliamentary commissions for further work.

After the Government makes the decision regarding the framework of compensation payments, the details of the draft law will be elaborated accordingly and sent by the Council of Ministers to the Sejm (the Parliament).

Foreign Direct Investment

According to estimates by the Polish Agency for Foreign Investment* (PAIZ), the cumulative aggregate of foreign direct investment (FDI) transactions in Poland between 1990 and June 2002 was U.S.\$61.6 billion. The inflow of FDI in 1999 was U.S.\$7.9 billion, compared to U.S.\$10.6 billion in 2000 (including U.S.\$3.2 billion privatisation receipts from the sale of further block of TP S.A. shares). In 2001, FDI fell to U.S.\$7.1 billion while during the first six months of 2002 the FDI was U.S.\$3.23 billion. This suggests that the FDI inflow in year 2002 will be about U.S.\$7 billion.

In March 2002, a new law on financial support for investors was passed. Under the new law, investment grants covering up to 25 per cent. of each investment outlay (subject to reductions in certain regions) for the creation of new jobs (up to euro 4,000) and training grants (both specialist and general) of up to euro 1,150 per employee will be given.

Subject to certain restrictions, Polish law generally allows for full repatriation of capital, dividends and profits by foreign investors. Generally, foreign investors are not required to obtain any special permits to invest in Polish companies, although there are some restrictions on the maximum shareholdings foreign investors can hold in certain sectors, such as TV networks and newspaper groups.

* Statistics prepared by PAIZ are calculated on a different basis from those prepared by NBP. PAIZ obtains statistical information from an external source entity, unlike NBP which collects data directly. PAIZ looks at total investment contemplated in investment agreements, rather than the amount of money which moves through the Polish banking system. In addition, where payments are made by instalments, PAIZ will calculate the amount of overall investment (forward looking), while NBP will only include the amount of the then current instalment. Finally, PAIZ follows the OECD definition of "direct investment", which includes funds paid by a foreign entity on behalf of a Polish entity to serve such Polish entity's foreign commitments. NBP estimates FDI by reference only to money related to a foreign direct investment that passes directly through the banking system.

The following table shows a breakdown of total FDI by country of origin from 1990 to 30th June, 2002:

											<i>Capital Invested</i>	<i>Planned Investment</i>	<i>Number of Investors</i>
											<i>(millions of U.S.\$)</i>		
France	..	..	..	..	..	..	..	..	..	..	11,503.0	1,975.5	89
USA	..	..	..	..	..	..	..	..	..	..	7,985.2	2,389.0	126
Germany	..	..	..	..	..	..	..	..	..	..	7,444.6	1,290.1	212
Holland	..	..	..	..	..	..	..	..	..	..	4,976.1	563.7	76
Italy	..	..	..	..	..	..	..	..	..	..	3,701.1	1,272.7	59
Great Britain	..	..	..	..	..	..	..	..	..	..	2,899.1	349.5	40
International	..	..	..	..	..	..	..	..	..	..	2,803.3	913.5	18
Sweden	..	..	..	..	..	..	..	..	..	..	2,653.7	963.8	57
Belgium	..	..	..	..	..	..	..	..	..	..	1,649.1	127.0	23
Korea	..	..	..	..	..	..	..	..	..	..	1,621.8	20.0	4
Denmark	..	..	..	..	..	..	..	..	..	..	1,331.0	241.5	38
Russia	..	..	..	..	..	..	..	..	..	..	1,286.4	301.0	2
Ireland	..	..	..	..	..	..	..	..	..	..	1,039.7	n.a.	2
Cyprus	..	..	..	..	..	..	..	..	..	..	911.7	175.0	1
Switzerland	..	..	..	..	..	..	..	..	..	..	904.7	338.5	21
Austria	..	..	..	..	..	..	..	..	..	..	843.4	79.2	41
Norway	..	..	..	..	..	..	..	..	..	..	599.3	173.9	14
Japan	..	..	..	..	..	..	..	..	..	..	598.7	111.0	13
Spain	..	..	..	..	..	..	..	..	..	..	536.2	n.a.	9
Greece	..	..	..	..	..	..	..	..	..	..	501.5	4.0	2
Portugal	..	..	..	..	..	..	..	..	..	..	493.1	66.6	4
Finland	..	..	..	..	..	..	..	..	..	..	424.4	122.8	19
Canada	..	..	..	..	..	..	..	..	..	..	205.3	241.5	14
Croatia	..	..	..	..	..	..	..	..	..	..	173.0	16.0	2
Turkey	..	..	..	..	..	..	..	..	..	..	100.1	58.0	4
Luxembourg	..	..	..	..	..	..	..	..	..	..	85.7	10.2	8
Australia	..	..	..	..	..	..	..	..	..	..	67.0	4.0	2
The Czech Republic	..	..	..	..	..	..	..	..	..	..	60.7	n.a.	4
Israel	..	..	..	..	..	..	..	..	..	..	55.4	120.0	4
China	..	..	..	..	..	..	..	..	..	..	45.0	45.0	2
RPA	..	..	..	..	..	..	..	..	..	..	35.0	95.5	2
Slovenia	..	..	..	..	..	..	..	..	..	..	35.0	27.0	2
Liechtenstein	..	..	..	..	..	..	..	..	..	..	31.9	27.0	4
Taiwan	..	..	..	..	..	..	..	..	..	..	5.7	200.0	1
Hungary	..	..	..	..	..	..	..	..	..	..	3.5	n.a.	1
Total value of FDI over U.S.\$1 million	..	..	..	..	..	..	..	..	..	..	57,610.3	12,323.3	920
Estimated value of PDI below U.S.\$1 million	..	..	..	..	..	..	..	..	..	..	3,990.1		
Total FDI in Poland	..	..	..	..	..	..	..	..	..	..	61,600.4		

Source: PAIZ

The following table shows a breakdown of total FDI in Poland by sector (classified using the European Classification of Activities) from 1990 to 30th June, 2002:

<i>ECA</i>											<i>Capital invested</i>	<i>Planned investment</i>
											<i>(millions of U.S.\$)</i>	
Manufacturing:	..	..	..	..	..	..	..	..	..	..	23,300.2	5,184.3
Food processing	..	..	..	..	..	..	..	..	..	..	5,932.7	619.2
Transport equipment	..	..	..	..	..	..	..	..	..	..	5,517.1	827.7
Other non-metal goods	..	..	..	..	..	..	..	..	..	..	3,241.2	861.5
Pulp and paper and publishing and printing activities	..	..	..	..	..	..	..	..	..	..	1,667.1	285.4
Electrical and optical machinery	..	..	..	..	..	..	..	..	..	..	1,656.5	348.0
Chemicals and chemical products	..	..	..	..	..	..	..	..	..	..	1,613.0	707.1
Wood and wooden products	..	..	..	..	..	..	..	..	..	..	1,296.9	193.2
Rubber and plastics	..	..	..	..	..	..	..	..	..	..	629.1	233.2
Metals and metal products	..	..	..	..	..	..	..	..	..	..	542.5	691.7
Other products	..	..	..	..	..	..	..	..	..	..	502.4	285.5
Other machinery and equipment	..	..	..	..	..	..	..	..	..	..	436.8	84.2
Fabrics and textiles	..	..	..	..	..	..	..	..	..	..	250.3	47.1
Leather and leather products	..	..	..	..	..	..	..	..	..	..	14.6	0.5
Financial intermediation	..	..	..	..	..	..	..	..	..	..	13,442.9	143.5
Trade and repairs	..	..	..	..	..	..	..	..	..	..	7,176.2	1,019.8
Transport, storage and communication	..	..	..	..	..	..	..	..	..	..	5,872.0	478.9
Construction	..	..	..	..	..	..	..	..	..	..	2,818.4	1,062.7
Community, social and personal services	..	..	..	..	..	..	..	..	..	..	1,769.1	586.0
Power, gas and water supply	..	..	..	..	..	..	..	..	..	..	1,663.6	1,746.5
Real estate and business activities	..	..	..	..	..	..	..	..	..	..	707.6	1,836.1
Hotels and restaurants	..	..	..	..	..	..	..	..	..	..	597.0	242.2
Mining and quarrying	..	..	..	..	..	..	..	..	..	..	218.5	7.0
Agriculture	..	..	..	..	..	..	..	..	..	..	44.8	16.3
Investments over U.S.\$1 million	..	..	..	..	..	..	..	..	..	..	57,610.3	12,323.3
Estimated value of FDI below U.S.\$1 million	..	..	..	..	..	..	..	..	..	..	3,990.1	
Total FDI in Poland	..	..	..	..	..	..	..	..	..	..	61,600.4	

Source: PAIZ

Principal Sectors of the Economy

Until the end of 1995, net exports and investment were the principal factors behind Poland's GDP growth, but since the end of 1995, GDP growth has increasingly come from private domestic consumption as well as investment.

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Service Industries

The service industries sector (including real estate, business activities and financial intermediation) is the fastest growing and largest sector in Poland. In 1997, the service industries sector accounted for 37.9 per cent. of GDP, whilst in 2001, the service industries sector accounted for 44.7 per cent. of GDP.

Industry

The effect of economic reforms in the mid-1990s resulted in a steady increase in domestic demand, which stimulated a recovery, initially in the food industry, and later in other sectors. This trend was steady until 1998, when the Russian crisis resulted in sold industrial production decreasing to a growth rate of 3.6 per cent. in 1999 (compared to 11.5 per cent. in 1997). The growth in sold industrial production rose to 6.7 per cent. in 2000, and in 2001 the level was 0.3 per cent.

Mining and Quarrying

Poland has substantial mineral resources. Poland is a large producer of refined copper and silver and, at the present level of output, workable copper reserves in Poland are predicted to last for almost 100 years. Poland is also a large producer of sulphur and has significant resources of zinc, lead, salt and other minerals. Since 1996, mining and quarrying (as a percentage of total GDP) has continued to fall, accounting for 2.3 per cent. of total GDP in 2000 compared to 3.3 per cent. in 1996, as a result of the significant decline in domestic demand for coal and the high cost of Polish coal mining. Mining and quarrying accounted for 2.1 per cent. of GDP in 2001.

Coal

The Polish economy relies heavily upon coal as a fuel source and is expected to remain coal intensive for the foreseeable future.

In June 1998, the Government approved a long-term restructuring programme for the coal-mining sector intended to reduce the number of mines and the level of employment in the sector, as well as to improve the efficiency of coal production in Poland. Between the beginning of 1998 and mid-2002, the overall reduction in production capacity amounting to 32 million tons has been achieved. 13 coal mines were totally, and 10 partially, liquidated. According to the programme, employment in the sector should be reduced by 115,000 employees, from 243,300 employees at the end of 1997 to 128,300 in 2002. In June 2002 143,700 people worked in the sector. Output fell from 137 million tons per year in 1997 to approximately 102.8 million tons in 2001. Once the programme is completed, the State Treasury expects the mining sector to become profitable. Workers leaving the mines are given special incentives. In 1998, the Government offered miners a retirement package. The package included early retirement schemes, superannuation benefits and a dismissal package of a lump sums worth 24 times the relevant monthly wages. This resulted in a significant number of miners opting for redundancy. The programme has been financed by subsidies from the state budget (amounting to PLN 1.4 billion in 2001 and one time debt write-off in that year), the Labour Fund and the Social Insurance Fund. The net losses made by the coal-mining sector were reduced significantly from PLN 3.2 billion in 1999 to PLN 189 million in 2001. The development of a new restructuring programme for 2003-2005 is in progress.

Steel

Restructuring of the steel sector in Poland started at the beginning of the 1990s, in compliance with the guidelines of the Government programme accepted in 1992 and then updated in 1998. Its implementation brought substantial capacity and cost reduction in the sector. Employment in the sector was reduced from 87,000 employees in the end of 1997 to 31,600 employees at the end of 2001. By the end of 2003 it should be reduced to less than 30,000. The restructuring programme is being financed by the state budget, the enterprises' own means and EU PHARE fund. However, the financial costs of the necessary investments, steel market disturbances with falling production, and fast growing imports led to financial breakdown of the majority of steel works. The modification of the restructuring programme which has been the subject of a consultation with the European Commission, and which was approved by the government, provides for substantial financial restructuring of steel mills, consolidation of the major four state-owned companies and their fast privatisation (in the following months), as well as consolidation of other steel mills on product basis and their privatisation in the near future.

Oil and Gas

Poland's oil and gas sector is dominated by the state-owned PGNiG and PKN ORLEN (in which the State Treasury has a 28 per cent. share). PGNiG is responsible for the exploration and production of oil and gas, as well as the import, transmission, storage and distribution of gas. PKN ORLEN is the largest Polish company in the oil and gas sector and was created from the merger in 1999 of PKN (formerly Petrochemia Płock S.A.), the largest crude oil refiner and manufacturer of petrochemical products in Poland and CPN (Centrala Produktów Naftowych), the leading distributor of motor fuels in Poland. Both PGNiG and PKN ORLEN are scheduled to be privatised, although the privatisation of PGNiG is at an early stage.

Poland's oil production is small (700 thousand tons both on-shore and off-shore in 2001) in relation to the total consumption of about 20 million tons of oil products. There are 7 existing oil refineries which processed 18.2 million tons of crude oil in 2001. Two leading refineries (in Gdańsk, which is now being privatised, and in Płock (belonging to PKN ORLEN SA.)) have in recent years been fully modernised and are capable of producing fuels which meet current stringent European Union standards. Their combined current processing capacity amounts to 22.3 million tons of crude oil per annum.

Russia is the main source of oil imports, making up 95 per cent. of oil imports in 2001, but the existing oil infrastructure (pipelines and oil import sea terminal) is capable of handling imports from other overseas sources. 100 per cent. of the needs of the country can hence either be imported from Russia or alternatively from other overseas sources by sea transportation.

Poland's proven gas reserves are 120 billion cubic meters of high methane gas. It produces high methane natural gas (south-eastern part of Poland) and low methane natural gas (western part of Poland). In 2002 it is expected that 34 per cent. of the natural gas consumption in Poland will be provided by domestic production with the remaining being provided by imports. Gas imports come from the Russian Federation (providing 58 per cent. of consumption) and EU member states (providing 8 per cent. of consumption).

Electricity

Total electricity generated in Poland in 2001 was 146 terawatt-hours, which exceeded domestic consumption requirements. Electricity consumption increased from 1993 to 2000, primarily as a result of the growth in industrial production. Electricity generation in Poland relies heavily on coal fired power plants. Poland's electricity industry is organised in four tiers, with companies divided into the following categories: Generation, High Voltage Transmission, Distribution and Trade (currently under Construction).

For the purpose of market development, the industry is also organised into 2 divisions: the wholesale market which is further sub-divided into the competitive segment (competitive market conditions) and the regulated segment (where tariffs are being approved by the President of the Energy Regulatory Office) and the retail market which is further sub-divided into the competitive segment (eligible clients) and the regulated segment (tariff clients).

Trade in the wholesale market is conducted in three segments: bilateral contracts market, power exchange market and balancing market. All enterprises have been organised into financially independent joint stock companies. The state-owned Polish Power Grid Company PSE operates the electricity grid and is responsible for transmission services in high voltage grid (220 and 400 kV) and ensuring that the supply of electricity meets demands. The Polish electricity system is linked to the Western European electricity grid, allowing for the import of electricity to meet excess demand or export of electricity when supply exceeds demand. Privatisation or consolidation of companies in the electricity sector was spurred by the enactment of new energy legislation in May 1997 (with amendments).

Automotive

Until the beginning of the 1990s, the Polish automotive industry was dominated by a few state-owned companies. Since 1990, the number of cars produced and the investment by foreign automotive companies has increased significantly. Car sales in Poland increased from 266,000 units in 1995 to 650,000 units in 1999. However, the number of new cars sold decreased to 479,000 in 2000, 327,000 in 2001 and to 308,200 in 2002 due to lower demand caused by the economic slow-down. The leading car manufacturers in Poland are Fiat, Daewoo and General Motors with combined

investment commitments of U.S.\$5.5 billion since 1990 and future investment commitments of U.S.\$0.8 billion, according to PAIZ.

Construction

Since 1990, the system of public subsidies in the state, communal and co-operatives construction sectors has been dismantled. As a result, growth in the construction industry has come mostly from the private sector. From the beginning of 1997, there was an increase in construction activity in large cities, with significant investment coming from foreign capital. As a result of a general slow-down in the economy in 2000, construction as a total percentage of GDP fell from 7.7 per cent. to 7.2 per cent. In 2001, construction accounted for 6.4 per cent. of GDP.

Agriculture

While agriculture accounted for approximately 4.1 per cent. of GDP at the end of 1998, it employed more than 19 per cent. of the Polish workforce. By the end of 2000, agriculture as a percentage of GDP had fallen further to 3.1 per cent. In 2001, agriculture accounted for 3.3 per cent. of GDP. There is substantial fragmentation of ownership within the agricultural sector, which is characterised by numerous private farms each occupying a small average area of land. The private sector manages approximately 90 per cent. of agricultural land in Poland, while the remaining 10 per cent. belongs to the public sector. Grains, such as wheat and rye, and potatoes dominate arable production, although production of industrial crops, such as sugar beets, is also significant. Other agricultural production largely comprises cattle and pig farms. The Russian crisis of 1998 severely affected Polish food exports, which forced domestic food prices down. Lower food prices substantially decreased farmers' profits leading to social unrest and a slowing of the trade liberalisation process.

Defence

According to the "*Strategy of Structural Transformation of the Industrial Defence Potential in the Years 2002-2005*", total sales of the defence industry in 2001 were about PLN 2.79 billion. From 1998 to 2001, employment level in the sector decreased by 38 per cent. (from 56,600 to 34,700). In a decree issued in November 1999, the Council of Ministers determined a list of 63 defence sector entities, which consists of 38 production companies, 12 state enterprises (for which the Ministry of Defence is the founding body), 10 research and development units and 3 arms trading companies. It is envisaged that the list will be extended to include six further entities.

Infrastructure

Polskie Koleje Państwowe S.A., or PKP, the Polish state railway company, operates suburban railways in all major cities and, by the end of 2001, operated approximately 22,650 kilometres of rail track, of which approximately 11,826 kilometres was electrified. The Government has begun to restructure PKP in an effort to improve operational efficiency. Under this restructuring plan, separate passenger, freight and infrastructure companies have been established from PKP's assets under a new PKP holding company.

Poland has over 250,000 kilometres of hard-surfaced public roads. The first motorway development to be financed primarily through private funding is to be the 255-kilometre stretch of the A2 between the German border (Świecko) via Poznań to Konin. The first 149-kilometre instalment will be completed by 2005 and will cost an estimated €875 million. The first privately operated toll motorway, the 60 kilometre A4 between Kraków and Katowice, was opened in 2000. A new act on motorway construction is currently subject to Parliamentary debate. According to this new law and as contemplated in part by the EDL Plan, the Government will be involved to a larger extent in co-financing road infrastructure programmes through the Agency for National Roads.

In 2001, the Polish merchant shipping fleet consisted of 110 vessels with a total capacity of 2.3 million tons. Poland has several ports equipped to service ocean-going vessels. Poland has 19 airports, eight of which handle international air traffic. In 2001, scheduled flights were maintained with cities in 32 countries and eleven cities in Poland.

The Polish telecommunications market remains principally in the hands of a few operators, notably Telekomunikacja Polska S.A., or TP S.A., the original monopoly, which is also the former Polish Post, Telephone and Telegraph state monopoly. In fixed telephony services the local service is (as is typically the case with the exception of the Warsaw area) a duopoly. By the end of 2001, the number of telephone lines had grown to nearly 11 million, an increase of over 330 per cent. from 1990. By

31st December, 2001, the number of telephone lines per 100 inhabitants had grown to 28.3. Long distance telephony operators started to provide services in 2001 after the Ministry of Telecommunications initiated a public tender for three long distance fixed line telephone licenses in October 1999. New licences were awarded by the Office for Telecommunications and Post Regulation ("URTIP") in 2002. International services remained a TP S.A. monopoly until January 2003. In mobile telephony services: competition since 1996 has been between three companies: PTK Centertel Sp.z.o.o., PTC Sp.z.o.o. and Polkomtel S.A. In December 2000, the Ministry of Telecommunications assigned universal mobile telecommunication system ("UMTS") licences to three existing domestic mobile operators.

Poland is a net energy importer on an oil equivalent basis. Poland's energy policy has evolved considerably over recent years to support the country's transition to a market economy. New energy legislation implemented in 1997 introduced third party access (limited to domestic energy producers) to the energy distribution network, providing for gradual liberalisation of energy prices and established a central regulatory agency charged with regulating and overseeing the energy industry.

Since 1990, the Government has introduced policies designed to create or improve incentives to industry to become more efficient, reduce costs and direct the attention of industry towards environmental issues. Although Poland's industrial sectors already meet a number of EU industrial environmental standards, additional legislative changes will be necessary to fully comply with applicable EU environmental directives. There are currently no estimates available for the total cost of bringing all industrial sectors into compliance with these rules.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Poland's current account has been in deficit since 1997. This deficit has continued to increase annually, until reaching a peak in December 1999 (with a monthly deficit of U.S.\$1.7 billion). Since then, the current account has gradually improved, declining to U.S.\$9.9 billion in 2000. The current account deficit decreased to U.S.\$7.1 billion in 2001. As at September 2002 (on the basis of preliminary data), the current account deficit was U.S.\$6.2 billion.

Measured by the official balance of payments statistics, the trade deficit reached U.S.\$14.4 billion in 1999, reducing to U.S.\$13.2 billion in 2000, U.S.\$11.7 billion in 2001 and U.S.\$9.3 billion as at September 2002 (on the basis of preliminary data). Poland's export of goods in dollar terms grew from approximately U.S.\$10.9 billion in 1990 to U.S.\$28.3 billion in 2000 and U.S.\$30.3 billion in 2001. As at September 2002 (on the basis of preliminary data), its exports of goods was U.S.\$29.7 billion.

During 2001, notwithstanding significantly lower economic growth amongst Poland's major trading partners and the relatively strong Polish currency, Polish exports continued to grow.

In 2001, 69.2 per cent. of Polish exports were to EU countries, with Germany being the main trade partner (34.4 per cent. of Polish exports). The pace of growth in exports has increased at a higher rate than imports, which have remained relatively stable, since 1999.

Since 1995, capital inflows from privatisation proceeds and external borrowings have increased. Together with unrecorded trade, these capital flows have more than covered the official trade deficit. Foreign direct investments have been increasing steadily from U.S.\$542 million in 1994 to U.S.\$8.3 billion in 2000, according to NBP figures. However, this tendency reversed in 2001, when foreign direct investments amounted to U.S.\$7.0 billion. Due to the different calculation methods used by the NBP (based on banks' reporting), these figures differ from those prepared by PAIZ (see "The Economy — Foreign Direct Investment" above). In 1999, portfolio inflows represented approximately 13 per cent. of direct investments. Portfolio inflows increased from U.S.\$0.9 billion in 1999 to U.S.\$2.6 billion in 2000, but decreased to U.S.\$1.1 billion in 2001. Portfolio inflows now represent 95.6 per cent. of direct investments.

The strengthening dollar and the worsening current account balance in 1999 and early 2000, despite increased foreign direct investment and portfolio inflows, resulted in the decrease of official reserve assets from U.S.\$28.3 billion in January 1999 to U.S.\$27.5 billion in December 2000. Since then, reserves have decreased, reaching U.S.\$26.6 billion in December 2001 as a result of a transaction between the NBP and the Ministry of Finance in November 2001 to prepay Poland's debt owed to Brazil. The funding of this prepayment was scheduled to be repaid by the Ministry of Finance in foreign currency in four instalments over the course of 2002 (already paid in) and 2003.

The following table sets out Poland's balance of payments and related statistics for the years 2000–2002:

	2000	2001	2002 ⁽¹⁾⁽²⁾	2002 ⁽¹⁾⁽³⁾
	<i>(U.S.\$ millions)</i>			
A. CURRENT ACCOUNT	(9,952)	(7,166)	(3,956)	(6,205)
Trade balance	(13,168)	(11,675)	(4,845)	(9,293)
Goods: exports	28,255	30,275	14,872	29,740
Goods: imports	41,423	41,950	19,717	39,033
Services: net	(1,686)	(976)	(515)	(961)
Services: credit	3,505	3,988	1,834	3,608
Transportation	868	1,038	506	1,028
Travel	816	920	444	912
Other	1,821	2,030	884	1,668
Services: debit	5,191	4,964	2,349	4,569
Transportation	644	664	318	615
Travel	907	937	458	873
Other	3,640	3,363	1,573	3,081
Income: net	(759)	(896)	(813)	(1,490)
Income: credit	2,248	2,652	871	1,865
Income: debit	3,007	3,548	1,684	3,355
of which: due and paid	2,999	3,539	1,681	3,344
Current transfers: net	1,681	1,986	886	1,940
General Government	259	276	121	386
Other sectors	1,422	1,710	765	1,554
Current transfer: credit	2,159	2,644	1,214	2,582
General government	316	401	167	509
Other sectors	1,843	2,243	1,047	2,073
Current transfer: debit	478	658	328	642
General government	57	125	46	123
Other sectors	421	533	282	519
Unclassified transactions on current account: net	3,980	4,395	1,331	3,599
B. CAPITAL AND FINANCIAL ACCOUNT	7,660	2,980	3,302	7,191
Capital account	13	(1)	(5)	7
Financial account	7,647	2,981	3,307	7,184
Direct investment: net	8,169	6,928	1,865	2,906
Polish direct investment abroad	(124)	(67)	(7)	(204)
Foreign direct investment in Poland	8,293	6,995	1,872	3,110
Portfolio investment: net	2,591	1,109	1,805	1,465
Polish portfolio investment abroad (assets)	(85)	43	(469)	(1,091)
Equity securities	(21)	(67)	(137)	(273)
Debt securities	(64)	110	(332)	(818)
Foreign portfolio investment abroad (liabilities)	2,676	1,066	2,274	2,556
Equity securities	866	(306)	(336)	(697)
Debt securities	1,810	1,372	2,610	3,253
Other investments: net	(3,382)	(4,715)	109	3,122
Polish assets	(2,920)	(3,500)	637	3,431
Long-term credits extended	126	(21)	(24)	(64)
Drawings	169	233	117	213
Repayments	295	212	93	149
Short-term credits extended	26	16	31	18
Drawings	169	107	46	95
Repayments	195	123	77	113
Other assets	(3,072)	(3,495)	630	3,477
Currency and deposits	(3,094)	(3,496)	630	3,477
Other	22	1	0	0
Polish liabilities	(462)	(1,215)	(528)	(309)
Long-term credits received	1,250	(1,567)	(370)	(847)
Drawings	4,574	5,913	1,766	3,926
Repayments	3,324	7,480	2,136	4,773
of which: due and paid	3,296	7,464	2,121	4,742
Short-term credits received	143	(91)	105	400
Drawings	551	653	322	1,679
Repayments	408	744	217	1,279
Other liabilities	(1,855)	443	(263)	138
Currency and deposits ⁽⁴⁾	(1,852)	443	(263)	138
Other	(3)	0	0	0
Financial derivatives net	269	(341)	(472)	(309)
C. NET ERRORS AND OMISSIONS	2,968	3,763	600	195
OVERALL BALANCE	676	(423)	(54)	1,181
D. FINANCING OF OVERALL BALANCE	(676)	423	54	(1,181)
Official Reserve Assets ⁽⁴⁾	(621)	440	60	(1,170)
Credits from IMF	0	0	0	
Exceptional financing	(55)	(17)	(6)	(11)

Notes:

(1) Preliminary data.

(2) January 2002 to June 2002.

(3) January 2002 – September 2002.

(4) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from 31st May, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1998 to 2000 were adjusted accordingly.

Source: National Bank of Poland

Foreign Trade

Notable developments in Poland's foreign trade policy in the early 1990s have been the elimination of the state monopoly in foreign trade, a general lowering of tariffs and the effective removal of most exchange restrictions and repatriation of profits. This took place alongside the dissolution of the COMECON in 1991 and a more general move towards exports to western markets, in particular, the EU.

Direction of Trade

In the late 1980s, trade with the Council for Mutual Economic Assistance (COMECON) countries accounted for almost half of Poland's total trade. In contrast, in 2001, trade with former COMECON members accounted for less than 18 per cent. of total foreign trade, whereas trade with EU members accounted for approximately 65 per cent. of total foreign trade, with Germany being Poland's largest trading partner (accounting for 34.4 per cent. of Polish exports and 24.0 per cent. of imports in 2001).

The following table sets out the geographic distribution of Poland's imports and exports for the years 2000–2002:

												2000		2001		2002 ⁽¹⁾							
												Export	Import	Export	Import	Export	Import						
												(per cent.)											
Developed Countries:																							
Germany	..	..	..	..	..	..	..	..	..	..	..	34.9	23.9	34.4	24.0	32.5	24.5						
Other EU countries	..	..	..	..	..	..	..	..	..	..	..	35.0	37.3	34.8	37.4	36.1	37.3						
Other developed countries					..	..	..	..	..	..	..	6.4	9.7	5.9	8.5	6.5	8.6						
Total Developed countries												..	..	..	..	..	..	76.3	70.9	75.1	69.9	75.1	70.4
Central and Eastern Europe:																							
CEFTA	..	..	..	..	..	..	..	..	..	..	..	8.4	7.1	8.7	7.4	8.8	7.3						
Russian Federation	..	..	..	..	..	..	..	..	..	..	..	2.7	9.4	2.9	8.8	3.3	7.9						
Other Central and Eastern Europe ⁽¹⁾					..	..	..	..	..	..	..	6.2	2.0	6.7	2.0	6.8	1.8						
Total Central and Eastern Europe ⁽²⁾												..	..	..	..	..	..	17.3	18.5	18.3	18.2	18.9	17.0
Developing Countries	..	..	..	..	..	..	..	..	..	..	..	6.4	10.6	6.6	11.9	6.0	12.6						
Total	..	..	..	..	..	..	..	..	..	..	..	100.0	100.0	100.0	100.0	100.0	100.0						

Notes:

(1) Preliminary data from the open set for January–October 2002.

(2) Since 1st January, 1999 and in accordance with applicable Eurostat categorisation, "Other Central and Eastern Europe" includes European countries of the former USSR.

Source: GUS — Central Statistical Office

Composition of Trade

The most significant export items in 2002 were transportation equipment and products (automobiles and automobile parts, boats and shipping vessels), machinery, appliances and their parts, steel and steel products, wood and wooden products, mineral products and agricultural products (meat products, fresh and frozen fruits and dairy products). Imports have increasingly comprised investment-related products such as machinery and transport equipment.

The following table sets out the composition of Poland's exports (based on customs data and the Standard International Trade Classification) for the years 2000 to 2002:

	2000		2001		2002 ⁽¹⁾	
	(U.S.\$ millions)	(per cent.)	(U.S.\$ millions)	(per cent.)	(U.S.\$ millions)	(per cent.)
Natural Resource-Based Goods:						
Food and Live Animals	2,366	7.5	2,669	7.4	2,344	7.1
Beverages and Tobacco	120	0.4	140	0.4	100	0.3
Non-Food Raw Materials (excluding fuel)	894	2.8	915	2.5	802	2.4
Mineral Fuels, Lubricants and Related Materials	1,610	5.1	2,043	5.6	1,670	5.1
Animal and Vegetable Oils	23	0.1	17	0.1	10	0.0
Subtotal	5,013	15.9	5,784	16.0	4,926	14.9
Manufactured Goods:						
Chemicals and Related Products	2,151	6.8	2,278	6.3	2,072	6.3
Manufactured Goods Classified Chiefly by Material	7,856	24.8	8,614	23.9	8,027	24.3
Machinery and Transport Equipment	10,820	34.2	13,056	36.2	12,297	37.2
Miscellaneous:						
Manufactured Articles	5,804	18.3	6,355	17.6	5,708	17.3
Non-Classified	7	0.0	5	0.0	7	0.0
Subtotal	26,638	84.1	30,308	84.0	28,111	85.1
Total	31,651	100.0	36,092	100.0	33,037	100.0

Note:

(1) Preliminary data from the open set for January–October 2002.

Source: GUS — Yearbook of Foreign Trade Statistics, Central Statistical Office

The following table sets out the composition of Poland's imports (based on customs data and the Standard International Trade Classification) for the years 2000–2002:

	2000		2001		2002 ⁽¹⁾	
	(U.S.\$ millions)	(per cent.)	(U.S.\$ millions)	(per cent.)	(U.S.\$ millions)	(per cent.)
Natural Resource-Based Goods:						
Food and Live Animals	2,558	5.2	2,723	5.4	2,198	4.9
Beverages and Tobacco	198	0.4	233	0.5	276	0.6
Non-Food Raw Materials (excluding fuel)	1,643	3.4	1,578	3.1	1,321	3.0
Mineral Fuels, Lubricants and Related Materials	5,297	10.8	5,082	10.1	4,051	9.1
Animal and Vegetable Oils	164	0.3	174	0.3	164	0.4
Subtotal	9,860	20.1	9,790	19.4	8,010	18.0
Manufactured Goods:						
Chemicals and Related Products	6,881	14.1	7,337	14.6	6,727	15.1
Manufactured Goods Classified Chiefly by Material	9,789	20.0	10,333	20.6	9,257	20.7
Machinery and Transport Equipment	18,114	37.0	18,324	36.4	16,649	37.3
Miscellaneous Manufactured Articles	4,218	8.6	4,416	8.8	3,961	8.8
Non-Classified	78	0.2	75	0.2	39	0.1
Subtotal	39,080	79.9	40,485	80.6	36,633	82.0
Total	48,940	100.0	50,275	100.0	44,643	100.0

Note:

(1) Preliminary data from the open set for January–October 2002.

Source: GUS — Yearbook of Foreign Trade Statistics, Central Statistical Office

Trade Policy

In 2002, the average effective tariff rate was 2.25 per cent. compared to 2.56 per cent. in 2001. Tariffs are scheduled to decrease further over the next several years as a result of multilateral agreements with the EU, EFTA and CEFTA as well as pursuant to Poland's membership of the WTO. On

1st January, 2002 all the remaining customs barriers for industrial exports from EU member states to Poland were lifted.

Foreign Exchange and Gold Reserves

The following table sets out Poland's official reserve assets at the end of each of the years 2000 to 2002:

							<i>Official Reserve Assets⁽²⁾ excluding Gold</i>	<i>Gold</i>	<i>Total Official Reserve Assets</i>	<i>Months of Import Coverage⁽³⁾ in Total Official Reserve Assets</i>
							<i>(U.S.\$ millions)</i>			
2000 ⁽¹⁾	..	..	..	..	..	..	26,564.3	901.4	27,465.7	8.0
2001	..	..	..	..	..	..	25,650.5	914.7	26,565.2	7.6
2002										
January	..	..	..	..	..	..	25,409.3	933.8	26,343.1	7.7
February	..	..	..	..	..	..	25,463.1	982.1	26,445.2	8.3
March	..	..	..	..	..	..	26,062.5	997.1	27,059.6	8.5
April	..	..	..	..	..	..	26,205.0	1,019.7	27,224.7	8.4
May	..	..	..	..	..	..	26,444.4	1,080.6	27,525.0	8.4
June	..	..	..	..	..	..	27,110.0	1,053.8	28,163.8	8.6
July	..	..	..	..	..	..	28,293.6	1,007.9	29,301.5	8.7
August	..	..	..	..	..	..	28,341.2	1,035.0	29,376.2	8.7
September	..	..	..	..	..	..	28,194.5	1,070.9	29,265.4	8.6
October	..	..	..	..	..	..	28,198.3	1,048.4	29,246.7	8.4
November	..	..	..	..	..	..	28,459.8	1,055.5	29,515.3	8.3
December	..	..	..	..	..	..	28,660.2	1,133.9	29,794.1	—

Notes:

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from 31st May, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1998 to 2000 were adjusted accordingly.

(2) Including Poland's reserve position in IMF.

(3) Average imports of goods.

Source: National Bank of Poland

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Polish Banking System

Until 1989, the Polish banking system was controlled by the government with business decisions being subordinated to the political priorities of the state. The banking sector until 1989 was composed of the NBP, four state-owned specialist banks, co-operative banks and two state controlled banks. The nature of this system kept the role of banks within the system at a minimum. To remedy this, a two-tier banking system was established, with the NBP as the central bank and a range of private banks competing in the market.

The reform of the Polish banking system began in 1989, when about 400 branches of the NBP were transformed into nine regional commercial banks. In 1989 Parliament adopted a new Banking Law and the NBP Act. As a result of these changes in legislation and administrative procedures, a relatively large number of new private banks were opened.

Polish banks have been generally relatively small in terms of equity and have limited branch coverage. As a consequence, many of them have consolidated as a means of further development. In September 2002, there were 63 commercial banks in Poland, of which 16 were banks with majority Polish-held equity and 47 were banks with majority foreign-held equity. Overall, 67.6 per cent. of the commercial banks' equity was then held by foreign investors. There were also 606 co-operative banks.

The evaluation of the Polish banking system was positive in the European Commission report of 9th October, 2002 (*'2002 Regular Report of Poland's Progress Towards Accession'*):

"The sector seems stable and well capitalised. Efficiency of banking intermediation, measured in terms of interest rate spreads remains low and is improving only slowly. At 7.7 per cent., the spread between average lending and deposit rates in 2001 was at a similar level to the one that prevailed in 1997*. The high degree of foreign ownership in the financial sector is an important factor underpinning soundness and stability. Systemic threats are also limited in view of the fact that the financial sector is still small. Nevertheless, in the banking sector, there has been a rapid and sharp deterioration in asset quality over the last two years. The share of non-performing loans as a percentage of total portfolio has increased to 18.6 per cent. in 2001 from 10.5 per cent. in 1997. On the other hand, the regulatory and supervisory framework for the financial sector as a whole has been continuously upgraded over the period to keep pace with developments, and is now close to international standards and best practice — and compliance with the *acquis*. The legal framework and the supervisory process had already been significantly improved on the occasion of the previous change to the Banking Law in 1997. A new amendment to the Banking Law entered into force at the beginning of 2001 and has addressed several major shortcomings, including the supervisors' authority to conduct consolidated supervision, capital requirements to apply on a consolidated basis to banks and market risk, improved anti-money laundering legislation and clear rules for bank ownership transfer, as well as large credit exposure and provisioning."

The National Bank of Poland

The NBP is the central bank of Poland. The NBP is governed by legislation, the Act on the National Bank of Poland of 29th August, 1997, known as the NBP Act, and the Banking Law of 29th August, 1997, known as the Banking Law, consistent with EU standards. The NBP is headed by three governing bodies: the President, the Management Board (consisting of six to eight Members (including two Deputy Presidents)) and the MPC (see below). The President of the NBP is appointed by Parliament, after nomination by the President of the Republic of Poland, for a six-year term, with strictly limited rights of removal.

The principal responsibilities of the NBP are monetary, credit and exchange rate policy and bank regulation and supervision. The NBP is specifically responsible for issuing banknotes and coins, acting as banker to the Government and to other banks in the banking system, acting as custodian of the country's gold and foreign exchange reserves and acting as a bank of rediscount and lender to other banks.

The Constitution of the Republic of Poland and the NBP Act confirmed the NBP's independence which is essential for the credibility of, and a prerequisite for, Poland's participation in the European Economic and Monetary Union, or EMU. The NBP Act also established the Monetary Policy Council, or MPC, which is part of the NBP.

* This may also reflect prudent pricing policies in the context of the slowdown and the rise in non-performing loans.

The role of the MPC is to draw up annual monetary policy guidelines and submit these to the Sejm for its information, at the same time as the Council of Ministers submits the draft budget. The MPC determines monetary policy guidelines for each year and on the basis of those guidelines, makes decisions concerning use of central bank's key policy instruments: interest rates, required reserves ratios, open market operations, NBP loan and credit facilities and exchange rate policy. The MPC is also required to present a report to the Sejm on the performance of the monetary policy guidelines within five months of the end of each fiscal year. Under the NBP Act, the powers of the President are separated from those of the MPC and the Management Board of the NBP. The MPC consists of ten members, namely the President of the NBP as Chairman, and nine other members drawn from outside the NBP. Members are appointed for a tenure of six years. The tenure of all of the current members began in February 1998. Three members of the MPC are appointed by the Sejm, three by the Senate, and three by the President of the Republic of Poland. The MPC meets at least once a month. The MPC makes decisions by a majority vote, in the presence of at least five members, including the Chairman. In the event of a tied vote, the Chairman has a casting vote. The positions taken by MPC members during votes are published in official publications.

While general exchange rate policies are established by the Council of Ministers after consultation with the MPC, the NBP has sole authority to implement exchange rate and monetary policy.

Under the NBP Act, the activities of banks are supervised by the Commission for Banking Supervision; see—"Bank Regulation and Prudential Standards". The Commission is responsible for issuing banking licenses and overseeing insolvency and liquidation proceedings in the banking sector. The decisions of the Commission, together with the responsibilities it assigns, are carried out and co-ordinated by the General Inspectorate of Banking Supervision which is a separate organisational unit within the structure of the NBP.

Monetary Policy

The ultimate goal of the MPC's monetary policy is price stabilisation (in other words, a low inflation rate), which gives a sound foundation for strong and balanced economic growth over the long term. In order to achieve this, taking into consideration the growing integration of the Polish economy with the global economy and given the need to stabilise low inflation expectations, the MPC's strategy is based on direct inflation targeting ("DIT"). Under DIT all intermediate targets are abandoned. The NBP aims to act according to available information against factors that could jeopardise achievement of the inflation target set for a given year. The NBP utilises its monetary policy instruments to achieve this objective.

In September 2002, the MPC published "*The Monetary Policy Guidelines for 2003*" in which the inflation target for 2003 was set at 3 per cent. with ± 1 per cent. permissible bandwidth. The target remains consistent with the MPC's medium term strategy published in 1998, according to which the inflation rate is to be lowered to below 4 per cent. by the end of 2003. The MPC recognises that the period for lowering inflation rate has ended. From now on the MPC will act to sustain the low rate of inflation.

The DIT strategy is accompanied by a policy to achieve exchange rate flexibility. As of 12th April, 2000, a fully floating exchange rate regime for the zloty was introduced, which constitutes the final stage in that policy. One of the conditions for Poland's accession to the EMU is the inclusion of the zloty in the second stage of the exchange rate mechanism system (ERM2) for at least two years. In the two years prior to the introduction of the floating rate, the zloty exchange rate had been relatively flexible within a crawling band which was gradually widened to ± 15 per cent.

One of the MPC's goals is the integration of Poland with the EMU. Therefore, MPC is focused on meeting the Maastricht convergence criteria.

Money Supply

									2000	2001	2002 ⁽¹⁾
										(PLN millions) ⁽²⁾	
Cash in circulation	..	..	..	..	..	..	..	..	34,112.7	38,213.5	42,102.2
Demand deposits	..	..	..	..	..	..	..	..	72,343.2	80,083.5	88,603.7
Narrow Money (M1)	..	..	..	..	..	..	..	..	106,455.9	118,297.0	130,705.9
Time deposits	..	..	..	..	..	..	..	..	193,968.3	209,901.3	186,830.8
Repurchase agreement	..	..	..	..	..	..	..	..	2.6	0.9	0.0
Debt securities with maturity below 2 years	..	..	..	..	..	..	..	..	330.6	234.7	831.9
Broad Money (M3)	..	..	..	..	..	..	..	..	300,757.3	328,433.8	318,368.7
Annual Changes (per cent.)											
Broad Money (nominal)	..	..	..	..	..	..	..	..	11.9	9.2	(3.1)
Broad Money (CPI deflated)	..	..	..	..	..	..	..	..	3.1	5.4	(3.9)
Consumer Price Index Dec/Dec	..	..	..	..	..	..	..	..	8.5	3.6	100.9

Notes:

(1) As at November 2002.

(2) End of period values.

Source: NBP

In March 2002 the monetary statistics in Poland were changed, so that now it is in accordance with European Central Bank requirements. This resulted in new definition of broad and narrow money aggregates M3 and M1, which are now compiled the same way as those used by the ECB. In 2001, the broad money supply expanded by 9.2 per cent. in nominal terms or by 5.4 per cent. in inflation-adjusted terms. The above table sets our information regarding selected monetary aggregates for the years 2000 to 2002.

Interest Rate

Within the framework of its adopted strategy, the NBP applies a mix of monetary policy instruments to reach the predetermined inflationary target. Until 1998, the NBP primarily influenced certain monetary aggregates by setting two official interest rates: the rediscount rate and the lombard rate.

Since 1998, the predominantly influential rate has been the minimum rate at which the NBP has been prepared to sell 28-day NBP bills and set a floor for the yield on 28-day NBP bills, the main securities used in the NBP's open market operations to manage market liquidity.

The lombard rate is the basic interest rate of the NBP and sets an upper limit on inter-bank market interest rates. It reflects the general direction of monetary policy adjustments. The rediscount rate is the rate at which the NBP accepts bills of exchange from commercial banks extending the rediscount credit of such bills. The rediscount rate is not widely used.

In December 2001, the NBP introduced a new official rate for deposit standing facilities (the deposit rate).

The following table sets out details of interest rates set by the NBP and changes in them since 2000:

<i>Effective Date</i>				<i>Lombard</i>	<i>Rediscount</i>	<i>Minimum 28-day NBP bill reverse repo rate</i>	<i>Deposit</i>
				<i>Rate</i>	<i>Rate</i>		<i>Rate</i>
						<i>(per cent.)</i>	
24th February, 2000	..	..	..	21.5	20.0	17.5	
31st August, 2000	..	..	..	23.0	21.5	19.0	
1st March, 2001	..	..	..	22.0	20.5	18.0	
29th March, 2001	..	..	..	21.0	19.5	17.0	
28th June, 2001	..	..	..	19.5	18.0	15.5	
23rd August, 2001	..	..	..	18.5	17.0	14.5	
26th October, 2001	..	..	..	17.0	15.5	13.0	
29th November, 2001	..	..	..	15.5	14.0	11.5	
1st December, 2001	..	..	..	15.5	14.0	11.5	7.5
31st January, 2002	..	..	..	13.5	12.0	10.0	6.5
26th April, 2002	..	..	..	12.5	11.0	9.5	6.5
30th May, 2002	..	..	..	12.0	10.5	9.0	6.0
27th June, 2002	..	..	..	11.5	10.0	8.5	5.5
29th August, 2002	..	..	..	10.5	9.0	8.0	5.5
26th September, 2002	..	..	..	10.0	8.5	7.5	5.0
24th October, 2002	..	..	..	9.0	7.75	7.0	5.0
28th November, 2002	..	..	..	8.75	7.5	6.75	4.75
30th January, 2003	..	..	..	8.5	7.25	6.5	4.5

Source: National Bank of Poland

Mandatory Reserves

In recent years, there has been sustained excess liquidity in Poland's banking system. Reserve requirements have historically been an important instrument used by the NBP in attempting to limit the excess. In periods of rising excess liquidity, the NBP used to increase the ratio of mandatory reserves. However, since September 1999, the rate of required reserves was set at 5 per cent., whether for demand deposits, time deposits or foreign currency deposits and the NBP has managed banking sector liquidity through the issuance to banks of its own long-term bonds, which banks have been required to purchase. On 28th February, 2002, the MPC reduced the reserve requirements ratio to 4.5 per cent. and other technical changes have been made which bring the Polish mandatory reserve system closer to the system adopted by the European Central Bank.

Open Market Operations

Open market operations are the NBP's main instrument for adjusting the banking system reserves supply and are a function of prevailing market conditions. The goal of the MPC is to encourage an environment where long-term interest rates are determined by the market. As a result, the NBP generally concentrates on short-term operations using its 28-day bills. Starting from 2003, the maturity of the bills was shortened to 14 days, which is in accordance with the open market operation rules of the European Central Bank.

Foreign Exchange Regulations

On 1st June, 1995, Poland formally acceded to the obligations imposed by Article VIII of the IMF Articles of Agreement and provided for full current account convertibility of the zloty. Since then, although the majority of capital flows between Poland and abroad have been liberalised, some degree of restriction still exists on direct investment in non-OECD countries or countries with which Poland does not have agreements on bilateral protection of investments, real estate acquisitions and short term financial transactions.

However, the zloty is fully convertible in all types of current account transactions and foreign investors are able to purchase foreign currencies with zloty for the transfer of profits and repatriation of capital without a special foreign exchange permit from the president of the NBP. A number of other foreign

exchange transactions are generally permitted to be undertaken without obtaining authorisation from the president of the NBP.

Further liberalisation of foreign exchange transactions with EU and OECD countries followed after the adoption of the new Foreign Exchange Law on 17th July, 2002 whereby practically all restrictions were abolished.

Exchange Rate Policy

For several years prior to April 2000, Poland used a "crawling peg" system according to which a central exchange rate consisted of a basket of currencies and was devalued at a fixed rate, with the NBP intervening to restrict fluctuations around this central rate. Since 12th April, 2000, the band has been abolished and the zloty has been fully floated. The Central Bank holds the right to intervene but has not used this right so far.

The following table sets out the central PLN/U.S.\$ rate set by the NBP under the crawling peg and, as applicable, the "fixing" PLN/U.S.\$ exchange rate as at the ends of the periods indicated:

									<i>Year ended 31st December,</i>		
									<i>2000</i>	<i>2001</i>	<i>2002</i>
End of period	..	..	..	..	..	..	..	..	4.1432	3.9863	3.8388
Average	..	..	..	..	..	..	..	..	4.3464	4.0939	4.0795

Source: National Bank of Poland

Bank Regulation and Prudential Standards

The NBP Act established the Commission for Banking Supervision composed of the President of the NBP, the Director of the General Inspectorate of Banking Supervision, along with representatives of the President of the Republic of Poland, the Minister of Finance, the Chairperson of the SEC and the President of the Bank Guarantee Fund.

The Commission for Banking Supervision supervises the activities of banks in Poland, including developing guidelines for all Polish banks. Since 1992, the NBP's supervisory powers have been augmented by a strengthening of the powers of the NBP's General Inspectorate of Banking Supervision, the role of which is to enforce banking regulation and to ensure compliance with banking laws.

The current prudential standards include (i) implementation of capital adequacy principles, consistent with EU Directives, being a minimum 8 per cent. risk weighted capital ratio (accounting for credit and market risk) calculated substantially in accordance with international standards, and (ii) classification of the quality of bank assets, and application of specific provisions with respect to problem loans (100 per cent. for non-performing or "loss" loans, 50 per cent. for doubtful loans, 20 per cent. for substandard loans and 1.5 per cent. for the loans in the "special watch" category). The NBP also produces a quarterly bulletin which analyses the performance of banks generally within the Polish sector. Each bank is required to provide a monthly balance sheet and quarterly profit and loss account to the NBP to produce this report. In addition, every ten days banks are required to report their foreign exchange positions as at closing on each of the previous ten days to the NBP.

The NBP has assisted banks with the implementation of the new regulatory framework through on-site supervision and has endeavoured to facilitate mergers with larger Polish banks and foreign institutions where this promotes financial stability.

The Banking Law also provided the rules and procedures for the establishment and the organisation of state banks, co-operative banks and joint-stock banks as well as establishing a requirement of the approval of the Commission for Banking Supervision for any purchase exceeding 10 per cent. (and specified percentage figures thereafter) of a bank's shares.

The Law on the Bank Guarantee Fund provides for bank-funded deposit insurance for all banks through the creation of a Guarantee Fund. The Guarantee Fund's operations are financed by mandatory bank contributions. The Guarantee Fund provides the following coverage:

- 100 per cent. of funds deposited in Polish banks in zloty and foreign currencies (irrespective of the number of accounts opened by a depositor), or Funds, up to the equivalent of euro 1,000;
- from 1st January, 2002, 90 per cent. of Funds within the range of euro 1,000 to euro 18,000; and

- from 1st January, 2003, 90 per cent. of Funds within the range of euro 1,000 to euro 22,500.

Capital Markets

Warsaw Stock Exchange

In 1991, Poland enacted legislation regarding public trading in securities and the establishment of the Warsaw Stock Exchange ("WSE"). In 1994, the WSE was admitted to the International Federation of Stock Exchanges as a full member. The WSE consists of a "main", a "parallel" and a "free" market, with the main market requiring a larger market capitalisation and stricter disclosure requirements than the remaining markets.

Current securities legislation, the Law on the Public Trading in Securities, regulates the public offering of securities and the operations of securities brokers. Under it, the Polish Securities and Exchange Commission, equipped with enforcement powers, supervises the securities and commodities markets. The Securities and Exchange Commission has authority over all public offerings and establishes reporting requirements and operating practices. Its authority has been further expanded by its ability to enforce punitive charges for misconduct or misinformation. The Law on the Public Trading in Securities also provides a definition of securities (to include derivatives—see below), the rules and procedures for introducing shares to public trading and regulates the activities of brokerage houses, securities lending and short sales. Polish securities regulations are harmonised with the rules and regulations of the OECD and the EU. The Law on the Public Trading of Securities also provides for comprehensive regulations in the capital markets and the derivatives sectors in Poland.

On 16 January 1998, futures contracts based on the stock market index—WIG 20—were quoted for the first time on the WSE. Warrants were first introduced on the WSE in March 1998. Currently, warrants are based on stocks of major companies and indices.

Settlement in Poland is conducted on a delivery-versus-payment basis. Each investor is required to hold a securities account and a cash account with a local broker or custodian and each broker and custodian is required to hold a securities account in the National Securities Depository and maintain a cash account with a clearing bank. The process of accounting and the preparation of data for settlement and registration is fully computerised.

All securities admitted for public trading are required to be deposited in the form of a global certificate with the National Securities Depository and are traded in book-entry form only. Holders of securities are supplied with depository receipts and accounts statements from the broker or custodian with whom they hold an account.

As at 31st December, 2002, there were 24 member brokerage houses operating on the WSE. Out of the total number of 38 brokerage houses operating in Poland, five were owned by banks and 33 were independent entities. There were also 18 banks providing investment accounts. There were 1,829 licensed brokers and 201 investment advisors.

As at 31st December, 2002, the securities listed on the WSE comprised equity shares of 216 companies (including 14 NIFs), 56 state treasury bond issues, 5 corporate bond issues, 4 investment certificate issues and certain warrants and futures contracts.

Foreign investors may engage in transactions on the WSE on the same terms as domestic investors and may repatriate trading profits in a foreign currency without obtaining any further permits under Poland's foreign exchange regime.

The following table sets forth selected indicators relating to the equity component of the WSE for the periods indicated:

										<i>Year ended 31st December,</i>		
										<i>2000</i>	<i>2001</i>	<i>2002</i>
Market capitalisation ⁽¹⁾												
(in PLN millions)	..	..	..	..	..	..	..	..	..	130,000	103,370	110,555
(in U.S.\$ millions)	..	..	..	..	..	..	..	..	..	31,707	25,931	24,163 ⁽⁴⁾
(per cent. of GDP)	..	..	..	..	..	..	..	..	..	19.0	14.18	n.a. ⁽⁵⁾
Turnover in millions ⁽²⁾										181,000	91,300	71,700
WIG Index										17,847	13,922	14,366
Average P/E ratio ⁽³⁾										15.9	58.4	169.9
Dividend Yield										0.8	1.3	1.4
Listed companies										212	230	216

Notes:

(1) Includes both the main and parallel markets.

(2) Includes both purchases and sales and off-session block transactions.

(3) Excludes the parallel market.

(4) Converted as at 31st December, 2002 at the rate of PLN 3.84 = U.S.\$1.

(5) GDP figures for 2002 not yet available.

Source: Warsaw Stock Exchange and Ministry of Finance

In addition to the WSE, there is also a regulated, secondary, public over-the-counter, or OTC, market called Centralna Tabela Ofert S.A., or CeTO. CeTO is responsible for providing the infrastructure for securities trading on the regulated off-exchange market. CeTO was founded in 1996 and is owned by the largest Polish banks, brokerage houses and the WSE. In April 2002, the Ministry of Finance launched the Primary Dealers System under which CeTO is responsible for organising the Electronic Treasury Securities Market (ETSM), a wholesale Government securities market. In the second half of 2002, a range of CeTO traded products is expected to increase, including Treasury bills and interest-rate derivatives.

Investment funds

Investment funds are regulated under the Act on Investment Funds of 28th August, 1997, which enables the creation of open-end investment funds, specialised open-end investment funds, closed-end investment funds and mixed investment funds. The Act has since been amended to enable the creation of a new kind of investment fund—the specialised closed-end fund—which will be a venture capital fund, and to simplify the procedures concerning the creation of funds and fund corporations.

As of 31st December, 2002, the Polish Securities and Exchange Commission had granted permits to 19 fund corporations managing 123 investment funds.

Pension funds

At the end of December 2002, there were 17 pension funds operating in Poland which had the total assets of PLN 31.6 billion and a two-year average annual rate of return of 21.96 per cent.

Treasury securities

Trading of Treasury bonds on the secondary market can be conducted through the WSE. However, most Treasury bond trading is being concentrated on the OTC market with the total value of annual transactions accounting for over 90 per cent. of the total value of transactions executed in all markets. This is due to lower transaction charges in the OTC market in comparison with the cost of transactions executed on the WSE. It is anticipated that the ETSM operated by CeTO will become the main trading market for Government securities once it is fully operational.

Insurance market

The Polish insurance market is dominated by four insurance companies, which have the largest market share by amount of gross premiums written. According to data as at 30th September, 2002, the largest market share is held by PZU S.A. (33.48 per cent.), followed by Powszechny Zakład Ubezpieczeń na Życie S.A. (20.85 per cent.), then TUiRWarta S.A. (7.72 per cent.) and Commercial Union Polska—TU życie S.A. (7.46 per cent.). In 2002, the number of insurance companies with a

majority of foreign equity rose to 56, compared to 48 in December 2001. At the end of September 2002, FDI in the insurance market reached PLN 2.85 billion, compared to PLN 2.54 billion in 2001. Foreign capital accounted for 70.35 per cent. of total equity capital of the insurance companies in 2002 (compared to 67.81 per cent. in 2001). At the end of 2002, the cumulative amount of FDI in the life assurance sector reached PLN 1,441 million and PLN 1,415 million in the non-life insurance sector.

According to data, as of 30th September, 2002, investments by insurance companies rose to PLN 47.8 billion. In the life assurance market, investment totalled around PLN 29.2 billion by the end of June 2002, compared to PLN 24.8 billion by the end of 2001. In the non-life insurance market, investments reached PLN 18.6 billion, compared to PLN 16.8 billion by the end of 2001. The investments of insurance companies were primarily concentrated in debt securities (81.94 per cent.) followed by equities (7.46 per cent.), other variable-income securities and units in investment funds (7.1 per cent.) and bank deposits (3.5 per cent.).

At the end of September 2002, there were 73 licensed insurance companies operating in Poland. Of these, 37 were life assurance and 36 were non-life insurance companies.

PUBLIC FINANCE

In Poland, the public finance sector is treated as consisting of the state budget, local budgets, health funds, extra-budgetary funds, state and local extra-budgetary units, agencies and other elements.

Fiscal policy from 1990 to 2001 was shaped by a desire to reduce inflation and to keep the state budget deficit consistent with monetary policy objectives. Under the Constitution, the NBP could not provide for the financing of the budget deficit after 1999. In the years 1993 to 2000, the state budget deficit remained below 4 per cent. of GDP as well as below the target set out in the applicable state budget. The state budget deficit is estimated to be 5.2 per cent. of GDP in 2002. The 2003 Budget Act provides for a state budget deficit of 4.7 per cent. of GDP.

In order to properly monitor the impact of public spending on domestic savings, the Government uses an economic deficit indicator. The economic deficit takes into account the general government cash deficit and payments to public sector employees and pensioners, transfers to open pension funds, debt servicing costs paid to open pension funds, the demographic reserve fund, state budget revenue from UMTS and corrected payments from the special fund of the Ministry of the State Treasury. The increase in the estimated economic deficit level up to approximately 5.2 per cent. of GDP in 2002 and 4.5 per cent. in 2003 is primarily the result of increases in the state budget deficit.

In terms of Polish accession to the EU and later to the EMU, the category of general government deficit under the Maastricht Treaty criteria (according to ESA 95) is more important than the category of economic deficit. The general government deficit to GDP ratio under the Maastricht Treaty criteria was 3.0 per cent. in 2001. In 2002 it is estimated to have been 4.0 per cent. of GDP, and forecast at 3.9 per cent. of GDP in 2003.

The higher deficit in 2001 is attributed to the significant worsening of economic conditions in Poland, which directly affect tax revenues. Corporate income tax is the most sensitive to such changes. The current reduction in income tax revenues is attributed to a material deterioration in corporate profits, which is the result of both lower domestic demand and the strong Polish currency. Revenues from value added tax were affected by changes in domestic product structure in the last two years. The main factor which has determined growth in GDP to date has been individual consumption, which traditionally contributes significantly to value added tax revenues. However, in 2000 and 2001 individual consumption contracted, while at the same time exports (which are taxed at a zero rate of value added tax) increased.

Total general Government spending as a percentage of GDP decreased from 45.6 per cent. in 1994 to 43.9 per cent. in 2001. According to Ministry of Finance estimates, this is expected to increase to 44.9 per cent. in 2002 and 44.5 per cent. in 2003. However, the structure of general Government spending changed significantly during that period. A steep decline in subsidies to state-owned enterprises has been matched by a steep increase in payments to individuals, particularly unemployment benefits and pension payments.

The following table sets out certain fiscal trends in Poland's public finances for the years 2000 to 2003:

		2000	2001	2002 ⁽¹⁾	2003 ⁽²⁾
		<i>(PLN millions)</i>			
State Budget Balance	.. .. .	(15,391)	(32,358)	(40,000)	(38,734)
Revenues	.. .. .	135,664	140,527	145,102	155,698
Expenditures	.. .. .	(21,288)	(37,805)	(48,805)	(47,481)
Revenues ⁽³⁾		271,249	291,013	298,935	317,285
General Government Balance	.. .. .	151,055	172,885	185,102	194,432
Expenditures ⁽³⁾		292,537	328,818	347,740	364,766
		<i>(as a per cent. of GDP)</i>			
State Budget Balance	.. .. .	(2.2)	(4.3)	(5.2)	(4.7)
Revenues	.. .. .	19.0	18.8	18.8	19.0
Expenditures	.. .. .	21.2	23.1	23.9	23.7
General Government Balance	.. .. .	(3.0)	(5.0)	(6.3)	(5.8)
Revenues	.. .. .	38.1	38.8	38.6	38.7
Expenditures	.. .. .	41.1	43.9	44.9	44.5
Primary State Budget Balance ⁽⁴⁾		0.4	(1.4)	(1.7)	(1.2)
Memo					
GDP (PLN million)	.. .. .	712,322	749,311	773,659	819,850

Notes:

(1) Forecast.

(2) As projected in the Budget Act of 2003.

(3) Excluding intra General Government transfers.

(4) Excluding interest payments calculated on cash basis.

Please Note: Polish budget figures are presented on a cash basis. Funds derived from foreign sources, not returnable, are not included in Polish budget figures.

Source: Ministry of Finance

The following tables set out Poland's economic deficit (in PLN billions and as a percentage of GDP) for the years 2000 to 2003:

	2000	2001	2002 ⁽¹⁾	2003 ⁽²⁾
	<i>(PLN billions)</i>			
Balance of the state budget	(15.4)	(32.4)	(40.0)	(38.7)
Balance of local budget	(3.1)	(3.1)	(3.5)	(3.3)
Balance of the health-care sector (since 1999 Health Funds)	0.5	0.9	0.4	0.4
Balance of the funds	(0.6)	(3.7)	(3.6)	(4.2)
Balance of the state and local extrabudgetary units	0.3	(0.4)	(0.2)	0.1
Balance of other elements		0.9	(1.7)	(1.8)
Compensations	(3.4)	(2.4)	(2.7)	(3.3)
Transfer to open pension funds	7.6	8.6	9.8	11.4
Debt servicing cost paid to open pension funds	0.6	1.2	1.8	2.7
Demographic Reserve Fund				
State budget revenue from UMTS		(2.7)		
Corrected payments from the special fund of the Ministry of the State Treasury	(0.4)	(0.3)		
Restructuring fees paid to social security funds				0.6
Economic deficit	(13.9)	(33.4)	(39.9)	(36.7)
	<i>(as a per cent. of GDP)</i>			
Balance of the state budget	(2.2)	(4.3)	(5.2)	(4.7)
Balance of local budget	(0.4)	(0.4)	(0.5)	(0.4)
Balance of the health-care sector (since 1999 Health Funds)	0.1	0.1	0.1	0.0
Balance of the funds	(0.1)	(0.5)	(0.5)	(0.5)
Balance of the state and local extrabudgetary units	0.0	0.0	0.0	0.0
Balance of other elements		0.1	(0.2)	(0.2)
Compensations	(0.5)	(0.3)	(0.3)	(0.4)
Transfer to open pension funds	1.1	1.1	1.3	1.4
Debt servicing cost paid to open pension funds	0.1	0.2	0.2	0.3
Demographic Reserve Fund				
State budget revenue from UMTS		(0.4)	0.0	
Corrected payments from the special fund of the Ministry of the State Treasury	(0.1)	(0.1)		
Economic deficit	(2.0)	(4.5)	(5.2)	(4.5)

Notes:

(1) Forecast.

(2) As projected in the Budget Act of 2003.

Source: Ministry of Finance

The following table sets out local government budgets for 2000 to 2003⁽¹⁾:

	2000	2001	2002 ⁽²⁾	2003 ⁽³⁾
	<i>(PLN millions)</i>			
Total Revenues	72,610	79,596	80,176	81,184
Total Expenses	75,747	82,734	83,676	84,472
Balance	(3,137)	(3,138)	(3,500)	(3,288)
As Percentage of GDP	(0.4)	(0.4)	(0.5)	(0.4)
GDP	712,322	749,311	773,659	819,850

Notes:

(1) Since 1999 local government budgets consists of gminas budgets, powiat budgets, and voievodships budgets.

(2) Forecast.

(3) As projected in the Budget Act of 2003.

Source: Ministry of Finance

The following table sets out the state revenues and their percentage of GDP for the years 2000 to 2003:

										2000	2001	2002 ⁽¹⁾	2003 ⁽²⁾
										<i>(PLN millions)</i>			
Total Revenues	..	..	..	..	..	..	..	..	..	135,663.9	140,526.9	145,102.0	155,697.7
Tax Revenues	..	..	..	..	..	..	..	..	..	124,724.2	123,161.8	134,240.5	142,461.6
Indirect Taxes (excise, VAT)	..	..	..	..	..	..	..	..	..	79,670.5	82,422.9	90,084.7	96,861.2
Corporate Income Tax	..	..	..	..	..	..	..	..	..	16,867.7	13,219.7	15,379.7	14,394.7
Personal Income Tax	..	..	..	..	..	..	..	..	..	23,088.6	23,444.2	26,041.1	27,355.7
Custom Duties	..	..	..	..	..	..	..	..	..	5,080.3	4,060.5	3,735.0	3,850.0
Non-tax Revenue	..	..	..	..	..	..	..	..	..	10,805.9	16,192.2	9,857.9	12,486.2
Dividends	..	..	..	..	..	..	..	..	..	929.7	888.8	682.0	670.0
Central Bank Profits	..	..	..	..	..	..	..	..	..	2,205.6	4,868.8	2,582.2	4,685.6
Revenue of Budgetary Units	..	..	..	..	..	..	..	..	..	6,523.3	9,154.5	6,055.4	6,205.8
Revenue from UMTS licence	..	..	..	..	..	..	..	..	..	—	2,719.8	—	—
Other Revenue	..	..	..	..	..	..	..	..	..	1,147.3	1,280.1	1,075.0	873.6
Restructuring Fee	..	..	..	..	..	..	..	..	..	—	—	—	623.8
Foreign Revenues	..	..	..	..	..	..	..	..	..	133.8	1,172.9	466.9	177.2
Revenues as a Percentage of GDP													
Total Revenues	..	..	..	..	..	..	..	..	..	19.8	19.5	19.5	19.7
Tax Revenues	..	..	..	..	..	..	..	..	..	17.5	16.4	17.4	17.4
Indirect Taxes (excise, VAT)	..	..	..	..	..	..	..	..	..	11.2	11.0	11.6	11.8
Corporate Income Tax	..	..	..	..	..	..	..	..	..	2.4	1.8	2.0	1.8
Personal Income Tax	..	..	..	..	..	..	..	..	..	3.2	3.1	3.2	3.3
Custom Duties	..	..	..	..	..	..	..	..	..	0.7	0.5	0.5	0.5
Non-Tax Revenue	..	..	..	..	..	..	..	..	..	1.6	2.2	1.3	1.6
Dividends	..	..	..	..	..	..	..	..	..	0.1	0.1	0.1	0.1
Central Bank Profits	..	..	..	..	..	..	..	..	..	0.3	0.6	0.3	0.6
Revenue of Budgetary Units	..	..	..	..	..	..	..	..	..	0.9	1.2	0.8	0.8
Revenue from UMTS licence	..	..	..	..	..	..	..	..	..	—	0.4	—	—
Other Revenue	..	..	..	..	..	..	..	..	..	0.2	0.2	0.1	0.1
Restructuring Fee	..	..	..	..	..	..	..	..	..	—	—	—	0.1
Foreign Revenues	..	..	..	..	..	..	..	..	..	0.0	0.2	0.1	0.0
GDP	..	..	..	..	..	..	..	..	..	712,322	749,311	773,659	819,850

Notes:

(1) Forecast.

(2) As projected in the Budget Act of 2003.

Source: Ministry of Finance

The following table sets out the state budget expenditures and their percentages of GDP for the years 2000 to 2003:

						2000	2001	2002 ⁽⁴⁾	2003 ⁽⁵⁾
						(PLN millions)			
Total State Budget Expenditures ⁽⁶⁾	..	..	..	..	..	151,477	172,885	185,102	194,432
<i>of which</i>									
Subsidies ⁽¹⁾	..	..	..	..	..	2,482	2,513	1,835	1,791
Foreign Debt Service	..	..	..	..	..	4,297	3,794	4,189	5,380
Social Insurance	..	..	..	..	..	36,699	46,066	52,999	53,673
Current Expenditures of the Budget Sphere	..	..	..	..	..	58,954	64,273	66,383	71,035
Settlements with Banks, Domestic Debt Service and									
Guaranties	..	..	..	..	..	15,757	20,385	23,280	23,506
Capital Expenditures ⁽²⁾	..	..	..	..	..	7,428	6,420	6,416	7,080
Subsidies to Local Authorities ⁽³⁾	..	..	..	..	..	25,860	29,434	30,000	31,967
Expenditures as a Percentage of GDP									
Total State Budget Expenditures	..	..	..	..	..	21.3	23.1	23.9	23.7
<i>of which</i>									
Subsidies ⁽¹⁾	..	..	..	..	..	0.3	0.3	0.2	0.2
Foreign Debt Service	..	..	..	..	..	0.6	0.5	0.5	0.7
Social Insurance	..	..	..	..	..	5.2	6.1	6.9	6.5
Current Expenditures of the Budget Sphere	..	..	..	..	..	8.3	8.6	8.6	8.7
Settlements with Banks, Domestic Debt	..	..	..	..	..	0.0	0.0	0.0	0.0
Service and Guaranties	..	..	..	..	..	2.2	2.7	3.0	2.9
Capital Expenditures ⁽²⁾	..	..	..	..	..	1.0	0.9	0.8	0.9
Subsidies to Local Authorities ⁽³⁾	..	..	..	..	..	3.6	3.9	3.9	3.9
GDP (zloty billion)	..	..	..	..	..	712,322	749,311	773,659	819,850

Notes

(1) Subsidies to enterprises.

(2) Capital expenditures include investments and equity contributions.

(3) General subventions to local governments; since 1996 the educational subsidy is included, since 1998 road infrastructure subsidy is included.

(4) Forecast.

(5) As projected in the Budget Act of 2003.

(6) Excluding intra State Budget transfers.

Source: Ministry of Finance

The 2003 Budget Act

The 2003 Budget Act provides for budget revenues of PLN 155.7 billion, an increase of 7.3 per cent. over 2002 revenues, and expenditures of PLN 194.4 billion, an increase of 5.0 per cent. over 2002 expenditures. The Government expects all tax-based revenues to increase by 6.1 per cent. in 2003. Indirect taxes are expected to account for 62.2 per cent. of total revenues, increasing from 62.1 per cent. in 2002. In the 2003 Budget Act, budgeted corporate and personal income taxes are expected to account for 9.2 per cent. and 17.6 per cent., respectively, of total revenues, as compared to 10.6 per cent. and 17.3 per cent. of total revenues in 2002.

Non-tax revenues in 2003 are expected to increase by 25.6 per cent. This is mainly as a result of an increase of Central Bank profits and the introduction in 2003 of another source of revenues — restructuring fees. The share of non-tax revenues in total budget revenues expected for 2003 is 8.4 per cent. of total revenues compared to 6.2 per cent. in 2002.

The state budget deficit is projected to be at the level of PLN 38.7 billion or 4.7 per cent. of GDP (compared to the forecasted 5.2 per cent. in 2002).

Financing the State Budget Deficit

The Ministry of Finance expects that in 2003 (Budget Act of 2003), the estimated state budget deficit of PLN 38.7 billion or 4.7 per cent. of estimated GDP will be financed principally through the issuance of medium-term (two and five-year maturities) and longer term (ten-year) treasury securities to

domestic financial and non-financial institutions and individuals, as well as to foreign investors, with the remainder financed by privatisation receipts.

Taxation

The principal taxes forming the Polish tax system are a tax on goods and services, or VAT, corporate income tax, or CIT, personal income tax, or PIT, and excise tax. There are also local taxes collected directly by the local authorities or tax offices acting on behalf of such authorities. Local taxes include agricultural tax, forest tax and real estate tax.

The Government is seeking to harmonise taxation in line with taxation in EU countries. Another task that is currently of importance is the introduction of fiscal and economic tools to reinforce economic growth. Examples include the cancellation of some debts owed by companies to the state treasury and the introduction of higher depreciation rates for new capital assets.

Corporate Income Tax

In November 1999, CIT and VAT tax reforms were introduced, providing for reduction of the CIT rate from 34 per cent. to 30 per cent. in 2000, 28 per cent. during 2001–2002 and 27 per cent. in 2003. Since 1st January, 2001, dividends have been subject to a 15 per cent. flat withholding tax rate. The amount withheld from the dividends paid to a corporate taxpayer is deducted from the amount of the CIT calculated at the regular rate. Such deduction may be made in a given fiscal year or in the following fiscal years, thus resulting in an economic tax exemption of domestic inter-company dividends. Cross-border payments of dividends are subject to 15 per cent. withholding tax, interest and royalties are subject to a 20 per cent. withholding unless the relevant double taxation treaty provides otherwise. Also since September 2002 the Polish Government has introduced higher depreciation rates for new capital assets in order to boost economic development.

Personal Income Tax

PIT is levied at progressive tax rates, which are currently 19 per cent., 30 per cent. and 40 per cent. In 2000, the Government submitted and Parliament accepted, with some minor modifications, PIT tax reforms including limiting the number of tax reliefs available. In 2002, further changes were introduced, the major ones being the taxation of incomes from interest on savings, bonds and investment funds (at a rate of 20 per cent.) and restructuring reliefs on purchasing apartments and houses.

Value Added Tax

In general, except for some specific services, all business activity in Poland is subject to VAT at a rate of 22 per cent. VAT is levied on all goods sold in, or imported into, Poland, as well as on services rendered in Poland. Polish VAT is similar in its operation to that levied in the member states of the EU. The VAT Law provides for tax rates of 22 per cent. (standard rate), reduced tax rates of 7 per cent. (for unprocessed agricultural products) and 0 per cent. (for production means for agriculture, exported goods and services and some other specifically listed services). In accordance with the VAT reform of November 1999, VAT rates will be subject to further adjustments in order to fall in line with EU VAT directives. Since 2002, VAT rates have been increased on children's goods (from 7 per cent. to 12 per cent. and from 12 per cent. to 22 per cent. in 2003) and to 7 per cent. on flats in certain housing developments (which had previously been zero rated for VAT purposes). In addition, the VAT rate for certain services has risen from 7 per cent. to 22 per cent.

Excise Tax

Excise tax is levied on, among other products, alcohol, tobacco, fuel, automobiles, some electronic appliances, cosmetic products, yachts, salt, gambling machines and fur clothing. In 2002, an excise tax of PLN 0.02 per kilowatt was introduced in respect of power consumption. Excise tax on alcohol was decreased by 30 per cent. in October 2002.

Social Expenditures

Four social security and pension funds are administered by the state and are partially or wholly financed by contributions from employers and employees. The revenues of these funds are not shown as revenues in the state budget. Two of these funds do, however, receive significant transfers from the state budget and such transfers are shown as expenditures in the 2003 Budget Act.

The social insurance fund and the labour fund are the largest extra-budgetary funds and rely on state budget transfers to supplement their own off-budget revenues. For example, in 1999, 16 per cent. of the revenues of the social insurance fund and 14.7 per cent. of the revenues of the labour fund came from state budget transfers.

Direct Budgetary Social Expenditures

The growth of social expenditures paid directly from the state budget or paid as transfers from the state budget to extra-budgetary funds and their projected continued growth based on current legal entitlements and demographic trends represent a significant threat to Poland's ability to limit the budget deficit in the medium term. Prior to 1996, social security benefits were indexed to average wages in the economy, and since then they have been indexed to inflation projected by respective budget acts. As a result of the rapid increase in average wages from 1994 through 1996, social security benefits increased at an accelerated rate during this period. The growth in social expenditures is attributable to a combination of adverse demographic trends, early retirement, higher unemployment, and the linkage of benefits to prices. Such expenditures have increased from 4.5 per cent. of GDP in 1991 to 5.4 per cent. of GDP in 1995, but decreased to 4.9 per cent. of GDP in 1996. The increase of funds transferred into the second pillar of the pension system (see below) amounted to PLN 11.4 billion in 2003 (as projected in the 2003 Budget Act), PLN 9.8 billion in 2002 (forecasted data), PLN 8.6 billion in 2001, compared to PLN 7.6 billion in 2000 and PLN 2.3 billion in 1999 is reflected in the budgetary expenditures in macroeconomic terms representing a long-term saving for the whole economy and reducing the negative impact of the budget deficit on national savings by 1.3 per cent. of GDP in 2002. The 2003 Budget Act anticipates that PLN 11.4 billion will be transferred in 2003, which is expected to reduce the budget deficit on national savings by 1.4 per cent. of GDP in 2003.

Pension System Reform

On 1st January, 1999, the "pay-as-you-go" pension system in Poland was replaced with a multipillar system. The multipillar system is divided into three pillars; the first is an improved version of the mandatory pay-as-you-go system; the second involves private pension funds managed by private institutions and pension institutions; and the third is a voluntary capitalised fund, such as an employee pension scheme and individual pension insurance policies. The two latter pillars are supervised by the Committee for Supervision of Insurance and Pension Funds. As of 1st January, 1999 participation in the first two pillars has become mandatory for persons below the age of 30. Persons between the age of 30 and 50 had to decide by the end of 1999 whether they would pay into a private pension scheme or remain in the pay-as-you-go scheme. Persons over 50 remained in the pay-as-you-go scheme. As of 31st December, 2001, there were 17 second pillar pension funds with a membership of more than 10.6 million people, accounting for PLN 19.4 billion of pension funds' assets. The investment strategy of pension funds is regulated by law (for example there are restrictions on the type of assets held in the portfolio). As of 31st December, 2001, Treasury Securities and stocks listed on the WSE constituted the majority of total assets held by such funds (accounting for 66 per cent. and 28 per cent. respectively).

Pension reform is aimed at reducing state budgetary liabilities to the social security system and in turn providing more liquidity in domestic markets as a result of the significant flow of funds into privately managed pension funds. The funds are only allowed to invest 5 per cent. of their funds in foreign currencies or foreign assets. Due to a shortfall in the system upon its implementation, only part of the state collected pension funds have been transferred to private pension funds. In addition, as the reforms gained public approval, more people than previously expected decided to join the second pillar, which resulted in higher transfers from the state budget in 2000.

Health System Reform

At the same time as the pension system reforms were introduced, the management and funding of the health service was overhauled. The main reform was the introduction of the Kasa Chorych (healthcare fund) into which employers are required to make a mandatory payment of 7.75 per cent. of each individual employee's wages. There are 16 regional and one branch health care authorities responsible for purchasing medical services directly from suppliers within budgetary constraints. The organisation of the health system is under review by the current Government.

Aircraft Contract

On 27th December, 2002 a tender for the purchase of Lockheed Martin F-16 multi-task aircraft was accepted by the Minister of Defence. The contract is valued at approximately USD 3.5 billion and will be implemented in accordance with a special bill adopted by the Polish Parliament. The majority of the payments will be made in the years 2011-2015.

Local Budgets

In Poland, local governments are largely self-financing, having their own separate budgets and revenue base (consisting mainly of property taxes and an allocated share of income taxes collected by the central government).

The following table sets out the local government revenues and expenditures for the years 2000 to 2003:

	2000	2001	2002 ⁽¹⁾	2003 ⁽²⁾
	<i>(PLN millions)</i>			
Revenues:				
Own Revenues	21,006	22,984	39,798	41,602
General Subsidies and Educational Subsidies	25,860	29,434	30,000	31,967
Transfer of Own Tasks	5,927	5,531	n.a.	n.a.
Tasks	9,821	11,305	n.a.	n.a.
Other Revenues	9,996	10,341	10,378	11,344
Total Revenues	<u>72,610</u>	<u>79,595</u>	<u>80,176</u>	<u>84,913</u>
Expenditure:				
Wages	27,700	29,607	n.a.	n.a.
Wage Related Expenses	5,096	5,510	n.a.	n.a.
Local Government Subsidies	5,460	6,608	n.a.	n.a.
Investments	13,298	13,813	14,430	14,468
Other Expenditures	24,193	27,196	69,246	73,733
Total Expenditures	<u>75,747</u>	<u>82,734</u>	<u>83,676</u>	<u>88,201</u>
Balance:	(3,137)	(3,139)	(3,500)	(3,288)

Notes:

(1) Forecast.

(2) As projected in the Budget Act of 2003.

Source: Ministry of Finance

PUBLIC DEBT

Overview

For reporting purposes relating to external and internal debt, Poland classifies as public debt only debt incurred directly by the state, or State Treasury debt, by the local governments and by entities belonging to the public finance sector (as defined by the public finance law). It does not include debt incurred by state-owned financial institutions, other state owned enterprises or the NBP. The Ministry of Finance started to collect data on public sector debt in 1999 after a new law on public finance obliged it to do so.

In addition, the State Treasury provides certain state guarantees (and sureties) to cover liabilities of Polish entities. As at 31st December, 2001, the amount of such guarantees (including expected interest payments) was PLN 23.2 billion, of which PLN 11.2 billion related to guarantees provided to cover liabilities of Polish entities indebted to foreign entities. In addition, following the terrorist attacks in America on 11th September, 2001, the State Treasury provided a guarantee for all Polish airlines amounting to a further PLN 4 billion.

The following table shows total public sector debt for 2000 to 2002:

		<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>30th September, 2002</i>
		<u> </u>	<u> </u>	<u> </u>
			<i>(PLN millions)</i>	
Public finance sector debt	.. .. .	280,474	302,107	353,535
Government sector debt, of which:	..	271,097	291,321	341,551
State Treasury debt	.. .. .	265,888	282,617	329,466
Local government debt	.. .. .	9,377	10,768	11,983

Source: Ministry of Finance

State Treasury Debt

The Ministry of Finance classifies debt as internal or external according to two criteria — place of issue and residency. In relation to the former, all instruments issued for the domestic market regardless of the status of their holder (domestic or foreign) are classified as internal debt. In relation to the latter, all instruments, regardless of the market they are issued for, are classified as external or internal by the residency status of the holder.

In the section of this prospectus entitled “Public Debt”, debt is referred to as internal or external based on the place of issue criterion.

In nominal terms, Poland’s total State Treasury debt has grown from PLN 152.2 billion at the end of 1994 to PLN 327 billion at the end of October 2002. This nominal growth came primarily from growth in internal State Treasury debt used to finance budget deficits and to make payments to external creditors.

By November 2002, Poland had repurchased a majority of its outstanding bonds issued by the State Treasury in 1994 to its creditors in connection with its commercial debt restructuring, or Brady Bonds, and all so called Paris Club debt owed to Brazil (U.S.\$3.3 billion). See “State Treasury External Debt.”

Poland concluded significant debt reduction and restructuring agreements in 1991 with 17 creditor countries, known as the Paris Club, and in 1994 with more than 500 commercial bank creditors, known as the London Club, restructuring the equivalent of U.S.\$33 billion and U.S.\$14 billion of external indebtedness, respectively. See “External Debt — Paris Club and London Club Agreements” below.

As a result of these measures and because of the growth in GDP from 1994 to 2001, the ratio of Poland’s State Treasury external indebtedness to GDP was reduced from 43.0 per cent. at the end of 1994 to 13.2 per cent. at the end of 2001.

The following table sets out categories of Poland's State Treasury debt for the years 2000 to 2002 as aggregate amounts and as percentages of nominal GDP:

				2000	2001	31st October, 2002
				<i>(PLN millions except for percentages)</i>		
Internal State Treasury Debt	..	..	..	145,982	185,028	217,133
As a percentage of GDP	..	..	..	20.5	24.7	n.a.
External State Treasury Debt	..	..	..	120,835	98,909	110,001
As a percentage of GDP	..	..	..	17.0	13.2	n.a.
Total State Treasury Debt	..	..	..	266,817	283,937	327,134
As a percentage of GDP	..	..	..	37.5	37.9	n.a.
GDP	..	..	..	712,322	749,311	n.a.

Source: Ministry of Finance

GDP figures have been recalculated according to GUS new methodology.

Debt Management

Under Polish law, the Minister of Finance must specifically approve the terms of all direct internal debt and external debt incurred by the state. Under the Constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties as a result of which the public debt (after giving effect to any exchange rate fluctuations for non-PLN debt) would exceed 60 per cent. of the annual GDP. In addition, under the Public Finance Act of 1998, if public debt exceeds 50 per cent. of GDP, the Government is required to introduce prudential measures in order to reduce its level, including providing a budget for the following year in which the forecasted deficit/revenues ratio will not exceed the same value in the current year. Thereafter, if such prudential measures do not reduce the levels of public debt as a percentage of GDP and the total figure reaches 55 per cent., the Government has to present a budget act which ensures that the level of public debt as a percentage of GDP will not increase.

The Act on Public Finance of 1998 requires an official debt management strategy to be prepared and attached to the Budget Act annually. The debt management strategy for 2003–2005 was approved by the Council of Ministers and submitted to Parliament for final approval together with the Budget Act 2003. The strategy objectives further provide for maintaining public debt at a safe level (below 55 per cent. of GDP), an improvement in the amortisation profile, lowering the debt servicing cost (as a per cent. of GDP) and limiting the other components of risk associated with debt management.

The Government continues to restrict the issuance of State guarantees primarily to major investment projects in the areas of infrastructure and environment together with certain guarantees relating to the restructuring of certain sectors.

Internal State Treasury Debt

Poland's internal State Treasury debt has increased from PLN 66.1 billion (21.5 per cent. of GDP) at the end of 1995 to PLN 185.0 billion (24.7 per cent. of GDP) at the end of December 2001 and PLN 217.1 billion (as of October 2002). This increase reflects the Government's policy of borrowing internally to finance the annual budget deficit and to make payments and repayments to external creditors.

Internal public debt comprises three categories:

- Marketable Treasury securities, including short-term Treasury bills, as well as fixed and floating rate Treasury bonds with maturities from 2 years to 20 years, both issued at market prices to financial and non-financial institutions and to individuals;
- Securities not freely marketable, issued on a registered basis and transferred to certain domestic state-owned financial institutions and certain other state debt in the form of long-term liabilities issued in connection with the restructuring of the state banking system and other debt. Non-marketable debt is being gradually exchanged for marketable debt; and
- Savings bonds, which are sold to private persons exclusively and are not freely marketable.

As of the end of October 2002 the proportion of the various types of securities in the total amount of internal debt was as follows: Treasury bills — 19.8 per cent., Treasury bonds — 69.4 per cent., non-marketable bonds — 4.2 per cent. and savings bonds — 3.4 per cent.

The Ministry of Finance auctions Treasury bills at a discount from face value with maturities from one to 52 weeks. In October 2002, the percentage of total internal Treasury securities outstanding constituted by Treasury bills was 20.5 per cent., a significant decrease from 52.2 per cent. in 1994. Issues of marketable Treasury bonds currently outstanding include fixed rate and floating rate instruments with two, three, five, ten and 20 year maturities, as well as saving bonds with two and four year maturities. Such bonds constituted 71.7 per cent. of total outstanding Treasury securities in October 2002.

In addition to Treasury bills and Treasury bonds (considered as "marketable" Treasury securities), the state has also issued "non-marketable" Treasury securities which accounts for 4.4 per cent. of total internal Treasury Securities as of October 2002.

In the second half of 1999, PLN 16.5 billion of "non-marketable" bonds held by the NBP were converted into market-based Treasury securities to prevent and reduce any excess liquidity in the banking sector. In the year 2000, the debt incurred by the health care system was also exchanged for marketable Treasury securities. The intention of the Government is to exchange all "non-marketable" debt into "marketable" debt.

External State Treasury Debt

As of the end of August 2002, Poland had PLN 115.7 billion (U.S.\$27.7 billion) of State Treasury external debt outstanding, which was a modest increase in nominal zloty terms since 1995, but a significant decrease as a proportion of GDP (from 32.8 per cent. in 1995 to 13.7 per cent. at the end of December 2001). The repayment and prepayment of external debt is in line with the Government's debt management policies.

Consistent with this policy, the Ministry of Finance repurchased in 1997 and 1998 U.S.\$2.4 billion of Brady Bonds. To finance the repurchase, the Minister of Finance issued and sold to the NBP bonds maturing on 27th October, 2024. The NBP funded the purchase of the bonds from its international reserves. In October 2000, the State Treasury executed the call option on Discount and New Money Brady Bonds amounting to U.S.\$943 million. The call was funded by proceeds from the privatisation of TP S.A. In April 2001, the State Treasury repurchased U.S.\$289.5 million Revolving Short Term Trade Related Agreement, or RSTA, bonds. On 28th October, 2002 the State Treasury called the outstanding U.S.\$1.3 billion of Past Due Interest, or PDI, bonds. As a result of such repurchases and call exercises, the total outstanding principal amount of Brady Bonds was reduced to approximately U.S.\$2.7 billion.

In November 2001, the State Treasury prepaid its debt owed to Brazil, its largest creditor in the Paris Club (see — "Paris Club and London Club Agreements"). The nominal amount of U.S.\$3.3 billion was prepaid for U.S.\$2.46 billion.

The following table sets out the State Treasury's external debt for the years 2000 to 2002:

		2000	2001	30th November, 2002
			(U.S.\$ millions)	
Medium and Long-Term Treasury External Debt	..	29,165	24,812	27,116
Loans	.. .. .	23,725	18,951	19,664
Paris Club	.. .. .	21,173	16,303	16,572
Multilateral	.. .. .	2,311	2,457	2,882
The World Bank	.. .. .	1,752	1,739	1,839
European Investment Bank	.. .. .	462	518	754
European Bank for Reconstruction and Development	.. .. .	29	23	22
Council of Europe Development Bank	.. .. .	68	177	267
Other	.. .. .	241	190	210
Bonds	.. .. .	5,440	5,862	7,452
Brady Bonds	.. .. .	4,362	4,048	2,698
Foreign Bonds	.. .. .	1,077	1,814	4,754
Short-Term State Treasury External Debt	.. .. .	0	0	275
Total State Treasury External Debt	.. .. .	29,165	24,812	27,391

Source: Ministry of Finance

The following table sets out the State Treasury's external debt by currency composition as at 30th November, 2002:

															<i>Equivalent in U.S.\$ millions</i>	<i>Per cent.</i>
EUR	..	..	..	..	..	..	..	..	..	..	..	..	..	..	12,487.3	45.6
USD	..	..	..	..	..	..	..	..	..	..	..	..	..	..	9,193.4	33.6
GBP	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,509.1	5.5
JPY	..	..	..	..	..	..	..	..	..	..	..	..	..	..	1,195.3	4.4
Pool ⁽¹⁾	..	..	..	..	..	..	..	..	..	..	..	..	..	..	974.3	3.6
CAD	..	..	..	..	..	..	..	..	..	..	..	..	..	..	916.7	3.3
CHF	..	..	..	..	..	..	..	..	..	..	..	..	..	..	863.8	3.2
NOK	..	..	..	..	..	..	..	..	..	..	..	..	..	..	207.7	0.8
SEK	..	..	..	..	..	..	..	..	..	..	..	..	..	..	43.5	0.2
Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..	27,391.0	100.0

Note:

(1) Credits from the World Bank denominated in "currency pool".

Source: Ministry of Finance

The following table sets out debt service projections for the State Treasury's medium- and long-term external debt by type of creditor for the years 2003 to 2011 and beyond. The data contained in the table does not assume any refinancing of existing debt.

	<i>2003⁽¹⁾</i>	<i>2004⁽²⁾</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>> 2011</i>
	<i>(U.S.\$ millions)</i>								
Principal payments	1,800	2,443	2,903	3,012	3,452	3,837	2,151	1,546	6,308
Loans	1,754	2,085	2,834	2,943	3,383	3,769	2,082	215	933
Paris Club	1,455	1,803	2,251	2,635	3,065	3,498	1,838	17	68
Multilateral	245	259	284	286	308	261	234	188	816
Other	54	23	298	22	10	10	10	10	49
Bonds	46	357	69	69	69	69	69	1,330	5,375
Brady bonds	46	57	69	69	69	69	69	115	2,137
Foreign bonds	0	300	0	0	0	0	0	1,216	3,238
Interest payments	1,019	895	821	749	671	575	475	438	1,612
Loans	563	460	410	342	269	178	83	51	161
Paris Club	380	330	292	244	185	107	24	3	5
Multilateral	171	120	108	95	82	69	57	47	152
Other	13	11	10	3	2	2	2	2	4
Bonds	456	435	411	407	402	397	392	387	1,452
Brady bonds	149	152	150	145	140	136	131	125	1,086
Foreign bonds	308	283	261	261	261	261	261	261	366
Total debt service	2,819	3,338	3,724	3,761	4,123	4,412	2,626	1,983	7,920
Loans	2,317	2,546	3,244	3,286	3,653	3,946	2,165	266	1,094
Paris Club	1,835	2,132	2,543	2,879	3,250	3,605	1,862	20	73
Multilateral	416	379	392	382	390	330	291	235	968
Other	66	34	308	25	12	12	12	12	53
Bonds	502	793	480	475	471	466	461	1,717	6,826
Brady bonds	195	210	219	214	209	204	200	240	3,222
Foreign bonds	308	583	261	261	261	261	261	1,477	3,604

Notes:

(1) Figures for 2003 are adjusted figures based on the 2003 Budget Act.

(2) Figures for 2004 and beyond are forecast figures.

Source: Ministry of Finance

Poland is not in default in relation to any of its external or internal creditors.

Paris Club and London Club Agreements

At 31st December, 1990, the total external debt of Poland was approximately U.S.\$48.5 billion. Most of this debt was incurred in the 1970s under central planning when foreign credits, both official and commercial, were used to finance Poland's foreign trade deficit and as a means to postpone needed economic reforms. Despite the rationing of foreign exchange and goods during the period, by the second half of the 1970s, official reserves were exhausted. During the 1980s, Poland concluded multiple rescheduling agreements with its governmental creditors in the Paris Club and its commercial bank creditors in the London Club, the first being that with the Paris Club in April 1981. Following the imposition of martial law in Poland in December 1981, Poland suspended its repayments of Paris Club debt until 1984 when negotiations for a second rescheduling with the Paris Club resumed. By the late 1980s, Poland had concluded several rescheduling agreements with the Paris Club, the last one in February 1990 providing for the creation of a special task force to investigate the possibility of comprehensive debt relief for Poland. Poland concluded rescheduling agreements with the London Club twice in 1982 and once in each of 1983 and 1984. However, in 1991, Poland and the Paris Club signed an agreement, known as the Paris Club Agreement, encompassing all of Poland's medium and long-term official credits granted by Paris Club members before January 1984. When consolidated as of 1st April, 1991, these credits amounted to approximately U.S.\$33 billion. The Paris Club Agreement was designed to give Poland a two-stage 50 per cent. debt reduction in net present value terms. The first stage, which took effect in 1991, involved a 30 per cent. reduction in net present value terms. The second stage came into effect in 1994, following implementation of an economic stabilisation and reform programme under the supervision of the IMF, and Poland's having obtained a "comparable" debt reduction agreement with its London Club commercial creditors. The Paris Club Agreement was implemented through various bilateral agreements pursuant to which official creditors could choose among various options for principal or interest rate reduction in order to achieve the stated reduction. The total forgiveness of principal owed to Paris Club creditors was U.S.\$6.2 billion.

During the period from 1981 though 1994, Poland was in default in the payment of principal and arrears with respect to certain of its contractual payment obligations to its Paris Club and London Club creditors. The amounts of total payments in arrears varied from U.S.\$25 million to U.S.\$2.2 billion in the case of interest and U.S.\$76 million to U.S.\$4.1 billion in the case of principal.

In March 1994, after more than four years of negotiations, Poland and the London Club agreed to the terms of a comprehensive reduction and restructuring of the external debt owed to London Club commercial creditors including all associated interest in arrears. This agreement reduced these liabilities by 49.2 per cent. in net present value terms, through forgiveness of interest arrears, debt buy-backs and bond exchanges.

Following buy-backs, the remaining London Club debt was converted into U.S.\$2.97 billion in Discount Bonds, U.S.\$0.93 billion in Par Bonds, U.S.\$0.39 billion in Debt Conversion Bonds, U.S.\$2.67 billion in PDI Bonds (interest arrears bonds), U.S.\$0.89 billion in RSTA Bonds (trade line bonds) and U.S.\$0.138 billion of New Money Bonds. The principal of the Par Bonds and RSTA Bonds is collateralised by zero-coupon U.S. Treasury bonds. Collateralised Discount Bonds were bought back in 2000.

POLAND'S TOTAL EXTERNAL DEBT

The following table (based on data available in January 2003) gives details of Poland's gross external debt, by creditor and by credit type, as at the ends of the periods indicated. For this purpose, gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of Polish residents to repay non-residents principal, with or without interest, or to pay interest, with or without principal.

External debt includes intercompany loans, current accounts and time deposits held by non-residents with Polish banks, debt securities held by non-resident portfolio investors, trade credits and other loans and credits (including financial leases), irrespective of currency.

		2000	2001	2002 ⁽⁴⁾⁽⁶⁾
		<i>(U.S.\$ millions)</i>		
Monetary authorities	.. .. .	436	545	166
Other Investment	.. .. .	436	545	166
Loans	.. .. .	15	8	7
Currency deposits ⁽¹⁾		421	537	159
Central and local government ⁽²⁾		32,980	29,239	34,094
Debt securities ⁽³⁾⁽⁴⁾		9,231	10,250	14,513
Bonds and notes	.. .. .	9,073	10,014	14,402
Money-market instruments	.. .. .	158	236	111
Other investments	.. .. .	23,749	18,989	19,581
Loans	.. .. .	23,747	18,987	19,579
Other liabilities	.. .. .	2	2	2
Banks	.. .. .	6,116	6,668	7,140
Loans from direct investors (Intercompany loans)	.. .. .	194	129	348
Debt securities	.. .. .	110	237	149
Bonds and notes	.. .. .	110	237	149
Money-market instruments	.. .. .	0	0	0
Other investment	.. .. .	5,812	6,302	6,643
Loans	.. .. .	3,595	3,679	4,078
Currency and deposits ⁽⁵⁾		2,217	2,623	2,565
Other liabilities	.. .. .	0	0	0
Other sectors	.. .. .	29,933	35,302	37,335
Loans from direct investors (Intercompany loans)	.. .. .	8,849	10,115	10,375
Debt securities	.. .. .	3,366	4,150	4,330
Bonds and notes	.. .. .	3,265	4,137	4,268
Money-market instruments	.. .. .	101	13	62
Other investment	.. .. .	17,718	21,037	22,630
Trade credits ⁽⁵⁾⁽⁶⁾		5,612	6,467	7,025
Loans	.. .. .	11,884	14,205	15,119
Other liabilities	.. .. .	222	365	486
TOTAL EXTERNAL DEBT	.. .. .	69,465	71,754	78,735
of which:				
Long-term	.. .. .	59,915	60,715	67,626
Short-term ⁽⁵⁾		9,550	11,039	11,109

Notes:

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from 31st May, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1997 to 2000 were adjusted accordingly. As a consequence of this change, net liabilities under repurchase agreements are presented under "Currency and deposits".

(2) Data adjusted to include external debt of local government.

(3) For 1999 — the securities issued in the domestic market (Treasury bonds and Treasury bills) — according to the Ministry of Finance information "Zadtużenie Skarbu Państwa" (State Treasury Indebtedness).

(4) The securities issued in the international markets (Brady bonds and Eurobonds) exclude such securities held by Polish residents.

(5) As information on a breakdown by maturity on trade credits and currency and deposits is not available, the total amount is included in short-term external debt.

(6) To November 2002.

Source: National Bank of Poland

Relationship with Multilateral Financial Institutions

Since 1990, Poland has received substantial financial and technical support from various multilateral financial institutions including the World Bank, the European Investment Bank, known as the EIB, the EBRD and the IMF. As at 31st December, 2001, Poland's liabilities to multilateral financial institutions amounted to U.S.\$2.46 billion, or 9.9 per cent. of the Polish State Treasury's total external debt.

International Bank for Reconstruction and Development

The World Bank has provided significant financial support to Polish structural reforms as well as to the development of the Polish financial, transport and energy sectors. As of 31st August, 2002, the World Bank had committed a total of approximately U.S.\$4.15 in credits to Poland, approximately U.S.\$3.69 of which had already been disbursed.

The World Bank is also providing advisory services to Poland in many areas, including certain areas in connection with Poland's application to join the EU.

European Investment Bank

Poland began co-operation with the EIB in 1990 when the first framework agreement was signed. The last framework agreement between the EIB and Poland signed in 1997 is valid until Poland joins the EU. The framework agreement determines the main issues of co-operation between the EIB and Poland, including co-financing investment projects in transportation, power and energy, health and education and telecommunications sectors. In addition, the EIB provides commercial-based loans to private enterprises and municipalities.

As of the end of November 2002, the EIB's commitment in loans to Poland was euro 5.58 billion, out of which euro 2.80 billion had already been disbursed.

European Bank for Reconstruction and Development

As of 31st October, 2001, the EBRD had signed 155 direct investments and regional projects worth euro 2.54 billion (with a total project value euro 11.2 billion). Out of this, euro 1.72 billion has been disbursed. 65 per cent. is debt and 35 per cent. is equity participation. 86 per cent. of the investment has been made in the private sector and 14 per cent. in the public sector. The EBRD commitment includes state budget loans of U.S.\$41.3 million (fully disbursed).

International Monetary Fund

In 1995, Poland repaid all outstanding amounts drawn from the IMF.

Currently the IMF performs standard Article IV consultations with Poland on a 12-month cycle, however Poland invites the IMF in mid-year to review its fiscal and monetary policies.

Poland is a member of IMF's Special Data Dissemination System and provides to the public information about its practices and standards in disseminating economic and financial data.

In 1999, Poland was invited to participate in the financial transactions plan of the IMF. Under the financial transactions plan, Poland contributes to the funding of IMF investments, based on Poland's quota which is met by the IMF as the upper limit of any one country's obligation to make resources available to the IMF for its financial transactions.

International Development Association

Since 1988, Poland has been a member and contributor to the International Development Association, known as the IDA, which grants preferential long-term loans to the world's poorest countries. As of 31st December, 2001, the Polish contribution to the IDA amounted to special drawing rights of [U.S.\$]13.5 million (out of which special drawing rights of [U.S.\$]12.09 million had already been paid in).

Nordic Investment Bank

Although Poland is not a member of the Nordic Investment Bank, or the NIB, it has access to the NIB's resources.

As of 31st August, 2002, the NIB had committed loans of approximately U.S.\$242.29 million to Poland, approximately U.S.\$205.99 million of which has already been disbursed.

Council of Europe Development Bank

Poland is a member of the Council of Europe Development Bank, or CEDB, since 1998. The total value of loans granted by the CEDB amounts to PLN 1.02 billion, all of which has been disbursed.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Republic of Poland

The Ministry of Finance issued an Order dated 7 March 2002 regarding taxation of the Notes. Pursuant to this Order, payments of principal of and interest on the Notes to an individual who is a non-resident of the Republic of Poland or to a legal entity that has neither its seat nor its management in, nor maintains a permanent establishment in, Poland (together "Non-Polish Holders") will not be subject to taxation in the Republic of Poland, and no withholding of any Polish tax will be required on any such payments. In addition, gains realised by Non-Polish Holders derived from the sale or exchange of the Notes by Non-Polish Holders will not be subject to Polish income tax.

No Polish stamp duty will apply to transfers of the Notes between Non-Polish Holders.

Proposed EU Savings Tax Directive

On 13 December 2001, the EU Council of Economic and Finance Ministers approved the text of a proposed new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments. The proposed directive is not yet final, and may be subject to further amendment and/or clarification.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Republic to any one or more of BNP PARIBAS, Credit Suisse First Boston (Europe) Limited, Deutsche Bank AG London, Dresdner Bank Aktiengesellschaft London Branch, J.P. Morgan Europe Limited, Merrill Lynch International, Salomon Brothers International Limited and UBS AG, acting through its business group UBS Warburg (the “Dealers”). The arrangements under which Notes may from time to time be agreed to be sold by the Republic to, and purchased by, Dealers are set out in a Dealer Agreement dated 3 February 2003 (the “Dealer Agreement”) and made between the Republic and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Republic in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination or appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America: *Regulation S Category 1; TEFRA D or TEFRA C as specified in the relevant Pricing Supplement or neither if TEFRA is specified as not applicable in the relevant Pricing Supplement.*

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to U.S. persons. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes within the United States or to U.S. persons. In addition, until 40 days after the commencement of any offering, an offer or sale of Notes from that offering within the United States by any dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Republic;
- (b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Republic; and
- (c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Republic of Poland

The Notes have not been and will not be registered under the Polish Law on Public Trading in Securities dated 21 August 1997, as amended. Each Dealer has further agreed that it has not offered or sold and will not offer and sell any Notes to residents in the Republic of Poland as part of their initial distribution.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Switzerland

Each Dealer has agreed that any issue of Notes denominated in Swiss Francs will be in compliance with the guidelines of the Swiss National Bank regarding issues of Swiss Franc denominated debt securities.

Federal Republic of Germany

Each Dealer agrees not to offer or sell Notes in the Federal Republic of Germany other than in compliance with the Securities Selling Prospectus Act (Wertpapier-Verkaufsprospektgesetz) of 13 December 1990 (as amended), or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Pricing Supplement, no action has been or will be taken in any country or jurisdiction by the Republic, or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Offering Circular or any Pricing Supplement comes are required by the Republic and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "General" above.

Selling restrictions may be supplemented or modified with the agreement of the Republic. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.

GENERAL INFORMATION

Listing

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange and, in connection therewith, the Luxembourg Stock Exchange has assigned registration number 12821 to the Programme. Prior to the listing of any Notes, the legal notice relating to the issue will be registered with the Registrar of the District Court in Luxembourg (*Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*), where copies of this document may be obtained upon request.

However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Republic and the relevant Dealer(s) may agree.

Authorisations

The Notes will be issued and performed pursuant to (1) Order of the Minister of Finance on the conditions of issuing treasury bonds to be offered on foreign markets dated 7 September 1999, (2) the Order of the Minister of Finance concerning the exemption to collect income tax on certain types of income of non-residents dated 7 March 2002, (3) the relevant budget act or draft budget act and (4) the relevant letter of issue. The Republic has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Clearing of the Notes

The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Pricing Supplement relating thereto. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Use of proceeds

The net proceeds of the issue of each Tranche of Notes will be used to finance the Republic's state budget borrowing requirements.

Litigation

Except as disclosed in this Offering Circular, the Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the Programme or the issue of the Notes thereunder nor, so far as the Republic is aware, is any such litigation or arbitration pending or threatened.

Material Change

Since 31 December 2002, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the condition (financial, economic or political) or general affairs of the Republic that is material in the context of the Programme or the issue of the Notes thereunder.

Documents available for inspection

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Fiscal Agent and the Listing Agent in Luxembourg, namely:

- (a) the Agency Agreement;
- (b) the Deed of Covenant;
- (c) the Dealer Agreement;
- (d) the Programme Manual (which contains the forms of the Notes in global and definitive form);
- (e) the Order of the Minister of Finance on the conditions of issuing treasury bonds to be offered on foreign markets dated 7 September 1999, the Order of the Minister of Finance dated 7 March 2002 concerning the exemption to collect income tax on certain types of income of non-residents and a letter of issue issued by the Minister of Finance for each issue of Notes under the Programme;

and copies and, where appropriate, English translation of the following documents may be obtained during normal business hours at the specified office of the Fiscal Agent and at the specified office of the Paying Agent;

- (f) the Offering Circular (and any supplements thereto);
- (g) any Pricing Supplement relating to Notes which are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system. In the case of any Notes which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Noteholders.

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