Letter of the President of the Management Board of PKN ORLEN SA

Ladies and Gentlemen, dear Shareholders

PKN ORLEN ended 2009 with very good financial results. The global slowdown affected particularly severely the economies of Central European countries. Thanks to the efforts of the whole Corporation, not only did we successfully go through this difficult time, but also we strengthened the financial position of the Holding company. We achieved this success, inter alia, thanks to saving cash in the amount of 6 billion PLN and reducing debt by 2.3 billion PLN. What is essential is that at the same time we continued growth-oriented projects in the refinery, petrochemical and upstream segments, and sales volumes of our retail network increased by 6%

The implementation of the adopted strategic goals for this year was not hindered by the fact that in terms of macroeconomic conditions it was the most difficult period in the history of the Holding company. A serious challenge was, inter alia, a significant decrease in refinery and petrochemical margins and a historically small differential at the level below 1 USD/bbl. It should be stressed that a low level of differential weakens the competitiveness of refineries configured to process acidic crude oil (e.g. REBCO), i.e. also the refineries in Płock and Mazeikiu. The results obtained by us prove that we used the period of a strongly adverse environment to successfully implement rationalization and pro-efficiency programmes.

One of the most important achievements in the previous year was the reduction of net debt by 2.3 billion PLN to the level enabling meeting the requirements of credit agreements and financial security. We managed to achieve this goal despite needing to execute the option of redemption of 10% shareholding in Mazeikiu Nafta for over 284 million USD and the payment of 106 million EUR for the arbitration with Agrofert Holding.

We owe the success, inter alia, to the launch already at the beginning of the year of the package of efficiency-oriented programs, which enabled us to reduce significantly the negative impact of the crisis and save 6 billion PLN. It should also be stressed that in 2009 we achieved operational profit in the amount of 1.1 billion PLN, in comparison to the loss of 1.6 billion PLN in 2008. The net profit was 1.3 billion PLN in comparison to the loss for 2008 amounting 2.5 billion PLN.

In the second half of the previous year we achieved one of the most important strategic goals i.e. to ensure security of deliveries of crude oil to refineries belonging to the ORLEN Group. After a period of intensive negotiations we concluded two profitable long-term contracts for delivery of approx. 10 million tons of crude oil per year, with a total value of approx. 45 billion PLN to the Production Plant in Płock. Therefore we assured diversified and optimal deliveries in terms of processing capabilities for the period of three years, which with the previously concluded contracts will satisfy over 80 per cent of our needs.

The contracts guarantee that – in case of inability to deliver crude oil through the Friendship pipeline – deliveries will be made alternatively at the same price by sea.

Very good results in the previous year were obtained in the retail segment, which confirms the accuracy of the adopted direction of growth in respective markets. Volume sales in our retail network increased by 6%, and operational profit of the segment was 37% higher than one year earlier. In this period we opened 49 new stations, and 44 modernized and rebranded sites were put into service for our customers. We observed a very big interest in our new gastronomic offer of Stop Cafe, and our network grew last year by 92 Stop Cafe Bistro points.

In terms of divestment of assets from outside our basic activities, the previous year was the time of intensive works on the preparation for the sale of PKN ORLEN's shares in Anwil and Polkomtel. In both cases we managed to meet last year's assumptions for the timetable of disinvestment. Thanks to that, at the beginning of 2010 we received three binding offers for the purchase of shares in Anwil and we commenced their examination. At the same time we have prepared an information package on Polkomtel for potential investors.

We also continued the process of building competence in the upstream segment. Last year the company we jointly created with Kuwait Energy Company was granted the concession for exploration in the Latvian economic zone of the Baltic Sea. We also established a close cooperation with PGNiG within the joint-venture regarding joint exploration and production in the area of deposits located in Wielkopolska region. We also initiated an innovative project aiming at examining the possibilities for producing natural gas from unconventional deposits in the areas covered by our concessions in the region of Lublin.

In the framework of building the energy segment, in 2009 we focused not only on the improvement of operational efficiency, but also on new projects. We carried out one of the largest processes of changing energy suppliers within TPA (Third Party Access) in the history of Poland, and the first in our history joint purchase of energy for PKN ORLEN and the companies of the Capital Group. We launched the programme of cost reductions of in Unipetrol. We assume that the first positive effects of these actions will be already seen in 2010. In Mazeikiu, on the other hand, we commenced detailed analyses regarding the future of the power plant. We have started preparatory works for the construction of a gas cycle unit in Włocławek. The aim of the project is the diversification of revenues for PKN ORLEN. In Płock we have started works relating to the preparation for implementation of the programme of ecological and energy investments.

In terms of reinforcement of energy security and in the face of the increasing storage needs of the Corporation, we have elaborated and approved the so-called Cavern Strategy, which will enable the growth of the storage infrastructure of the Capital Group and will increase the operating capacity of IKS Solino.

We are also undertaking actions related to the construction of product pipelines to refineries in Trzebinia and Wrocław.

In the previous year all refineries belonging to the Holding company processed 27.4 million tons of crude oil in total, which is 3% less than in 2008 due to maintenance shutdowns and optimization of processing in the period of the largest drop in refinery margin and demand. Despite difficult conditions, PKN ORLEN consistently carried out tasks resulting from the strategy for growth of the refinery segment on all home markets. In Płock the Hydrogen Production Plant was opened, and the project of construction of the diesel oil hydrodesulphurization VII unit entered the ultimate phase, which will result in launching the installation in mid-2010. The new installation of Hydrogen Production Plant and the system of diesel desulphurization LK-1 were also added to ORLEN Lietuva refinery. In the Czech Unipetrol the installation of Fluid Catalytic Cracking (FCC) underwent optimization, the programme of optimization of costs was also implemented there.

The activities of the oil segment were gathered under the ORLEN Oil brand. In the scope of the investment in this respect a filling terminal was put into service in Płock.

The petrochemical segment operated in difficult economic conditions. Both the demand and price quotations remained at a low level. The recovery was observed only in the last quarter of the previous year, when sales dynamics reached 21% in comparison to the same period in 2008. In this segment we continued our key investments related to the construction of the complex of installations for production of paraxylene (PX) and purified terephthalic acid (PTA), which will lengthen the chain of creating value and will reinforce operational efficiency of the segment.

A challenge for the Holding company was to meet last year's increased National Indicative Target (NIT). At the beginning of the year we completed an investment programme including the modernization of filling terminals for blending esters, and our logistics network reached the optimal level of adjustment to the requirements of the Act on biofuels. We have also increased the availability of biofuels for individual customers by opening 50 Bioester sales points in Bliska stations. In total, PKN ORLEN introduced 510 thousand tons of biocomponents and biofuels to the market. Despite new, more beneficial fiscal solutions the costs of meeting the NIT amounted to over 170 million PLN.

The level of wholesale fuel sales in all markets in which the Holding company operates reached nearly 15 million tons of fuels last year and was lower than the one observed in 2008. The decrease in the volumes resulted from the lower demand for fuels, especially in the Czech Republic and in the Baltic countries. In the operational sphere, we reinforced the position of the Group in the Slovak market and we have increased involvement of the Holding company in the Ukrainian market. In Poland we have implemented the system of regional prices, which improved our flexibility and competitiveness in the market.

Despite unfavorable circumstances we are closing the year with the feeling of a job well done. It would not be possible without the participation of workers and co-workers of the Holding company, whom I would like to thank very much for their involvement and effort. I would also like to thank our Shareholders for the trust they placed in us, and members of the Supervisory Board for strategic support in the implementation of the most important goals and projects. I am convinced that our cooperation will be equally successful in 2010, giving service to all stakeholders of ORLEN Capital Group.

We are on the right track, and the planned and consistently implemented actions will enable us to maintain a strong position on the market in 2010.

Jacek Krawiec

President of the Management Board of PKN ORLEN SA