Letter of the President of PKN ORLEN Management Board

Ladies and Gentlemen, dear Shareholders,

Rapidly changing oil prices, turbulences on the currency market and symptoms of global recession are the main factors influencing the functioning of oil concerns in 2008 internationally, including PKN ORLEN.

We witnessed an unprecedented in the history of the company deterioration of economic conditions, whose impact on PKN ORLEN results could not be levelled off despite our intensive efforts.

Last year results were very negatively influenced by macroeconomic environment, namely inventory valuation amounting to PLN 245 mn. Additionally, due to deteriorating economic condition and stock exchange capitalisation level remaining below net asset value for several months, we made a write-down of financial assets amounting to PLN 1.7 bn, based on the tests carried out, according to IAS 36 “Impairment of Assets”.

However, the results achieved in 2008 justify a claim that even in such adverse circumstances the Company managed to function efficiently, achieving satisfactory operating efficiency indicators and dynamically developing its retail sector. The Company revenue in the period amounted to over PLN 57.2 bn, and EBIT PLN 636 mn. The net book loss was reported at PLN 1.6 mn.

Despite the reported results, the Company maintained its stable financial position, which is confirmed by an over 50% increase in operating cash flow from PLN 847 mn in 2007 to approximately PLN 1.3 bn in 2008.

It should be noted that according to the LIFO methodology which shows the actual efficiency of a company, distilled from the impact of inventory valuation, EBIT amounted to PLN 1.5 bn.

Last year, the Production Plant in Płock processed over 14.2 mn tonnes of crude oil, this increasing its result by 4.2% compared to 2007. Reacting to the demand on the Polish market, we increased diesel fuel production by 11.2% and aviation fuel by 18%.

According to our last year investment plan in the refinery sector, we continued the construction of Diesel Desulphurisation VII and Hydrogen Plant II units, with planned start-up in 2009.

Last year, we also had a number of comparative studies developed by Solomon Associates under an NCM3 production efficiency improvement project, whose goal is to ensure PKN ORLEN a stable and competitive position on the European market.

The petrochemical production level in 2008 was determined by the planned overhaul of Olefin II unit at the Petrochemical Production Plant in Płock as well as significant drop in demand due to the breakdown in the petrochemicals processing market in the second half of the year.

Despite growing fuel prices due to high costs of oil in the first three quarters of the year, PKN ORLEN reported impressive growth dynamics in the wholesale of refinery products, supplying the Polish market with 6.6 mn tonnes of fuel. Moreover, the export of petrochemical products from the Płock plant doubled compared to 2007.

One of PKN ORLEN significant operating achievements last year concerned the retail sector - domestic fuel sales went up by over 15% in own stations and 30% in franchised stations in the premium and economic sector. Such good results were particularly important considering the unstable market situation. PKN ORLEN retail network development strategy, focusing on the modernisation of facilities, ensuring top-level customer service and further extension of services and non-fuel offer, consequently implemented, gave good results.

Thanks to the combined efforts of all the sectors involved, we managed to achieve the last year's National Indicator Goal for biofuels. Our obligations in this respect are connected with increased production costs due to price differences between biologic and traditional, oil-based components. Despite excise duty reliefs, the cost of adding biocomponents to fuels after the first full NIG period amounted to over PLN 63 mn.

Bearing in mind the forthcoming changes on the global and domestic market, in the second half of the previous year, we focused on developing the corporate strategy, corresponding to the current situation and proposing, in our opinion the most appropriate operational solutions. We considered the refinery, petrochemicals and retail sector to be our foundations. Our main objective is to strengthen our core business through a long-term change process towards increasing the efficiency of our assets by means of restructurisation, cost optimisation and reasonable investments offering satisfactory rate of return.

Due to dynamic development over the last years in the field of acquisition and investment projects, we reported increased debt level. Thus, considering the progressing crisis, our priority in early 2009 was to secure the corporate long-term financing. Meanwhile, tough economic conditions force us to accelerate activities which improve our efficiency, reduce our costs and optimise our investment expenditure. We also continue efforts to sell our assets in the telecommunications and chemicals sector – Polkomtel and Anwil. Those transactions are well into preparation stage, and their finalisation depends on financial capacities of potential buyers.

I believe that our Company's sound financial and economic foundations, as well as reasonable plans for the future will enable us to function effectively and efficiently, despite the adverse external circumstances.

I would like to thank the Shareholders and Members of the Supervisory Board for their trust. I hope that this year our cooperation will continue to the satisfaction of all Stakeholders.

The global economic crisis will force us to take numerous difficult and perhaps unpopular decisions in 2009. Nonetheless, I would like to assure you that we will be guided solely by our feeling of responsibility for the condition and development of the company.

Jacek Krawiec

President of PKN ORLEN Management Board