TRANSLATION

KPMG

Polski Koncern Naftowy ORLEN

Spółka Akcyjna

Report supplementing the auditor's opinion on the unconsolidated financial statements Financial Year ended 31 December 2008

The report supplementing the auditor's opinion
contains 13 pages
Report supplementing the auditor's oppinion
on the unconsolidated financial statements
for the finanacial year ended
31 December 2008

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation

Contents

1. General

1.1. General information about the Company

1.1.1. Company name

Polski Koncern Naftowy ORLEN Spółka Akcyjna (PKN ORLEN S.A.)

1.1.2. Registered office

7 Chemików Street
09-411 Płock

1.1.3. Registration in the National Court Register

Registration court:	District Court in Warsaw, XXI Commercial Department of the National Court Register
Date:	19 July 2001
Registration number:	KRS 0000028860

1.1.4. Tax Office and Provincial Statistical Office registration

NIP number:	774-00-01-454
REGON:	610188201

1.2. Auditor information [the entity authorized to audit financial statements]

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

1.3. Legal status

1.3.1. Share capital

PKN ORLEN S.A. (the "Company") was incorporated for an indefinite period of time by a Notarial Deed dated 29 June 1993 through transformation of a state-owned enterprise into a joint stock company. The address of the Company's registered office is Płock, 7 Chemików Street.

In accordance with the resolution of the Ordinary General Meeting of Shareholders dated 19 May 1999, registered in the District Court in Plock on 20 May 1999, the Company changed its name to Polski Koncern Naftowy Spółka Akcyjna.

In accordance with the resolution of the Extraordinary General Meeting of Shareholders dated 3 April 2000, registered in the District Court in Plock on 12 April 2000, the Company changed its name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

On 19 May 1999 the Ordinary General Meeting of Shareholders of the Company adopted a resolution on the merger of the Company with Centrala Produktow Naftowych "CPN" S.A. ("CPN") by incorporation of CPN in to the Company in accordance with Art. 463 point 1 of the Commercial Code.

On 7 September 1999 CPN was deregistered and the merger became effective.

According to the Commercial Register the share capital of the Company amounted to PLN 534,636 thousand as at 31 December 2008 and divided into 427,709,061 ordinary shares with a nominal value of PLN 1.25 each. On 1 January 2004 - transition date to IFRS as adopted by the European Union the share capital has been restated by an amount of PLN 522,999 thousand in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". After the restatement share capital presented in the financial statements as at 31 December 2008 amounts to PLN 1,057,635 thousand.

As at 31 December 2008, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	of shares PLN	share capital (%)
Nafta Polska S.A.	74,076,299	17.3%	92,595,374	17.3%
State Treasury	43,633,897	10.2%	54,542,371	10.2%
Others	309,998,865	72.5%	387,498,581	72.5%
	427,709,061	100.0%	534,636,326	100.0%

1.3.2. Related parties

The Company is a parent company of the PKN ORLEN S.A. Group.

1.3.3. Management of the Company

The Management Board is responsible for management of the Company.

At 31 December 2008, the Management Board of the Company comprised the following members:

- Dariusz Krawiec – President of the Management Board, Chief Executive Officer,
- Sławomir Jędrzejczyk – Vice President of the Management Board, Chief Financial Officer,
- Wojciech Kotlarek – Vice President of the Management Board, Sales,
- Krystian Pater – Vice President of the Management Board, Refinery,
- Marek Serafin – Vice President of the Management Board, Petrochemistry.

The following changes to the composition of the Management Board of PKN ORLEN S.A. took place in 2008:

On 28 February 2008 the Supervisory Board of PKN ORLEN S.A. adopted a resolution regarding suspension of Mr. Piotr Kownacki from the activities of the President and Member of the Management Board of the Company for the indefinite period of time.

At the same meeting the Supervisory Board adopted a resolution, that for the period of suspension of the President Mr. Piotr Kownacki, the authority of the President of the Management Board of PKN ORLEN S.A. is taken over by the Vice President Mr. Wojciech Heydel.

On 29 April 2008 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Wojciech Heydel to the President of the Management Board of PKN ORLEN S.A., for 3 years joint term of office of the Management Board, effective from 7 June 2008.

On 15 May 2008 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Dariusz Jacek Krawiec to the position of the Vice-President of the Management Board of PKN ORLEN S.A., for 3 years joint term of office of the Management Board effective from the day after ongoing term of office of the Management Board is expired.

On 28 May 2008 the Supervisory Board of PKN ORLEN S.A. appointed the following persons to the positions of Members of the Management Board of PKN ORLEN S.A.: Mr. Sławomir Robert Jędrzejczyk, Mr. Wojciech Robert Kotlarek, Mr. Krystian Pater and Mr. Marek Serafin, for 3 years joint term of office of the Management Board, effective from the day after ongoing term of office of the Management Board is expired.

On 18 September 2008, on a meeting of the Supervisory Board of PKN ORLEN S.A., the President of the Management Board, Mr. Wojciech Heydel, handed in his resignation from his position, motivating the decision by superior interest of the Company in terms of depletion of current cooperation formula within the Management Board.

At the same meeting the Supervisory Board appointed Mr. Dariusz Jacek Krawiec to the position of the President of the Management Board, the General Director for 3 years joint term of office, ending when Ordinary Shareholders' Meeting, approving Financial Statements for the year 2010, is held.

1.3.4. Scope of activities

The business activities listed in the Company's Statute include the following:

- processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- domestic and foreign trade on own account, on commission and as a consignee, including in particular: trade in crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, sale of industrial and consumer goods;

- research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: by land, by rail, water and by pipeline;
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- services connected to the principal activity, especially:
  - land and sea reloading
  - refining of gas and oil including ethylization, dyeing and blending of components;
- purchase, trade and processing of used lubricant oils and other chemical waste;
- manufacturing, transportation and trading in electrical and heating energy;
- overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- operation of petrol stations, bars, restaurants and hotels;
- capital investment activities, in particular: purchasing and trade in shares and interests in domestic and foreign trade;
- clearance of electronic fuel cards services;
- extraction and exploration of a crude oil;
- extraction and exploration of natural gas.

1.4. Prior period financial statements

The unconsolidated financial statements for the period ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The unconsolidated financial statements were approved at the General Meeting on 6 June 2008 where it was resolved to allocate the profit for the prior financial year of PLN 2,759,858,667.10 as follows:

- Dividend – PLN 692,888,678.82.
- Reserve capital – PLN 2,062,969,988.28,
- Social Fund – PLN 4,000,000.00.

The closing balances as at 31 December 2007 have been properly recorded as the opening balances of the audited year.

The unconsolidated financial statements were submitted to the Registry Court on 7 October 2008 and were published in Monitor Polski B No. 1275 on 17 September 2008.

1.5. Audit scope and responsibilities

This report was prepared for the General Meeting of PKN ORLEN S.A. seated in Płock, 7 Chemików Street and relates to the unconsolidated financial statements comprising: the balance sheet as at 31 December 2008 with total assets and total liabilities and equity of PLN 31,999,604 thousand, the profit and loss account for the year then ended with a net loss of PLN 1,570,947 thousand, the statement of changes in equity for the year then ended with a decrease in equity of PLN 2,451,706 thousand, the cash flow statement for the year then ended with a net increase in cash amounting to PLN 274,814 thousand and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting of Polski Koncern Naftowy ORLEN S.A. dated 30 December 2004.

The unconsolidated financial statements have been audited in accordance with the contract dated 30 May 2005, concluded on the basis of the resolution of the Supervisory Board dated 21 January 2005 on the appointment of the auditor, prolonged with the appendix dated 5 November 2007 concluded on the basis of the resolution of the Supervisory Board dated 23 August 2007.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the unconsolidated financial statements in the Company's seat during the period from 2 March 2009 to 27 April 2009.

Management of the Company is responsible for the accuracy of the accounting records and the preparation and fair presentation of the unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and with other applicable regulations.

Management of the Company and members of the Supervisory Board are responsible that unconsolidated financial statements and Management Board report on the operations fulfill requirements of Polish Accounting Act.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the unconsolidated financial statements, and whether the unconsolidated financial statements are derived from properly maintained accounting records, based on our audit.

Management of the Company submitted a statement dated the same date as this report as to the true and fair presentation of the unconsolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the unconsolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the unconsolidated financial statements of the Company fulfil independence requirements. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

2. Financial analysis of the Company

2.1. Summary of the unconsolidated financial statements

2.1.1. Balance sheet

ASSETS	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Non-current assets				
Property, plant and equipment	9,477,906	29.6	8,472,139	26.5
Intangible assets	85,333	0.3	58,592	0.2
Long-term financial assets	32,304	0.1	32,796	0.1
Investments in related entities	10,340,725	32.3	11,252,587	35.2
Deferred tax assets	389,190	1.2	-	-
Perpetual usufruct of land	86,446	0.3	78,659	0.3
Non current loans and receivables	15,121	0.1	63,426	0.2
Total non-current assets	20,427,025	63.9	19,958,199	62.5
Current assets				
Inventory	6,330,282	19.7	6,753,486	21.1
Trade and other receivables	4,162,737	13.0	4,746,410	14.9
Income tax receivable	254,418	0.8	76,575	0.2
Short-term financial assets	305,134	1.0	205,259	0.6
Short-term prepayments	65,976	0.2	57,486	0.2
Cash and cash equivalents	442,938	1.4	166,142	0.5
Non-current assets classified as held for sale	11,094	0.0	6,150	0.0
Total current assets	11,572,579	36.1	12,011,508	37.5
TOTAL ASSETS	31,999,604	100.0	31,969,707	100.0

LIABILITIES AND SHAREHOLDER'S EQUITY	31.12.2008 PLN '000	% of total	31.12.2007 PLN '000	% of total
Equity				
Share capital	1,057,635	3.3	1,057,635	3.3
Share premium	1,227,253	3.8	1,227,253	3.8
Hedging reserve	(100,287)	(0.3)	87,584	0.3
Retained earnings	13,197,275	41.3	15,461,110	48.4
Total equity	15,381,876	48.1	17,833,582	55.8
Long-term liabilities				
Interest-bearing loans and borrowings	767,723	2.4	6,500,200	20.4
Provisions	405,619	1.3	453,971	1.4
Deferred tax liabilities	-	-	295,350	0.9
Other long-term liabilities	42,976	0.1	39,546	0.1
Total long-term liabilities	1,216,318	3.8	7,289,067	22.8
Short-term liabilities				
Trade and other liabilities	4,964,979	15.5	5,788,892	18.1
Provisions	639,879	2.0	596,254	1.8
Interest-bearing loans and borrowings	9,462,675	29.6	440,262	1.4
Deferred income	1,656	0.0	985	-
Other financial liabilities	332,221	1.0	20,665	0.1
Total short-term liabilities	15,401,410	48.1	6,847,058	21.4
Total liabilities	16,617,728	51.9	14,136,125	44.2
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	31,999,604	100.0	31,969,707	100.0

2.1.2. Income statement

	1.01.2008 - 31.12.2008 PLN '000	% of total sales revenues	1.01.2007 - 31.12.2007 PLN '000	% of total sales revenues
Sales revenues				
Sales of finished goods	43,653,495		35,782,667	
Excise tax and other charges	(13,110,236)		(11,133,630)	
Revenues from sale of finished goods, net	30,543,259		24,649,037	
Sales of merchandise and raw materials	27,803,762		19,675,131	
Excise tax and other charges	(1,120,177)		(1,620,500)	
Revenues from sale of merchandise and raw materials, net	26,683,585		18,054,631	
Total sales revenues	57,226,844	100.0	42,703,668	100.0
Cost of finished goods sold	(28,025,456)	(49.0)	(20,812,723)	(48.7)
Cost of merchandise and raw materials sold	(26,150,903)	(45.7)	(17,327,593)	(40.6)
Cost of finished goods, merchandise and raw materials sold	(54,176,359)	(94.7)	(38,140,316)	(89.3)
Gross profit on sales	3,050,485	5.3	4,563,352	10.7
Distribution expenses	(1,714,385)	(3.0)	(1,686,709)	(3.9)
General and administrative expenses	(634,259)	(1.1)	(691,039)	(1.6)
Other operating revenues	359,612	0.6	192,224	0.5
Other operating expenses	(425,099)	(0.7)	(284,634)	(0.7)
Profit from operations	636,354	1.1	2,093,194	5.0
Financial revenues	1,255,679	2.2	1,543,086	3.6
Financial expenses	(3,955,090)	(6.9)	(378,811)	(0.9)
Net finance revenues and expenses	(2,699,411)	(4.7)	1,164,275	2.7
Profit/(Loss) before tax	(2,063,057)	(3.6)	3,257,469	7.7
Income tax expense	492,110	0.9	(497,610)	(1.2)
Net profit/ (loss)	(1,570,947)	(2.7)	2,759,859	6.5
Earnings per share				
Basic earnings per share (PLN)	(3.67)		6.45	
Diluted earnings per share (PLN)	(3.67)		6.45	

2.1.3. Selected financial ratios

		2008	2007	2006
1.	**Return on sales**			
	profit for the period x 100% / revenue	negative value	6.5%	6.6%
2.	**Return on equity**			
	profit for the period x 100% / equity - profit for the period	negative value	18.3%	17.2%
3.	**Debtors' days**			
	average trade receivables (gross) x 365 days / revenue	25 days	32 days	31 days
4.	**Debt ratio**			
	liabilities x 100% / equity and liabilities	51.9%	44.2%	45.4%
5.	**Current ratio**			
	current assets / current liabilities	0.8	1.8	1.0

- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, excluding allowances for receivables.

2.2. Interpretation of selected financial ratios

Return on sales and return on equity

Return on sales and return on equity ratios achieved in 2008 negative values due to net loss incurred in 2008. Net loss is mainly an effect of non-current assets impairment, negative exchange differences from valuation of positions denominated in foreign currencies due to experienced depreciation of PLN at the end of the year and decrease in profit from operations due to higher cost of energy and materials consumption, being a result of increasing costs of crude oil used in the production process.

Debtors' days

Debtors' days ratio improved in comparison to 2007, that is mainly a result of decrease in fuel prices at the end of 2008, which resulted in a decrease in the level of receivables.

Debt ratio

Debt ratio increased in 2008 in comparison to previous years, which is mainly an effect of increase in loans and borrowings due to valuation of loans denominated in foreign currencies and decrease in retained earnings due to loss incurred in 2008.

Current ratio

Current ratio decreased significantly in comparison to previous years, due to reclassification of loans of PLN 9,051,266 thousand from long-term liabilities to short-term liabilities. This reclassification relates to liabilities resulting from bank loan agreements containing provisions specifying the required level of net debt to EBITDA ratio, which was exceeded as at 31 December 2008. As at the date of issuing this report negotiations between PKN ORLEN S.A. and lenders being the parties of the agreements mentioned above in respect of terms of continuation of financing had been finished. The consent to a temporary extension of the maximum debt ratio and to continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will cause classification of the respective bank loan liabilities as long-term in the financial statements for the second quarter 2009.

3. Detailed report

3.1. Proper operation of the accounting system

The Company maintains current documentation describing the applied accounting principles, adopted by the Management Board, to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system. Our assessment covered in particular:

- appropriateness and consistency of the accounting principles used,
- correctness of the documentation of business transactions,
- fairness, accuracy and verifiability of the books of account, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to safeguarding of accounting records, books of account and the financial statements with the Accounting Act.

On the basis of the work performed we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

3.2. Asset verification

The Company performed a physical verification of assets in accordance with the requirements and time frame specified in Art. No. 26 of the Accounting Act. The following categories of assets were included in the verification:

- cash,
- inventories,
- trade receivables.

Count differences have been recorded in the period covered by the unconsolidated financial statements.

3.3. Notes to the unconsolidated financial statements

All information included in the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the unconsolidated financial statements taken as a whole.

3.4. Report on the Company's operations

The Report on the Company's operations includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Minister of Finance Regulation dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259) and the information is consistent with the unconsolidated financial statements.

3.5. Information on the opinion of the independent auditor

Based on our audit of the unconsolidated financial statements as at and for the year ended 31 December 2008, we have issued an unqualified opinion with the following emphasis of matters:

"Without qualifications to fair presentation of the audited unconsolidated financial statements, we draw attention to the following issues:

The Company accounted for impairment loss of financial non-current assets in the amount of PLN 1,646,188 thousand. The Company's future financial performance, that was the basis for the impairment test, is based on number of variables and assumptions, that are, in respect of macroeconomic factors, partially out of the Company's control. As described in note 7.4 of the accompanying financial statements, the change of these variables and assumptions might influence the Company's financial position, including the results of the test for impairment of non-current assets, and consequently might lead to changes in the financial position and performance of the Company.

Additionally, as disclosed in note 7.11 of the accompanying unconsolidated financial statements bank loans of PLN 9,051,266 thousand were reclassified from long-term liabilities to short-term liabilities. The amount relates to liabilities resulting from bank loan agreements containing provisions specifying the required ratio of net debt to EBITDA, which was exceeded as at 31 December 2008. According to International Accounting Standard 1 a breach of provisions of bank loan agreements that may result in an entity not having an unconditional right to defer their settlement for at least twelve months results in the necessity to classify liabilities connected with such bank loan agreements as short-term.

As at the date of issuing this opinion negotiations between PKN ORLEN S.A. and lenders being the parties of the agreements mentioned above in respect of terms of continuation of financing had been finalized. The consent to a temporary extension of the maximum debt ratio and to continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will result in classification of the respective bank loans as long-term in the unconsolidated financial statements for the second quarter 2009."

....
Certified Auditor No. 10268/7598
Monika Bartoszewicz

....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Management Board

27 April 2009
Warsaw, Poland