Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Management Board Report on the Operations of Polski Koncern Naftowy ORLEN Spółka Akcyjna for 2008

I. CURRENT AND PROJECTED FINANCIAL STANDING OF PKN ORLEN S.A.

1.1 Income statement

1.1.1 Revenues

In 2008, Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN S.A.") generated the total revenues from sales (finished goods, merchandise and materials) in an amount of PLN 57,226,844 thousand, i.e. by PLN 14,523,176 thousand (by 34.0%) more than in 2007. The increased sales value witnessed in 2008 was due to the increased sales in the refinery segment (by 47.0%) and from the other business activity (by 2.7%). The petrochemistry segment noted a drop in sales (by 8.5%).

The increased sales recorded by the refinery segment is, among others, due to the greater volume of the overall whole and retail sales which in 2008 attained the level of 13,282 thousand tones and was by 7.6% higher than that generated in the prior year. Additionally, increase in quotations of main segment products (petrol, diesel oil, Jet A-1 fuel and light heating oil) contributed to the increase of sales revenues.

1.1.2 Profit from operations

The profit from operations amounted to PLN 636,354 thousand and was lower than the profit from operations generated in 2007 by PLN (-) 1,456,840 thousand.

The decrease in profit from operations is mainly a result of negative effect of dynamically decreasing crude oil prices in the second half of 2008, that influenced inventory valuation in the amount of PLN (-) 1,769,847 thousand. Lower profit from operations was also an effect of unfavorable macroeconomic conditions, connected with exchange rate, differential and margins, in the total amount of PLN (-) 140,000 thousand. On the other hand, improved operating efficiency, connected mainly with higher volumes of whole and retail sales, contributed to increase of profit from operations by approximately PLN 1,002,000 thousand. Higher prices of energy materials used decreased profit from operations by approximately PLN (-) 518,000 thousand.

Other operating revenues and expenses amounted to PLN (-) 65,487 thousand, net. Other operating revenues and expenses net comprise mainly of: sales of non-financial non-current assets in the amount of PLN 24, 579 thousand, net (sales of property laws relating to origin certificates of produced energy) and impairment charges relating to receivables, non-current assets and intangibles in the amount of PLN (-) 43,958 thousand, net. Updating the business risk provision and restructuring provision by PLN (-) 109,157 thousand and receipt of compensation, due to favorable result of proceedings relating to sales of shares in Niezależny Operator Międzystrefowy Sp. z o.o. in the amount of PLN 84,234 thousand, additionally influenced the result on other operating activity.

1.1.3 Net financial income and expense

The net financial income and expense in 2008 amounted to PLN (-) 2,699,411 thousand, compared to PLN 1,164,275 thousand in prior year. The main item in expenses, related to recognition of impairment loss on financial investments of PLN (-) 1,730,511 thousand, as a result of impairment tests performed in accordance with International Accounting Standard (IAS) 36. The most significant loss was recognized on AB Mazeikiu Nafta shares.

As a result of depreciation of PLN seen in the end of 2008 PLN (-) 1,509,430 thousand was recognized due to the surplus of negative exchange differences resulting from the translation of items expressed in foreign currencies. The main item was negative, non-realized exchange differences on loans in EUR and USD in the total amount of PLN (-) 1,428,866 thousand. In 2007, as a result of significant appreciation of PLN, the positive exchange differences were recognized in the amount of PLN 669,169 thousand.

The Company uses loans in EUR to finance its operations as the natural economic hedge against unstable results on operations due to PLN exchange rate fluctuations. A significant weakening of PLN in the 4th quarter of 2008 and the non-realized negative exchange differences will be in subsequent quarters neutralized with higher net revenues from operations. As regards loans in USD, a hedge relation with investment in AB Mazeikiu Nafta was established. In consolidated financial statements, in accordance with hedge accounting principles such differences are recognized in equity together with exchange differences resulting from the consolidation due to recognition of equity of AB Mazeikiu Nafta denominated in USD.

Interest expense related to interest bearing loans amounted to PLN 375,786 thousand in the current period and were by PLN 81,530 thousand higher than in prior year.

The result on financing activities was, in turn, favorably affected by dividends received in 2008 amounting to PLN 718,224 thousand (PLN 708,701 thousand in 2007), including: Unipetrol a.s. – PLN 281,246 thousand, Polkomtel S.A. - PLN 182,860 thousand, Anwil S.A. – PLN 86,261 thousand.

1.1.4 Profit before tax, income tax and net result

In 2008, PKN ORLEN S.A. recorded a loss before tax of PLN (-) 2,063,057 thousand. The net loss, after the effect of current and deferred taxes, amounted to PLN (-) 1,570,947 thousand as compared to net profit of PLN 2,759,859 thousand generated in the prior year.

1.2 Balance sheet

As at 31 December 2008 total assets of PKN ORLEN S.A. equaled to PLN 31,999,604 thousand and was higher by PLN 29,897 thousand (by 0.1%) as compared to the situation as at 31 December 2007.

The value of non-current assets increased as compared to 31 December 2007 by PLN 468,826 thousand (i.e. by 2.3%) and attained the value of PLN 20,427,025 thousand. The value of property plant and equipment increased by PLN 1,005,767 thousand (i.e. by 11.9%), mainly as an effect of capital expenditures in the amount of PLN 2,063,646 thousand and depreciation of PLN 947,919 thousand.

Value of shares in related entities and non-current financial assets decreased by PLN 912,354 thousand, mainly as a result of impairment loss recognized for shares in the amount of PLN 1,646,188 thousand, resulting from the impairment tests carried out in accordance with IAS 36. At the same time the value of financial assets increased due to the acquisition of the Polkomtel S.A. shares amounting to PLN 726,389 thousand.

As at the end of 2008, the value of current assets decreased by PLN (-) 438,929 thousand as compared to the end of the prior year and amounted to PLN 11,572,579 thousand. The main factor triggering the current assets decrease was the reduction in the value of inventories by PLN (-) 423,204 thousand (by 6.3%), and in trade and other receivables by PLN (-) 583,673 thousand (by 12.3%). The drop in the inventories' value was due to the inventories having been re-valuated as at the balance sheet date as a consequence of a drop in crude oil's and refinery products' prices. Concurrently, a material increase in the value of cash was noted, namely by PLN 276,796 thousand (by 166.6 %), in the income tax receivables by PLN 177,843 thousand (by 232.2%) and in the value of short-term financial assets by PLN 99,875 thousand (by 48.7%) as compared to the prior year.

The total equity as at 31 December 2008 amounted to PLN 15,381,876 thousand and dropped by PLN (-) 2,451,706 thousand (by 13.7%) as compared to the end of 2007, mainly due to a drop in retained earnings by PLN (-) 2,263,835 thousand which was a consequence of a dividend having been paid in the amount of PLN 692,888 thousand and net loss for 2008 in the amount of PLN (-) 1,570,947 thousand.

Total indebtedness of PKN ORLEN S.A. (interest-bearing loans and borrowings) amounted to PLN 10,230,398 thousand as at 31 December 2008 and increased by PLN 3,289,936 thousand as compared to the end of 2007.

The decrease in long-term loans and borrowings and the commensurate increase in short-term loans results from a part of long-term liabilities representing loans and amounting to PLN 9,051,266 thousand having been recognized as short-term liabilities as at 31 December 2008. 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 because of a breach of provisions of bank loan agreements as at 31 December 2008. The ratio of net debt to EBITDA was exceeded mainly as a consequence of accounting effects of valuation of inventory resulting from decrease of crude oil and refinery products prices as well as

According to International Accounting Standards IAS 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. At the same time none of bank loan agreements containing provisions specifying the required level of consolidated net debt became payable on demand.

As at the date of preparation of the foregoing financial statements, 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 the continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will result in classification of respective bank loans as long-terms in financial statements for the second quarter 2009. Therefore, as at the date of preparation the foregoing financial statements, PKN ORLEN had access to unused resources from the above mentioned agreements.

In the period covered by the foregoing financial statements and after the balance sheet date, there were no cases of violations of loans and borrowings repayments in respect of both principle and interest.

1.3 Cash flow statement

Net cash flows from operating activities increased by PLN 445,629 thousand as compared to the year 2007 and amounted to PLN 1,292,773 thousand.

The net cash flows from operating activities in 2008 were mainly affected by the changes in working capital (inventories, receivables and liabilities) in the amount of PLN 221,531 thousand as compared to PLN (-) 1,994,222 thousand in 2007.

In 2008 the net cash flows from investing activities amounted to PLN (-) 1,993,857 thousand while in the prior year it was PLN (-) 1,423,667 thousand.
In 2008 capital expenditures (spent on the acquisition of property plant and equipment and intangibles) amounted to PLN (-) 2,074,800 thousand as compared to PLN (-) 1,609,725 thousand in the prior year. PLN (-) 724,858 thousand was spent on the acquisition of shares, mainly to acquire shares in Polkomtel S.A. The interest and dividend received amounted to PLN 715,384 thousand.

In 2008 the net cash flows from financing activities amounted to PLN 975,898 thousand while in 2007 it was PLN 435,476 thousand. The proceeds of PLN 2,036,524 thousand received in 2008 from loans, borrowings and the issue of debt securities was higher by PLN 1,285,042 thousand than in 2007.

The total net cash flows from individual business segments of PKN ORLEN S.A. triggered a rise in cash as at 31 December 2008 by PLN 274,814 thousand, up to PLN 442,938 thousand.

1.4 Description of key risk factors and threats

The most important risk factors having an impact on the performance of the PKN ORLEN S.A. included the following:

Fluctuations in crude oil prices and refinery and petrochemical products margins

In the 1st half of 2008 the crude oil prices were mainly characterized with a strong increasing tendency which was reversed in the 2nd half of 2008. The crude oil quotations of Brent DTD increased since the beginning of the year from 96.95 USD/bbl on 2 January 2008 up to 144.23 USD/bbl on 3 July to drop in the second half of the year down to 36.55 USD/bbl noted on 31 December.

In 2008 the light fuel oil margin on quotations (crack) increased by 104.1% up to the level of 196.43 USD/tone, diesel oil by 71.4% to 222.68 USD/tone and Jet A-1 fuel by 64.9% to reach the level of 273.20 USD/tone. Reverse tendencies were recorded in respect of gasoline where margins dropped by 26.9% down to the level of 119.46 USD/tone and III diesel oil – the drop in margins by 31.8% down to (-) 272.99 USD/tone.
In 2008 the economic situation in the petrochemical segment also worsened which was characterized with a drop in margins in respect of almost all products. Margins on benzene decreased by 39.1 % to the level of 310.0 USD/tone, toluene by 25.8% to 196.00 USD/tone, ortoxylene by 21.6% to 442.00 USD/tone, paraxylene by 12.4% to 516.00 USD/tone, etylene oxide by 66.7% to 239 USD/tone and phenol by 10.6% to 1,025 USD/tone. Margins on ethylene increased by 24.7% to 873.00 USD/tone, propylene by 5.3% to 670.00 USD and butadiene by 33.7% to 861.00 USD/tone.

Fluctuations of foreign exchange rates

The fluctuations of foreign exchange rates have a significant impact on the revenues from sales. This mainly relates to PLN/USD and PLN/EUR. The revenues and gains are mainly dependent on the PLN value in respect of foreign currencies due to the prices on the Polish market being shaped on the basis of the so-called import parity which consists in establishing prices of refinery and petrochemical products on the basis of European quotations. Additionally, the costs of crude oil and raw materials as well as the costs of debt handling are expressed in foreign currencies.
In 2008 the average PLN/USD exchange rate decreased by 13.1%, down to the level of 2.41, as compared to the year 2007 (calculated as the arithmetical mean of daily rates determined by the National Bank of Poland from 1 January to 31 December). Concurrently, the average PLN/EUR exchange rate weakened by 7.2%, down to the level of 3.51.
In connection with the exchange rate fluctuation in 2008, PKN ORLEN S.A. noted a negative result on its financial

activity concerning net exchange differences. The translation of foreign currency bank loans resulting from depreciation of PLN currency caused also the increase of the level of indebtness .

Economic growth and unemployment rate

The year 2008 witnessed a GDP economic growth weakening, which was due to the worldwide financial market situation. The estimated GDP increase reached the level of 4.8% given 6.7% in 2007. The economic growth in Poland was mainly due to the reviving investment demand, higher consumption level and a dynamic growth of exports. According to the preliminary data of the Central Statistical Office, in 2008 exports calculated at current prices amounted to EUR 114.6 billion and as compared to 2007 it increased by 12.5%. In 2008, the labor market witnessed further improvements. The average employment in the enterprise sector was higher by 4.8% than a year before. As at the end of December 2008 the unemployment rate was 9.5%, as compared to 11.2% in December 2007. The situation on the labor market and macroeconomic tendencies have materially affected the sales level for PKN ORLEN S.A.'s products.

In 2008 PKN ORLEN S.A. operated in highly fluctuating market conditions. The financial crisis witnessed by the world economy in 2008 led to a drop in demand for crude oil and fuels, and, consequently, to a drop in their prices. In the 2nd half of 2008 the crude oil and refinery products quotations were critically reduced. The Brent DTD quotations increased from the level of 96.95 USD/bbl noted on 1 January to 144.23 USD/bbl noted on 3 July, in the second half of the year rapidly dropped down to 33.66 USD/bbl on 24 December. This factor materially affected the revaluation of crude oil inventories and, consequently, the overall result recognized by PKN ORLEN S.A.

Since August 2008 also a drastic depreciation of PLN was witnessed. The weakened PLN triggered the need at PKN ORLEN S.A. to re-measure foreign currency loans which, eventually, impaired the overall financial result of the Company.
The financial crisis was also noted in the petrochemical segment. In the end of the 3rd quarter and in the 4th quarter 2008 the situation in the automotive and construction industries was materially impaired which, in turn, caused a dramatic break-down of the market for all sorts of plastics (polyethylene, polypropylene, PVC, polystyrene, polyamides, polyurethanes). The quotations of petrochemical products in short time showed the prices having extremely dropped – even up to 60%, and restrictions imposed on petrochemical processing (due to the reduced charge of the installation or their temporary cut-off) did affect the sales volume in the 4th quarter in terms of both quantity and value.

Inflation

In 2008 the prices were increasing faster than in the prior year. The year 2008 saw the inflation of 4.2% as compared to 2.5% in 2007 (y/y). The consumer goods and services prices increased due to a strong domestic demand.

Interest rates

During the year 2008 base interest rates on the Polish money market were changed six times. The increases in January, February, March and June, each time by 0.25 pp. were neutralized by decreases in November (by 0.25 pp.) and in December (by 0.75 pp.). In the end of 2008 the interest rate did not change as compared to the end of 2007 and equaled 6.50% for Lombard loans and 5.25% for bill of exchange rediscounting rate. Average WIBOR 3M increased from 4.73% in 2007 to 6.36% in 2008. The interest rates directly affect the costs of debt handling. Loans and debt securities which are denominated in PLN represent approximately 11.5% of the overall interest liabilities at PKN ORLEN S.A. The remaining part is denominated in EUR or USD.

Mandatory reserves

Entrepreneurs operating on the Polish fuel market were obliged to create by the end of 2008 mandatory reserves at the level enabling to meet the demand for crude oil and petroleum products equal to minimum 76-days of average import of crude oil or fuels, or production of fuels, excluding LPG.

The way how the mandatory liquid fuel reserves in Poland are to be created and how the quantities of such reserves are set has been defined in detail in the Ministry of Economy Regulation of 24 April 2007 (Journal of Laws 81 Items 546, 547).

As at 31 December 2008 and as at 31 December 2007 the value of mandatory reserves at PKN ORLEN S.A. amounted respectively to PLN 4,958,207 thousand and PLN 4,391,455 thousand.

For further details see Note 7.6 to the unconsolidated financial statements.

Fuel Consumption

A change of tendencies in the domestic fuel consumption may have a significant impact on the volume of sales of core products of the ORLEN Group's members operating on the Polish market and, thus, it translates to an overall financial situation of PLN ORLEN S.A. On the basis of the data provided by Agencja Rynku Energii S.A. ("ARE") (Power Market Agency), the overall domestic consumption of fuel (gasoline, diesel oil and light heating oil) in 2008 attained the level of 15,952 thousand tones and was higher than the consumption in 2007 by 6%.

The consumption of gasoline attained the level slightly higher than in 2007 which implies a continuous stabilization of this market which have been witnessed for already a few years. A factor enhancing the gasoline consumption was a negative dynamics of auto gas, first ever seen, consumption and a dynamic growth of the number of new and exported cars.

In 2008 the consumption of diesel oil was higher by almost 10% as compared to 2007, which shows a continuous growing tendency in the consumption of this fuel type which have been already witnessed for 5 years. The development of this market was due to a still fast economic growth pace (approx. 5% of GDP) and the relating need for transportation services. The growth factor remains a further replacement within the domestic car fleet to the benefit of cars with high pressure engines.

The consumption of light heating oil ("LHO") decreased by 11% as compared to 2007, which implies a continuous tendency started in 2005 since when a material increase in crude oil prices has been impairing competitiveness of LHO as heating fuel.

Fuel import

According to the estimates of ARE, in 2008 the total imports of fuels to Poland dropped, as compared to 2007, by 741 thousand tones, i.e. by 20%. The gasoline imports decreased by 11% and achieved the level of 666 thousand tones, which represents approx. 20% of the overall fuel imports. In 2008 the biggest gasoline imports were from Germany (approx. 52%) and Slovakia (approx. 34%).

It is estimated that in 2008, approx. 2,248 thousand tones less of diesel oil were imported to Poland, i.e. 22% less than in 2007. The imports of this type of fuel represented almost 79% of the total volume of fuel imports to Poland. The biggest imports of diesel oil came from Germany (45%), Finland (11%), Slovakia (11%) and the Czech Republic (10%).

According to ARE, the overall imports of light heating oil in 2008 amounted to 7 thousand tones. In 2008, LHO was imported from Germany (82%) and Lithuania (18%).

Amendments to applicable laws

The European Union power summit, which was held in March 2007, identified new goals and formulated new challenges for member states in the area of biofuels. Thus, the fuel concerns will have to continuously increase biocomponents in fuels introduced in the market. In accordance with the Act on Biocomponents and Liquid Biofuels of 25 August 2006 (Official Journal of Law from 2006, number 169, item 1199) the fuel producers will be obliged to implement the National Target Ratio ("NTR") in respect of the biocomponents share in fuels.

PKN ORLEN S.A., as a fuel producer, starting from 2008, has been obliged to use biocomponents in fuels to follow the National Target Ratios ("NTR"). Under the Council of Ministers Regulation on NTR for the years 2008-2013, PKN ORLEN S.A. is obliged to introduce in 2008 at least 3.45% of biofuels as translated to calorific value. The "Long-term Program for Promoting Biofuels and Other Recoverable Fuels in the years 2008-2014" adopted by the Council of Ministers in July 2007 sets out the strategy and solutions to ensure the increase in production and the use of biocomponents and liquid biofuels in Poland. In accordance with the Council of Ministers Regulation of 15 June 2007 on NTR for 2008-2013, the proposed NTR level increases gradually in subsequent years so as to achieve the level of 5.75% in 2010 and, finally, of 7.10% in 2013. In order to meet the index of 5.75% in 2010, approx. 370 thousand tones of ethanol and 620 thousand tones of esters will be needed.

Supplies of crude oil

Under the executed agreements, since the first quarter of 2007 PKN ORLEN S.A. has been supplying crude oil to all refineries in Poland, the Czech Republic and Lithuania, belonging to the ORLEN Group. In 2008 the crude oil supplies were undisturbed and performed as scheduled. Due to the stoppage of a pipeline supplying crude oil to Lithuania in July 2006 the crude oil to the Mazeikiu refinery has been delivered only by sea. This fact triggers another risk factor for the safety and stability of supplies, which is weather conditions, particularly in winter.

According to the information from the crude oil market it might happen that the volume of crude oil transported via "Druzhba" Pipeline to Poland and the Czech Republic will be reduced in the future (the planned implementation of BPS 2 pipeline project, improving the capacities of Russian sea export). Thus, in order to ensure the safety and stability of supplies and the diversification of sources, in 2007 PKN ORLEN S.A. implemented a project involving technological and economic analysis of the conditions for the diversification of the types of crude oil processed in the Płock refinery enabling an ongoing assessment of usefulness of various types of crude oil for the processing and production of such types of crude oil which are in a given period most attractive in terms of prices. This project, once implemented, will enable a prompt reaction to a fluctuating crude oil market conditions and, among others, to a counteraction to disturbances or limitations, if any, in respect of REBCO oil supplies.

Risk relating to the transfer of part of the assets and liabilities in relation to the acquisition of UNIPETROL a.s. shares

This matter was described in detail in note 18g to the unconsolidated financial statements for 2008.

Other risk factors and threats significant for the business operations of PKN ORLEN S.A., were described in Notes 9f to the unconsolidated financial statements for 2008.

1.5 Production

In 2008 the volume of crude oil processed at PKN ORLEN S.A. amounted to 14,218 thousand tones and was by 4.2% higher as compared to the year 2007. The share of light crude oils amounted to 7.5% of the overall processed crude oil as compared to 4.2% in 2007. Proper operation of refinery units and light crude oil processing on DRW II and DRW III installations (Gulfaks, Azeri, Oseberg, Statfjord, Forties, Ekofisk) enabled the Company to generate in 2008 the yield on white products of 78.0% as compared to 74.9% in 2007. In turn, the yield on fuels in 2008 amounted to 65.8% and was higher by 3.1pp. as compared to 2007. The increased yields values in PKN ORLEN S.A. was due to better availability of installations in 2008 and greater share of light crude oils processed.

The key events in 2008 in the area of PKN ORLEN S.A. refinery production include:
- A start-up in February 2008, of the Hydrorefining Installation of Diesel Oil from the Gudron Hydrodesulphurization of a processing capacity of 55 t/h of hydrorafinate, which made possible to use this fraction to produce ready-made diesel oil or light heating oil;
- From 1 to 21 March 2008 a planned repair standstill of the Reforming VI Unit and Diesel Oil Hydrodesulphurization VI Unit ("HON VI") with the scope of repairing works the largest since the start-up of the installation in 2000;
- The planned repair standstills of the following Units: Gudron Desulphurization - from 17 July to 29 August 2008, Reforming V - from 1 June do 23 July 2008, Catalytic Cracking II and Cracked Gasoline Desulphurization from 29 September to 29 October 2008 as well as Alkylation from 15 September to 30 October 2008;
- The repair standstill of Olefin Manufacturing Installation II and of its all technologically related petrochemical installations from 24 June to 29 July 2008 and the reduction of charge at Olefin Installation in the second half of 2008 due to the lower receipt of ethylene and propylene by Basell Orlen Polyolefins Sp. z o.o. and Anwil S.A.;
- Construction of Diesel Oil Hydrodesulphurization Unit VII of production capacity of 2.2 million tones per year which is planned to be launched in 2009. Once this installation is launched two the oldest HON units will be cut off;
- The construction of Hydrogen Manufacturing Installation II, which is to secure hydrogen needed by PKN ORLEN S.A.. The Installation is supposed to start up in 2009 and to produce 5 t/h of hydrogen from natural gas.

In mid-November 2007 PKN ORLEN S.A. commenced to implement program NCM3 (Net Cash Margin Measurement, Management, Maximization) aimed at improving competitiveness of PKN ORLEN S.A. on the European market and to enhance efficiency of technological processes being part of operating activities. Moreover, in the 1st quarter of 2008, seven comparative studies were drawn up for production and maintenance areas and the assessment of working practices applied in Zakład Produkcyjny Płock was carried out and identified those which may be concerned by the implementation program.

1.6 Sales

In 2008, the overall wholesale and retail sale in PKN ORLEN S.A. amounted to 14,692 thousand tones and was by 5.3% higher than that realized in the prior year. As regards refinery sale, an increase in the volume of sales of diesel oil was noted by 800 thousand tones (by 14.9%), gasoline by 89 thousand tones (by 3.0%) and liquid gas by 57 thousand tones (by 19.6%). The positive tendencies in the areas of sale of diesel oil and gasoline were partly neutralized by lower sales of heating oil III (by 42 thousand tones) and light heating oil (by 15 thousand tones). The

overall sales of refinery products and merchandise achieved the level of 13,158 thousand tones and were by 7.7% higher than that realized in 2007.
In 2008, the petrochemical products sales noted a 13.0% drop to achieve the level of 1,409 thousand tones due to the decline in the sale of all petrochemical products (mainly ethylene, propylene, benzene, glycols and toluene).

The sale of PKN ORLEN S.A. broken down by geographic regions in 2008 and in 2007 is presented in note 10 to the unconsolidated financial statements for 2008.

1.6.1 Retail sale

In 2008, the retail sale in PKN ORLEN S.A. increased by 11.7% as compared to the prior year. This increase was mainly due to the growing number of owned stations which generated sales volume bigger by 15.5% the one attained in the prior year and to a network of franchise stations (+30.3% as compared to 2007).

The great sales volume dynamics has been achieved mainly due to the better efficiency of stations already operating (in comparable conditions, i.e. disregarding the effects of the investment program), the sales of products on owned stations increased by 10.4%. The high sales dynamics has also been due to the investment program having been implemented which consisted of 22 new owned stations having been added and 79 stations having been modernized. Furthermore, new 73 franchise stations were opened.

The dynamic development of owned stations network in 2008 triggered the average sales volume per station to further increase. The average sales volume per station during this period amounted to 2.9 million liters and increased by 17.6% as compared to the prior year.

Dynamics of fuel sales at stations CODO, DOFO, DODO[1]	2008/2007 (%)
Gasoline	2.6
Diesel Oil	16.9
LPG	19.7
Total fuels	11.7

The year 2008 saw a further increase in the diesel oil (+4.7 pp as compared to 2007) and LPG (+4.6pp) shares in the overall volume of fuels sold by PKN ORLEN S.A. The reported increase in the sales of these fuels results further improved efficiency of the fuel stations already operating.

In 2008, the sale of Verva fuels at Premium stations maintains a high share in the overall fuel sale and noted a 13% increment as compared to 2007. The margin on retail sale of fuels in 2008 was reported to be by 17.0% more than the prior year margin. Such a big increment was due to a high 11.7% increment in the fuel sales volume and unit margins which were higher than in 2007.

The margin on the sales of non-fuel goods and services continued with its favorable tendency (30% increment in respect to the prior year). Such an effect is mainly due to a further development of the shop sale idea and of the gastronomic offer at stations which was implemented by introducing Stop Café and Stop Café Bistro.

Starting from 2006 PKN ORLEN S.A. has been calculating the shares in the retail sale market on the basis of the information about sales generated by the biggest retail market participants provided by the Power Market Agency. These sales represent approximately 70% of the retail market. In 2008 PKN ORLEN S.A. was consistently strengthening its position as compared to the sales generated by other retail market players. The PKN ORLEN S.A.'s share[2] in the analyzed year achieved a high level of 39.4% i.e. 4.2 pp. above the last year result.

[1] CODO - Company Owned Dealer Operated (owned stations); DOFO – Dealer Owned Franchise Operated (franchise stations); DODO – Dealer Owned Dealer Operated (patron stations)
[2] The market share quoted after the market data of ARE for 100 biggest firms selling engine fuels in retail on the Polish market.

1.6.2 Wholesale

Quantity sales (thousands of tones)	Performance		Differences	
	2008	2007	thousands of tones	%
Gasoline	1 723	1 626	97	6
Diesel oils	3 959	3 300	659	20
Light heating oil	830	835	-5	-1
Aviation fuel JET A-1	417	344	73	21
Heating oil III	922	951	-29	-3
Sulphur	131	128	3	2
Liquid gas	221	190	31	16
Other refinery products	1241	1 265	-24	-2
Total refinery products	**9 444**	**8 639**	**805**	**9**
Ethylene	474	546	-72	-13
Propylene	341	381	-40	-10
Glycols	88	102	-14	-14
Butadiene	55	60	-5	-8
Benzene	96	113	-17	-15
Ortoxylene	21	26	-5	-19
Toluene	105	121	-16	-13
Paraxylene	25	32	-7	-22
Other petrochemical products	195	224	-29	-13
Total petrochemical products	**1 400**	**1 605**	**-205**	**-13**
Total sales	**10 844**	**10 244**	**600**	**6**

The wholesale of refinery products attained the level of 9,444 thousand tones and was higher by 9.3% than that attained in 2007. The dynamics improved due to the sale of the following products:
- diesel oil – a material enhancement in sale was noted (by 20.0%), due to the higher sales to chain and basic clients, which sale was higher than the amount of sale assumed for key clients. The sales dynamics in 2008 was higher by 6 pp. than the consumption dynamics. Additionally, the sale was enhanced by periodic promotions in warehouse centers and a competitive price offer;
- aviation fuel JET A-1 – an increase in the sales by 21.5% mainly due to larger deliveries to Petrolot.

Moreover, a favorable effect was due to the sales of liquid gas (by 16.3%) and of fraction P (by 15.6%).

Concurrently, the sale of the following products saw a decrease:
- light heating oil – the decrease in sale by 0.6% mainly due to the poorer consumption;
- heating oil III – the reduction in sales by 3.0% was due to the poorer supply of the product.

As compared to the prior year, the sale of petrochemical products noted a 12.8% drop, mainly due to worsened economic conditions in the second quarter 2008 in car and construction industry.

1.7 Sales and supply markets

Under the contracts executed, PKN ORLEN S.A. from the first quarter of 2007 has been supplying crude oil to all refineries in Poland, Czech Republic and Lithuania belonging to the Group. In 2008 the supplies of crude oil were performed smoothly without interruption and as scheduled.

The crude oil was supplied to PKN ORLEN S.A. mainly from Russia (90.1%) and Byelorussia (2.5%). Low-sulphur crude oils bought in 2008 came from Azerbaijan (1.5%), Norway (4.2%) and Great Britain (1.7%). The suppliers included the companies operating on the Russian crude oil market and international crude oil traders. The suppliers whose share in PKN ORLEN raw material supplies exceeded 10% of revenues from total sales in 2008 included J&S (42.9%) and Petraco (25.0%).

The crude oil sent to the Mazeikiu refinery originated mainly from Russia (99.2%). The remaining part came from Norway (0.8%). The suppliers of crude oil to the Mazeikiu refinery in 2008 included the companies with an established position on the crude oil market, however in 2008 none of the crude oil suppliers to the Mazeikiu Group exceeded the level of 10% of the consolidated revenue from the total sales of the ORLEN Group. Due to the ceased operation of the pipeline in July 2006, the supplies of raw material to the Mazeikiu refinery were exclusively made by sea via Butynga harbor.

In 2008 the crude oil sent to the UNIPETROL Group came from the area of Russia (74.2%), Azerbaijan (15.8%), Norway (5.0%) and Kazakhstan (5.0%). The suppliers included the trading companies operating on the international crude oil market and other companies operating on the Russian crude oil market. In 2008 none of the crude oil suppliers to the UNIPETROL Group exceeded the threshold of 10% of the overall consolidated revenue from the sales of the ORLEN Group.

The highest share of crude oil supplies to PKN ORLEN S.A. in 2008 were executed by J&S, Petraco and KD Petrotrade.

1.8 Indebtedness structure and financial resources management

As at 31 December 2008 the total value of long- and short-term loans, borrowings and debt securities issued at PKN ORLEN S.A. amounted to PLN 10,230,398 thousand and was higher by PLN 3,289,936 thousand than the same as at the end of 2007.

Item (PLN thousand)	2008	2007
Bank loans	9,438,735	5,822,950
Debt securities	791,663	1,117,512
By maturity:		
Long-term	767,723	6,500,200
Short-term	9,462,675	440,262
Indebtedness	**10,230,398**	**6,940,462**
Cash	**442,938**	**166,142**
Net debt	**9,787,460**	**6,774,320**

As at 31 December 2008 the net financial indebtedness at PKN ORLEN S.A. rose as compared to the end of 2007 by PLN 3,013,140 thousand up to PLN 9,787,460 thousand. The rise in the net indebtedness affected a financial net debt to equity ratio (loans, borrowings and debt securities in average less cash to equity) which increased from 38.0% as at 31 December 2007 to 63.6% as at 31 December 2008.

As at 31 December 2008 the maximum admissible debt under bank loans amounted to PLN 13,532,920 thousand, out of which PLN 4,177,962 thousand still remained undrawn, and, as at 31 December 2007, these amounts were PLN 8,878,002 thousand and PLN 3.059.025 thousand, respectively.

In 2008 PKN ORLEN S.A. held loans and borrowings both in foreign currencies and in Polish zloty, mainly with a floating interest rate. To enable PKN ORLEN S.A. to effectively manage the ongoing financial liquidity the cash pooling system was introduced. As at 31 December 2008 cash pooling system was introduced in 25 companies belonging to the Group. Due to the introduction of cash pooling system PKN ORLEN S.A. optimizes financial expenses in the Group.

In its day-to-day operations, PKN ORLEN S.A. uses comprehensive services of highly credible banks, with a considerable equity and strong market position, which have gained extensive expertise in cash management on the Polish and foreign markets. This approach has made it possible for PKN ORLEN S.A. to reduce banking costs, and improve the structure of banking services. Further activities aiming at further integration and improvement of the conditions of banking services for all the Capital Group companies have been undertaken.

The most significant loans in 2008 at PKN ORLEN S.A. include:

- multicurrency loan facility of EUR 1 billion extended by the consortium of Polish and international banks in December 2005. The loan period is 5 years from the signing of a loan facility agreement with two extension options, each of one year (in December 2006 and 2007, respectively, PKN ORLEN S.A. took advantage of the extension option and moved the maturity date to December 2012). The loan may be used in four currencies, i.e. EUR, USD, PLN and CZK. Funds from the loan may be allocated to finance current operations of PKN ORLEN S.A.;

- revolving loan facility of EUR 800 million extended by the consortium of eight banks in November 2006. The loan period is 5 years with two extension options, each of one year (in 2007 and 2008 PKN ORLEN S.A. took advantage of the extension option and moved the maturity date of the loan in the amount of EUR 100 million to November 2013);

- loan facility in the total amount of EUR 510 million extended by the European Investment Bank (EIB) in 2007. The amount of EUR 210 million was granted by EIB to the investment involving the expansion of the chain of fuel stations and environmental protection. Available currencies: EUR, USD, GBP and PLN; repayment period: 9 years with a 3-year grace period. The amount of EUR 300 million was granted by EIB to finance part of the construction costs of the installation to produce paraxylene and terephthalic acid. Available currencies: EUR, USD, GBP and PLN; repayment period: 12 years with a 4-year grace period or a one-off repayment during 8 years from the drawdown date;

- syndicated loan facility of EUR 300 million extended by a consortium of six banks in January 2008 to provide funds for on-going business. The loan period is 3 years as of the signing of the loan facility agreement, with two extension options, each of one year. The loan may be used in three currencies, i.e. in EUR, USD and PLN;

- two loans for a total amount of EUR 115 million extended by Nordea Bank Polska S.A. in April 2008 to provide funds for on-going business: the overdraft facility agreement up to EUR 15 million, and the revolving loan facility agreement up to EUR 100 million. The loan period relating to each loan is 3 years. The loans may be used in three currencies, i.e. EUR, PLN and USD.

- multicurrency revolving loan of EUR 325 million extended by a consortium of seven banks in August 2008. PKN ORLEN S.A. may allocate the disbursed funds to general corporate purposes and to working capital, including providing funds to the ORLEN Group. The loan period is 3 years with two extension options, each one for one year. The funds under loan may be disbursed in three currencies i.e. EUR, USD and PLN.

PKN ORLEN S.A. is also a party to five revolving loan agreements securing the Company's ongoing liquidity.

For further details regarding the debt structure and loan and debt maturity dates see Note 7.11 to the unconsolidated financial statements for 2008.

1.8.1 Loans granted

PKN ORLEN S.A. was party of the following loan agreements in 2008:

- long-term loan agreement concluded in the second half of 2005 with ORLEN Transport Kraków Sp. z o.o. for the amount of PLN 2,700 thousand. In the second half of 2007 ORLEN Transport Kraków Sp. z o.o. declared insolvency and stopped to pay its debts resulting from the loan agreement. As at 31 December 2008 the amount of loan due was PLN 122.3 thousand;
- loan agreement with ORLEN Oil Sp. z o.o. for the amount of PLN 47 million, which was originally of a short-term nature and a due date on 26 June 2007. Based on the signed appendices the repayment date was moved to 31 December 2009;
- loan agreement dated 15 April 2008 concluded with ORLEN International Exploration & Production Company B.V. for the amount of USD 950 thousand. Based on the agreement the repayment of loan will be made in one installment before 31 December 2009;
- long-term agreement with ORLEN Budonaft Sp. z o.o. concluded in the second half of 2006 for the total amount of PLN 7,232 thousand. Last installment was repaid before the maturity date in September 2008.

Interest on loans granted are calculated based on floating percentage rate, settled according to the market conditions.

1.8.2 Securities and guarantees

The biggest amount among guarantees granted relate to the guarantees for excise duty. The cover, among others, the excise tax due from harmonized products moved between tax warehouses in Poland and in European Union under the excise tax suspension procedure.

Other significant position is also security of trade agreements, of which ORLEN Deutschland AG, the subsidiary of PKN ORLEN S.A. is a party. Corporate securities granted enable ORLEN Deutschland AG to realize the trade agreements related to trade in fuels activity. In 2009 the partners of ORLEN Deutschland AG were presented with the same value of securities as in 2008.

As at 31 December 2008 the value of granted guarantees and securities amounted to PLN 1,579 million. The amount comprise:

- PLN 673 million related to excise tax liabilities,
- PLN 801 million related to liabilities of subsidiaries, of what PLN 672 million related to liabilities of ORLEN Deutschland AG,
- PLN 105 million for liabilities relating to current activity due to third parties.

1.8.3 Contingent liabilities of PKN ORLEN S.A.

The overall value of contingent liabilities, as at 31 December 2008 decreased as compared to the end of 2007 by PLN 70,539 thousand to PLN 33,828 thousand. The biggest drop was recoded in the liabilities arising from court litigation (decrease by PLN 35,942 thousand) and the liabilities relating to the pending proceedings in respect of real estate with unclear legal status (decrease by PLN 34,597 thousand).
For further information on the contingent liabilities see note 18a to the unconsolidated financial statements.

1.8.4 Issue of bonds

Under the bond issue agreement PKN ORLEN S.A. issues unsecured bearer bonds. The offer is addressed to institutional investors and not to the public. The banks chose a group of entities from amongst the investors they know to which they address a bond purchase proposal. The proposal may not be addressed to more than 99 entities. Under the program, the issue of both non-interest bearing (zero-coupon) and interest bearing (coupon) bonds is admissible. The non-interest bearing bonds are issued with a discount for a period from 7 days to 1 year. On interest bearing bonds interest is accrued at a fixed or variable interest rate; these bonds are issued for a period of 1 to 7 years. This is a multi-currency program, which means that the issues may be in four currencies: PLN, EUR, USD and CZK. Therefore the bonds may be addressed to foreign companies belonging to the ORLEN Group.

Under the program, PKN ORLEN S.A. is allowed to divide the issue into portions and additionally determine dates on which they will be released. It gives an opportunity to manage in a complex way the liquidity of the ORLEN Group. Funds obtained under the issue enable the Company to finance working capital at attractive cost and diversify the sources of PKN ORLEN S.A.'s financing.

As at 31 December 2008 the maximum admissible debt, as at nominal value, under the bond issue program amounted to PLN 2,000,000 thousand, out of which an amount of PLN 1,226,000 thousand still remains to be used, and as at 31 December 2007 it was PLN 2,000,000 thousand and PLN 894,000 thousand, respectively. The nominal value of the bonds issued by PKN ORLEN S.A. as at 31 December 2008 amounted to PLN 774,000 thousand, and as at 31 December 2007 it was PLN 1,106,000 thousand, respectively.

In 2008, PKN ORLEN S.A., as part of the bond issue program, issued exclusively short-term bonds in two currencies: PLN and EUR. In June 2008 the bonds were first issued in EUR. The investors include the PKN ORLEN Group members - Anwil S.A., IKS Solino S.A., ORLEN Księgowość Sp. z o. o., ORLEN Asfalt Sp. z o. o. buying bonds in PLN and ORLEN Deutschland A.G. buying bonds in EUR. The yield on bonds is determined on an each time basis in accordance with market terms and conditions.

1.8.5 Financial instruments

The financial instruments are described in detail in note 9 to the unconsolidated financial statements.

1.9 Employment

In 2008 the average employment at PKN ORLEN S.A. amounted to 4,692 employees which means a decline as compared to 2007 by 98 persons. This decline in employment is mainly due to the restructuring process being implemented and natural human resources movement.

As a result of the activities being carried out in the field of human resources management and negotiations with social partners, a new Collective Bargaining Agreement was signed at PKN ORLEN S.A. on 24 November 2008. The Agreement regulates issues related to employment, promotion and remuneration rules (through assessment system of employees taking into account their competencies), employment conditions, employee benefits, training and professional development path. It also pertains to other human resources management instruments supporting the Company's business strategy. With its innovative HR tools and a comprehensive approach to all HR issues, the system is congruent with the best market practices. The Agreement introduces the best solutions in the HR policy. The Agreement determines how all the major issues pertaining to the cooperation between the employer and the trade unions are to be handled. This solution is the most effective instrument which helps to keep and develop the employee potential in the Company. After the Agreement has been introduced in PKN ORLEN S.A., it will also serve as a model solution for other Capital Group companies helping to integrate all the systems and set standards for social relationships within the entire Concern.

1.10 Assessment of the feasibility of investment implementation

On 25 November 2007 the Supervisory Board of PKN ORLEN S.A. approved the document "Strategy of the PKN ORLEN Group for the years 2009-2013" which sets a target for the capital expenditures to be attained by the ORLEN Group broken down by the ORLEN Group business segments:
- crude oil upstream: PLN 0.14 billion;
- refinery and marketing (refinery, wholesale, logistics): PLN 1.0 billion;
- retail: PLN 0.3 billion;
- petrochemistry: PLN 1.0 billion;
- support: PLN 0.07 billion.

The ORLEN Group's strategy involves, without limitation, the internal strengthening of the Company through, among others, improving the use of production capacities already installed and the modernization of assets held.

The key investments significant for the development of the ORLEN Group include:
- Paraxylene ("PX") and Terephthalic Acid ("PTA") Complex;
- Diesel Oil Hydrodesulphurization Complex VII ("HON VII") with Hydrogen Installation II;
- Modernization and Intensification of Butadiene Installation;
- Modernization and Intensification of Alkylation installation;
- Modernization and Intensification of the Ethylene Oxide and Glycol installation;
- Construction of Claus II installation with infrastructure;
- rebranding and development of the franchise stations network in new key locations

and a number of minor tasks relating to the adjustment of the plant infrastructure to new legal and environmental requirements.

In order to adjust the investment policy to the limited opportunities of raising external capital in the environment of financial crisis and to ensure financial safety for PKN ORLEN S.A. a number of adjustments were introduced in respect of projected capital expenditures. While attaining strategic goals, the financial safety will be ensured by such investment policy which assumes revision from the perspective of return on assets ratio and which is prioritized suitably to match the market situation.

It is of priority to maintain the indebtedness level of ORLEN Group of 30-40% of equity. In 2009 the leverage ratio will increase for some time due to the pending investment projects being continued. Starting from 2010 PKN ORLEN S.A. expects the higher cash flows which in future years will reduce the financial leverage and enable a further dynamic development of ORLEN Group.

1.11 Anticipated macroeconomic situation

The estimates for individual macroeconomic factors were presented on the basis of and the announced strategy of the ORLEN Group for the years 2009-2013 and the Business Plan for 2009 which takes into account the dynamic changes of macroeconomic parameters in the IV quarter 2008.

The end of year 2008 witnessed a GDP economic growth weakening, which was due to the worldwide financial market situation. At the end of 2008, on the basis of available market data, PKN ORLEN S.A. estimated that in 2009 GDP will continue to decline down to the level of 3.7%. It is assumed that in 2009-2013 the economic growth will be maintained at the level of 4.5% to 5.0%. For the year 2009 PKN ORLEN S.A. estimates the consumer price index at the level of 3.7%.

It is assumed that in 2009 the average USD exchange rate will increase up to 2.80 PLN/USD and the average EUR exchange rate will increase up to 3.78 PLN/EUR. In 2009 also the average CZK exchange rate is expected to increase up to 0.1470 PLN/CZK. In the future, i.e. in the years 2010-2013 it is estimated that the average USD exchange rate will fluctuate from 2.31 to 2.37 PLN/USD and the average Euro exchange rate from 3.20 to 3.35 PLN/EUR.

In 2009, PKN ORLEN S.A. expects monetary authorities to decrease base interest rates. In account of the above, the year 2009 is assumed to see a decline of WIBOR 3M rate down to 5.53%. Also LIBOR 3M (2.70%) and EURIBOR 3M (4.40%) are assumed to attain values slightly lesser than in 2008.

Based on the market information PKN ORLEN S.A. assumed that in 2009 the average price of crude oil would amount to 70.0 USD/bbl. As regards the differential between the Ural and Brent crude oils the year 2009 forecasts 3.0 USD/bbl. In the future, i.e. in the years 2010-2013 it is assumed that crude oil prices will fluctuate from 88 to 91 USD/bbl, and the differential – from 2.9 to 3.0 USD/bbl..

As regards gasoline margins on quotations (crack) it is assumed that in 2009 the annual level of this ratio will be 80.0 USD/t. The years 2010-2013 are expected to see the gasoline margin fluctuating from 133.9 to 142.6 USD/t. The annual crack for diesel oils was assumed to amount to 180.0 USD/t. In the subsequent years, a slight decline of margin on diesel oils is expected to fall down to 178.9 USD/t to be attained in 2013. As regards Jet A-1 aviation fuel margin, in 2009 PKN ORLEN S.A assumes it to amount to 230.0 USD/t. In the years 2010-2013 the crack on Jet A-1 aviation fuel will fluctuate from 215.2 to 221.6 USD/t. As far as petrochemical products are concerned the margins are expected to witness positive tendencies. The ethylene average annual margin in 2009 is expected to amount to 450.0 USD/t, and the propylene average annual margin - 325.0 USD/t. It is forecasted\ that in the years 2010-2013 the margin on ethylene will oscillate from 683.8 to 723,4 USD/t, and the margin on propylene – from 625.0 to 661.3 USD/t.

1.12 Publication of forecast financial results

PKN ORLEN S.A. in its regulatory announcement no. 11/2009 dated 3 February 2009 quoted estimated selected financial and operational data for the ORLEN Group for the 4th quarter of 2008 and the whole year of 2008. No significant changes or alterations have occurred in the published estimates of macroeconomic and operational data as compared to the values presented in this report.
As compared to the financial data published in condensed financial statements on 26 February 2009 the main change introduced to the financial statements of PKN ORLEN S.A. is impairment loss recognized for the AB Mazeikiu Nafta shares in the amount of PLN 1,729,781 thousand and the reversal of impairment charges for shares in the amount of PLN 84,084 thousand. Detailed information regarding the changes introduced as compared to published data was presented in note 6 to the unconsolidated financial statements for 2008.

II. MAIN ACHIEVEMENTS IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT WITHIN THE PKN ORLEN S.A.

In 2008 PKN ORLEN S.A. carried out a number of studies relating to the development and upgrading of new production technologies, improvement of the quality of products manufactured, and limitation of the environmental impact of production activities. In aggregate, in 2008, 70 new contracts were executed and 25 were amended amounting in total to PLN 7,266 thousand. To compare, in 2007, 97 new contracts were signed and 49 – amended for the total amount of PLN 10,180 thousand.

PKN ORLEN S.A. does not carry out any research and development activities by its own; they are outsourced to independent institutions, such as research centers and institutes, universities, as well as business entities carrying our R&D activity.

At PKN ORLEN S.A., in 2008, the most important studies in the scope of technical R&D relating to the core production and environmental protection include as follows:

- “Technology of rally engine gasoline produced out of components manufactured at the PKN ORLEN S.A Production Plant in Płock” a study drawn up by the Oil and Gas Institute in Cracow. The results of the research work showed the possibility to prepare, on the basis of available components, a specific quantity of gasoline for rally engines compliant with FIA requirements. The results of this work once used will enable PKN ORLEN S.A. to introduce a new type of ORLEN brand gasoline to a particularly requiring and prestige market of rally organizers and participants;

- “Assessment of the use of raffinate and analysis of its effect on the quality of engine gasoline produced in PKN ORLEN S.A.” drawn up by the Institute of Fuels and Renewable Energy in Warsaw. The results of research confirmed the possibility of using raffinate in the blending process for engine gasoline;

- “Assessment of the quality of stabilized hydroraffinate coming from the Diesel Oil Hydrorefining Installation from the Gudron Desulphurization from the perspective of its use to produce diesel oil and light fuel oil EKOTERM Plus" drawn up by the Oil and Gas Institute in Cracow. In practice the usefulness of a product coming from the HONH on the Gudron Desulphurization as a component of Ekodiesel diesel oil and Ekoterm Plus heating diesel oil was unanimously confirmed;

- "Change of the processing method of pyrolytic gasoline with regard to making more efficient the hydrogenation process and the use of fractions obtained from the separation of hydroraffinates" drawn up by Ośrodek Badawczo – Rozwojowy Przemysłu Rafineryjnego S.A. (R&D Centre for Refinery Industry) in Płock. The research work commenced in 2008 and is still continued in 2009. The results obtained up to date let us state that as a result of this study the quality BT fractions will be possible to be obtained for the needs of Flavor Extraction III.

The year 2008 was a very good year for the PKN ORLEN S.A. portfolio brands. Brand ORLEN was ranked at the first position in the “Ranking of Most Valuable Polish Brands” and its brand value increased by 11% as compared to 2007. The BLISKA brand recognition improved from 55% in December 2007 to 64% in December 2008, and recognition of VERVA Brand increased in the same period from 61% to 71%, which made the same the brand which is best recognizable in the class of enriched fuels.

Bioester and a package of additions produced by PKN ORLEN S.A. was awarded with the title “Product of the Year” at the 15th International Fairs Fuel Station’ 2008 in the “Biofuel” class. The title awarded in May 2008 represents already a second award granted to this product. In February 2008, Bioester was awarded the first prize at the First International Fairs of Chemical Industry EXPOCHEM’ 2008 in Katowice, in the class “Chemical Product”.
The innovation applied by PKN ORLEN S.A. to produce Bioester involves special enriching additions, which guarantee the highest quality during the whole usability period of fuel. The package contains most effective additions available on the market which improve the qualities of the product in low and high temperatures, guarantee the product stability, protect engine against corrosion and fuel against any biological life to develop.

In the beginning of 2008 a new formula of the additions package to VERVA 98 gasoline was elaborated. The additions contained in this package ensure less deposits in the engine, remove corrosion of supply system and metal elements of the engine and reduce the emission of toxic compounds to the air. In November 2008 fuel VERVA 98 was awarded with the European Medal granted by the Office of the Committee for European Integration, Business Centre Club and the European Economic ad Social Committee. The Medal is awarded to honor the products whose quality meets the EU norms and the goal of the contest is to publicize examples of good quality and promotion of methods to achieve the same. A technological change in the fuel was the main driver of changes in respect of the way of communicating VERVA Brand. By graphical modification (adding a motive of rally chessboard) and the slogan “Nowa formuła mocy” (New Power Formula), the Group has promoted the changed formula of the enriched fuel offered at ORLEN stations.

III. DESCRIPTION OF FACTORS CRUCIAL FOR THE DEVELOPMENT OF PKN ORLEN S.A.

On 25 November 2008 the Supervisory Board adopted the "Strategy for the PKN ORLEN Group for 2009-2013" which was based principally on the creation of values of PKN ORLEN S.A. through concentration of activities relating to strengthening effectiveness as well as development and extension of PKN ORLEN S.A.'s value chain in main segments: refinery, retail and petrochemistry and through developing the upstream segment as well as building the power segment. The Strategy assumes also divestments in respect of non-core business of the Company, i.e. telecommunications and chemistry.

The new strategy of PKN ORLEN S.A. is based on six pillars of development:
- operational efficiency involving the activities aimed at improving effectiveness of production processes by reducing the consumption of energy and implementation of the investment program directed to the projects of highest profitability. The crucial and, at the same time, promising element in this area will be the electrical energy being produced from own raw materials. Also cost synergies will be released through the use of the economies of scale and centralization of support functions;
- integration of assets which will enable further synergies between core business segments of the Company, e.g. refinery and retail. Within this scope also divestment is planned in respect of assets not related to the core business of the ORLEN Group;
- segment management based on the precise division of competence and responsibilities within business functions in the ORLEN Group and competence and responsibilities within PKN ORLEN S.A. and other ORLEN Group members and ensuring efficient and modern management;
- development of the core business through focusing on logistics assets to better secure supplies of raw materials and to strengthen the Group's competitive advantage in this segment. In this area it is also planned to diversify types of processed crude oil and to improve production profitability through increasing the production volume of medium distillates;
- extension of the value chain through launching new products showing a large growth potential, for instance PX/PTA, and through active trading in crude oil and products with the use of see routes and new markets to be entered into;
- new segments being driving forces of the ORLEN Group growth. Further upstream activity is assumed as well as a new power segment is projected to be built.

The adopted strategy assumes the refinery segment to increase production of diesel oil with enhanced processing of crude oil and input for the petrochemical part. The yield on most profitable medium distillates in 2013 will increase as compared to 2007 up to 49%. As a result, production of diesel oil in a respective period will increase by 44% and attain the target of 12.5 million tones. In economically justified cases the crude oil processing services will be considered. The biggest investments in the segment are related to the increase in the diesel oil production – dehydrosulphurization systems in Płock and in Mazeikiu. As regards efficiency the results will be improved on the basis of better ratios of energy-consumption, labour-consumption and of the installation use. Due to such activities, the operating profit before tax (EBITDA) on refinery activities in 2013 is to attain the amount of PLN 4.5 billion

The adopted Development Program for Manufacturing Plant in Płock assumes that by 2013 many investments significant for the development of the ORLEN Group will have been implemented. The key ones amongst them include: Paraxylene ("PX") and Terephthalic Acid ("PTA") Complex and Diesel Oil Hydrodesulphurization Complex VII ("HON VII") with Hydrogen II Installation. Additionally, a number of minor tasks are planned in connection with making the plant infrastructure comply with new legal and ecological requirements. The investments which are being implemented and which are planned for implementation aim at optimal use of the existing resources of PKN ORLEN S.A., while assuring, at the same time, necessary technical, power and logistics infrastructure.

In the wholesale segment, the main target is to maintain a leader position in individual countries, to develop business on the prospective Ukrainian market and to launch co-operation with Byelorussian business partners. Strategic targets for this segment focus on increasing efficiency up to the level of PLN 200 million to be added to the financial result in 2013 through improvement of commercial terms and conditions. One of the most significant elements of the strategy for the segment is the sale of more than one third of volume via own retail network as well as securing and active taking over import channels.

As regards the network of fuel stations an already implemented effective brand policy will be continued. The economical brand in Germany, economical and Premium brands in Poland and the Czech Republic as well as Premium brand in Lithuania will be maintained. Also the entry into the Ukrainian market is planned, which will be dependent on the economic and political environment. The actions undertaken by PKN ORLEN S.A. will focus on further brand strengthening (the most recognizable brand in the region) and on improving effectiveness of sales per station and a margin in respect of non-fuel sales. The key element of the strategy for retail segment involves further re-branding of stations and development of franchise chains. In 2008 PKN ORLEN S.A. consistently strengthened its market position and in the end of the year it generated the accrual of its market share by 4.2 pp. as compared to

2007. Such a high accrual is due to the increased sales volume of diesel oil and auto gas. In 2008 the Polish retail market increased as compared to the prior year by approx. 5%. The highest dynamics was noted in the area of diesel oil consumption (accrual approx. 8%) and gasoline (increase in consumption by approx. 3%). The year 2008 experienced however a declining demand for auto gas (adverse consumption dynamics -2%).
As a result of a consistently implemented investment program started already in 2005, in the end of 2008 the PKN ORLEN S.A. chain comprised 924 Premium stations, i.e. by 73 stations more as compared to 2007, as well as 406 Bliska stations which witnessed the accrual of 98 stations (the data includes CODO and DOFO stations). Furthermore, as a result of further development program in respect of franchise in the PKN ORLEN S.A. network, at the end of 2008 the network comprised 73 new DOFO stations. At the same time, the number of operating DODO stations, decreased by 96 stations which was in line with the adopted strategy.
The non-fuel margin maintained a record growing tendency to attain, in the end of the year, a new record dynamics of almost 30% as compared to 2007. The margins having so increased are due to the start-up of Stop Cafe corners at 406 Premium stations and the launch of Stop Cafe Bistro in first 29 locations.
In 2008 PKN ORLEN S.A., wishing to ensure the highest possible quality of the offered products, elaborated a new formula for additions to Verva fuels which ensure lesser residue in the engine, eliminate corrosion and limit the issue of toxic compounds to the air. Together with introducing the enriched fuel to ORLEN stations, the Group changed a visualization of VERVA brand, which helped to strengthen a positive image of Premium fuel in the network and to maintain VERVA brand at the leading position being the most known and recognizable brand amongst enriched fuels in Poland.
To consistently implement the strategy for biofuels, in 2008 PKN ORLEN S.A. commenced to sell bioester (B100) at more than 220 BLISKA stations, which means more by 205 stations as compared to 2007.

An important element which helps to strengthen the PKN ORLEN S.A.'s competitive advantage is a further development of the logistics segment, including new sections of product pipelines that are to be constructed in Poland between Ostrów Wielkopolski and Wrocław, and Boronów and Trzebinia. PKN ORLEN S.A. also plans to use the potential of the existing and newly created cavities more intensively in order to better satisfy the storing needs and use the business cycles of stored products more efficiently. PKN ORLEN S.A. will also continue to restructure its own networks of warehousing centers.
As regards the policy relating to raw materials, the new strategy assumes long-term contracts for the supply of crude oil, including those with significant discount and short-term procurements being directed to such types which are temporarily underestimated. PKN ORLEN S.A.'s basic targets will be to secure at least two directions for supplies to each refinery. Such actions to be taken will ensure safety and make the supply structure optimal.

As regards the upstream sector, the new strategy assumes that investment projects will mainly focus on identified deposits in the countries with a stable situation and acceptable risk exposure. PKN ORLEN S.A. is planning to regularly analyze the situation in this segment, seize investment opportunities, and, if possible, enter strategic partnerships.

With respect to the upstream issues, the updated strategy of PKN ORLEN S.A. is completed by a plan to accelerate the development process of the extraction activities by ensuring access to the Company's own raw materials and facilitating the development of oil trade. Given the above, PKN ORLEN S.A. regularly monitors the market for upstream projects worldwide. The relevant project database that has been created and is being developed enables the Company to properly select and classify the projects with a view to the capabilities and needs of the ORLEN Group. The major activities carried out in 2008 are as follows:

- Acquiring a research and recognition project on the Baltic Sea shelf in the Latvian economic zone;
- Implementing a research and upstream project in the Lublin basin;
- Analyzing projects which would give PKN ORLEN S.A. an opportunity to get involved in the companies operating on the market and holding the appropriate asset portfolio, including production assets;
- Analyzing exploration and upstream projects/assets of various complexity levels and in various geographic locations;
- Starting cooperation with partners holding assets in Poland and analysis of their assets and cooperation potential;
- Working out assumptions together with Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG S.A.") for the joint implementation of a project involving identification of discovered oil and natural gas accumulation in Sieraków, possible exploration works in respect of other identified structures and subsequent management of discovered and recognized deposits. The project operator will be PGNiG S.A..

IV. CHANGES IN ORGANISATION, MANAGEMENT AND FINANCIAL ASSETS OF PKN ORLEN S.A.

4.1 Changes in organization and management of PKN ORLEN S.A.

In the end of 2008 the Organizational Rules and Regulations implemented by the Company's Management Board by virtue of Resolution dated 21 October 2008 were in force at PKN ORLEN S.A..

At the meeting held on 28 February 2008, the Supervisory Board of PKN ORLEN S.A. passed a resolution on suspending Mr. Piotr Kownacki in performance of his duties as the President and Member of the Management Board of PKN ORLEN S.A for indefinite time. On the same day the Supervisory Board resolved on appointing the Management Board Member to take over the powers of the Management Board President. In accordance with the Supervisory Board's decision, for the period of suspension of Mr. Piotr Kownacki, the powers of the Management Board president were taken over by the Management Board Vice President, Mr Wojciech Heydel.

Further to the above described changes on 4 March 2008 the Management Board re-assigned duties and powers amongst the Management Board Members in the following way:
- Vice-President of the Management Board, Sales – wholesale, retail sale, marketing, sales planning and analysis, logistics, alternative power sources, human resources, strategy and development, public relations, management service and audit;
- Vice-President of the Management Board, Upstream and Crude Trading – crude oil trading, upstream and exploration, capital investment and divestment;
- Vice-President of the Management Board, Chief Financial Officer – accounting and controlling, finance and cost management, taxes, supply chain management and investor relations;
- Member of the Management Board, Procurement and IT – IT, procurement, legal department, regulatory risk, confidential information control and security;
- Member of the Management Board, Production – refinery production, chemistry production, petrochemistry production, oil production, power production, engineering, technology and property investments;
- Member of the Management Board, Organization and Capital Group – organization and integration of owned assets, health and safety at work and environmental protection, relations with trade unions and formal and legal supervision over the ORLEN Group companies.

On 29 April 2008 the Supervisory Board of PKN ORLEN S.A. appointed Wojciech Heydel to the position of PKN ORLEN S.A. Management Board President and on 15 May 2008 Dariusz Jacek Krawiec – to the position of PKN ORLEN S.A. Management Board Vice President. Additionally, the Supervisory Board, at its meeting held on 28 May 2008 appointed the following persons to the position of the PKN ORLEN S.A. Management Board Members:
- Sławomir Robert Jędrzejczyk,
- Wojciech Robert Kotlarek,
- Krystian Pater,
- Marek Serafin

for a common 3-year term of office of the Management Board starting upon the expiry of the preceding term of office of PKN ORLEN S.A. Management Board.

Further to the election of the Management Board Members for a new term of office, on 17 June 2008 the Management Board of PKN ORLEN S.A. passed a resolution on new assignment of powers amongst the Management Board Members which was as follows:
- President of the Management Board, Chief Executive Officer, responsible for human resources, strategy and development, corporate communication, management service, audit, confidential information protection and health and safety at work and environmental protection,
- Vice-President of the Management Board, Crude Oil and Capital Group responsible for crude oil trading, upstream and exploration, organization and integration of owned assets, procurement, legal department, corporate risk management, control and safety, relations with trade unions and formal and legal supervision over the ORLEN Group companies,
- Member of the Management Board, Chief Financial Officer, responsible for accounting and controlling, finance management, taxes, investor relations, capital investments and divestments, supply chain management and IT,
- Member of the Management Board, Sales responsible for wholesale of refinery products, retail sale, marketing, sales planning and analysis, logistics and alternative sources of energy,
- Management Board Member, Refinery responsible for refinery production, oil production, energy production, engineering, technologies and production plant in Płock,
- Member of the Management Board, Petrochemistry responsible for petrochemical and chemical production, sales of petrochemical and chemical products and property investments.

On 18 September 2008 Wojciech Heydel, the President of the Management Board of PKN ORLEN S.A. submitted resignation from the function held to the Chairman of Supervisory Board. Therefore, the Supervisory Board on 18 September 2008 appointed Dariusz Jacek Krawiec to the position of the Management Board President of PKN ORLEN S.A.

At the end of 2008, following assignment of competence, established on 21 October 2008, was in place:

- President of the Management Board fulfilling also the function of the Chief Executive Officer is responsible for the following areas: human resources, strategy and development, procurement, Council of the Concern, corporate communications, audit, crude oil trading, upstream.
- Vice President of the Management Board, Chief Financial Officer is responsible for the following areas: planning and reporting, business controlling, supply chain management, finance management, tax, investor relations, capital investment and divestment, IT, administration and restructuring.
- Member of the Management Board, Sales, responsible for the following areas: wholesale of refinery products, sale of oils, retail sale, marketing, sales controlling, logistics and alternative energy sources.
- Member of the Management Board, Refinery, responsible for the following areas: refinery production, oil production, power production, refinery production efficiency, refinery controlling.
- Member of the Management Board, Petrochemistry, responsible for the following areas: petrochemical production, sales of petrochemical products, chemistry, health and safety at work and environmental protection, petrochemical production efficiency, petrochemistry controlling, property investments.

In 2008 the logistics area underwent the restructuring. Since 1 October 2008 five Logistics Regions have been liquidated and the primary and secondary logistics functions were centralized to enable better monitoring and management of inventories at stations and of fuel supplies. Other steps taken in this area focused on simplifying fuel trading procedures on terminals and centralization of planning in respect of storage base repairs. In connection with the implementation of the project the employment in logistics was reduced by 53 posts. Annual savings arising out of the 1st stage of restructuring having been implemented are estimated to amount to approximately PLN 6.5 million. At subsequent stage to be completed in 2009 the fuel terminals operation will be analyzed, the project of process automation will be implemented and the employment on terminals will undergo reorganization.

The last stage of restructuring and reorganization process relating to finance and accounting comprised the process of fuel stations settlements having been transferred to the Company ORLEN Księgowość Sp. z o. o..

4.2 Changes in financial assets of PKN ORLEN S.A.

In the end of 2008 PKN ORLEN S.A. held shares directly and indirectly in:
- 85 subsidiaries,
- 6 jointly controlled companies,
- 15 associated companies.

As compared to the end of 2007 the number of subsidiaries, jointly controlled entities, as well as associated companies of the ORLEN Group has decreased from 127 to 106.

The structure of the ORLEN Group as regards consolidated entities and as regards material shares held in affiliates and in other entities was presented in note 3 to the consolidated financial statements for 2008.

The basic changes in organizational and capital relations in the ORLEN Group that occurred in 2008 and by the moment of drawing up this Report, include:

- Registration on 2 January 2008 by the District Court for the capital city of Warsaw of the Company ORLEN Transport S. A. with its seat in Płock. PKN ORLEN S.A. took up 65,460 thousand shares in ORLEN Transport S.A. of a nominal value of PLN 1 each, representing approx. 97.61% of the share capital and conferring 97.61% votes at the General Shareholders' Meeting of ORLEN Transport S.A. The Company ORLEN Transport S.A. was established as a result of a merger of six subsidiaries of PKN ORLEN S.A.: ORLEN Transport Płock Sp. z o. o., ORLEN Transport Kędzierzyn-Koźle Sp. z o.o., ORLEN Transport Nowa Sól Sp. z o. o., ORLEN Transport Szczecin Sp. z o. o., ORLEN Transport Słupsk Sp. z o. o., ORLEN Transport Olsztyn Sp. z o. o. The main object of the business activity of ORLEN Transport S.A. includes road transport with specialized vehicles, including fuel transport. The investment of PKN ORLEN S.A. in the shares of ORLEN Transport S.A. is a long-term investment;

- The registry, on 14 March 2008, by Kamer Van Koophandel in Amsterdam, of the Dutch Company under the name of ORLEN International Exploration & Production Company BV with its seat in Amsterdam ("OIEP"). PKN ORLEN S.A. took up 180 shares in OIEP, each of the nominal value of EUR 100, representing 100.0% of the share capital and 100.0% of votes at OIEP's shareholders' meeting. PKN ORLEN S.A. covered the taken up shares with a cash contribution of EUR 18 thousand.
  The core business activities of OIEP i.e.: crude oil mining, natural gas mining, geological activity and recognition and exploration. The PKN ORLEN S.A.'s investment is of a long-term nature;

- On 18 March 2008 ORLEN Oil Sp. z o. o., as the seller and Petro-Oil DCS as the buyer entered into an agreement for the acquisition of 264 shares in Petro-Oil DCS, representing 24.0% of the Company's share capital in order to redeem them. The nominal value of each redeemed share of Petro-Oil DCS amounts to PLN 500. The carrying value of the redeemed shares recorded in the ORLEN Oil Sp. z o.o.'s books as at 18 March 2008 amounted to PLN 132 thousand. The total compensation due to ORLEN Oil Sp. z o.o. for the redeemed shares amounts to PLN 600 thousand;

- The signing, by the management board of PKN ORLEN S.A. on 22 September 2008, of a conditional agreement for the sale of shares in the Company Petrotel Sp. z o. o. to Telefonia Dialog S.A.
  As a result of the agreement having been executed PKN ORLEN S.A. sold 6,150 shares in Petrotel Sp. z o. o., each of the nominal value of PLN 1,000 and of the total nominal amount of PLN 6,150 thousand representing 75% of the share capital and of the overall number of votes at the Shareholders Meeting of Petrotel Sp. z o. o., for the total price of PLN 32,410.5 thousand.

  The transfer of ownership of shares being sold to Telefonia Dialog was conditional upon failure to exercise the right of first refusal by the other shareholders of Petrotel Sp. z o. o. which they held in respect of shares being sold under the articles of association of Petrotel Sp. z o. o., and upon the full amount representing the purchase price having been paid. The remaining shareholders of Petrotel Sp. z o. o. did not exercise the right of first refusal vested in them.

  The share capital of Petrotel Sp. z o. o. amounts to PLN 8,200 thousand and is divided into 8,200 equal and indivisible shares of the nominal value of PLN 1,000 each. The carrying value of the shares having been sold recorded in the accounting books of PKN ORLEN S.A. amounted to PLN 6,150 thousand as at 30 June 2008.
  As a result of the transaction having been executed PKN ORLEN S.A. shall not hold any shares in the share capital of Petrotel Sp. z o. o.

- Settlement, on 18 December 2008, of the transaction of PKN ORLEN S.A. acquiring shares in Polkomtel S.A. from TDC Mobile International A/S under an agreement for acceptance of the offer and conditional sale of Polkomtel S.A. shares of 10 March 2006 executed between KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A.(currently PGE Polska Grupa Energetyczna S.A.) and WĘGLOKOKS S.A. as the buyers and TDC Mobile International A/S as the seller.
  As a result of the transaction having been settled PKN ORLEN S.A. acquired 980,486 ordinary registered shares in Polkomtel S.A., of the nominal value of PLN 100 each, representing approximately 4.78% of the share capital of Polkomtel S.A. for the price of EUR 180.50 (representing the equivalent of PLN 753.41, at the average EUR/PLN exchange rate of the National Bank of Poland of 18 December 2008) per one share, i.e. in total for the price of EUR 176,977.7 thousand (representing the equivalent of PLN 738,705 thousand at the average EUR/PLN exchange rate of the National Bank of Poland of 18 December 2008). The price for the Polkomtel S.A. shares bought by PKN ORLEN S.A. was covered up with cash. The carrying value of the Polkomtel S.A. shares bought by PKN ORLEN S.A. was recognized in the accounting books of PKN ORLEN S.A. at purchase price including the transaction costs. As a result of the transaction having been settled PKN ORLEN S.A. holds 24.39% in the share capital of Polkomtel S.A.

V. ADDITIONAL INFORMATION

5.1 Information on material agreements

- On 16 January 2008 PKN ORLEN S.A. signed an annual agreement with Lukoil Warsaw Sp. z o. o. ("Lukoil Warsaw"). Under this agreement PKN ORLEN S.A. sells to Lukoil Warsaw gasoline and diesel oil in a period from 16 January 2008 to 31 December 2008. The value of the agreement during its term is estimated to amount to approx. PLN 1,287 million);

- On 31 December 2008 PKN ORLEN S.A. signed an annual contract with Shell Polska Sp. z o. o. Under the contract PKN ORLEN S.A. will be selling gasoline and diesel oil in a period from 1 January 2009 to 31 December 2009 to the Company Shell Polska. The net amount of the contract during its term is estimated to equal to approx. PLN 3,159 million;

- On 31 December 2008 PKN ORLEN S.A. executed an annual contract with BP Polska Sp. z o. o. Under the contract PKN ORLEN S.A. will be selling to BP Polska gasoline and diesel oil in a period from 1 January 2009 to 31 December 2009. The estimated net amount of the contract equals PLN 2,771 million.

- On 31 December 2008 PKN ORLEN S.A. executed an annual contract with Orlen PetroCentrum Sp. z o. o. for the sales of gasoline and diesel oil in a period from 1 January 2009 to 31 December 2009. The estimated net amount of the contract equals to approx. PLN 3,942 million.

  On 5 February 2009 PKN ORLEN S.A. executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch ("Gunvor International B.V. Amsterdam") for the supply by sea of crude oil REBCO, in February 2009, to AB Mazeikiu Nafta. The estimated net amount of the contract equals approx. to USD 30.9 million (i.e. approx. PLN 111.7 million translated at the average USD/PLN exchange rate of the National Bank of Poland of 5 February 2009). The total amount of the contracts executed between PKN ORLEN S.A. and Gunvor International B.V. Amsterdam within the last 12 months equals approx. PLN 1,992 million.

5.2 Production

No.	Type of raw material	Crude oil processing (thousands of tones)		Change (thousands of tones)	Change (%)
		2008	2007	2008-2007	2008/2007
1.	REBCO	13 154	13 053	101	0.8
2.	Low-sulphur crude oils	1 064	593	471	79.4
	Total	**14 218**	**13 646**	**572**	**4.2**
No.	**Product**	**Production (thousands of tones)**		**Change (thousands of tones)**	**Change (%)**
		2008	**2007**	**2008-2007**	**2008/2007**
1.	Total engine gasoline	2 800	2 610	190	7.3
2.	Total diesel oils	5 078	4 568	510	11,2
	Total fuel	**7 878**	**7 178**	**700**	**9,8**
3.	Liquid gas	221	190	31	16.3
4.	Aviation fuel	418	355	63	17.7
5.	Light heating oil	840	840	0	0.0
	Total	**9 357**	**8 563**	**794**	**9.3**
No.	**Product**	**Production (thousands of tones)**		**Change (thousands of tones)**	**Change (%)**
		2008	**2007**	**2008-2007**	**2008/2007**
1.	Heating oil I and III	938	995	-57	-5.7
2.	Solvents	0	11	-11	-100.0
3.	Farbasol	38	11	27	245.5
	Total	**976**	**1 017**	**-41**	**-4.0**
No.	**Product**	**Production (thousands of tones)**		**Change (thousands of tones)**	**Change (%)**
		2008	**2007**	**2008-2007**	**2008/2007**
1.	Ethylene	540	624	-84	-13.5
2.	Propylene	366	409	-43	-10.5
3.	Butadiene	57	59	-2	-3.4
4.	Benzene	141	113	28	24.8
5.	Toluene	127	122	5	4.1
6.	Orthoxylene	21	28	-7	-25.0
7.	Paraksylene	24	31	-7	-22.6
8.	Xylene	87	27	60	222.2
	Total flavors (items 4-8)	**400**	**321**	**79**	**24.6**
9.	Phenol	44	50	-6	-12.0
10.	Acetone	28	32	-4	-12.5
11.	MEG	82	93	-11	-11.8
12.	DEG, TEG	9	11	-2	-18.2
13.	Liquid Qal/Concentrate Qal/Petrygo Q	10	15	-5	-33,3
	Total glycols + cooling liquids (items 11-13)	**101**	**119**	**-18**	**-15.1**
14.	Sulphur	132	127	5	3.9
15.	Ethylene oxide	12	17	-5	-29.4
	Total	**1 680**	**1 758**	**-78**	**-4.4**

5.3 Sales

	Performance (thousands of tones)		Change (thousands of tones)	Change (%)
Quantity sales *	**2008**	**2007**	**2008-2007**	**2008/2007**
Gasoline	3 025	2 925	100	3
Diesel oils	6 124	5 351	773	14
Light heating oil	919	934	-15	-2
JET A-1 fuel	417	344	73	21
Heating oil III	922	964	-42	-4
Sulphur	131	128	3	2
Liquid gas	505	434	71	16
Other refinery products	1241	1265	-24	-2
Total refinery products	**13 284**	**12 345**	**939**	**8**
Ethylene	474	547	-73	-13
Propylene	347	392	-45	-11
Glycols	88	103	-15	-15
Butadiene	55	60	-5	-8
Benzene	96	113	-17	-15
Orthoxylene	21	26	-5	-19
Toluene	105	120	-15	-13
Paraxylene	25	32	-7	-22
Other petrochemical products	197	226	-29	-13
Total petrochemical products	**1 408**	**1 619**	**-211**	**-13**
Total sales	**14 692**	**13 964**	**728**	**5**
including exports	*999*	*1201*	-202	-17

* Wholesale and retail sale.

5.4 Information on material transactions with related parties concluded by PKN ORLEN S.A. or its subsidiaries on non-market conditions

The information on material transactions with related parties concluded by PKN ORLEN S.A. on non-market conditions were described in note 17 to the unconsolidated financial statements for 2008.

5.5 Information on pending proceedings relating to liabilities or receivables of the value of at least 10% of equity of PKN ORLEN S.A.

Information on pending proceedings concerning the values of at least 10% equity of PKN ORLEN S.A. were described in note 18 to the unconsolidated financial statements for 2008.

5.6 Remuneration, including dividend from profit paid and due or potentially due to the Management Board, Supervisory Board and members of key managing personnel in accordance with IAS 24

Any considerations for the Management Board, Supervisory Board and key managing personnel have been described in note 19 to the unconsolidated financial statements for 2008.

5.7 Non-competition agreements and agreements on termination of contract due to removal from the position held

The agreements executed between PKN ORLEN S.A. and persons holding managerial positions provide that these persons are obliged, for 6 or 12 months, starting from the day when the agreement is terminated or expires, to refrain from any competitive activity. During this period, the Management Board Members are authorized to receive remuneration in the amount of six or twelve times their monthly base pay paid in equal monthly installments.
Moreover, these agreements provide for a remuneration n to be paid if the contract is terminated due to a removal from the position held. In such case the remuneration amounts to six or twelve times the monthly base pay.

5.8 Information on the date when the issuer executes an agreement with an entity authorized to audit financial statements and the remuneration of such authorized entity

The information on the date when the issuer executes an agreement with an entity authorized to audit financial statements and the amount of the remuneration of the entity authorized to audit financial statements was provided in detail in note 20 to the unconsolidated financial statements for 2008.

5.9 Number of PKN ORLEN S.A.'s shares and shares in other ORLEN Group companies held by the persons fulfilling management or supervisory functions

As at 31 December 2008, Grzegorz Borowiec, Member of the Supervisory Board, held 100 shares in PKN ORLEN S.A.
As at 31 December 2008, Janusz Zieliński, Member of the Supervisory Board, held 407 shares in PKN ORLEN S.A.

5.10 Shareholding of PKN ORLEN S.A.

The shareholding structure of PKN ORLEN S.A. as at 31 December 2008:

Shareholder	Number of shares	Number of votes	Nominal value of shares (in PLN)	Share in the share capital
Nafta Polska S.A.	74,076,299	74,076 299	92,595,374	17.32%
State Treasury	43,633,897	43,633,897	54,542,371	10.20%
Others	309,998,865	309,998,865	387,498,581	72.48%
Total	427,709,061	427,709,061	534,636,326	100.00%

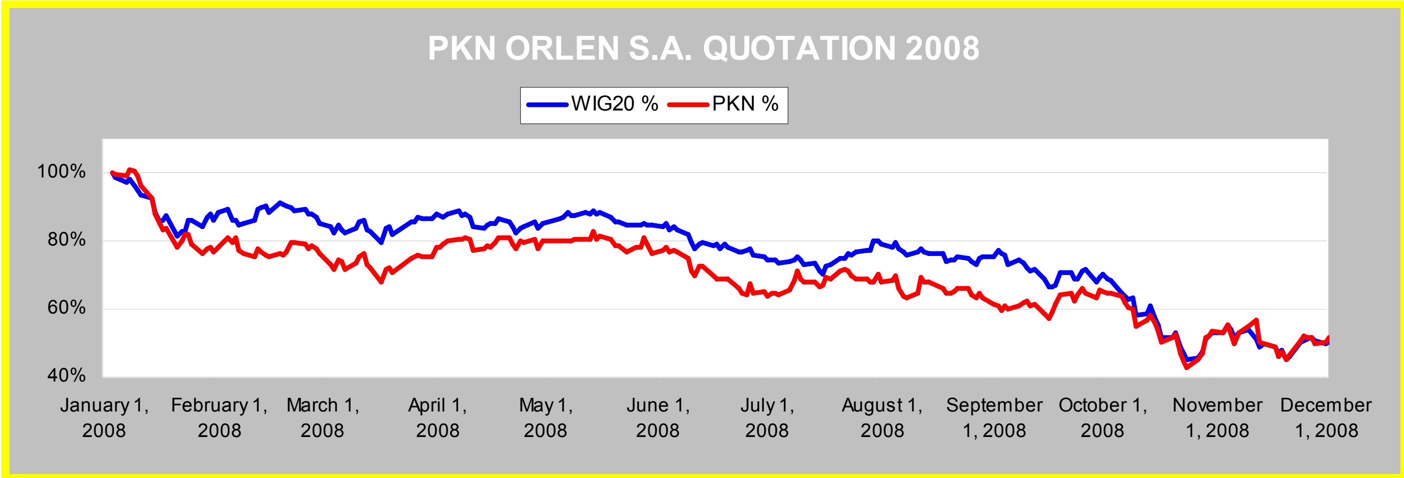
We are not aware of any agreements or contracts that could in the future affect the proportions of shares held by the existing shareholders and bondholders.

5.11 PKN ORLEN S.A. on the capital market

The shares of PKN ORLEN S.A. are listed at the Warsaw Stock Exchange (Warszawska Giełda Papierów Wartościowych w Warszawie S.A.) and in the form of Global Deposit Receipts (GDR) at the London Stock Exchange. GDRs are also traded in the United States on the OTC market. The share capital of PKN ORLEN S.A. is divided into 427,709,061 ordinary bearer shares of a nominal value of PLN 1.25 each.

The depositary of PKN ORLEN S.A. deposit receipts is The Bank of New York. At the London Stock Exchange the traded unit is 1 GDR, which represents two shares of PKN ORLEN S.A.

In 2008, the average quotation of PKN ORLEN S.A. shares was recorded at the level of 35.74 PLN per share, i.e. by 30.7% less than the value recorded in 2007. As at the end of 2008 the capitalization amounted to PLN 15.3 billion while at the end of 2007 it was PLN 22.2 billion.



5.12 Report on Compliance with Corporate Governance Rules

Report on Compliance with Corporate Governance Rules in PKN ORLEN S.A. in 2008 is enclosed as Annex no 1 to this foregoing Management Board Report on the Operations of Polski Koncern Naftowy ORLEN Spółka Akcyjna in 2008

Management Board Report

on the Operations of Polski Koncern Naftowy ORLEN Spółka Akcyjna

for 2008

is submitted by the Management Board composed of:

………………………
Dariusz Krawiec
President of the Board

…………………………
Sławomir Jędrzejczyk
Vice President of the Board

………………………
Wojciech Kotlarek
Member of the Board

……………………
Krystian Pater
Member of the Board

………………………
Marek Serafin
Member of the Board

Warsaw, 27 April 2009