Polski Koncern Naftowy ORLEN
Spółka Akcyjna

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

I. CURRENT AND PROJECTED FINANCIAL STANDING OF THE PKN ORLEN GROUP

1.1 Income Statement

1.1.1 Revenues

In 2008 the PKN ORLEN Group (the "ORLEN Group") generated the total revenues from sales (excluding excise tax) in an amount of PLN 79,535,205 thousand, i.e. more by PLN 15,742,222 thousand (by 24.7%) than the amount generated in 2007. This increase was due to the increase in the sales of refinery segment by 19.1% In turn, the sales of the petrochemical segment, chemical segment and other activities decreased by 10.2%, 1.1% and 9.3%, respectively.

The increase of sales of refinery segment is, amont others, the effect of incresed volumes sold by 19.4%, specifically in respect of gasoline and diesel oil - by more than 20% and the constant high quotations of refinery products despite a rapid drop in prices in the end of 2008. In turn the volume sales of petrochemical sales dropped in 2008 by 3.3%. The products which experiencedthe highest drop in the sales included among others: butadiene (by 28.1%), phenol (by 14.7%) and propylene (by 9.7%). In 2008 the sales generated by the chemistry segment in terms of volume dropped by 3.7%. The biggest drop was noted by the volume sales of PVC, granulated products and fertilizers the sales of which dropped respectively by 13.7% and 1.6%.

1.1.2 Result from operations

The opearating loss in 2008 amounted to PLN (-) 1,603,332 thousand as compared to operating profit of PLN 2,603,882 thousand generated in 2007.

The drop in profit from operations of the ORLEN Group was due to the lower results on operations generated at Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN S.A.") which were poorer by PLN 1,456,840 thousand, at UNIPETROL Group (the "UNIPETROL Group") by PLN 440,584 thousand and at Basell ORLEN Polyolefins by PLN 228,862 thousand. The main reason for the drop in results on operations at the above companies was an adverse effect of a dynamic drop in prices of crude oil on the pricing of inventories for the total amount of PLN (-) 3,010,900 thousand. Another adverse change in the profit from operations amounting to PLN (-) 995,000 thousand was an effect of unfavourable macroeconomic conditions, related to the exchange rates, differential and margins. Higher prices of energy materials used decreased profit from operations by approximately PLN (-) 701,000 thousand. On the other hand, improved operating efficiency, connected mainly with higher volumes sold, contributed to increase of profit from operations by approximately PLN 2,225,000 thousand. Additionally, in 2008 the impact of one-off events was limited. The one-off events contributed to decrease of result for 2007 by PLN 391,000 thousand. The events were mainly connected to the repairs of production units in the Unipetrol Group and Mazeikiu Group and logistic difficulties related to finished products pipeline owned by PERN due to its brakedown.

Other net operating revenues and expenses amounted to PLN (-) 2,351,027 thousand, mainly as a result of impairment charges of PLN 2,376,102 thousand, related to the impairment tests carried out in accordance with International Accounting Standard (IAS) 36. The most significant charge related to assets of AB Mazeikiu Nafta.
Detailed information on the amount of creation and reversal of impairment allowance for non-current assets were also described in note 6 and 71, 7.3 and 7.8 of the consolidated financial statements for 2008.

In 2008 EBITDA (operating profit increased by depreciation) amounted to PLN 888,061 thousand and was lower by PLN 4,147,244 thousand than EBITDA recognized in the prior year.

1.1.3 Net financial income and expenses

The net financial expenses in 2008 amounted to PLN 1,578,614 thousand, and were higher by PLN 1,718,416 thousand than in prior year.
As a result of depreciation of PLN seen in the end of 2008 PLN (-) 1,100,692 thousand was recognized due to the surplus of negative exchange differences resulting from the translation of items expressed in foreign currencies. The most significant item was represented by negative, non-realised exchange differences on loans in EUR in the amount of PLN (-) 808,941 thousand. To compare, in 2007, as a result of a significant appreciation of PLN, a level of positive exchange differences that contributed to the increase in financial income amounted to PLN 840,318 thousand.

The ORLEN Group uses loans in EUR to finance its operations as the natural economic hedge measure against unstable results on operations due to PLN exchange rate fluctuations.

Interest expense related to interest bearing loans amounted to PLN 541,765 thousand in the current period and were by PLN 38,677 thousand higher than in prior year. Moreover, the financial instruments' valuation which in 2008 equalled to PLN (-) 92,844 thousand adversely affected the result on financial operation. In 2007 the valuation had positive effect of PLN 44,889 thousand.

1.1.4 Profit before tax, income tax and net result

In 2008 the ORLEN Group generated loss before tax at the level of PLN (-) 2,915,403 thousand, as compared to PLN 3,011,065 thousand profit generated in 2007. The net loss amounted to PLN (-) 2,526,626 thousand, as compared to net profit of PLN 2,480,426 thousand generated in the prior year.

1.2 Balance sheet

As at 31 December 2008, the ORLEN Group total assets amounted to PLN 46,975,750 thousand and was higher by PLN 872,925 thousand (by 1.9%) as compared to 31 December 2007.

The value of non-current assets increased as compared to 31 December 2007 by PLN 2,544,519 thousand (i.e. by 9.5%) and attained the value of PLN 29,280,856 thousand.
The value of property plant and equipment increased by by PLN 1,434,832 thousand (i.e. by 5.8%) mainly as an effect of capital expenditures in the amount of PLN 3,938,926 thousand and depreciation of PLN 2,395,209 thousand. As a result of impairment tests carried out in accordance with International Accounting Standard (IAS) 36, the impairment allowance for property, plant and equipment and intangibles of PLN (-) 2,498,689 thousand was charged. Additionally, exchange rate differences relating to translation of assets of foreign operations in the amount of PLN 2,525,650 thousand, were recognized. Detailed information on the amount of impairment allowance were described in note 6, 7.1, 7.3 and 7.8 of the consolidated financial statements for 2008.
Furthermore, the value of shares in the entities measured with the use of equity method increased by PLN 860,801 thousand as a consequence of goodwill of PLN 537,920 thousand recognized on the acquisition of shares in Polkomtel S.A. and the valuation of those assets in the amount of PLN 271,601 thousand.

As at the end of 2008, the value of current assets decreased down to PLN 17,694,894 thousand from the level of PLN 19,366,488 thousand as at 31 December 2007. The main factor triggering the current assets decrease was the reduction in the value of inventories by PLN (-) 1,276,362 thousand (by 12.3%), the decrease in trade and other receivables by PLN (-) 528,281 thousand (by 7.7%) and in cash by PLN (-) 154,008 thousand (i.e.10.3%). The decrease in inventories was, in turn, due to the decrease in crude oil and fuel prices at international markets, which required the Group to revaluate the inventories to match the market prices. Concurrently, as compared to the prior year a material increase in the income tax receivables was noted, namely by PLN 276,661 thousand (by 239.8%) and in short-term financial assets by PLN 89,875 thousand (by 53.5%).

As at 31 December 2008, the equity amounted to PLN 20,531,647 thousand and dropped by PLN (-) 2,041,113 thousand, i.e. by 9.0% as compared to the end of 2007 as a result of a recognized drop in retained earnings by PLN (-) 3,190,293 thousand. This drop was due to a dividend of PLN 692,888 thousand having been paid by PKN ORLEN S.A. and to the net loss for the year 2008 in the amount of PLN 2,526,626 thousand. The equity reflected a favourable effect of reduced exchange differences in an amount of PLN 1,251,144 thousand resulting from the foreign exchange difference on subsidiaries from consolidation.

Total indebtedness of ORLEN Group (interest-bearing loans and borrowings) amounted to PLN 13,892,765 thousand as at 31 December 2008 and increased by PLN 3,570,821 thousand as compered 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 9,475,449 thousand having been recognised 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 translation of foreign currency bank loans resulting from depreciation of PLN currency.

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 consolidated financial statements for bank loan of PLN 9,066,166 thousand, 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. For bank loans of PLN 409,283 thousand the negotiations in respect of terms of continuation of financing are in progress.
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

The net cash flows from operating activities increased by PLN 1,651,694 thousand as compared to the year 2007 and amounted to PLN 3,616,760 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 1,358,197 thousand as compared to PLN (-) 2,830,442 thousand in 2007.

In 2008 the net cash flows from investing activities amounted to PLN (-) 4,384,957 thousand while in the prior year it was PLN (-) 2,845,108 thousand. In 2008 capital expenditures (spent on the acquisition of property plant and equipment and intangibles) amounted to PLN (-) 3,969,409 thousand as compared to PLN (-) 3,693,736 thousand in the prior year.
PLN (-) 736,860 thousand was spent on the acquisition of shares, mainly to acquire shares in Polkomtel S.A. The interest and dividend received amounted to PLN 199,269 thousand.

In 2008 the net cash flows from financing activities amounted to PLN 612,573 thousand while in 2007 it was PLN 27,039 thousand. The proceeds of PLN 1,902,126 thousand received in 2008 from loans, borrowings and the issue of debt securities was higher by PLN 1,234,218 thousand than in the prior year.

The total net cash flows from individual business segments of ORLEN Group triggered a decrease in cash as at 31 December 2008 by PLN 154,008 thousand, down to PLN 1,344,224 thousand (for comparison the level of cash as at 31 December 2007 was PLN 1,498,232 thousand).

1.4 Description of key risk factors and threats

The most important risk factors having an impact on the performance of the ORLEN Group 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 characterised 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 2008.

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 gasolines where margins dropped by 26.9% down to the level of 119.46 USD/tone and III heating oil – the drop in margins by 31.8% down to (-) 272.99 USD/tone. In 2008 the economic situation in the petrochemical segment also decreased which was characterised with a drop in margins of almost all products. Margins on benzene decreased by 39.1% to the level of 310.0 USD/tone, toluen 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/tone 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 PLN/USD, 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 PLN/EUR.

In 2008, the average LTL/USD exchange rate dropped by 6.5% down to the level of 2.36 LTL/USD as compared to the year 2007. The LTL/EUR exchange rate amounting to 3.45 LTL/EUR remained at the same level as in 2007. In 2008, the average CZK/USD exchange rate decreased by 16.1% as compared to the prior year, down to 17.03 CZK/USD. Concurrently, the average CZK/EUR exchange rate dropped by 10.2% down to 24.94 CZK/EUR.

In connection with the exchange rate fluctuation in 2008, PKN ORLEN S.A. noted a negative result on its financing activity mainly due to negative non-realised exchange differences. PLN devaluation contributed also to the increase of financial debt as a result of translation of loans denominated in foreign currencies.

Economic growth and unemployment rate, situation on a global markets

The year 2008 experienced 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 labour market experienced 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. In the Czech Republic and Lithuania the estimated GDP dynamics in 2008 amounted, respectively, to 3.5% and 3.1% while in 2007 it was 6.5% and 8.9% respectively. The GDP dynamics in Germany in 2008 amounted to 1.3% given 2.5% in 2007. The improved situation on the labour market and favourable macroeconomic tendencies have materially affected the sales level for the ORLEN Group's products.

In 2008 the ORLEN Group operated in highly fluctuating market conditions. The financial crisis experienced by the world economy in 2008 led to the decrease 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 listings were critically reduced. The Brent DTD quotations which from the level of 96.95 USD/bbl noted on 1 January increased to 144.23 USD/bbl noted on 3 July, in the second half of the year dropped rapidly down to 33.66 USD/bbl as recorded on 24 December. This factor had a material effect on the revaluation of crude oil inventories and, consequently, the overall result recorded by the ORLEN Group.

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.

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 listings 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. The impairing situation on the market of construction and investment goods translated into a very low demand for PVC and PVC granulated products. In the end of 2008 the most important European markets saw the PVC demand having materially weakened, which fact caused a decrease in product prices with relatively high costs of raw materials. Additionally, the producers were forced to suspend production for some time, specifically in the last quarter of 2008, while keeping a relatively high level of inventories. An unfavourable currency situation experienced in Europe and reflected by a low USD exchange rate additionally enhanced imports from the dollar zone. The Polish market showing a slightly better economic situation as compared to Italy, Spain or Germany became an attractive goal of European producers, which fact, given the strengthening of PLN additionally contributed to the increased competitiveness of imports to Poland.

Inflation

In 2008, the prices were increasing faster than in the prior year. The year 2008 saw the inflation in Poland of 4.2% as compared to 2.5% in 2007 (y/y). The consumer goods and services prices increased due to the strong domestic demand. In the Czech Republic and Germany the inflation in 2008 amounted to 6.3% and to 2.6%, respectively, as compared to 2.8% and 2.3%, respectively, in 2007. In Lithuania the average annual inflation increased from 5.7% in 2007 to 10.9% in 2008.

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 neutralised 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 equalled 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. At the end of 2008 in the Czech Republic the interest rate on lombard loans amounted to 3.25% and bill of exchange rediscount to 1.25% (in the end of 2007 it was 4.50% and 2.50% respectively). PRIBOR 3M increased from 3.09% in 2007 to 4.04% in 2008. The lombard loan rate in Lithuania in 2008 attained the level of 7.46% as compared to 8.34% in 2007. VILIBOR 3M in 2008 amounted to 6.05% as compared to 5.11% in 2007. The interest rate on loans on the European market (including Germany) EURIBOR 3M amounted in 2008 to 4.63%, while in 2007 it was 4.28%. 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).

The way how the mandatory liquid fuel reserves in the Republic of Lithuania are to be created and how the quantities of such reserves are set has been defined in detail in Regulation no. 1901 of 5 December 2002 on approving the procedure for the construction, gathering and maintaining warehouses of crude oil derivative products and oils and the minimum quantities of crude oil derivative products (Journal of Laws no. 117-5255). This Regulation was amended on 28 December 2008 in amendment no. X-115, which entered into force on 1 January 2009. This amendment provides that 90-day mandatory inventories should be gathered by 31 December 2009. The proportions of mandatory reserves also changed. Instead of 50/50 proportion entities should accumulate inventories representing a 60-day value of and the State – a 30-day value. The portion of mandatory reserves lying with the State was reduced and the portion regarding other entities, including the Mazeikiu Group, increased.

The way how the mandatory liquid fuel reserves in the Czech Republic are to be created and how the quantities of such reserves are set is regulated by the Act no. 189/1999 “Mandatory reserves of crude oil” issued by the Parliament of the Czech Republic on 29 July 1999 and amended by Regulation no. 560/2004 of 24 September 2004. The mandatory reserves are maintained by the State Agency at the level of the 90-day net imports of crude oil and are funded from the State budget.

As at 31 December 2008 and 31 December 2007 the gross value of mandatory reserves at the ORLEN Group amounted respectively to PLN 5,261,019 thousand and PLN 4,802,805 thousand.

For further details regarding the mandatory reserves see note 7.10 to the consolidated financial statements for 2008.

Fuel consumption

A change of tendencies in the Polish 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 into an overall financial situation of ORLEN Group. 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 by 6% than the consumption in 2007.

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

In 2008 the consumption of diesel oil in Poland was higher by almost 10% as compared to 2007, which shows a continuous growing tendency in this fuel consumption experienced 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") in Poland decreased by 11% as compared to 2007, which implies a continuous tendency started in 2005 since when a material increase in crude oil prices impaired competitiveness of LHO as heating fuel.

According to estimations from German retail market, the gasoline consumption in 2008 decreased by 3.3% and amounted to 20,584 thousand tones. On the other hand, the consumption of diesel oil increased by 3.4% up to the level of 12,022 thousand tones.

Based on the data from Lithuanian market the gasoline consumption in 2008 decreased by 2.9% as compared to 2007 and amounted to 429 thousand tones. On the other hand, the consumption of diesel oil increased by 1.0% up to the level of 1,133 thousand tones.

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%), Slovakia (approx. 34%).

It is estimated that in 2008 approx. 2,248 thousand tones 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, light heating oil 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. The fuel concerns will have to 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 2008-2013, PKN ORLEN S.A. is obliged to introduce at least 3.45% of biofuels as translated to calorific value. The "Long-term Program for Promoting Biofuels and Other Recoverable Fuels in 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.

Both, the Czech Republic and Lithuania are the EU member states; therefore they have also introduced their index targets and imposed an obligation on the fuel producers to meet these targets. Both foreign Groups are fully prepared to introduce biocomponents to their fuels. Relevant investments, mainly in the area of logistics, were implemented in these countries. Similarly as in PKN ORLEN S.A., the installations for methyl tert-butyl ether (MTBE) operating in Kralupy and Mazeikiu, were adjusted to manufacture ethyl tert-butyl ether (ETBE). In accordance with the EU directive no. 2003/30/EC, incorporated by the Czech legislature, a limit on biocomponents' share in the overall sales of fuels for engines will be at least 5.75% of the power content in 2010. The preparations of Ceska Rafinérska a.s. to meet the above limits relate to the implementation of two investment projects in Litvinov and Kralupy relating to:

- The dosing of MERO (rapeseed oil methyl ester) to diesel oil in the proportion of maximum 5 volume percent of the total volume of the diesel oil production;
- The adding of bioethanol to gasoline in the proportion of maximum 10 volume percent of the total gasoline volume.

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.

In July 2008 the Company Lanturno appointed by the Russian party to coordinate supplies to the Czech direction has significantly reduced the crude oil supplies to the Czech refineries without quoting official reason. According to the information provided to the Company UNIPETROL a.s., the reduced supplies were caused by technical problems on the Russian part. The decreased crude oil supplies from Russia did not affect the production volume of the UNIPETROL Group and were replaced with the crude oil from domestic reserves and from increased supplies through TAL-IKL pipeline via port in Trieste. On the first days of August 2008 the crude oil supplies were restored to the previous level.

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 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 18 to the consolidated financial statements for 2008.

The main risk factors in selected entities from the ORLEN Group include:

Mazeikiu Group

- Supplies of crude oil to the Mazeikiu refineries are carried out by sea, due to the suspended transit via Butynga and exclusion of the “Druzhba” Pipeline delivering crude oil to the Lithuania in July 2006. This fact triggers another risk factor for the safety and stability of supplies, which is weather conditions, particularly in winter. Thus, the main target to be achieved is to ensure safety and stability of supplies to all refineries and the diversification of sources enabling a prompt reaction to potential disturbances or limitations relating to REBCO crude oil supplies. To ensure the above, a project is being implemented in the ORLEN Group involving engineering and economic analyses of the conditions for the diversification of crude oil types processed in the ORLEN Group refineries, its supplies and composing. The analyses conducted for the Manufacturing Plant in Płock were implemented respectively to fit the needs and technological possibilities of UNIPETROL a.s. and AB Mazeikiu Nafta refineries.
  Moreover, PKN ORLEN S.A. plans to commence a construction of a product pipeline from the refinery in Mazeikiu to one of the reloading ports of the Baltic Sea. Currently, the negotiations are pending with the government of the Republic of Lithuania and the management of the Klaipeda Seeport concerning the details of cooperation. Moreover, PKN ORLEN S.A. elaborated alternative scenarios assuming co-operation with other Baltic seeports with the concurrent use of its logistic infrastructure. The first scenario assumes the crude oil importation via Ventspils seeport and the existing pipelines along the border between Lithuania and Latvia with a concurrent change of Butynga terminal’s function to the fuel export, and the other one assumes the use of the seaport in Riga to export AB Mazeikiu Nafta products.

UNIPETROL a.s.

- In November 2006, in relation to the alleged agreement in respect of the production of ESBR (Emulsion polymerised styrene - butadiene rubber) the European Commission imposed a fine on the companies Shell, Dow, Eni, UNIPETROL a.s. and Kaucuk a.s,. UNIPETROL a.s. together with its then subsidiary, Kaucuk a.s., were penalised with a fine of EUR 17.5 million. UNIPETROL a.s. and Kaucuk a.s. paid their fines to the European Commission. Concurrently, both companies appealed to the Court of First Instance in Luxembourg. The court proceedings are currently pending.
  Further to the above decision of the European Commission a claim for losses was served upon UNIPETROL a.s., which was lodged by tyre producers, against all participants of the ESBR agreement, to the Supreme Court of England and Wales. The claimants request damages plus interest to compensate their losses sustained as a result of the alleged agreement. The amount of damages has not been estimated yet. UNIPETROL a.s. questioned the

jurisdiction of British courts for the claims for damages in question. The appeal filed by UNIPETROL a.s. is currently being examined.
Concurrently, the Italian group Eni, one of the entities punished with a fine by the European Commission sent the case to a court in Milan; in this case the group wishes to prove that the ESBR agreement did not actually exist and, therefore, the tyre producers did not suffer any loss. UNIPETROL a.s. was presented with the steps taken by Eni and decided to accede the proceedings as the party;

- In the end of 2007 one of the most significant companies on the Czech railway market, Ceske drahy a.s., split to form a cargo shipper, CD Cargo. The newly established CD Cargo's business focuses on approaching new clients and, thus, enhances competition on the railway transport market. This situation should not however have any adverse impact on the situation of the Company UNIPETROL DOPRAVA s.r.o., which is still one of the two biggest carriers on the Czech market handling hazardous materials and is constantly working to strengthen its position. The main stress has been put on the necessity to purchase electric locomotives which should improve competitiveness of the Company and enhance its cost efficiency.

Anwil S.A.

- The increased production capacities in Asia, specifically in China, triggered changes in the leading PVC producers sales tendencies. China, which is a key player on the PVC market is still planning the implementation of further investments with the aim to increase the production capacities. It is forecast that in 2010 the Chinese economy will be able to process app. 11.6 million tones of PVC, which will represent 22% of the overall worldwide demand. The producers' opportunities to market their goods in Asia are constantly deteriorating and therefore, they address their offers to the European markets which fact enhances competition and significantly affects the level of imports into Polish market, mainly from Germany and Hungary;
- Strong fluctuations of crude oil prices affect the level of prices of all basic raw materials used to produce polymers i.e. ethylene, propylene and benzene. High prices of ethylene adversely affect, however, profitability of the production and sale of PVC;
- The low level of PLN/EUR and PLN/USD exchange rates materially influences the export sales and also enhances competitiveness of import;
- Weak demand in the area of polyvinyl chloride and PVC processing due to the downturn on the construction and investment market in the second half of 2008,
- The Company Zakłady Chemiczne ZACHEM S.A. which was taken over and funded by CIECH S.A. intensified its work on the upgrading of the Chloride Installation and on the construction of the new Installation for the production of Toluenodiamine (TDA) may in the future represent a strong competition on the soda lye market. Moreover, the Company returned to the market of granulated products;
- Prices of natural gas – materially increasing prices of the raw material, which is fundamental for the production of nitric fertilizers and material for the production of vinyl chloride may adversely affect the results of Anwil S.A. and adjust margins in this product area.

Rafineria Trzebinia S.A.

- The following tax proceedings and inspections are still pending:
  - Tax proceedings in respect of determination of excise tax liability for the period May – September 2004;
  - Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and the period January - April 2004;
  - Tax proceedings in respect of determination of value added tax amount for the period January - August 2005;

- The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia S.A.
  The aforementioned contingent liabilities of Rafineria Trzebinia S.A. were described in details in note 18 to the consolidated financial statements for 2008;
- The drop in quotations of crude oil experienced since July 2008 has translated into lower selling prices of crude oil derivative products. Given the fact that in the 3rd quarter the crude oil from inventories which was bought at prices higher than the current quotations was processed, and that the semi-finished products coming from inventories, which were priced at cost higher than the current cost of manufacturing were used, the real margins have decreased;
- The following factors observed in the last months of 2008: a drop in rapeseed oil quotations and reducing spread of biodiesel quotations as well as increasing prices of biofuel mixtures translated into lower real margins on sales.

ORLEN Oil Sp. z o. o.

- Still growing competition on the domestic lubricants market;
- High fluctuations of base oil prices and other refinery products;
- Exchange rate fluctuations.

ORLEN Asfalt Sp. z o. o.

- Material fluctuations of crude oil quotations rendered the prices of asphalts increase by almost 30% yearly, which threatened profitability of many road-related contracts;
- The increasing EUR/PLN quotations enhanced profitability of international sales, specifically in the end of the year, impairing concurrently competitiveness of imports;
- High prices of flux fractions contributed to the decrease in profitability of industrial asphalt production.

Rafineria Nafty Jedlicze S.A.

- A drastic drop in listings of crude oil and crude oil derivative products experienced in the second half of 2008 triggered difficulties with purchase of imported crude oils and represented the main reason of worsening financial results of the Company. The products made out of raw materials and components bought at high prices had to be sold when the market prices were much lower (due to a requisite long technological process) which fact adversely affected the Company's profitability;
- Frequent changes in market prices, which, if the prices drop, trigger a need to mark down inventories produced earlier, frequently below their manufacturing cost. This mainly relates to mandatory reserves of fuel the volume of which is imposed by statutory regulations and is not dependent on the Company;
- The Company's standing is affected by an overall economic situation which may contribute to a falling demand for refinery products and fluctuations of raw material prices which, not easily translated to the product price, may trigger a fall in the production profitability.

ORLEN Deutschland AG

- Strong competition in 2008 has significantly affected the process of shaping margins on the German fuel market and, therefore, the financial result of ORLEN Deutschland AG. This Company will be developing through the implementation of a consistent restructuring process and the expansion of a fuel station network as well as the implementation of the fuel station image improvement program "Facelifting" and "Star excellence";
- The financial standing of the Company ORLEN Deutschland AG has been significantly affected by an overall market condition in Germany, fluctuation of crude oil and fuel prices and stagnation on the volume market in Germany.

ORLEN Gaz Sp. z o. o.

- Slowdown of LPG market growth pace in Poland and continuous consolidation of market in the autogas segment;
- Material improvement in quality of autogas offered at LPG stations resulting from the applicable Act on Fuel Quality Monitoring System (Official Journal of 2006, No. 169, Item 1200);
- Maintained excise tax rate of PLN 695 under the Excise Tax Act;
- The Act of 16 February 2007 on the Reserves of Crude Oil and Natural Gas and the Way of Conduct in the Situations of Threatened Fuel Safety of the State and Disturbances on the Crude Oil Market (Official Journal of 23 March 2007) which increases the costs of business operation in the LPG sector due to the mandatory fuel reserves.

Petrolot Sp. z o. o.

- fluctuating USD exchange rate;
- increased sales volume of aviation fuels related to the intensification of transports by "low-cost" airlines;
- fluctuating prices of aviation fuels;
- bankruptcies of airlines caused by international economic crisis.

For further information of risk factors and threats material for the business operations of the ORLEN Group see note 18 to the consolidated financial statements for 2008.

1.5 Production

In 2008 the crude oil processing volume in the ORLEN Group companies amounted to 28,310 thousand tones and was by 22.5% higher as compared to the prior year. This positive dynamics was a result of a much higher, by (4.2 million tones), processing volume at the Mazeikiu Group.

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 Group to generate in 2008 the yield from white products of 78.0% as compared to 74.9% in 2007. In turn, the yield from fuels in 2008 amounted to 65.8% and was higher by 3.1 pp. as compared to 2007. The increased yields values in PKN ORLEN S.A. were due to better availability of installations in 2008 and higher processing share of light crude oils.

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 Hydrodesulphurisation of a processing capacity of 55 t/h of hydrorafinate, which made possible to use this fraction to produce finished diesel oil or light heating oil;
- From 1 to 21 March 2008 a planned repair standstill of the System of Reforming VI and Diesel Oil Hydrodesulphurisation VI ("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 Systems: Gudron Desulphurisation - from 17 July to 29 August 2008, Reforming V - from 1 June to 23 July 2008, Catalytic Cracking II and Cracked Gasoline Desulphurisation from 29 September to 29 October 2008 as well as Alkylation from 15 September to 30 October 2008;
- The repair standstill of Olefin Manufacturing Unit II and of its all technologically related petrochemical installations from 24 June to 29 July 2008 and the reduction of charge of Olefin Unit in the second half of 2008 due to the lower receipt of ethylene and propylene by BOP and Anwil S.A.;
- Construction of Diesel Oil Hydrodesulphurisation 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 Unit 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.

In December 2007 a reconstruction of the Vacuum Distillation Unit ("VDU") was completed at the Mazeikiu refinery which had been destroyed in the fire in October 2006. In February 2007 the operation of Bitumic Unit ("BDU") was launched, which partly replaced the installation destroyed by fire and, therefore, made it possible to limit the damage. The reconstruction of VDU, following the removal of the destroyed unit was started in February 2007. The launch of this unit operation took place on 20 January 2008 after the reconstructed VDU had been connected to other refinery installations. Following the start-up of the reconstructed VDU the processing capacities of the refinery achieved the level from before the fire in October 2006, i.e. of more than 10 million tones. In autumn 2007 also a significant general repair was carried out together with the modernization works. Consequently, also the overhauls and repairs of more than 450 pipelines, 64 units, 16 reactors were carried out.

In order to make the Mazeikiu refinery compliant with ecological and quality requirements laid down by the European Union and to save significantly on the consumption of energy an investment program is being implemented of the total value of USD 1.6 billion. The program is to be completed in 2012. The program's basic principles involve the construction of new installations, among others: a hydrocracking installation, a visbreaking vacuum system as well as a propylene emission and an exhaust desulphurization system at the Heat and Power Generating Plant. As part of the aforementioned works, in 2008 at the Mazeikiu refinery the diesel oil hydrodesulphurisation installation was modernized. Due to this investment the refinery production was made compatible with the norms compliant with EU standards in respect of sulphur content in diesel oil (up to 10 ppm) applicable from 2009.

1.6 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 in the ORLEN Group amounted to PLN 13,892,765 thousand and was higher by PLN 3,570,821 thousand than as at the end of 2007. At PKN ORLEN S.A., as at 31 December 2008, a growth of financial indebtedness by PLN 3,289,936 thousand was noted as compared to the situation as at 31 December 2007.

Specification (thousand)	2008	2007
Bank loans	12,652,727	8,809,266
Borrowings	34,650	4,285
Debt securities	1,205,388	1,508,393
According to their maturity:		
Long-term	2,610,651	8,602,721
Short-term	11,282,114	1,719,223
Total debt	**13,892,765**	**10,321, 944**
Cash	**1.344.224**	**1.498.232**
Net debt	**12,548,541**	**8,655,755**

As at 31 December 2008 the net financial indebtedness in the ORLEN Group rose as compared to the end of 2007 by PLN 3,724,829 thousand up to PLN 12,548,541 thousand. The increase in the net indebtedness affected a financial net debt to equity ratio (loans, borrowings and debt securities issued less cash to equity) which has increased from 39.1% as at 31 December 2007 to 61.1% as at 31 December 2008.

As at 31 December 2008 the maximum indebtedness level due to bank loans amounted to PLN 16,931,082 thousand, out of which PLN 5,770,166 thousand still remained undrawn, and, as at 31 December 2007, these amounts were PLN 11,415,274 thousand and PLN 4,309,255 thousand, respectively.

In 2008 ORLEN Group held loans and borrowings both in foreign currencies and in polish zloty, mainly with a floating interest rate. To enable ORLEN Group 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. PKN ORLEN S.A. strives for ensuring uniform bank services and centralized management of financial assets for all the ORLEN Group members.

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 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 important loans in 2008 in the ORLEN Group include mainly the loans taken up by PKN ORLEN S.A., including:

- multicurrency loan facility of EUR 1 billion granted 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 granted 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 granted 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 fuel stations chain 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 granted 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 granted 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 granted 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 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 security maturity dates see note 7.16 to the consolidated financial statements for 2008.

1.6.1. 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 instalment 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 instalment was repaid before the maturity date in September 2008.

Interest on the loans granted are calculated based on the floating interest rate, established based on a market terms.

1.6.2 Securities and guarantees

The biggest amount among guarantees granted relates to the guarantees for excise duty. They cover, among others, the excise tax due from harmonized products moved between tax warehouses in Poland and in the 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 by PKN ORLEN S.A.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 relate to liabilities of ORLEN Deutschland AG,
- PLN 105 million for liabilities relating to current activity due to third parties.

1.6.1 Contingent liabilities of the ORLEN Group

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 36,202 thousand. The biggest drop was recorded in respect of the liabilities 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 issued guarantees and other contingent liabilities see note 18 to the consolidated financial statements for 2008.

1.6.3 Issue of bonds

Under an agreement for the issue once of bonds 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.

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 ORLEN Group members, that is to say: 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.

Within the ORLEN Group also Unipetrol Group members and ORLEN Gaz Sp. z o. o. took advantage of the bond issue programs. As at the end of 2008 the PKN ORLEN S.A.'s indebtedness under this program amounted to PLN 791,663 thousand, Unipetrol Group's - PLN 437,664 thousand, and for ORLEN Gaz Sp. z o. o. – PLN 10,000 thousand.

As at 31 December 2008 the maximum indebtedness level as at nominal value due to the bond issue program amounted to PLN 2,289,200 thousand, out of which PLN 1,089,063 thousand remained undrawn, and as at 31 December 2007 it was PLN 2,269,600 thousand and PLN 767,669 thousand, respectively. The nominal value of the bonds issued within the Capital Group as at 31 December 2008 amounted to PLN 1,200,137 thousand and adequately PLN 1,501,931 thousand as at 31 December 2007.

1.6.5 Financial instruments

The financial instruments are described in detail in note 9 to the consolidated financial statements for 2008.

1.7 Assessment of the feasibility of investment implementation

On 25 November 2008 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 modernisation of assets.

The key investments significant for the development of the ORLEN Group include:
- Development and improvement of the refinery complex at AB Mazeikiu Nafta;
- Paraxylene ("PX") and Terephthalic Acid ("PTA") Complex;
- Diesel Oil Hydrodesulphurisation Complex VII ("HON VII") with Hydrogen Installation II;
- Ethylobenzene Installation;
- Modernization and Intensification of Butadiene Installation;
- Construction of the Propylene Production Plant at AB Mazeikiu Nafta;

- Modernization and Intensification of Alkylation installation;
- Modernization and Intensification of the Ethylene Oxide and Glycol installation;
- Construction of Claus II installation with infrastructure;
- Development of vinyl chloride and polyvinyl chloride production plant in Spolana;
- 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 the 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 hierarchised suitably to match the market situation.

It is of priority to maintain the indebtedness level of 30-40% of equity. In 2009 the leverage ratio will increase for some time due to the pending investment projects being in progress. Since 2010 the higher cashflows are expected which in future years will reduce the financial leverage and enable a further dynamic development of the ORLEN Group.

In 2008 in the Unipetrol Group numerous investments were implemented to aim at improving competitiveness through enhancing processing forces, better access to installations as well as through compliance with environmental regulations:

- at Unipetrol RPA s.r.o. the projects were implemented assuming the increased processing capacity of steam cracker installation up to 544 kt/y of ethylene and the related propylene production up to 275 kt/y. Also the benzene distillation installation of the capacity of 250 kt/y was completed.
- the new butadiene installation was carried out at Butadien Kralupy a.s. of the expected production capacity of 120 kt per year. The investment is projected to be completed in 2010.
- new elements of railway rolling stock were bought and already existing elements of railway rolling stock were modernized in Unipetrol Doprava s.r.o.
- changes were introduced in respect of a fuel stations network of Benzina s.r.o., which covered the rebranding and modernization processes relating to the existing stations and auto wash stands. The modernization concerned also a sewage treatment installation.

1.8 Publication of forecast financial results

Estimates in respect of individual macroeconomic factors were presented on the basis of updated principles for the Financial Plan for 2009 and the published strategy for the ORLEN Group for the years 2009-2013. Moreover, 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 4^{th} quarter of 2008 and the whole year of 2008. No significant changes or modifications occurred in the published estimated 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. Group is creation of impairment allowance for the property, plant and equipment and intangible assets in the amount of PLN 2,418,374 thousand.
Detailed information regarding the changes introduced as compared to data published in the condensed consolidated financial statements for the IV quarters 2008 was presented in note 6 to the consolidated financial statements for 2008.

II. MAIN ACHIEVEMENTS IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT WITHIN THE ORLEN GROUP

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 concluded and 25 were amended amounting in total to PLN 7,266 thousand. To compare, in 2007 87 new contracts were concluded and 49 amended, in the total amount of PLN 10,180 thousand.

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

The most important studies and within the scope of technical R&D in the area of core production and environmental protection in PKN ORLEN S.A. in of 2008 include as follows:

- “Technology of rally engine gasolines 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 gasolines 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 gasolines;

- “Assessment of the quality of stabilized hydroraffinate coming from the Diesel Oil Hydrorefining Installation from the Gudron Desulphurisation 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 Desulphurisation 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 Flavour 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 recognizability improved from 55% in December 2007 to 64% in December 2008, and recognizability of VERVA Brand increased in the same period from 61% to 71%, which made the brand 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 is already the 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 and Social Committee. The Medal is awarded to honour 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 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 promotes the changed formula of the enriched fuel offered at ORLEN stations.

Significant ORLEN Group members carried out the following works and activities in the area of technical R&D:

UNIPETROL Group

- The development of polypropylene production technology was directed in such a way so as to obtain the products meeting high quality standards and thus, a higher margin will be generated on copolymers:
  - A new quality type of polypropylene was developed (copolymers RCP FB 908 and GB 802). It is mainly applied in the area of industrial foil production;
  - A new quality type of polypropylene was specified of a high melting index elaborated mainly for the automotive industry and for the creation of composite chemical compounds. A new quality type of the product is characterised with variable production costs being lower as compared to the production costs of similar product types showing similar physical characteristics;
  - Polypropylene (HMS) was developed, which can be used with chemical foaming agents by the recipients to manufacture light-weight plates, tables and profiles;
- The new type of polyethylene was elaborated to be used in the production of clothes and packaging, including packaging for dangerous materials;
- Launch of the production of new products from the petrochemical segment (fractions C9, C10, DCPD):
  - Completion of works on the launch of a new product, namely fraction C10, used to manufacture hydrocarbon resins. The anticipated production capacity amounts to approx. 5-7 thousand tones per year;
  - Completion of works on the launch of dicyclopentadiene and fraction C9. Both products will be manufactured on the basis of the research carried out by Unipetrol a.s. in cooperation with the Institute of Chemical Technology in Prague and the Institute of Non-organic Chemistry in Ústí nad Labem. The anticipated production capacity amounts to approx. 20-26 thousand tones of dicyclopentadiene and approx. 40 thousand tones of fraction C9.
- The work on the use of alternative fuels and optimisation of catalytic processes in refineries in Litvinov and Kralupy.

Anwil S.A.

- Implementation of the project "Reduction of the emission of nitrous oxide from the nitric acid installation as part of the Joint Implementation (JI) program". This project is being implemented in accordance with a mechanism indicated in the Kyoto Protocol enabling a reduction of costs of the undertaking reducing the emission of greenhouse gases. This mechanism provides for the "Emission Reduction Units" in exchange for providing funds to the projects reducing the emissions of greenhouse gases. The way of implementing the project was approved by the Ministry of Environment in the form of the Letter of Approval of 28 January 2008.
  In May 2008 the project was implemented on one of the two nitric acid lines operating in Anwil S.A. The implemented project actually resulted in the reduction of the nitrous oxide emissions. On the other line the project was implemented in July 2008. In 2009 the project will be verified by an independent entity. Following the verification the units issuing ERUs will be transferred to the acquiring entity.

- In July 2008, Anwil S.A. signed a contract for the assembly and start-up of a complete installation of a cryogenic air separation installation (oxygen generating plant). The new oxygen generating plant will be characterised with modern technological solutions and, therefore, it will be less energy-consuming. A new feature shown by the new installation as compared to the existing installation will be the possibility to produce liquid argon, which is very rare on the technical gases market. Furthermore, the installation will assure the provision of nitrogen to the PTA installation which is now under construction. The investment completion is planned for September 2010.

ORLEN Oil Sp. z o. o.

- The implementation of Base Oils Interchange Program ("BOI") with the use of ORLEN Oil base oils, which consists in replacing the base oils used in engine oils which are confirmed to satisfy the API and ACEA requirements with alternative base oils of similar quality. Having developed the technology of high quality engine oils involving the base oils itself ORLEN Oil Sp z o. o. will free from the necessity to import base oils.

  In 2008 the first phase of the BOI program implementation was completed which involved mineral engine oils designed for heavy Diesel engines. The new solutions make it possible to fully use own raw material, i.e. base oils ORLEN Oil Base 150 and ORLEN Oil Base 400. Moreover, a process was launched to obtain certificates for new technologies of diesel oils such as HDDO from equipment manufacturers, e.g.: Mercedes-Benz, MAN, Volvo, Renault, etc.

At present, the second stage of BOI program is being implemented, which aims at obtaining mineral and semi-synthetic oils of PCMO type designed for passenger cars and produced with base oils manufactured by the ORLEN Group. The implementation of the second stage was widened by the newest quality criteria identifying brand engine oils, including the European ACEA classification, 2008 edition, and the newest engine tests required by the biggest car concerns in the process of engine oil certification.

- The work on developing alternative technologies in the core product groups, i.e.: high quality engine oils for heavy diesel engines, HDDO; low quality engine oils PCMO; low quality engine oils HDDO; oils for two-stroke engines; car gear oils; hydraulic oils (certification tests stage), and industrial gear oils;

- Extension of the assortment of oils used in industry.

  Moreover, a technology for MES type plasticizer production was developed with the use of a transitional method based on furfurol extracts and the works were conducted over the technology for producing cutter emulsifying oils with the aim to reduce the costs of raw material input.

- Extension of Platinum Gear oil assortment for manual car gears.

  The Platinum Gear oils supplement the range of Platinum automotive products by providing expert oils for mechanical gears. The oils show very good lubricating qualities, are highly resistant to oxidation and can easily convey loading. Platinum Gear products ensure very good anti-wear qualities and perfectly protect against rust and corrosion. They are granted certificates of ZF mechanical gear producer and the manufacturers of MAN and Mercedes cars.

- Extension of Platinum Ultor oils assortment by two new products:
  - Platinum Ultor CNG CF-4 15W-40 for trucks and busses supplied with compressed natural gas. Meets the requirements of: Mercedes - MB 226.9, MAŃ 3271, Volvo CNG, Renault Truck RGD,
  - Platinum Ultor Max 5W-40, synthetic engine oil of highest quality for the most charged modern high-pressure engines of trucks, construction vehicles and busses.

  Furthermore, in 2008, a dozen or so recipes of oils used in automotive industry were modified in terms of production costs optimization.

- Operational research carried out at Zetor Polska Sp. z o. o. in respect of ORLEN Oil's oils in order to enrol the Company's products on reference lists of lubricating oils recommended by Zetor Polska Sp. z o. o. to be used in the cars they manufacture;

- Completion of operational research in respect of co-operation of engine oils produced by ORLEN Oil with biodiesel.

- Works on optimization of oil unit parameters, including the examination of the influence of the use of raw materials showing various qualities.

- Works on the possibilities of obtaining base oil of viscosity over SN 650.

Rafineria Nafty Jedlicze S.A.

- The work on the design of the initial tower for the Piping and Tower Distillation Unit, including analysis of crude oil coming from PGNiG Sanok in order to define parameters of the installation operation;

- Analytical testing of raw materials from the perspective of their processing on the Solvent Installation;

- Quality analysis of waste oils at the angle of optimisation of technological processes on the Used Oil Distillation Installation and the Used Oil Hydrorefining Installation, assuming a poorer quality of used oils on the Polish market;

- Implementation, as of January 2008, of new base oil lines: series N-70-200 of a broad viscosity range;

- Analysis of solvents sold on the Polish retail market at the angle of packing own products in unit packaging.

ORLEN Asfalt Sp. z o. o.

- In 2008 a pilot production was started of asphalts modified with polymers in accordance with the European Norm PN-EN 14023. Therefore, during some time in the season the Company offered asphalts modified in accordance with two specifications: in accordance with IBDiM Technical Approval (produced from 2003) and in accordance with PN-EN 14023. The interim period for the two specifications ends in winter 2009 when norm PN-EN 14023 is published with a national appendix. Since that moment ORLEN Asfalt will be offering exclusively asphalts modified in accordance with PN-EN 14023. At the end of 2008 the Company obtained a certificate issued by the Company's Production Audit at the authorised certifying unit (PCBC S.A.) required to commence the production in accordance with PN-EN 14023.

III. DESCRIPTION OF FACTORS CRUCIAL FOR THE DEVELOPMENT OF THE ORLEN GROUP

On 25 November 2008 the Supervisory Board adopted the Strategy for the PKN ORLEN Group for the years 2009-2013, which is based principally on the creation of PKN ORLEN S.A.'s value through concentration of activities relating to strengthening effectiveness as well as development and extension of the 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 PKN ORLEN S.A., i.e. telecommunication and chemistry.

The new strategy 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 the Group's 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 planned to be built.

The strategy assumes the following financial goals to be achieved in 2013:
- EBITDA in acordance with LIFO: PLN 7.8 billion;
- ROACE: 11%;
- capital expenditures: PLN 2.5 billion yearly in average; PLN 12.6 billion in total;
- financial leverage ratio: 30-40%.

EBITDA assumed to be achieved in the ORLEN Group in 2013 broken into segments is as follows:

- upstream:	PLN 0.2 billion,
- refinery and marketing:	PLN 4.5 billion,
- retail:	PLN 1.2 billion,
- petrochemistry:	PLN 2.7 billion.

Yearly average capital expenditures projected in 2009-2013 in the ORLEN Group broken by business segments are as follows:

- upstream:	PLN 0.14 billion,
- refinery and marketing:	PLN 1.0 billion,
- retail:	PLN 0.3 billion,
- petrochemistry:	PLN 1.0 billion,
- support functions:	PLN 0.07 billion.

Program for integration with the Mazeikiu and the UNIPETROL Groups

As part of the Value Creation Program ("VCP") and the parallel program "Mazeikiu - Integration", the Directors of PKN ORLEN S.A. together with respective Directors at AB Mazeikiu Nafta are implementing integration initiatives for a period of subsequent 5 years. By the end of 2008, as part of both projects:
- the Supply Chain Management program was implemented under which the ORLEN Group companies can work out a uniform planning and optimisation process;
- the complex "Strategy for Baltic" program was prepared including a project to improve logistics connections between Poland and Lithuania and a project for optimization a logistics infrastructure at AB Mazeikiu Nafta;

- the Company Mazeikiu Nafta Trading House ("MNTH") was reorganised through AB Mazeikiu Nafta taking over the majority of this Company's functions in Lithuania and PKN ORLEN S.A. – in Poland, which resulted in better co-ordination of the production areas, logistics and sale with a simultaneous decrease in the operating expenses;
- such procedures and policies were implemented which mirror best practices applicable at PKN ORLEN S.A. in order to make the operations of the companies throughout the Group uniform and a flow of tasks to be realized in the managed segments easier;
- a new statute was introduced at AB Mazeikiu Nafta, which strengthened the position of the Management and Supervisory Boards.

Moreover, at AB Mazeikiu Nafta a new strategy was developed for the IT area; the new systems were implemented: ORACLE HRMS payroll system and a new system of management reporting as well as a cash management policy. Another element of the integration process is the implementation of the employment restructuring program. In 2008 and 2009 four companies were split out:
- Medical Centre Mazeikiu Nafta;
- UAB Mazeikiu Paslaugos Tau, which provides services in the area of cleaning-up and greenery keeping;
- UAB Remonto Mechanikos Centras, which provides assembly and maintenance services in respect of mechanical appliances and related services;
- UAB EMAS, which provides installation and maintenance services and the like.

In 2008 the integration process of business activities at UNIPETROL a.s. was completed. At the next stage the Company will focus on improving efficiency of the core business operations and on developing co-operation with PKN ORLEN S.A. A further increase in efficiency will be possible due to the optimisation of assets and completion of Paramo a.s. integration.

Retail sale strategy on the Polish market

In accordance with the new strategy the hitherto existing efficient brand-policy will be maintained. 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, dependent on the economic and political environment. The actions undertaken by PKN ORLEN S.A. will focus on further brand strengthening (the most recognisable brand in the region) and on improving effectiveness of sales per station and of margin in respect of non-fuel sales. The key element of the strategy for retail segment involves further rebranding of stations and development of franchise chains.

In 2008 PKN ORLEN S.A. consistently strengthened its market position achieving in the end of the year increase in market share by 4.2 pp. as compared to 2007. Such a high increase in market share is due to the increased sales volume of diesel oil and autogas. 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 gasolines (increase in comsumption by appox. 3%). The year 2008 saw however a declining demand for autogas (decrease of consumption dynamics by app. 2%).
As a result of a consistently implemented investment program started already in 2005, at the end of 2008 the PKN ORLEN S.A. chain comprised 924 Premium stations, i.e. increased by 73 stations as compared to 2007, as well as 406 Bliska stations which increased by of 98 stations (the data includes CODO and DOFO stations). Furthermore, as an effect 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.
In 2008 the non-fuel margin maintained a growing tendency and achieved, in the end of the year, a dynamics of almost 30% as compared to 2007. The increase in margin is an effect of the launch of Stop Cafe Corners at 406 Premium stations and the launch of Stop Cafe Bistros 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.
As a consequence of implementation of the strategy for biofuels, in 2008 PKN ORLEN S.A. commenced to sell bioester (B100) at more than 220 BLISKA stations, which stands for increase of 205 more stations as compared to 2007.

Retail strategy on the Czech market

In 2008 the Company Benzina a.s. was still undergoing the re-branading process into Benzina Plus brand and the modernization of gasoline stations. In 2008, 147 stations operating under the brand of Benzina were modernized. As a consequence of its modernization Benzina a.s. extended its offer for premium fuels by gasoline Verva 100 and diesel oil Verva Diesel. Also the quality of accompanying services was improved, including shops and bars but also on-line terminal to gambling. Moreover, the process comprised more than one half of 110 auto wash stands located at Benzina a.s. stations which were rebuilt or modernized. Owing to its efforts the Company recorded a 5% increase in revenues from non-fuel sales.

In 2009 Benzina a.s. plans to continue with the activities relating to the introduction of a new premium fuel, development of gastronomy points, and improvement of other services standard. Moreover, the Company is working on the implementation of a new cash system, which will make the selling process much easier and prompt. It is also planned to extend cooperation with debit/credit card operators offering cards connected to international systems, that will enable fleet cards to be used both on domestic and foreign markets. As at the end of 2008 the network of fuel stations in the Czech Republic comprised 334 stations owned by Benzina a.s., out of which 107 operated under the brand of Benzina Plus. By the end of 2013 the number of stations is to increased by 53, including 40 franchise and 13 own stations.

German market

Since 2006 the station rebranding process has been consistently implemented with the aim to achieve a better positioning effect of STAR brand on the German market. For 2008 it was planned to rebrand 35 ORLEN branded stations into STAR branded stations. This task was fully completed in the 1st half of 2008. By the end of 2008 additional 8 fuel stations were rebranded. Furthermore, in 2008 the visualization of over 120 stations was changed to a significant extent. Following the new mission and vision of the Company, which assume achievements of the first position amongst the networks in the Northern Germany which are most favourable in terms of price, ORLEN Deutschland AG elaborated a new offer for its clients, i.e. Customer Value Proposition (“CVP”). At the same time the target client groups were identified for the brand, i.e. the consumers with average revenue and representatives of a young generation. All marketing and shopping campaigns were tailored to attain these two targets: i.e. CVP and satisfaction of the needs of two specific client groups. Moreover, in the end of 2008, the “Star Excellence” program started, which assumed a profitable growth of the network through further acquisitions, increase in the volume by taking advantage of identified potentials presented by individual stations within the existing network, better recognizability of Star brand among German clients and constant improving the attractiveness of Star brand through active sale, tidiness and an attractive shopping offer.

Retail strategy on the Lithuanian market

In Lithuania the retail sale network is being created at three stages of project implementation which, in a five years’ perspective, should enable the Capital Group to obtain a 9% share in the market. At the first and second stages, take-overs of selected facilities and preparations are planned with the aim to launch construction investments and to start up the newly built fuel stations. The stage involving take-overs of selected facilities and preparations to construction investments ended at the end of 2008 with a result of 35 fuel stations, including 26 own stations and 9 DOFO stations. From amongst 26 own stations, 22 operate under ORLEN Lietuva brand and the other four under Ventus brand. At all the ORLEN Lietuva stations the shops are operated offering a new client-friendly layout and innovative gastronomic offer introduced by “Stop Café Bistro” brand. The menu was prepared on the basis of an original recipe elaborated specifically for the ORLEN network. A high non-fuel sales dynamics achieved in 2008 proves that the implementation of a new shop and bistro offer was favorable for clients. By the end of 2009 it is planned to launch five fuel stations under the ORLEN Lietuva brand out of which three are the already operating stations to be reconstructed. As at the end of 2009 the Company AB Ventus Nafta will be managing 37 fuel stations including 28 own stations. The anticipated share in the Lithuanian market as at the end of 2009 will amount to 7%. The last, third stage by 2013 will involve the strengthening of the network position in Lithuania and the implementation of new facilities construction plans. During the period of procurement and construction plans implementation, the ORLEN Group network will be supplemented with units operated under franchise. The number of such units by the end of 2013 should be approximately 31.

Human Resources Management Strategy

The human resources management policy is a key element of the corporate strategy since it supports activities carried out in the business areas designed to attain the strategic goals set. These activities significantly affect the image of PKN ORLEN S.A. as a leading employer who meets the highest personnel recruitment and selection standards applied on the market.

The recruitment policy at PKN ORLEN S.A. is closely bound to the human resources development policy and remains open for the social environment within and outside the Company. With a view to the professional development of the employees, recruitment procedures have always been first addressed to the ORLEN Group employees.

The 2008 recruitment policy at PKN ORLEN S.A. was primarily based on the following premises:
- ensuring continuity of activities supporting business processes;

- taking steps in pursuit of the recruitment policy with corporate values, corporate governance and social responsibility of business;
- providing support for restructuring projects implemented at PKN ORLEN S.A. in terms of recruitment, assessment, selection and allocation of employees working in the restructured areas to other business areas;
- developing and implementing solutions designed to ensure the development of and retain PKN ORLEN S.A.'s employees, especially with regard to the managerial staff.

The following schemes were implemented at PKN ORLEN S.A. in 2008 as part of the human resources management activities:
- a Student Internship Program designed to build a positive image of PKN ORLEN S.A. among young people who choose their professional path and are about to make their employment decisions. In 2008 315 persons participated in the Student Internship Program, including 68 and 247 persons trained under individual and group internship schemes, respectively;
- a Graduate Internship Program which gives the interns an opportunity to verify their own competences in the working environment and allows the employer to monitor the interns' skills. During the internship, the interns are supported by their supervisors. The Graduate Internship Program produced a lot of skilled professionals who joined the PKN ORLEN S.A. structures.

Collective Labor Agreement

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, 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, i.e. with respect to recruitment, development and promotion processes, as well as remuneration and bonus rules, and also in the employee evaluation system designed to assess the employees' professional skills. 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.

Upstream activities

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

With respect to the exploration and upstream issues, the updated strategy of PKN ORLEN S.A. is completed by a plan of acceleration of the development process of the upstream activities by ensuring access to the Company's own raw materials and facilitating the development of the oil trade. Given the foregoing, 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;
- Analysing 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;
- Analysing 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 potential cooperation;
- Working out assumptions together with Polskie Górnictwo Naftowe i Gazownictwo 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 recognised deposits. The project operator will be PGNiG S.A.

Logistics

An important element which helps to strengthen the ORLEN Group's competitive advantage is a further development of the logistics segment. One of the major undertakings in this respect is the construction of a product pipeline from the Mazeikiu refinery to a sea terminal which will bring about an increase in the export volume and a reduction of transportation costs. New sections of product pipelines will also be constructed in Poland between Ostrów Wielkopolski and Wrocław, and Boronów and Trzebinia. PKN ORLEN S.A. also plans to intensify 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 centres.

In 2008 steps were taken in the logistics sector to strengthen the strategic position of PKN ORLEN S.A. These activities were mainly oriented on safety improvements by supporting strategic incentives for the development of the logistics infrastructure: construction of product pipelines and increase in raw material and fuel storage capacities. Special attention was given to developing solutions to maintain and increase the pipeline transport safety and to store mandatory and operating reserves. Given that the operational capacity of IKS Solino is being increasingly limited, PKN ORLEN S.A has taken steps to develop a "Cavitiy Strategy". By taking these measures PKN ORLEN S.A. also lives up to its obligations resulting from a change in the regulations on the safety, volume and structure of obligatory reserves and recommendations of the International Energy Agency. In view of the increasing deficit of the storing capacity on the Polish market, PKN ORLEN S.A. started to work on a detailed plan to extend the time of using the existing underground oil and fuel warehouses with due regard to operational and safety issues.

Loyalty programs

The FLOTA Program is designed for institutional clients with their own means of transport. With fleet fuel cards, goods and services can be acquired in cashless transactions at PKN ORLEN S.A.'s fuel stations. The program is mainly used by forwarding agents, entities dealing with trading, production and service provision, banks, central and local authorities and foreign representative authorities.

In 2008 PKN ORLEN S.A. introduced a lot of amenities for its clients using fleet cards. In March 2008 a modernized interactive portal for the participants of the FLOTA program was launched to enable them to manage their fleets via internet without leaving the office or drawing up unnecessary documents.

Additionally, pursuant to an agreement with D.A.S. Towarzystwo Ubezpieczeń Ochrony Prawnej S.A. ("D.A.S."), holders of the ORLEN Group fleet cards can be provided with legal protection insurance for owners and drivers of mechanical vehicles. The legal protection insurance is a modern insurance product which helps to reduce costs to be incurred in pursuit of claims before courts. The insurance policy provided by D.A.S. covers all the costs pertaining to the court stage of disputes and ensures legal aid. Services comprised in the legal protection insurance are new on the fuel card market. The decision to include add them in the package offered in the FLOTA Program was connected with extend of the offer addressed to institutional clients, provide them with the most improvements and amenities as part of the fleet-related services and encourage car fleet managers to use the program offered by the ORLEN Group.

Under another agreement executed by PKN ORLEN S.A. with MOTO-PROFIL, car fleets can use the Moto-Flota program encompassing the service management. The Moto-Flota is a specialist system designed to manage car vehicle servicing, which associates over 200 independent and authorised service points which charge the same prices and follow the same inspection and repair procedures. The Company's employees have extensive experience in the automobile industry and the provision of services to fleet clients. They ensure advice, technical support, cost optimization and coordination of activities related to car inspections and repairs.

Under the expanded FLOTA Program the clients can also collect Vitay points when buying premium fuels. Previous fleet card users could collect points only after they bought promoted products in the shop or service points (working oils and a car wash stand).

Additionally, since the previous year, clients can tank at twelve PKN ORLEN S.A.'s stations a substance reducing harmful particles named Adblue directly from the dispenser. The substance is mainly used in the new generation diesel engines with the Selective Catalic Reduction (SCR) technology. Most European van truck and bus producers use the SCR technology in their latest models in order to achieve low emissions of harmful substances required to comply with the European standards Euro IV and Euro V. The Adblue dispenser is located close to a TIR dispenser. This means that both a high-performance ON dispenser and a separate Adblue dispenser can be used at the same time without having to change the pump island.

A wider offer and the achievements of the FLOTA Program have been noticed and appreciated by both the clients and the fleet market experts in Poland which is evidenced by the fact that the fleet cards of PKN ORLEN S.A. have been awarded the title of the Fleet Product of the Year in the Polish Fleet Awards 2008 competition organised by the Magazyn Flota and the Fleet Management Institute Central-Eastern Europe.

For the time being, the fleet cards are recognised at over 1700 ORLEN and BLISKA petrol stations which means that fleet transactions are carried out all over Poland.

Strategy realization by ORLEN Gaz Sp. z o. o.

In 2008 ORLEN Gaz Sp. z o. o. implemented the adopted "Energy Safety Strategy" which was mainly designed to diversify sources from which liquid gas is supplied, extend the warehousing and reloading centres and optimize the distribution network with a view to offering competitive prices and ensuring sustainable deliveries.
The major objective of the strategy is to increase the market share, limit seasonal price fluctuations and ensure energy safety in LPG.
As provided in the development strategy, the Company carried out investments aimed at extending the logistics facilities. In June 2008 an LPG Terminal was launched in Sokółka and in January 2009 an LPG Sea Terminal was opened in Szczecin. The Sokółka Terminal is one of the most modern facilities of that type in Poland. Over 1.5 thousand tones of liquid gas can be loaded within 24 hours at two road tanker bays, four broad gauge rail tanker bays and four standard gauge rail tanker bays. The target storing capacity of the Sokółka terminal is 1.600 m^3. In 2009 ORLEN Gaz Sp. z o. o. will finish the extension of the container park by two containers, each of 500 m^3 volume. The Sea Terminal was constructed with a view to the operations related to collecting, storing and disposing of liquid gas, which means that LPG is loaded off the ship, stored in three containers of the total volume of 4,500 m^3 and loaded on road vehicles. The terminal is designed for the discharge of tankers with a displacement of ca. 6,000 DWT. It has three fully automated bays for road tanker reloading and two for rail tankers, as well as 10 parking spaces for road tankers and side tracks for 30 rail tankers.

At the same time, ORLEN Gaz Sp. z o. o. implements a divestment process. In 2008 the Company put on sale several of its liquid gas bottling plants and segments related to the bottled liquid gas and domestic gas installation market. The bottling plants in Wrocław and Redaki and the real estate in Złotów were sold as early as in 2008, whereas in March 2009 ORLEN Gaz Sp. z o. o. sold the domestic installation segment.

In pursuit of the strategy, ORLEN Gaz Sp. z o. o. intends to increase its share in the domestic LPG market up to 26%. As early as in 2008, the Company share increased up to over 22%.

ORLEN Oil Sp z o. o.

An important factor in ORLEN Oil Sp. z o. o.'s development is a concept determining different directions of the organisational change within the ORLEN Group. It assumes that oil assets of the group will be concentrated around ORLEN Oil Sp. z o. o., and specifically, that the activity will be continued based on its own three production centres in Płock, Trzebinia and Jedlicze, and the Czech assets, as far as possible and reasonable.
In 2008 the situation of ORLEN Oil Sp. z o. o. was determined by unstable economic conditions. In the first six months of 2008 product prices on the lubricant market were dramatically changing at an unprecedented rate as a result of rising raw material prices. Whereas in the first half of the year the oil prices reached record levels, they dropped over the following months to reach the lowest level to be seen for many years. The economic situation was reflected in the demand on the lubricant market. It is estimated that the market absorption rate in 2008 will reach the level of ca. 228 thousand tones to shrink to 217 thousand tones in 2009.

As a result of the market crisis, the demand for lubricants, both in the industry and in the automotive sector, dropped by almost 8% as compared with 2007 and disturbing news from the market about shrinking orders and limited production in the industrial sector caused a further decrease in demand.

Rising prices of oil products and exchange rate fluctuations may also pose a significant risk for the Company. In order to minimize their consequences, the Company is gradually increasing the sale volume on the EUR and USD markets.

ORLEN KolTrans Sp. z o. o.

The adjustment of Polish law to EU regulations pertaining to the availability of the railway infrastructure has paved the way for private foreign operators to enter the Polish market. In order to improve its competitiveness, the Company still raises the quality of services provided by acquiring a specialised railway stock, increasing the number of rail vehicles and, at the same time, offering competitive prices. Further development of the Company is related to the development of licensed transport and increasing the volume of charged, discharged and conveyed oil products. An important factor affecting the development of the Company is still the extent to which the railway transport is more attractive than other means of transport.

IKS SOLINO S.A.'s Strategy

In 2008 the Company was involved in the work on the development of a new cavitiy strategy for the ORLEN Group under which a strategy for IKS Solino S.A. is being developed. The strategy which is being developed by the Company sets two main directions of the strategic development of IKS Solino S.A. which comply with the needs of the ORLEN Group:

- Striving to optimize the operating functions in the Underground Oil and Fuel Storage Site in Góra;
- Constructing new storage sites for liquid and gas hydrocarbons to satisfy the needs defined by the ORLEN Group companies;
- Constructing a system of mines connected by pipelines which increases operational capabilities and ensures more reasonable resource management.

With an increasing market demand for the industrial brine and services involving storage of liquid and gas hydrocarbons in salt cavities, new deposits have to be launched and managed for the purpose of their extraction and storage.

IV. THE STRUCTURE OF THE ORLEN GROUP AND CHANGES THERETO IN 2008

In the end of 2008 PKN ORLEN S.A. held shares directly and indirectly in:
- 85 subsidiaries,
- 6 jontly 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 ORLEN Group (directly affiliated and consolidated companies in 2008) are divided into two main groups:

4.1 Core business companies

4.1.1 Segment companies (by sales volumes)

- AB Mazeikiu Nafta with its seat in Juodeikiai in Lithuania together with its own Capital Group,
- UNIPETROL a.s. with its seat in Prague together with its own Capital Group,
- Anwil S.A. with its seat in Włocławek together with its own Capital Group,
- Basell Orlen Polyolefins Sp. z o. o. with its seat in Płock together with its own Capital Group,
- Rafineria Trzebinia S.A. with its seat in Trzebinia together with its own Capital Group,
- ORLEN Asfalt Sp. z o. o. with its seat in Płock,
- ORLEN Oil Sp. z o. o. with its seat in Cracow together with its own Capital Group,
- Rafineria Nafty Jedlicze S.A. with its seat in Jedlicze together with its own Capital Group,
- Inowrocławskie Kopalnie Soli „Solino" S.A. with its seat in Inowrocław,
- ORLEN Upstream Sp. z o. o. with its seat in Warsaw,
- Etylobenzen Płock Sp. z o. o. in liquidation with its seat in Płock.

4.1.2 Fuel and gas selling companies (by sales volumes)

- ORLEN Deutschland AG with its seat in Elmshorn,
- ORLEN PetroCentrum Sp. z o. o. with its seat in Płock,
- ORLEN PetroTank Sp. z o. o. with its seat in Widełka next to Kolbuszowa,
- Petrolot Sp. z o. o. with its seat in Warsaw,
- ORLEN Gaz Sp. z o. o. with its seat in Płock together with its own Capital Group,
- ORLEN PetroProfit Sp. z o. o. with its seat in Niemce next to Lublin together with its own Capital Group,
- ORLEN Morena Sp. z o. o. with its seat in Gdańsk,
- ORLEN PetroZachód Sp. z o. o. with its seat in Poznań,
- Ship-Service S.A. with its seat in Warsaw together with its own Capital Group.

4.2 Supplementary business companies

4.2.1 Transportation companies (by sales volumes)

- ORLEN KolTrans Sp. z o. o. with its seat in Płock,
- ORLEN Transport S.A. with its seat in Płock.

4.2.2 Maintenance companies (by sales volumes)

- ORLEN Automatyka Sp. z o. o. with its seat in Płock,
- ORLEN Wir Sp. z o. o. with its seat in Płock.

4.2.3 Other companies (by sales volumes)

- ORLEN Projekt S.A. with its seat in Płock,
- ORLEN Budonaft Sp. z o. o. with its seat in Krakowie,
- ORLEN Księgowość Sp. z o. o. with its seat in Płock,
- ORLEN Laboratorium Sp. z o. o. with its seat in Płock,
- ORLEN Administracja Sp. z o. o. with its seat in Płock,
- Petrotel Sp. z o. o. with its seat in Płock,
- ORLEN Medica Sp. z o. o. with its seat in Płock together with its own Capital Group,
- ORLEN Eko Sp. z o. o. with its seat in Płock,
- ORLEN Prewencja Sp. z o. o. with its seat in Płock,

- ORLEN Insurance Ltd with its seat in Selima on Malta,
- Płocki Park Przemysłowo-Technologiczny S.A. with its seat in Płock,
- ORLEN Finance with its seat in Stockholm,
- ORLEN Powiernik Sp. z o. o. with its seat in Płock,
- ORLEN International Exploration & Production Company BV with its seat in Amsterdam.
- ORLEN Holding Malta Limited with its seat in Selima on Malta.

4.3 Ownership changes in the ORLEN Group in 2008

The structure of the ORLEN Group as regards consolidated companies and material shares and stock held in affiliates and other entities is presented in notes 3 and 7.6 to the consolidated financial statements for 2008.

The basic changes in organisational and capital relations in the ORLEN Group that occurred in 2008 and unitl this Report has been drawn up, 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 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 without limitation fuel transport. The investment of PKN ORLEN S.A. in the shares of ORLEN Transport S.A. is a long-term investment;

- Transfer, on 18 January 2008, of the ownership of 47 thousand shares in the Company AGROBOHEMIE a.s. and 26,448 thousand shares of the nominal value of CZK 40 and 1,530 thousand shares of the nominal value of CZK 400 in the Company Synthesia a.s., from the Company UNIPETROL a.s. to the Company DEZA a.s. The shares were transferred on the basis of two agreements executed on 31 October 2007 between UNIPETROL a.s., as the seller and the Company DEZA a.s., as the buyer. On the basis of the agreements UNIPETROL a.s. sold to DEZA a.s.:
  - 47 thousand ordinary shares in AGROBOHEMIE a.s., representing 50% of AGROBOHEMIE a.s.'s share capital and the same number of votes at the General Meeting of AGROBOHEMIE a.s. The nominal value of one share of AGROBOHEMIE a.s. amounted to CZK 10.8 thousand (i.e. approx. PLN 1,494 at the average CZK/PLN exchange rates of the National Bank of Poland as at 18 January 2008);
  - 26,448 thousand ordinary bearer shares in Synthesia a.s., representing 24.58% of Synthesia a.s.'s share capital and the same number of votes at its General Meeting. The nominal value of one share of Synthesia a.s. amounted to CZK 40 (i.e. approx. PLN 5.5 at the average CZK/PLN exchange rates of the National Bank of Poland as at 18 January 2008);
  - 1,530 thousand ordinary bearer shares in Synthesia a.s., representing 14.21% of Synthesia a.s.'s share capital and the same number of votes at its General Meeting. The nominal value of one share of Synthesia a.s. amounted to CZK 400 (i.e. approx. PLN 55 at the average CZK/PLN exchange rates of the National Bank of Poland as at 18 January 2008).

  The total price of AGROBOHEMIE a.s. shares amounted to CZK 503 million (i.e. approx. PLN 69.6 million at the average CZK/PLN exchange rates of the National Bank of Poland as at 18 January 2008). The total price of Synthesia a.s. shares amounted to CZK 680 million (i.e. approx. PLN 94 million at the average CZK/PLN exchange rates of the National Bank of Poland as at 18 January 2008);

- Registration, 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 include without limitation: 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 amount 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;

- Acquisition, on 9 April 2008, by OIEP from Odin Energi A/S with its seat in Hellerup, Denmark, ("Odin Energi") of shares in the Company Odin Energi Latvija.

  Under the Agreement, OIEP acquired from Odin Energi 500 shares in Odin Energi Latvija, each of the nominal value of LVL 5 (i.e. approx. PLN 24.8 at the average PLN/LVL exchange rates of the National Bank of Poland as at 9 April 2008), representing 50.0% of Odin Energi Latvija's share capital and 50.0% of votes at the general meeting of Odin Energi Latvija. The agreement was executed concurrently with an agreement for the purchase of the remaining 50.0% shares in Odin Energi Latvija by PKN ORLEN S.A.'s partner, Kuwait Energy Company. Kuweit Energy Company bought the shares via its subsidiary, Kuwait Energy Netherlands Corporation.

  The price for the acquired shares amounts to USD 950 thousand (i.e. approx. PLN 2,090 thousand as at the PLN/USD average exchange rates as at 9 April 2008) and was covered with the own funds of OIEP. The ownership of shares in Odin Energi Latvija to OIEP will be transferred upon the payment of price for the shares bought. The carrying value of the acquired shares recorded in OIEP's books will be equal to their acquisition price.

  The OIEP's investment in the Odin Energi Latvija shares is of a long-term nature. The purchase of shares in Odin Energi Latvija gives right to a 45.0% share in the concessions for crude oil and natural gas upstream activities in the Latvian economic zone of the Baltic Sea.

  The business activities of Odin Energi Latvija include mainly hydrocarbon exploring, identification and excavation;

- Registration, on 19 May 2008, with the Lithuanian commercial register, of the Company UAB Mazeikiu Nafta Paslaugos Tau z o. o. The Company AB Mazeikiu Nafta executed, on 10 May 2008, the Formation Deed of UAB Mazeikiu Nafta Paslaugos Tau. AB Mazeikiu Nafta acquired in UAB Mazeikiu Nafta Paslaugos Tau 500 thousand shares, each of the nominal value of LTL 1 (i.e. approx. PLN 0.98 at the average PLN/LTL exchange rate of the National Bank of Poland as at 19 May 2008). The acquired shares represent 100.0% of the share capital and 100.0% of votes at the General Meeting of UAB Mazeikiu Nafta Paslaugos Tau.

  The initial price of the acquired shares was paid by AB Mazeikiu Nafta with cash in an amount of LTL 125 thousand (i.e. approx. PLN 122.5 thousand at the average PLN/LTL exchange rate of the National Bank of Poland as at 19 May 2008). The remaining part of the price for the acquired shares, i.e. LTL 375.0 thousand (i.e. approx. PLN 367.5 at the average PLN/LTL exchange rate of the National Bank of Poland as at 19 May 2008) will be covered by AB Mazeikiu Nafta in cash within 12 months of the date of signing the UAB Mazeikiu Nafta Paslaugos Tau Formation Deed.

  The core business activities of UAB Mazeikiu Nafta Paslaugos Tau include among others: catering services, cleaning and maintenance services and gardening services;

- 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 t 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. having acquired 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 dated 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 EUR (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.

- Execution, on 30 December 2008, between Rafineria Nafty Jedlicze S.A. and "MO-BRUK" J. Mokrzycki Spółka Komandytowa of a sales agreement concerning the shares in the Company Raf-Ekologia Sp. z o. o.

  As a result of the agreement having been concluded "MO-BRUK" J. Mokrzycki Spółka Komandytowa bought from Rafineria Jedlicze S.A. 6,362 shares in Raf-Ekologia Sp. z o. o. of the nominal value of PLN 100 each, i.e. of the total nominal value of PLN 636.2 thousand, representing 92.7% of the share capital of the Company Raf-Ekologia Sp. z o. o. and 92.7% of votes at the Shareholders' Meeting of the Company Raf-Ekologia Sp. z o. o., for the price of PLN 1,500 thousand.

  The selling price was paid by "MO-BRUK" J. Mokrzycki Spółka Komandytowa in cash on the day preceding the transaction. The ownership of the shares sold was transferred as at the moment when the agreement was signed.

  As a result of the transaction having been executed Rafineria Jedlicze S.A. does not hold any shares in the share capital of Raf-Ekologia Sp. z o. o.

- Resolving, on 11 February 2009, by the Extraordinary Shareholders' Meeting of ORLEN Powiernik Sp. z o. o. on dissolution of the Company and appointing a liquidator.

  The share capital of ORLEN Powiernik Sp. z o. o. amounts to PLN 50 thousand and is divided into 100 equal and indivisible shares, each of the nominal value of PLN 500. PKN ORLEN S.A. holds 100% in the share capital of ORLEN Powiernik Sp. z o. o.

  In 2009 a petition to open liquidation proceedings was filed with the District Court for the capital city of Warsaw, XIV Business Division of the National Court Register.

- Signing, on 20 February 2009, by AB Mazeikiu Nafta of a formation deed of the Company UAB Remonto Mechanikos Centras and take-up of 6,200 thousand shares in UAB Remonto Mechanikos Centras, each of the nominal value of LTL 1 (i.e. approximately PLN 1.3752 at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009) representing 100% of the share capital of UAB Remonto Mechanikos Centras and 100% of votes at the Shareholders' Meeting of the Company UAB Remonto Mechanikos Centras, for the price of LTL 6,200 thousand (i.e. approximately PLN 8,526.2 thousand, at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009).

  The initial contribution for the acquired shares amounting to LTL 1,550 thousand (i.e. approx. PLN 2,131.6 thousand, at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009), was paid by AB Mazeikiu Nafta in cash. The outstanding portion of the nominal amount will be paid by AB Mazeikiu Nafta in form of cash contributions within 12 months of the moment when the formation deed has been signed. The investment of AB Mazeikiu Nafta in UAB Remonto Mechanikos Centras is a long-term investment.

  The core business of UAB Remonto Mechanikos Centras includes installation and maintenance of mechanical appliances and auxialiary services rendered to legal entities and individuals.

- Signing, on 20 February 2009, by AB Mazeikiu Nafta of a formation deed of the Company UAB EMAS and take-up of 5,200 thousand shares in UAB EMAS each of the nominal value of LTL 1 (i.e. approximately PLN 1.3752 at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009) representing 100% of the share capital of UAB EMAS and 100% of votes at the Shareholders' Meeting of the Company UAB EMAS, for the price of LTL 5,200 thousand (i.e. approximately PLN 7,151 thousand, at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009).

The initial contribution to the acquired shares amounting to LTL 1,300 thousand (i.e. approx. PLN 1,787.8 thousand, at the average LTL/PLN exchange rate of the National Bank of Poland of 2 March 2009), was paid by AB Mazeikiu Nafta in cash. The outstanding part of the nominal value wil be paid by AB Mazeikiu Nafta in form of cash contributions within 12 months of the moment when the formation deed has been signed. The investment of AB Mazeikiu Nafta in UAB EMAS is a long-term investment.

The core business of UAB EMAS includes installation and maintenance of electrical appliances and auxialiary services rendered to legal entities and individuals.

V. CHANGES IN ORGANISATION AND MANAGEMENT OF PKN ORLEN S.A. AND THE ORLEN GROUP MEMBERS

In the end of 2008 the Organisational Rules and Regulations implemented by the Company's Management Board by virtue of Order 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 for indefinite time Mr Piotr Kownacki in performance of his duties as the President and Member of the Management Board of PKN ORLEN S.A. 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 the Management Board, on 4 March 2008, re-assigned duties and powers amongst the Management Board Members in the following way:

- Vice-President of the Management Board, 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, 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, Organisation and Capital Group – organisation 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 Member:

- 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 post 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 soures.
- 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 sector underwent restructuring. Since 1 October 2008 five Logitsics Regions have been liquidated and the primary and secondary logistics functions were centralized to enable better monitoring and management of inventories at stations and fuel supplies. Other steps taken in this area pertained to simplifying fuel trading procedures on terminals and centralization of planning in respect of warehousing centres 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 undergo the analysis, the project of process automatization 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.

In 2008, the Mazeikiu Group was still undergoing the process of integration with PKN ORLEN S.A. launched in 2007 in the area of sales, production, logistics, finance and IT. Therefore, the internal procedures and regulations were modified to comply with PKN ORLEN S.A. standards. On 30 April 2008 the General Meeting of Shareholders of the Company AB Mazeikiu Nafta approved the new statutes which introduced a corporate governance model by strengthening the position of the Management and Supervisory Boards. As a consequence of the Company's statutes, an annex to the Shareholders Agreement was also amended.
In 2008 the organizational structure was altered in key areas to improve cooperation between respective segments of PKN ORLEN S.A. and the Mazeikiu Group and to enhance involvement of PKN ORLEN S.A. managers in setting goals and their implementation.
The year 2008 were optimized organisational structures of the Company AB Mazeikiu Nafta in the area of sales. The Lithuanian business of the Company Mazeikiu Nafta Trading House was incorporated in the structures of the Company AB Mazeikiu Nafta. The Company was still undergoing the split-out of processes not relating to the core operating activities. Consequently, in 2008 two companies were set up: UAB Mazeikiu Nafta Health Care Center and UAB Paslaugos Tau providing services in respect of health care and catering, cleaning-up and internal maintenance.

In 2008 further steps were taken pertaining to the organizational restructuring of the UNIPETROL Group to comply it with the segment structure of PKN ORLEN S.A.. As part of the implementation of the Corporate Governance model statutes of individual companies were amended to make the operations more flexible and to match them to market conditions. Significant changes via amendment of the Company's statutes were implemented in the Company UNIPETROL a.s., that is to say the number of Supervisory Board Members was reduced from twelve to nine, the number of members of Committeess operating at the Company's Supervisory Board was reduced from four to three and the Supevisory Board's scope of competence was extended to encompass the giving of consents to the Management Board's activities not only relating to UNIPETROL a.s. taking loans or other borrowings from third parties but also in respect of UNIPETROL a.s. extending loans and lending to third parties. Also the duties of Management Board Members were made more precise in the case of a conflict of interests. Further to the new Organisational Rules and Regulations having been adopted individual segments of business operations were assigned to relevant responsible members of the Management Board and, furthermore, the liability for subsidiaries was assigned accordingly.

Acquisition and restructuring processes are further implemented with the aim to put in order the assets of the UNIPETROL Group. In January of the current year a transaction was closed relating to the settlement with the Company DEZA a.s. in respect of the transfer of 50.0% of shares in AGROBOHEMIE a.s. and 38.8% of shares in the Company Synthesia a.s. as a result of which the Company DEZA a.s. waived its claims for the overall accumulated agreement penalties, compensations and interest. A 3.73% share in the Company Paramo was bought from PKN ORLEN S.A. This acquisition enabled the Company UNIPETROL a.s. to exceed the threshold of 90% in the share capital of Paramo, which was required to start up a squeeze-out process. The squeeze-out process in Paramo is being continued in 2009. Following the restructuring of UNIPETROL TRADE a.s., its subsidiaries were closed, including those in Italy, Spain, Great Britain or France. As a result of the merger of the companies in Germany one subsidiary of UNIPETROL TRADE a.s. was established.

In 2008 at the Rafineria Nafty Jedlicze S.A. Capital Group the works related to the segment management system implementation was continued. It involved implementation of uniform procedural regulations in the key segments of the ORLEN Group's operations. Moreover, in the 1st half of 2008 the "Procedure for the Conduct during the Implementation of Capital Investment Projects and Capital Divestment Projects" was implemented. Concerning the incentive system for the managerial staff of Rafineria Nafty Jedlicze S.A. and Management Boards of the companies – members of Rafineria Nafty Jedlicze S.A. Capital Group an MBO model was implemented. Moreover, on 31 December 2008 the companies: Rafineria Nafty Jedlicze S.A. and RAF-ENERGIA Sp. z o. o. merged by a take-over of RAF-ENERGIA Sp. z o. o. by Rafineria Nafty Jedlicze S.A. This change, by centralizing the production and the distribution of power carriers in one organizational structure, favourably affected both the optimization of costs of operation and labour, as well as improved the process of production and transmission management and the process of investment and modernization in respect of the manufacturing and selling power carriers at Rafineria Nafty Jedlicze S.A. In 2008 the Company ORLEN Oil Sp. z o. o. incorporated a plant manufacturing Oils and Lubricants in Jedlicze which it had bought from Rafineria Nafty Jedlicze S.A. The unit underwent restructuring processes.

In 2008 at Rafineria Trzebinia S.A. the logistics sector were reorganization. Among the new Bureau of Logistics two divisions were created: Logistics and Technical Handling of Logistics. Additionally, a new organisational unit was established under the Representative responsible for Restructuring that directly reports to the President of the Management Board. As part of trading services the trading department was assigned directly to the scope of responsibilities of the President of the Management Board and the division for which the Chief Financial Officer was formerly responsible and IT division were directly assigned to the scope of responsibilities of the Member of the Management Board.
On 18 November 2008, within the division for which the President of the the Management Board was responsible the Trading and Procurement Departaments were incorporated to the Trading Bureau. Moreove, the position of Chief Financial Officer was liquidated and the position of Chief Controller was created, reporting directly to the Member of the Management Board that was responsible for the Controlling Department.

In 2008, the Anwil S.A. Group experienced the organisational changes in the Company Spolana a.s.. The reorganization related to Polyvinyl Chloride and Caprolactam business units which were formerly independent and responsible for production and sale. During 2008 the units which operated as divisions responsible for logistics, strategy, integration and techniques were liquidated. The changes introduced were aimed at simplifying management structures and reducing managerial posts. In the other three divisions: a division falling within the scope of resonsibilities of general director, production and technique division and finance division, senior managerial posts were reduced in number from 37 to 18. Moreover, internal transportation services including handling of as well as warehousing, transportation and storage of salt together with respective personnel were outsourced to external companies not related in terms of capital with the Company Spolana a.s..

In 2008 the Company ORLEN Deutschland AG underwent changes in respect of the Company's management structure. In the operational divisions of the scope of responsibilities of persons managing regions and groups of stations was increased. A central procurement function was created in order to obtain the best financial effects in tenders for services ordered by the Company.

In 2008 the Company ORLEN Transport S.A. performed activities in the area of employment restructuring correlated with the optimization of processes implemented by the Company. The consolidation activities implemented following the merger of six transportation companies mainly consisted in identification of key processes and their centralisation (i.e. planning and settling transportation services, supervision over the operation of own service stations), resulted in a declined need for human resources, specifically in administration. Due to the steps taken, at the end of December 2008, the Company reduced its employment by 125 persons as compared to January 2008. Moreover, in 2009 the Company plans further restructuring in employment which will eventually result in a further reduction of labour costs with a parallel full efficiency of implemented processes.

VI. ADDITIONAL INFORMATION

6.1 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 Sp. z o. o. 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 January 2008 the Company AB Mazeikiu Nafta executed annual agreements for the sale of gasoline and diesel oil by sea to GT Trading OY with its seat in Finland. The estimated value of these agreements amounts approx. to USD 950 million (i.e. approx. PLN 2,321 million at the average USD/PLN exchange rates of the National Bank of Poland as at 31 January 2008). The execution of these agreements put the sale of the AB Mazeikiu Nafta fuel products by sea in a stable position. On 2 October 2008 an agreement entered into force between AB Mazeikiu Nafta, GT Trading OY ("GT Trading OY") and TRAFIGURA BEHEER B.V. Amsterdam, Branch Office Lucerne ("TRAFIGURA BEHEER B.V. Amsterdam").

  In accordance with the provisions of this agreement TRAFIGURA BEHEER B.V. Amsterdam replaces GT Trading OY as a party to the understanding on the same commercial terms and conditions as those specified in the agreement for the sale of gasoline or the agreement for the sale of diesel oil which were executed on 31 January 2008. The agreement for the sale of gasoline and the agreement for the sale of diesel oil between AB Mazeikiu Nafta and GT Trading OY were concurrently terminated. TRAFIGURA BEHEER B.V. Amsterdam takes over the obligations and duties towards AB Mazeikiu Nafta arising out of these agreements. The agreement is in force from 2 October to 31 December 2008. The amount of the agreement comprising the value of gasoline and diesel oil remained to be sold by AB Mazeikiu Nafta to TRAFIGURA BEHEER B.V. Amsterdam in 2008, equals to approximately USD 500 million (that is to say approximatey PLN 1,224 milion translated at the average USD/PLN exchange rate of the National Bank of Poland of 2 October 2008).

- On 29 January 2008 ORLEN Deutschland AG executed an annual contract with Deutsche BP Aktiengesellschaft. The contract concerns the sale of fuels to ORLEN Deutschland AG in the period from 1 January 2008 to 31 December 2008. The estimated value of the transaction amounts to approx. EUR 1,200 million EUR (i.e. approx. PLN 4,342 million at the average EUR/PLN exchange rates of the National Bank of Poland as at 29 January 2008);

- On 28 May 2008 ORLEN Deutschland AG signed an agreement with Shell Deutschland Oil GmbH for the supply of fuel to the ORLEN Deutschland AG stations in Germany in a period from 1 January 2008 to 31 December 2008. The estimated value of the agreement amounts to approx. EUR 1,050 million (i.e. approx. PLN 3,567 million at the average EUR/PLN exchange rates of the National Bank of Poland as at 28 May 2008).

- On 2 December 2008 AB Mazeikiu Nafta concluded with TRAFIGURA BEHEER B.V. Amsterdam, seated in Amsterdam, two annual agreements on sale of fuel and diesel oil by sea.

- On the bases of the first agreement AB Mazeikiu Nafta sales fuels to TRAFIGURA BEHEER B.V. Amsterdam in 2009, and on the basis of the second agreement AB Mazeikiu Nafta sales diesel oil to TRAFIGURA BEHEER B.V. Amsterdam in 2009.

- The net estimated value of the agreement on sale of fuel amounts to approximately USD 360 mjillion (i.e. approx. PLN 1,094 milion translated at the average USD/PLN exchange rate of the National Bank of Poland as at 2 December 2008, whereas the agreement on sale of diesel oil amounts to approximately USD 390 milion (i.e. approx. PLN 1,185 milion translated at the average USD/PLN exchange rate of the National Bank of Poland as at 2 December 2008).

- The total net amount of the above mentioned agreements amounts to approximately USD 750 milion (i.e. approx. PLN 2.279 milion translated at the average USD/PLN exchange rate of the National Bank of Poland as at 2 December 2008).

- The conclusion of the above mentioned agreements stabilizes AB Mazeikiu Nafta sale of fuels by sea.

- On 2 December 2008 AB Mazeikiu Nafta executed with ESC Trading S.A. an annual contract for the sale of diesel oil by sea.

Under the contract AB Mazeikiu Nafta sells to ESC Trading S.A. diesel oil in 2009. The estimated net amount of the contract equals to approx. USD 600 million (i.e. approx. PLN 1,824 million translated at the average USD/PLN exchange rates of the National Bank of Poland of 2 December 2008).

The overall net amount of contracts executed between AB Mazeikiu Nafta and ESC Trading S.A. within the recent 12 months equals to approx. USD 686 million (i.e. approx. PLN 2.086 million translated at the average USD/PLN exchange rate of the National Bank of Poland of 2 December 2008).

- 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 to PLN 2,771 million.

- On 31 December 2009 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 roku. The estimated net amount of the contract equals to approx. PLN 3,942 million.

- On 5 February 2009 PKN ORLEN S.A. concluded 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 concluded between PKN ORLEN S.A. and Gunvor International B.V. Amsterdam within the last 12 months equals to approx. PLN 1,992 mililon.

- On 17 February 2009 AB Mazeikiu Nafta concluded with the Company Lithuanian Railways an agreement for transport of crude oil products. The agreement will be in force by the end of the year 2024. The total estimated amount of the agreement during its whole term equals to approx. LTL 3 billion (i.e. approx. PLN 4,198.5 million, translated at the average LTL/PLN exchange rate of the National Bank of Poland of 17 February 2009).

6.2 Information about basic products and services as well as sales markets and sources of supply with indication of individual suppliers

The basic products of the ORLEN Group include:
1. Refinery products: gasolines, diesel oils, light heating oil, Jet fuel, liquid gas, heavy heating oil;
2. Petrochemical products: ethylene, propylene, polyetylene, polypropylene, benzene, butadiene, acetone, phenol, glycols, toluen, ortoxylene, paraxylene;
3. Chemical products: PVC, ammonium nitrate, PVC granulate, caustic soda, soda lye.

The volume sales of the ORLEN Group in 2008 achieved the level of 35,178 thousand tones and was higher by 12.4% than that generated in the prior year. The sales in the refinery segment recorded the level of 27,911 thousand tones, i.e. by 19.4% above the level noted in 2007. In this area the volume of gasoline sales increased by 20.9% and of diesel oil by 20.3%. Positive tendencies were also noted in respect of the sales of the other refinery segment products (light heating oil, Jet A-1 fuel, sulphur, heavy fuel oil, etc.), the volume sales of which increased by 19.0%.

In 2008 the petrochemical segment noted a 3.3% decline in the volume sales and in terms of value it also decreased by PLN 913,844 thousand. The products which showed the highest decrease in sales include, among others: propylene by 9.7%, butadiene by 28.1%, toluene by 14.1%, phenole by 14.7%, paraxylene by 21.8% and ortoxylene by 19.4%.

The sales in the chemistry segment in 2008 dropped in terms of volume by 3.7% and increased in terms of value by PLN 84,038 thousand. The biggest drop in sales was noted in PVC and granulate as well as artificial fertilizers, i.e. by 13.7% and 1.6% accordingly.

The consolidated sales of the ORLEN Group broken by geographical markets for 2008 and 2007 are presented in note 8 of the consolidated financial statements for 2008.

From the first quarter of 2007, PKN ORLEN S.A., under concluded agreements, has been delivering crude oil to its all refineries in Poland, Czech Republic, and Lithuania. In 2008 the crude oil supplies were realized smoothly and as scheduled.

The supplies of crude oil to PKN ORLEN S.A. were realized mainly from Russia (90.1%) and Belarussia (2.5%). Low-sulphur crude oils bought in 2008 came from Azerbaijan (1.5%), Norway (4.2%) and Great Britain (1.7%). The suppliers were the companies operating on the Russian market and international crude oil traders. The suppliers whose share in PKN ORLEN's raw material supplies exceeded 10% of revenues from total sales in 2008 included J&S and Petraco. In total, the percentage share in crude oil supplies to the refinery in Płock for these companies amounted to 42.9% and 25.0%, respectively.

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 delivering crude oil to Lithuania in July 2006, the supplies of raw materials to the Mazeikiu refinery were exclusively made by sea via Butynga harbour.

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.

6.3 Information on material related parties transactions concluded by PKN ORLEN S.A. or its subsidiaries on other than market conditions

The information on material related parties transactions concluded by PKN ORLEN S.A. on other than market conditions were described in note 17 to the consolidated financial statements for 2008.

6.4 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 consolidated financial statements for 2008.

6.5 Remuneration, including dividend paid or due or potentially due to the Management Board, Supevisory Board or key management personnel in accordance with MSR 24

The remuneration for the Management Board, Supevisory Board and key management personel was described in note 19 to the consolidated financial statements for 2008.

6.6 Non-competition agreements and agreements on termintation of contract due to removal from the position held

The agreements executed between PKN ORLEN S.A. and persons holding managerial positions states that these persons are obliged, for 6 or 12 months, starting from the day when the agreement is teminated 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 instalments.
Moreover, these agreements provide for a remuneration to be paid if the contract is terminated due to removal from the position held. In such case the remuneration amounts to six or twelve times the monthly base pay.

6.7 Information on the date when PKN ORLEN S.A. executes an agreement with an entity authorised to audit financial statements and the remuneration of such authorised entity

The information on the date when the issuer executes an agreement with an entity authorised to audit financial statements and the amount of the remuneration of the entity authorised to audit financial statements was described in details in note 20 to the condolidated financial statements for 2008.

6.8 Number of PKN ORLEN S.A. shares and shares in other ORLEN Group companies held by the person fulfilling management or supervisory functions in PKN ORLEN S.A.

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.

6.9 Shareholding of PKN ORLEN S.A.

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

Shareholders	Number of shares	Number of votes	Nominal value of shares (in PLN)	Share held 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%
Other	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 affect in the future the proportions of shares held by the existing shareholders and bondholders.

6.10 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 Group in 2008

Management Board Report

on the Operations of the Polski Koncern Naftowy ORLEN Spółka Akcyjna Group

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