



ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

**Management Board Report
On the Operations of
the Polski Koncern Naftowy ORLEN
Spółka Akcyjna Group
in 2007**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON OPERATIONS OF THE CAPITAL GROUP PKN ORLEN
(Translation of a document originally issued in Polish)

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

1.1 Income statement

1.1.1 Revenues

In 2007 the PKN ORLEN Capital Group ("ORLEN Group") generated total sales revenues (without excise tax) in the amount of PLN 63,792,983 thousand, i.e. by 20.7% more than in the financial year 2006. This increase represents the overall effect of the change in values and volumes in the core business segments of Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN S.A.").

The increase in sales revenues was achieved by the following segments:

Refining Segment – by 28.0%

Chemical Segment – by 4.7%.

The decrease in sales revenues was achieved by the following segment:

Other operations – by (-) 25.9%

Petrochemical Segment – by (-) 1.1%

1.1.2 Profit from operations

In 2007, the gross profit on sales of the ORLEN Group amounted to PLN 7,659,315 thousand and was higher by 9.5% as compared to the profit generated in 2006. The profit from operations amounted to PLN 2,603,882 thousand and was higher than the profit from operations generated in 2006 by PLN 27,275 thousand.

The increase in the profit on sales is due to the increased sales volume which, in turn, neutralised the increased costs of finished goods, merchandise and raw materials sold by PLN 10,261,908 thousand (i.e. 22.4%).

Higher level of the profit from operations was achieved despite consolidation of a loss of the Mazeikiu Capital Group ("Mazeikiu Group") in the amount of PLN (-) 670.534 thousand in 2007.

In 2007, as compared to 2006, an increase in distribution expenses as well as general and administrative expenses was recorded by, respectively, PLN 543,735 thousand, i.e. 20.2% and by PLN 466,443 thousand, i.e. 39.8%. The increase in both types of expenses was materially affected by the consolidation of the Mazeikiu Group, in which the distribution expenses as well as general and administrative expense amounted in 2007 to PLN 331,618 thousand and PLN 303,456 thousand, respectively.

In 2007, there was a loss on other operating activities of PLN (-) 242,089 thousand (by PLN 366,432 thousand less than in 2006). It should be noted however that the results for 2006 were adjusted with an impairment loss of goodwill for the Mazeikiu Group in the amount of PLN 305.105 thousand and the restatement of the carrying amount of KAUCUK a.s. to its fair value less costs to sell in relation to the planned transaction of share selling in the amount of PLN (-) 230 million. Besides, in 2007 there was the reduction of costs of penalties and fines paid in the UNIPETROL Capital Group ("UNIPETROL Group") by PLN 64,885 thousand, which positively influenced the result on other operating activities. In 2007 EBITDA amounted to PLN 5,035,305 thousand and was higher by PLN 350,571 thousand than EBITDA generated in the respective period in the prior year.

1.1.3 Financing activity

In 2007 the financial revenues amounted to PLN 1,190,048 thousand and were higher by PLN 587,171 thousand as compared to the respective period of the prior year. Concurrently, there was an increase in the financial expenses by PLN 379,408 thousand as compared to 2006. Due to these factors, profit on financing activity in 2007 amounted to PLN 139,802 thousand (in the respective period of the prior year the ORLEN Group recorded a loss of PLN 67,961 thousand). Basically, the foreign currency exchange rate influenced the profit generated on this type of activity. Throughout the whole 2007 the appreciation of Polish zloty occurred which resulted in a high level of positive exchange differences materially increasing financial revenues by PLN 903,424 thousand.

1.1.4 Profit before tax, income tax expense and net result

Throughout the whole 2007 the ORLEN Group generated the profit before tax in the amount of PLN 3,011,065 thousand (increase by 10.3% as compared to 2006). The net profit amounted to PLN 2,480,426 thousand and was by 20.4% higher than the result generated in the prior year. Net profit attributable to equity holders of the parent amounted to PLN 2,412,409 thousand. The main factor decreasing the net profit in 2007 was the impairment loss of block of shares held by UNIPETROL in AGROBOHEMIE a.s and Synthesia a.s. recognized in the third quarter of 2007. The total impairment loss amounted to PLN 333.084 thousand.

1.2 Balance sheet

As at 31 December 2007 total assets of the ORLEN Group amounted to PLN 46,149,432 thousand and recorded an increase by PLN 730,348 thousand (by 1.6%) as compared to the situation as at 31 December 2006.

Non-current assets' value decreased as compared to 31 December 2006 by PLN 877,854 thousand (i.e. 3.2%) and reached the level of PLN 26,782,944 thousand mainly due to a drop in property, plant and equipment by PLN 365,756 thousand (i.e. 1.5%), drop in intangible assets by PLN 88,813 thousand (i.e. 14.3%) and drop in long-term financial investments by PLN 508,610 thousand (i.e. 89.1%) as compared to the situation as at 31 December 2006. This drop in 2007 was neutralized with an increase in deferred tax assets by PLN 67,291 thousand (40.6%), an increase in investment property by PLN 34,151 thousand (97.8%) and an increase in loans granted by PLN 12,922 thousand (i.e. 245.1%) as compared to 31 December 2006.

As at the end of 2007 the value of current assets increased from PLN 17,758,286 thousand as at 31 December 2006 to 19,366,488 thousand. This increase was mainly due to an increase in inventories by PLN 2,966,533 thousand (by 40.1%) and increase in trade and other receivables by PLN 590,783 thousand (by 9.4%). Concurrently, a material drop was recorded in the income tax receivable by PLN 137,660 thousand (by 54.4%), assets classified as held for sale by PLN 842,466 thousand (by 81.7%) and cash and cash equivalents by PLN 853,088 thousand, i.e. by 36.3% as compared to the prior year.

As at the end of 2007 the net working capital (current assets minus short-term liabilities) amounted to PLN 6,927,825 thousand as compared to the net working capital as at the end of 2006 of PLN 2,879,908 thousand. This increase is due to the repayment of short-term bank loans and an increase in inventories.

In 2007, the total equity amounted to PLN 22,619,367 thousand and increased by PLN 1,036,804 thousand, i.e. by 4.8% as compared to the end of 2006 mainly as a result of an increase in retained earnings by PLN 2,406,145 thousand. The equity was adversely impacted by foreign exchange differences on subsidiaries from consolidation in the amount of PLN 1,349,939 thousand.

The long-term liabilities amounted to PLN 11,091,402 thousand and increased as compared to the end of 2006 by PLN 2,133,259 thousand, mainly due to an increase in long-term loans and borrowings of PLN 2,391,528 thousand and a drop in deferred tax liabilities by PLN 216,929 thousand. The short-term liabilities increased from PLN 14,878,378 thousand as at 31 December 2006 to PLN 12,438,663 thousand as at 31 December 2007. Within the short-term liabilities there was a material increase in trade liabilities by PLN 959,848 thousand (11.7%) while the short-term interest-bearing loans and borrowings decreased by PLN 2,558,689 thousand (by 59.8%) and other financial liabilities by PLN 600,794 thousand (by 45.7%). The total external indebtedness of the ORLEN Group (loans and borrowings) achieved, as at 31 December 2007, the level of PLN 10,321,944 thousand, which means a drop by PLN 167,161 thousand as compared to the end of 2006.

1.3 Statement of cash flows

1.3.1 Operating activities

In 2007, the net cash provided by operating activities amounted to PLN 1,965,066 thousand and decreased by PLN 1,728,123 thousand as compared to 2006. The reduction of net cash provided by operating activities in 2007 was mainly due to the cash blocked in inventories (increase in inventories by PLN 3,235,358 thousand while in 2006 the inventories increased by PLN 312,738 thousand). The adverse impact of this factor was partly neutralised by the net profit having increased in 2007 by PLN 420,228 thousand and favourable tendencies in liabilities and accruals (increase up to the level of PLN 940,501 thousand) and receivables (decrease down to PLN 535,585 thousand).

1.3.2 Investing activities

In 2007, the net cash used in investing activities amounted to PLN (-) 2,845,108 thousand, while in 2006 it was PLN (-) 6,746,198 thousand. The lower cash from investing activities in 2007 is mainly due to the purchase, in 2006, of shares in relation to the acquisition of the Mazeikiu Group for PLN 6,759,742 thousand. In 2007, in relation to the squeeze-out of minority shares of the Mazeikiu Group, an amount of PLN 482,003 thousand was spent.

1.3.3 Financing activities

In 2007 the net cash provided by financing activities amounted to PLN 27,039 thousand while in 2006 it amounted to PLN 4,277,568 thousand. A drop in cash provided by financing activities results from the repayment of long- and short-term interest-bearing loans and borrowings which in 2007 amounted to PLN (-) 9,852,372 thousand (as compared to PLN (-) 5,098,967 thousand in 2006) and the lower proceeds from new loans and borrowings by PLN

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91,495 thousand. A positive impact on the cash provided by financing activities was exerted by the issue of debt securities of the value amounting to PLN 1,096,325 thousand, while in 2006 no proceeds from the issue were recorded.

The total cash flows for individual areas of operations triggered a drop in cash and cash equivalents as at 31 December 2007 by PLN 853,088 thousand down to the level of PLN 1,498,232 thousand (the cash and cash equivalents as at 31 December 2006 amounted to PLN 2,351,320 thousand).

1.4 Business segments

1.4.1 Refining Segment

Refining segment (in PLN thousand)	2007	2006	Change %
Sales to external customers	51 267 453	40 066 040	28.0
Transactions with other segments	13 262 188	12 664 027	4.7
Settlement of hedging transactions	37 587	21 100	78.1
Total sales revenues	64 567 228	52 751 167	22.4
Profit from operations	2 094 967	2 053 516	2.0
EBITDA*	3 441 323	2 979 344	15.5
Outlays on property, plant and equipment and intangible assets	2 680 577	1 165 156	130.1
Share of the segment in the results of the Capital Group	64.4%	65.7%	-2.0
Share of the segment in EBITDA of the Capital Group	60.6%	56.9%	6.5
Return on sales	3.2%	3.9%	-17.9
Segment result/ segment assets employed	6.9%	7.1%	-2.8
Segment result/ segment equity engaged**	9.6%	9.6%	0.0
Debt ratio (debts /assets)	28.3%	25.3%	11.9
Asset turnover ratio	2.1	1.8	16.7
CAPEX/EBITDA	77.9%	39.1%	99.2

*) profit from operations increased by depreciation

***) segment assets less segment liabilities

In 2007 the profit from operations achieved the level of PLN 2,094,967 thousand and was higher than the result generated in the corresponding period of the prior year despite the fact that the loss from operations incurred by the Mazeikiu Group, in the amount of PLN 408,646 thousand, was recognized in the current year result. PKN ORLEN S.A. and the UNIPETROL Group companies generated in this segment PLN 2,103,939 thousand and PLN 142,370 thousand, respectively, i.e. by 5.4% and 464.6% more than in the prior year.

In 2007, as compared to the corresponding period of 2006, the segment's revenues increased by 22.4% and achieved the level of PLN 64,567,228 thousand. This increase was mainly driven by the quantitative increase in sales of the segment core products. Sales of diesel oil increased by 2,833 thousand tonnes (i.e. by 41.3%), and in terms of quality by PLN 4,541 thousand (i.e. by 27.9%). Sales of gasoline increased by 1,835 thousand tonnes (by 39.4%), which corresponds to a qualitative increase by PLN 3,668 thousand (i.e. by 27.9%). The increase in the sale of the above-mentioned products results mainly from a higher value of annual contracts signed with key clients, from the fact that new clients have been gained in the segments of network and core clients as well as from the consolidation of the Mazeikiu Group. Furthermore, the increased sale of diesel oil was favourably affected by the sales of diesel oil to replenish the mandatory reserves in the Lotos and Shell Group and the sales of SWAP to Slovnaft. Favourable tendencies in the sale of LPG (increase in sales by 299 thousand tonnes i.e. by 70.1%) are due, on the one hand, to market tendencies relating to the increasing number of cars supplied with this type of fuel and the increased number of LPG modules installed at the stations; and on the other hand, from ORLEN Gaz Sp. z o.o. having taken over from a competitor the sale of gas imported from the Mazeikiu Group. An increase in the sale of asphalts by 85 thousand tonnes (i.e. by 8.9%) results from the consolidation of AB Mazeikiu Nafta. In 2007, on the domestic market, the demand for road asphalt decreased mainly due to the lack of new investments. Only in the case of light heating oil, engine oils and base oils the year 2007 saw a falling tendency in quantitative sales by 398 thousand tonnes (i.e. by 25.1%), 7 thousand tonnes (18.7%) and 10 thousand tonnes (by 9.9%). The lower sales of light heating oil results from the consumption of stock collected prior to the heating season by the customers.

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In 2007 the operating expenses of this segment have increased by PLN 11,956,929 thousand (by 23.7%) mainly due to the better sales of the ORLEN Group companies and consolidation of the Mazeikiu Group companies. The increase in the costs due to the consolidation of the Mazeikiu Group amounted to PLN 13,080,105 thousand.

A more favourable result was generated in the segment in the situation of an adverse impact of macroeconomic factors relating to the differential and exchange rate. The almost 11% appreciation of PLN in respect of USD triggered a decrease in profit from operations generated by the ORLEN Group by PLN (-) 349 million. A drop in differential, in turn, from the level of 3.92 USD/bbl in 2006 to 3.24 USD/bbl in 2007 adversely affected the ORLEN Group's profit from operations which dropped by PLN (-) 278,000 thousand. Negative tendencies regarding the differential and exchange rate were balanced by an increase in a refinery margin by 33.5%, which favourably affected the profit from operations, which amounted to PLN 393,000 thousand.

Falling tendencies in respect of unit retail margins on all markets (domestic and foreign) negatively impacted the result generated in the segment in the amount of PLN (-) 65,000 thousand. Reverse tendencies were noted in respect of margins on sale of non-fuel goods and services in the ORLEN Group, which increased by 16.2% as compared to the prior year to the level of PLN 402,500 thousand.

In 2007 the implementation of OPTIMA Program resulted in savings for the segment in the amount of PLN 335,294 thousand. In 2007 as compared to 2006 the outlays on property, plant and equipment and intangible assets increased by PLN 1,515,421 thousand, i.e. by 130.1%.

The most significant companies in the refining sector include: PKN ORLEN S.A, Rafineria Trzebinia S.A., Rafineria Nafty Jedlicze S.A., wholesale part of Local Market Operators (ORLEN PetroCentrum Sp. z o.o., ORLEN Morena Sp. z o.o., ORLEN PetroProfit Sp. z o.o., ORLEN PetroTank Sp. z o.o., ORLEN PetroZachód Sp. z o.o.), ORLEN Gaz Sp. z o.o., ORLEN Asphalt Sp. z o.o., ORLEN Oil Sp. z o.o. and the Unipetrol Group with companies such as PARAMO a.s., UNIPETROL RAFINERIE a.s. and CESKA RAFINERSKA a.s. as well as the Mazeikiu Group (starting from the first quarter of 2007).

1.4.2 Petrochemical Segment

Petrochemical segment (in PLN thousand)	2007	2006	Change %
Sales to external customers	9 252 174	9 354 088	-1.1
Transactions with other segments	4 399 931	4 383 203	0.4
Settlement of hedging transactions	48 291	106 678	-54.7
Total sales revenues	13 700 396	13 843 969	-1.0
Profit from operations	1 068 008	841 795	26.9
EBITDA*	1 692 225	1 599 342	5.8
Outlays on property, plant and equipment and intangible assets	521 864	320 223	63.0
Share of the segment in the results of the Capital Group	32.8%	26.9%	21.9
Share of the segment in EBITDA of the Capital Group	29.8%	30.6%	-2.6
Return on sales	7.8%	6.1%	27.9
Profit from operations/ segment assets employed	14.6%	10.3%	41.7
Profit from operations / segment equity engaged**	16.8%	11.5%	46.1
Debt ratio (debts /assets)	13.6%	10.3%	32.0
Asset turnover ratio	1.9	1.7	11.8
CAPEX/EBITDA	30.8%	20.0%	54.0

*) profit from operations increased by depreciation

***) segment assets less segment liabilities

In 2007 the profit from operations amounted to PLN 1,068,008 thousand, as compared to PLN 841,795 thousand in the prior year. The results were significantly affected by the favourable market conditions in this segment persisting since the beginning of 2007 and, consequently, increasing margins on the majority of petrochemical products. The impact of the increased margins is specifically to be seen in the results generated in this segment by PKN ORLEN S.A., the Unipetrol Group companies and Basell Orlen Polyolefins sp. z o.o., where the profit from operations assigned to this segment increased respectively by 13.0%, 21.7% and 120% up to the level of PLN 543,769 thousand, 337,378 thousand and PLN 195,658 thousand.

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In 2007, the revenues generated by the segment were lower by PLN 143,573 thousand (by 1.0%) as compared to the analogical period of 2006. The decrease in sales revenues is, among others, the effect of technical problems and the repair standstill of an olefin plant in CHEMOPETROL a.s. and the consequent decrease in quantitative sales volume of propylene - by 7.5%, polyethylene - by 4.2%, butadiene - by 16.6% and glycols - by 7.4%.

The implementation of OPTIMA Program resulted, in 2007, in the savings for this segment of PLN 7,184 thousand. In 2007 as compared to the prior year, the outlays on property, plant and equipment and intangible assets increased by PLN 201,641 thousand up to the level of PLN 521,864 thousand.

Since 2006 the chemical segment has been divided into two areas: petrochemistry and chemistry. The newly demerged petrochemical segment comprises respective activities of the following companies: PKN ORLEN S.A., Etylobenzen Płock sp. z o.o., CHEMOPETROL a.s. and UNIPETROL TRADE a.s. (subsidiaries of Unipetrol a.s.), petrochemical part of ORLEN PetroZachód sp. z o.o. and Basell Orlen Polyolefins sp. z o.o.

1.4.3 Chemical Segment

Chemical segment (in PLN thousand)	2007	2006	Change %
Sales to external customers	2 491 816	2 381 069	4.7
Transactions with other segments	310 659	84 764	266.5
Total revenues	2 802 475	2 465 833	13.7
Profit from operations	245 604	223 970	9.7
EBITDA*	412 471	407 105	1.3
Outlays on property, plant and equipment and intangible assets	118 357	174 338	-32.1
Share of the segment in the results of the Capital Group	7.6%	7.2%	5.6%
Share of the segment in EBITDA of the Capital Group	7.3%	7.8%	-6.4
Return on sales	8.8%	9.1%	-3.3
Profit from operations / segment assets employed	10.2%	9.1%	12.1
Profit from operations / segment equity engaged**	12.3%	10.9%	12.8
Debt ratio (debts /assets)	16.9%	16.5%	2.4
Asset turnover ratio	1.2	1.0	20.0
CAPEX/EBITDA	28.7%	42.8%	-32.9

*) Profit from operations increased by depreciation

***) segment assets less segment liabilities

In 2007 the revenues generated by the segment were higher by PLN 336,642 thousand (by 13.7%) as compared to the prior year. The increase in revenues was mainly due to the increase in prices of main segment products. In the analyzed period the prices of ammonium nitrate, soda lye, caustic soda and PVC granulate increased by 8.1%, 5.2%, 31.8% and 6.8% respectively.

The year 2007 recorded a high level of volume sales of granulates and PVC up to 419 thousand tonnes (402 thousand tonnes in 2006). The above result is due to the favourable market conditions in respect of investment goods and in the construction sector as well as repair standstills at the European PVC producers. The quantitative sale of chemical fertilisers (Canwil, ammonium nitrate) remained at the comparable level, i.e. 938 thousand tonnes in 2007 as compared to 947 thousand tonnes. The recorded level of caustic soda sales was lower than that in the prior year (by 34 thousand tonnes, i.e. by 50.4%) which resulted from the gradual market saturation. Moreover, it is worth noting that the caprolactam market conditions were very favourable and, thus, its sales value has maintained its high position, despite an emergency stoppage of the installation in Spolana in the first half of June 2007.

The positive tendencies on the petrochemical market have favourably affected the results generated by the Anwil Capital Group. The profit from operations of this Group increased in 2007 by PLN 6,821 thousand, as compared to the prior year, to achieve the level of PLN 245,955 thousand and the profit from operations of the whole segment amounted to PLN 245,604 thousand, i.e. by 9.7% above the level in the prior year. In 2007, as compared to the corresponding period of the prior year, the outlays on property, plant and equipment and intangible assets decreased by PLN 55,981 thousand.

In 2007, the implementation of OPTIMA Program resulted in savings for the segment in the amount of PLN 63,527 thousand.

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Since 2006 the chemical segment has been divided into two areas: petrochemistry and chemistry. The newly demerged chemical segment comprises the respective activities of the following companies: Zakłady Azotowe Anwil S.A., Spolana a.s. In the 4th quarter of 2006 an share purchase agreement was signed for the purchase by Zakłady Azotowe Anwil S.A. from UNIPETROL a.s. of shares in Spolana a.s. representing 81.8% of Spolana's share capital. The total price for the shares bought amounted to approx. PLN 88 million and was covered by Zakłady Azotowe Anwil S.A. out of the company's own funds in the form of cash contribution.

1.4.4 Other activities

Other activities (in PLN thousand)	2007	2006	Change %
Sales to external customers	695 662	938 214	-25.9
Transactions with other segments	1 365 873	1 059 936	28.9
Total sales revenues	2 061 535	1 998 150	3.2
Profit from operations	-154 945	7 943	-2050.7
EBITDA*	100 953	220 462	-54.2
Outlays on property, plant and equipment and intangible assets	311 708	218 363	42.7
Share of the segment in the results of the Capital Group	-4.8%	0.3%	-1700.0
Share of the segment in EBITDA of the Capital Group	1.8%	4.2%	-57.1
Return on sales	-7.5%	0.4%	-1975.0
(Profit/loss from operations) / segment assets employed	-3.0%	0.2%	-1600.0
(Profit/loss from operations) / segment equity engaged**	-3.5%	0.2%	-1850.0
Debt ratio (debts /assets)	14.4%	17.2%	-16.3
Asset turnover ratio	0.4	0.4	0.0
CAPEX/EBITDA	308.8%	99.0%	211.9

*) Profit/loss from operations increased by depreciation

***) segment assets less segment liabilities

In 2007, a loss was recorded on the other activities amounting to PLN (-) 154,975 thousand, while, in 2006, profit on the operating activities amounted to PLN 7,943 thousand. The negative result on this type of activity was mainly due to the parts of the Mazeikiu Group having been included in this segment, which recognized a loss of PLN (-) 261,888 thousand in 2007. The other two biggest companies of this segment: PKN ORLEN S.A. and UNIPETROL a.s. recorded in 2007 an increase in their results generated by this segment, as compared to the prior year, by PLN 15,524 thousand and by PLN 41,896 thousand, respectively.

In 2007, the implementation of OPTIMA Program resulted in savings for the segment in the amount of PLN 60.006 thousand. In 2007, as compared to 2006, the outlays on property, plant and equipment and intangible assets increased by PLN 93,345 thousand.

The segment "Other activities", apart from the fields producing power media and providing services within PKN ORLEN S.A., includes a number of entities separated mainly in the process of the Group restructuring. Starting from the first quarter of 2007, the other activities of the Mazeikiu Group have been included in this segment..

1.5 Description of significant risk factors

The most important risk factors having an impact on the performance of the ORLEN Group included the following:

Fluctuations in crude oil prices as well as refinery and petrochemical products margins

The world crude oil market in 2007 was characterised with a material variability and sensitivity to any information relating to the supply threats. This mainly concerned the second half of the prior year, when the crude oil prices were the highest in their history (the price of crude oil barrel amounted to approximately USD 100).

Starting from February 2007 the crude oil quotations of Brent DTD have shown a strong increasing tendency, due to which the crude oil prices in 2007 reached the level of 72.40 USD/bbl. The average Brent prices were by 11.1% higher than their comparable level in the prior year. On the one hand, crude oil prices in USD increased dynamically due to deterioration of USD as a currency used on the global financial markets, on the other hand it was an effect of

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building speculation positions on commodity markets by financial investors. In 2007 the gasoline margin on quotations (crack) increased by 15.8% to reach the level of 163.00 USD/t, diesel oil - by 5.3% to the level of 129.87 USD/t and Jet A-1 fuel by 3.8% to the level of 165.68 USD/t. The adverse tendency was recorded in respect of light heating oil – the drop of margins by 1.5% to 96.12 USD/t and heating oil III – the drop of margins by 1.4% to (-) 207.09 USD/t. The better market conditions were also to be seen in the petrochemical segment, which characterised with high increase in margins on almost all products. In respect of main products supplied by PKN ORLEN S.A. i.e. ethylene and propylene, an increase was noted as compared to 2006, respectively by: 17.6% and 16.1% up to the level of 699.54 USD/t and 636.17 USD/t.

Fluctuations of foreign exchange rates

The fluctuations of foreign exchange rates have a significant impact on the sales revenues. It relates mainly to the rates of PLN/USD and PLN/EUR. The level of revenues and profits realized depends strongly on the value of PLN against other currencies by making the prices dependent on the import parity, according to which the prices of refinery and petrochemical products are set based on European quotations determined on commodity markets. Moreover, it should be noted that costs of crude oil and other raw materials as well as the costs of debt handling are expressed in foreign currencies. As a result of the above tendencies, fluctuations of a PLN rate in respect of foreign currencies has a significant impact on the result achieved by the ORLEN Group. In 2007, the average PLN/USD exchange rate decreased by 10.6% down to the level of 2.77 as compared to the prior year (calculated as the arithmetic average of daily exchange rates as set by the National Bank of Poland in the period from 1 January to 31 December). Concurrently, also the average PLN/EUR exchange rate weakened by 3.1% down to the level of 3.78 PLN/EUR. The appreciation of PLN results from the macroeconomic situation which proves the economic acceleration. Other factors materially affecting the exchange rate include: high production dynamics, increased investment and consumption demand as well as improved labour market situation. Strong PLN against USD and EUR improves the perspectives of purchasing raw materials and settlement of indebtedness. Whereas from the point of view of revenues and margin realized on sales of particular products it is more favourable when PLN is weak against USD and EUR.

In 2007, the average LTL/USD exchange rate decreased by 8.2% down to the level of 2.53 LTL/USD as compared to 2006 (source: www.oanda.pl). As compared to 2006 the LTL/EUR exchange rate remained at the same level of 3.46 LTL/EUR. In 2007, the average CZK/USD exchange rate decreased by 10.2% in comparison to the prior year. Concurrently, the average CZK/EUR exchange rate decreased by 2.1% down to the level of 27.78 CZK/EUR.

Economic growth and unemployment rate

The year 2007 witnessed further acceleration of GDP economic growth. The estimated GDP increase reached the level of 6.1%. It is a very high level of the Polish economy which develops about 2.5 times faster than Western Europe countries. The economic growth is mainly due to the domestic demand, capital expenditures (including expenditures on property, plant and equipment) which increased by 20% due to better activities of companies as well as a dynamic growth of exports. In 2007 (according to preliminary data) the exports in the current prices amounted to PLN 383.9 billion and increased as compared to the year 2006 by 11.7%. Advantageous tendencies on the labour market have strengthened. The employment in 2007 was higher by 3.4% than in the prior year and the unemployment rate decreased down to 11.4%, i.e. by 3.4 pp as compared to the situation in the prior year. In the Czech Republic, Lithuania and Germany the GDP dynamics in 2007 arose to 5.8%, 8.8% and 2.5%, respectively, as compared to 6.4%, 7.7%, and 2.9% in 2006. The improved situation on the labour market and favourable macroeconomic tendencies materially affect the sales level in respect of the ORLEN Group's products.

Inflation

In 2007 the prices were increasing faster than during the respective period of the prior year. The year 2007 saw the inflation of 2.5% as compared to 1.0% in 2006 (y/y). The consumer goods and services prices increased due to the domestic demand. In the Czech Republic, Germany and Lithuania the average annual inflation amounted to 3.0%, 2.3% and 5.8%, respectively, as compared to 2.1%, 1.8% and 3.8% in the prior year.

Interest rates

In 2007 the money market saw base interest rates rising four times: in April, June, August and November (each time by 0.25 pp.). As at the end of 2007 the interest on Lombard loan attained the level of 6.50%, and bill of exchange rediscount rate the level of 5.25% (at the end of 2006 it was 5.50% and 4.25%, respectively). The WIBOR 3M rate increased from 4.21% in 2006 up to 4.73% as at the end of 2007. In the Czech Republic the interest on Lombard loan as at the end of 2007 amounted to 4.50%, and the bills of exchange rediscount – 2.50% (as at the end of 2006 – 3.50% and 1.50% respectively). The PRIBOR 3M rate increased from 2.55% in 2006 up to 4.11% as at the end of 2007. The interest on Lombard loan in Lithuania as at the end of 2007 was equal to 8.73%. The VILIBOR 3M rate amounted to 6.65% as at the end of 2007 as compared to 3.79% as at the end of 2006. In the period of 12 months of 2007, the loan interest rate on the European market (including Germany) EURIBOR 3M equalled 4.28%, while in the

respective period of 2006 it was 3.16%. The percentage rates directly affect the debt handling cost. Loans and debt securities denominated in PLN amount to approximately 17% of total interest-bearing liabilities in PKN ORLEN S.A. The remaining part is denominated in EUR.

Mandatory reserves

Starting from 2002, mandatory reserves in Poland are established based on the schedule in accordance with the Minister of Economy Regulation (the Regulation of 19 December 2005 currently in force, Official Journal no. 266 item 2240) to arrive at the end of 2008 at the level equal to 76 days of average daily production, import and intra Community acquisitions of liquid fuels and crude oil in the prior year less export and intra Community supplies (in addition Material Reserves Agency is obliged to establish the reserves of crude oil and liquid fuels in the amount equal to consumption of fuels in 14 days on average and net import of crude oil in a given year).

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in Poland are contained in the Minister of Economy Regulation of 24 April 2007 (Official Journal no. 81 item 546, 547).

At the beginning of April 2007 the new act on reserves of crude oil, refinery products and natural gas and the principles of proceeding in the event of threat to national liquid fuels security and disturbance on the oil market was introduced. The act introduced additional conditions which are met in the International Energy Agency. Due to that fact Poland became an associated member of the Agency and started the procedure of obtaining the full membership in the organization. The new act introduced additional provisions such as:

- Building up mandatory reserves by additional 10% with regard to the so-called inaccessible reserves;
- Changes to methods of calculation of reserves (quantities sold in the country were replaced by net imports of crude oil in the revised methodology);
- Building up a 30-days reserves of LPG and natural gas.

The Group fulfilled all obligations regarding the new act, which led to establishing higher reserves of crude oil. Upon consideration of the above one may expect an increase in the cost of maintaining of reserves.

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in the Republic of Lithuania are contained in the Regulation no. 1901 of 5 December 2002 regarding approval of construction, collection and maintenance procedure of crude oil- derivatives and oil products as well as minimal amounts of crude-oil derivative products (Official Journal, 2002, no.117-5255). Mandatory reserves are maintained for 90 days.

In the Czech Republic methods of calculation and formation of the mandatory reserves of liquid fuels are contained in the Act no. 189/1999 "Mandatory reserves of crude oil" published by the Czech Republic Parliament at 29 July 1999 and amended by the Regulation no. 560/2007 of 24 September 2004. Mandatory reserves are maintained for 90 days.

The value of mandatory reserves held by the Group as at 31 December 2007 and 31 December 2006 amounted to PLN 4,802,805 thousand and PLN 2,701,606 thousand, respectively.

Mandatory reserves have been also described in Note 13 to the consolidated financial statements.

Domestic consumption of fuel

A change of tendencies in the domestic fuel consumption may have a significant impact on the volume of sales of PKN ORLEN S.A.'s core products and, thus, it translates to its overall financial situation. On the basis of preliminary data provided by Agencja Rynku Energii S.A. ("ARE") (Power Market Agency), the overall domestic consumption of fuel (i.e. gasoline, diesel oil and light heating oil) in 2007 achieved 15,117 thousand tonnes and was higher than the consumption in the 2006 by approx. 5%.

The consumption of gasoline increased by 2% as compared to 2006, which is basically due to the strong economic growth and an increase in the number of cars. Also the weather conditions (namely, warm winter and early spring), which stimulated the need for transportation services, positively affected the increased consumption of gasoline.

In 2007 the consumption of diesel oil was higher by 14% as compared to 2006. The development of this market (which took place mainly in the first quarter of 2007) was due to a mild winter, which did not interfere with the construction and assembling works, which are usually suspended for this period. The factor enhancing the diesel oil consumption increase was also a constantly falling tendency in the light heating oil consumption. This product is illegally used for the traction purposes as a substitute of diesel oil. The domestic consumption of diesel oil increased also due to the following factors: 6.1% increase in GDP and excise tax relief for farmers maintained in 2007 granted on the diesel oil bought for farming machines. A factor, which has been permanently triggering a continuous increase in the diesel oil consumption is the growing share of diesel motor cars in the Polish car fleet.

The consumption of light heating oil decreased by 27% as compared to 2006. A material drop in the domestic consumption of this product in 2007 represents the continuation of the tendency which started in 2005. Since then materially increasing prices of crude oil have impaired competitiveness of light heating oil as a heating fuel as compared to alternative sources of heating power. The falling tendency in the light heating oil consumption is also due to the uncertainty, which has been persisting for some time already, as to whether the excise tax rate on light heating oil will be made equal to that on diesel oil. Additionally, the consumption of light heating oil in 2007 was also reduced due to high temperatures in this period and the limitation of the illegal use of light heating oil for motor cars (as a result of the fuel quality inspections).

Fuel import

According to the estimates of ARE, in 2007 the total imports of fuels to Poland increased as compared to 2006 by 729 thousand tonnes, i.e. by 25%. The gasoline imports increased by 24% and achieved the level of 749 thousand tonnes, which represents approx. 20% of the overall fuel imports. In 2007 the biggest gasoline imports were from Germany (approx. 58%), Slovakia (approx. 33%) and the Czech Republic (approx. 6%).

It is estimated that in 2007 approx. 2,897 thousand tonnes of diesel oil were imported to Poland, i.e. 27% more than in 2006. The import of this type of fuel represented almost 79% of the total volume of fuel imports. The biggest imports of diesel oil came from Germany (37%), Great Britain (15%), Belarus (13%), Slovakia (10%).

According to ARE, the overall imports of light heating oil amounted to 14 thousand tonnes (while a year before it was 42 thousand tonnes), which results in a decrease of approx. 66%. In 2007, light heating oil was imported from Germany (69%) and Lithuania (31%).

Amendments to applicable laws

The European Union power summit, which was held in March 2007, identified new goals and set additional challenges for member states in the area of biofuels. According to the decisions made, the share of renewable energy should amount to 20 energetic percents in 2020 and the share of biofuels used in transportation should amount to 10 energetic percents. The fuel directive, which is being amended, provides for new requirements for fuels concerning possibility to use the contents of biocomponents in the fuels up to 10 vol.% (currently, up to 5 vol.%). Thus, the fuel concerns will have to increase the biocomponents share in the fuels introduced to the market. In accordance with the Act on Biocomponents and Liquid Biofuels of 25 August 2006, the fuel producers are obliged to implement the National Target Ratio (NTR) in respect of the biocomponents' content in fuels.

PKN ORLEN S.A., as a fuel producer, starting from 2008, is 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 in 2008 at least 3.45% of biofuels as translated to energetic value, which represents one of the highest levels in the whole European Union. 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 percent in 2010 and, finally, of 7.10 percent in 2013. This means that in 2008 in Poland, 230 thousand tonnes of ethanol and 350 thousand tonnes of esters will be used to compose gasoline and diesel oil. In order to meet the index of 5.75 percent in 2010, approx. 370 thousand tonnes of ethanol and 620 thousand tonnes of esters will be needed.

In PKN ORLEN S.A. a preparatory program for the introduction of biocomponents in fuels has been implemented for already a few years. In 2001 the Ethyl tert-butyl ether (ETBE) production was started for which bioethanol is used. Another investment implemented in the area of biofuels has been the installation for manufacturing fatty acid methyl ester (commonly known as biodiesel) launched at the end of 2005 in Rafineria Trzebinia S.A. In the Warehousing Centres in Mościska and Ostrów as well as in the Manufacturing Plant in Płock the centres for dosing bioethanol to gasoline were constructed. Other investments, namely seven warehousing centres and a terminal in Płock to dose fatty acid methyl esters to the diesel oil were implemented in 2007.

As a result of tenders, the procurement of biocomponents was secured. The main source of biodiesel for PKN ORLEN S.A. is Rafineria Trzebinia S.A. It is also considered to introduce to the market other types of biofuels, such as E85 for gasoline engines which contains 85% of bioethanol and E95 fuel composed in 95% of bioethanol for diesel engines. The composing processes were also prepared in terms of technology and thus the quality of fuels containing biocomponents will meet the highest standards in compliance with applicable norms.

In line with the developed strategy for implementing biocomponents to fuels in the ORLEN Group, since the beginning of 2008, the Bioester fuel has been gradually introduced on BLISKA stations being the economic brand of PKN

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ORLEN S.A. The number of Bliska stations offering B100 will be gradually increasing. It is expected that by the end of 2008 approximately 320 stations will be selling Bioester. At present, Bioester is offered at more than 100 Bliska stations. The outcome of pilot sales realized in a period from September to December 2007 showed a great interest in this product amongst the clients. The interest in this biofuel is expected to increase in 2008. In order to ensure the highest quality, the fuel was tested during the research work and the pilot sales carried out under supervision of accredited laboratories.

In February 2008, PKN ORLEN S.A. was awarded the first prize for Bioester – recoverable fuel produced from plant oil designated for diesel engines – at the First International Chemical Products Fair EXPOCHEM 2008 in Katowice in the category “Chemical Product”. The Jury appreciated the fact that Bioester offered by PKN ORLEN S.A., contrary to the competitive products, is produced exclusively from rapeseed oil and shows the best qualities amongst all available esters. PKN ORLEN S.A. applied an innovative formula for the production of Bioester in the form of special refining additions, which guarantee the highest quality during the whole period of use. The package applied by PKN ORLEN S.A. contains the most efficient additions available on the market improving the product’s qualities in both low and high temperatures and ensuring the product stability, protecting engine against corrosion and development of biological life in the fuel. Bioester meets all the requirements provided in the norm PN-EN 14214 and the regulations applicable in Poland and in other European Union states. The product contributes to the significant reduction of greenhouse gases emission. The combustion of Bioester causes a decrease in emissions of carbon oxides, particulates and sulphur compounds.

Both, the Czech Republic and Lithuania are the EU member states, therefore they have also introduced their index targets and imposed the 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 ETBE. On 15 December 2006 CESKA RAFINERSKA a.s. produced first 2.2 thousand tonnes of diesel oil with a biocomponent MERO (rapeseed oil methyl ester) for one of its clients. In this year, in accordance with 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 2% of the energetic content and by the end of 2010 it will have to achieve the level of at least 5.75% of the energetic content. Ceska Rafinérská has been preparing to achieve the limits since the end of 2005, when the company launched 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 its refineries in Poland, the Czech Republic and Lithuania. The crude oil supplies were undisturbed and performed as scheduled except for a few days in January 2007 due to the Russia-Belarus conflict. The crude oil to the Mazeikiu refinery is delivered by sea due to the stoppage of a pipeline supplying crude oil to Lithuania in July 2006. This fact triggers another risk factor for the safety and stability of supplies, which is weather conditions, particularly in winter.

According to the information from the crude oil market it might happen that the volume of crude oil transported via “Druzhba” Pipeline to Poland and the Czech Republic will be reduced in the future (the planned implementation of BPS 2 pipeline project, improving the capacities of Russian sea export). Thus, in order to ensure the safety and stability of supplies to all its refineries and the diversification of supply sources, in 2007 PKN ORLEN S.A. implemented a project involving technological and economic analysis of the conditions for the diversification of the types of crude oil processed in the Plock refineries 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, counteraction to disturbances or limitations, if any, in respect of REBCO oil supplies.

New environmental requirements

Starting from 1 January 2007 more rigorous norm for the emissions of sulphur dioxide has applied for the Heat and Power Station in PKN ORLEN S.A. (reduction of the norm for available emissions from 2800 to 1700 mg/Nm³). The investments and organizational activities implemented before enabled PKN ORLEN S.A. to prepare an appropriate quantity of fuel with a reduced content of sulphur and, thus, to observe this strict norm. Consequently, the sulphur dioxide emissions from this source have been reduced by 3.6 thousand tonnes (i.e. by 30.0%) as compared to the respective period of the prior year and, consequently, ecological fees concerning this source have been reduced by approximately PLN 1.5 million.

In March 2007 the European Commission determined the annual admissible volume of carbon dioxide emissions to 208.5 million tonnes for the whole Poland although the limit, which was applied for amounted to 280 million tonnes per year. At the beginning of 2008 a licensed auditor verified the annual reports of CO₂ emissions for 2007 for the Heat and Power Station installations and refining installations in PKN ORLEN S.A. A minor surplus was noted in respect of the rights held, due to which other transactions could be performed on the market of transferable rights to the emissions of CO₂ for 2006 and 2007.

In 2007 the ORLEN Group was authorised to emit and use CO₂ up to the level of PLN 1,087,398 thousand. As at 31 December 2007 the ORLEN Group's rights to CO₂ emission amounted to PLN 98,716 thousand. This quantity results, among others, from the disposal of rights to emissions of the value of PLN 152,729 thousand and the estimate value of CO₂ emissions of PLN 796,526 thousand.

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 31 to the unconsolidated financial statements.

The main risk factors in selected ORLEN Group companies include:

UNIPETROL a.s.

- In 2007 the Czech retail fuel market saw changes resulting from AGIP having taken over 60 petrol stations owned by ESSO. Due to this transaction AGIP has increased its market share by another 4%. Additionally, the takeover by AGIP of shares in CESKA RAFINERSKA a.s. from CONOCO ensured smooth procurement for the newly bought stations. The shareholding changes occurred also in the JET stations network which was taken over by LUK-OIL. It is expected that the rebranding of the stations will take 24 months. Apparently, the above changes on the Czech retail market will not have an adverse impact on the situation of BENZINA a.s., which is still the biggest network operating on this market (in terms of the number of stations held) and is currently in the course of modifying the station's image.
- At the end of 2007 one of the most significant companies on the Czech railway market, Ceske drahy a.s., separated from its structure a cargo shipper, CD Cargo. The newly established CD Cargo 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 UNIPETROL DOPRAVA s.r.o., which is still one of the biggest carriers on the Czech market handling hazardous materials and is constantly working on strengthening its position.

Mazeikiu Group

- Supplies of crude oil to the Mazeikiu refinery are carried out by sea, due to the suspended transit via terminal in Butynga and exclusion of the "Druzhba" Pipeline delivering crude oil to the Lithuania in July 2006. According to the Russian operator Transnifft the exclusion was due to the break-down of the pipeline. Transnifft failed to repair this pipeline and, as announced, it will not do so also in 2008. This fact triggers another risk factor for the safety and stability of supplies, which is weather conditions, particularly in winter. According to the information from the crude oil market it might happen that the volume of crude oil transported via "Druzhba" Pipeline to Poland and the Czech Republic will be reduced. Thus, the main target to be achieved by PKN ORLEN S.A. is to ensure safety and stability of supplies to all its 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 technological and economic analyses of the conditions for the diversification of crude oil types processed in the ORLEN Group refineries, its supplies and composing, if any. The analyses conducted for the Manufacturing Plant in Plock were implemented respectively to fit the needs and technological possibilities of UNIPETROL a.s. and AB Mazeikiu Nafta refineries.

Anwil S.A.

- The increase in the volume of PC imports to the Polish market by approximately 8% proves that foreign competitors, particularly from Germany and Hungary, are specifically active on the Polish market;
- The strengthening of the position of the biggest PVC producers in Europe in 2007, including the take-over by Ineos of Kerling and sale by Ineos of the part of the company manufacturing emulsion PVC to the German company Vinnolit. Kerling possesses PVC manufacturing plants in Norway, Sweden and Great Britain and their aggregate annual production volume amounts to 640 thousand tonnes of PVC;

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- The enhanced production capacities of Borsodchem and its intensive activities are to be seen mainly in the Southern Poland;
- The limitation of supply and subsequent increase in prices on the market of raw materials for the needs of cable production (mainly plasticizers). The prices of copper have been gradually becoming stable however they still remain high;
- Capital strengthening of Zachem by Ciech and the projected investment relating to the change of technology for manufacturing chlorine may, in the future, represent a strong competitive factor for Anwil S.A. on the market of soda lye;
- The prices of natural gas – a significant increase in prices of the raw material which forms the basis for the production of nitrogen fertilizers and are significant for the production of PVC may adversely affect the results of Anwil S.A. and adjust accordingly the margins obtained in this area. On 11 April 2008 Polskie Górnictwo Naftowe i Gazownictwo S.A. informed that Energy Regulatory Office approved the increase in tariffs and fees relating to gas fuels. The increase in wholesale prices of gas fuels will amount to 15.34%.

Rafineria Trzebinia S.A.

- As a result of the entry into force, on 1 January 2007, of the Minister of Finance Regulation of 22 December 2006 on excise tax relieves, on 3 January 2007 it was resolved to cease the production and sale of biofuel ON BIO 20. As a consequence of the above Regulation, tax relieves for producers of biofuels and biocomponents were reduced. The production of diesel oil ON BIO with 20% content of methyl esters represented the basic source of revenues and profits of Rafineria Trzebinia in 2006. Ceasing the production and sale caused a material decrease in sales revenues and in the margin value. Thus, the financial standing of the company has been impaired in terms of both profitability and financial liquidity. For this reason and also due to pending settlement as to whether the tax risks for Rafineria Trzebinia S.A. exist or not, the financing banks terminated loan agreements of the total amount of approximately PLN 80 million. Rafineria Trzebinia S.A. that due to the problems with financial liquidity, since December 2005 has been facing temporary limitations of quantity and even breaks in the sale of merchandise (it was not able to buy them from PKN ORLEN S.A., and from January 2007 from PetroCentrum sp. z o.o.) lost part of its clients that were forced to execute new contracts with other liquid fuel suppliers as they could not buy fuels from Rafineria Trzebinia S.A.;

On 16 July 2007 the Management Board of Rafineria Trzebinia S.A. decided to resume diesel oil ON BIO production containing 20% of bio components – higher fatty acid esters FAME. The decision about the resumption of the production was made after performing by Rafineria Trzebinia S.A. the detailed economic analysis in relation to changes in the Act on Bio components and Liquid Biofuels introduced by the Act on Amendment to Excise Tax Act and Some Other Acts of 11 May 2007 (“Act of 11 May 2007”). The Act of 11 May 2007 increases the excise tax relief by approximately 0.05 PLN per liter of diesel oil bio component and decreases excise tax rate for so called autonomous fuels that are pure bio components used to drive explosion engines from 0.20 PLN per liter to 0.01 PLN per liter. Moreover, the Management Board of Rafineria Trzebinia S.A. decided to resume starting from 16 July 2007 the sales of diesel oil containing 20% of bio component FAME. Until the end of 2006 Rafineria Trzebinia S.A. sold diesel oil containing 20% of bio components under the trade mark “ON BIO 10”. To reflect the contents of bio components in diesel oil more precisely, Rafineria Trzebinia S.A. is going to sell this product under the trade mark “ON BIO 20”;

- As a result of the above Regulation having entered into force and as a consequence, in turn, of ceasing the ON BIO production and sale, the contracts for rapeseed oil supply started to be renegotiated. The renegotiations concerned the volumes of supplies and prices of raw material. The negotiations were completed in the first quarter of 2007;
- The contingent liabilities recognized by Rafineria Trzebinia S.A. in relation to the excise tax were described in Note 37 of the consolidated financial statements.

ORLEN Oil Sp. z o.o.

- Still growing competition on the domestic lubricants market;
- Appreciation of Polish zloty, especially against American dollar has an adverse impact on profitability of export sales and the refinery margin volume;

ORLEN Asphalt Sp. z o.o.

- The adverse financial situation in the road construction industry due to no European Union funds having been disbursed for the construction of roads. Additionally, the demand for road asphalts has been affected by the reduced budget for expenses of the General Directorate for National Roads and Motorways amounting to PLN 3.5 billion in 2007, which represents 50% of these funds in 2006 and only 32% of those planned for 2007. Due to

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these factors the domestic road asphalt market in 2007 appeared to be much overstated in all estimates. Eventually the domestic contracts were performed at the level of 49% of the initially declared volume;

- The price competition getting stronger on the road asphalt market in Poland as a result of a launch of Biturox installation in Gdansk and overproduction in other European Union countries may result in the increased imports volume.

Inowrocławskie Kopalnie Soli SOLINO S.A.

- Increased competition on the warehousing services market, first of all the start-up of business activity by an entity or a group of entities in the underground warehousing segment;
- Protests of the company's employees in relation to the project of the Management Board to sell the Salt Packaging Division to a strategic investor.

ORLEN Deutschland AG

- Strong competition in 2007 had a material impact on shaping margins and, subsequently, the financial result of ORLEN Deutschland. Starting from January 2007 the margins on the German fuel market has not improved the profitability of fuel sales. The Company will be implementing its development strategy through consistent implementation of the "Fit for growth" program (please refer to description on page 39);
- The financial situation of ORLEN Deutschland AG was materially affected by the overall market conditions in Germany, crude oil and fuel prices fluctuations and stagnation on the volume market in Germany.

ORLEN Gaz Sp. z o.o.

- Blockage of the Polish fuel gas market development – a minor market increase in respect of the autogas segment, decrease in the bottles market and a drop in sales of gas in bulk for heating purposes resulting from weather conditions;
- The Act of 16 February 2007 on the Reserves of Crude Oil, Refining Products 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) increased the costs of business operation of the LPG sector due to the mandatory fuel reserves.

ORLEN PetroProfit Sp. z o.o.

- Sale of shares in LCS Sp. z o.o. seated in Lublin to the benefit of ORLEN OIL Sp. z o.o. seated in Kraków;
- Ceasing the retail sale of fuels (sale of a fuel station in Siedliszcz and liquidation of a fuel station in Pokrówka);
- Ceasing the sale of fuels in the non-cash fuelling system.

Ship Service S.A.

- The Minister of Economy Regulation having been in force by 19 January 2007 had prevented domestic trading in the heating oil containing more than 1% of sulphur starting from the beginning of 2007. The Regulation and no domestic supply of the above type of fuel adversely affected the company's financial standing. The new Regulation, which entered into force on 19 January 2007 removed a legal discrepancy that existed with the relevant Regulation issued by the Minister of Maritime Economy, MARPOL Convention 73/78 and the European law;
- Decision of PKN ORLEN S.A. on excluding Ship Service S.A. from the so-called heavy heating oil export area, which was previously one of the elements of the company's long-term strategy;
- The termination by Siarkopol Gdańsk S.A. of the agreement for the lease of the tank for distilled fuel MGO within the harbour group of Gdańsk/Gdynia as at the end of June 2007. The Company expects an increase in the reloading and storing costs by approximately 50-70%. In December 2007 and January 2008 new lease agreements in respect of tanks in Gdańsk and in Szczecin were executed as a result of which stability has improved.

ORLEN Transport Plock Sp. z o.o.

- The main external factors having impact on the company's situation include the growing payroll costs due to the shortage of qualified drivers on the labour market (drivers are leaving to join transportation companies in the European Union states), with the rates for shipping services remaining at the same level. This is one of the factors which exert a critical impact on the decreasing profitability of the transportation business. On the other hand, the increase in the company's results was a favourable consequence of the increasing number of shipping orders resulting from the take-over of services relating to the PKN ORLEN S.A. stations and gaining new orders for instance in relation to the stations located next to supermarkets;

- The main internal factors affecting the company's situation include first of all the consolidation of shipping companies to form, in 2008, one nation-wide shipping company, ORLEN Transport S.A. The goal of this merger was the restructuring aimed to improve efficiency.

ORLEN Budonaft Sp. z o.o.

- The enhancement of competition on the petrol station construction market;
- Potential increase in the company's operating expenses, including costs of payroll and materials – increased fees in the construction sector in Poland is a critical factor here which caused to an increase in the production capital output;
- Strong employment fluctuation involving the most experienced and best qualified employees.

Risk factors and threats material for the business operations of the ORLEN Group were also described in Note 37 to the consolidated financial statements for 2007.

1.6 Production

In 2007 the crude oil processing volume in the ORLEN Group companies amounted to 23,114 thousand tonnes and was higher by 28.2% as compared to the prior year. The positive dynamics was due to the fact that the processing volume of the Mazeikiu Group of 5.1 million tonnes was taken into account.

In 2007 the volume of crude oil processing in PKN ORLEN S.A. amounted to 13,646 thousand tonnes and was higher by 0.3% than that realized in 2006. The yield on white products amounted to 74.9%, and was lower by 0.18 pp. as compared to 2006. The yield on fuels amounted to 62.8% and was comparable to that obtained in 2006. The lower yields in PKN ORLEN S.A. were mainly due to repair standstills involving the following installations:

- Reforming V and Diesel Oil Desulphurisation V ("HON V") in the period from 20 March to 19 April 2007;
- Catalytic Cracking II and Cracking Gasoline Desulphurisation in the period from 30 March to 26 April 2007;
- Hydrocracking and Hydrogen Manufacturing Plant in the period from 10 May to 21 June 2007;
- Gudron Desulphurisation ("HOG") in the period from 18 June to 23 June 2007;
- Isomerisation standstill from 1 October to 7 November 2007.

In 2007 Olefin Manufacturing Plant II operating at a stale level secured the raw material base for Basell Orlen Polyolefins Sp. z o.o., other installations of the Manufacturing Plant in Plock and supplies of ethylene to Anwil S.A. Similarly, during the entire 2007, the production installations of Basell Orlen Polyolefins Sp. z o.o. operated efficiently and without disturbances. The use of their processing capacities was equal to approx. 85% per year. This means that the Company's potential use is very good.

In December 2007 the reconstruction of the Vacuum Destination Unit (VDU) in the Mazeikiu refinery was completed. This installation was destroyed by fire in October 2006. In February 2007 the operation of Bituminous Destination 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 tonnes. In autumn 2007 also a significant general repair was carried out together with the modernisation works. Consequently, also the overhauls and repairs of more than 450 pipelines, 64 units, 16 reactors and approximately 1,600 valves were carried out.

The production yield of the UNIPETROL Group was significantly affected by a break down of Olefins Manufacturing Plant and POX installation in October 2007. Consequently, the production volume of ethylene and propylene was reduced. The reduced supply of monomers from the Olefins Manufacturing Plant and hydrogen from the POX installation affected the low production of polymers.

1.7 Indebtedness structure and financial resources management

As at 31 December 2007, the level of long-term and short-term loans, borrowings and debt securities issued within the ORLEN Group amounted to PLN 10,321,944 thousand and was lower from the level noted as at the end of 2006 by PLN 167,161 thousand. In PKN ORLEN S.A., as at 31 December 2007 an increase in financial debt was noted by PLN 304,990 thousand as compared to the situation as at 31 December 2006.

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(in PLN thousand)	Indebtedness		Cash and Cash Equivalents		Net Debt	
	2007	2006	2007	2006	2007	2006
Bank loans	8,809,266	9,893,499				
Borrowings	4,285	2,885				
Debt securities	1,508,393	592,721				
According to their maturity:						
Long-term	8,602,721	6,211,193				
Short-term	1,719,223	4,277,912	1,666,189	2,660,751		
Total	10,321,944	10,489,105	1,666,189	2,660,751	8,655,755	7,828,354

As at 31 December 2007 the net financial indebtedness within the ORLEN Group has increased as compared to the end of 2006 by PLN 827,401, up to PLN 8,655,755 thousand. The increase in the net financial indebtedness affected a financial debt to equity ratio (average level of loans, borrowings and debt securities less cash and short-term investments to average level of net equity) which has increased from 27.9% as at 31 December 2006 up to 37.3% as at 31 December 2007.

The high borrowing power of the ORLEN Group which provides it with a possibility to draw additional external funds in an inexpensive and relatively quick way, has a positive impact on its financial security. The ORLEN Group takes loans and borrowings both in Polish zloty and in foreign currencies, mainly subject to a floating interest rate. As at 31 December 2007 PKN ORLEN S.A. used a PLN cash-pooling system in two banks and a foreign currency cash-pooling system in one bank. The work is carried out on an on-going basis to implement to these systems all the ORLEN Group companies in which PKN ORLEN S.A. is a controlling entity.

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

Available funds, secured sources of financing and significant borrowing power of PKN ORLEN S.A. fully secure the nearest financial needs relating to capital and property investments. For further information about the debt structure and maturity dates for loans and debt securities see Note 19 of the consolidated financial statements for 2007. The most important loans in 2007 taken up by the ORLEN Group companies in terms of value (principal plus interests of the value above PLN 4 million) are as follows:

UNIPETROL Group

- Loan facility in Česká spořitelna, a.s. in the amount of CZK 1,834,118 thousand, outstanding amount: CZK 1,154,418 thousand; maturity: January, July 2008;
- Overdraft in CITIBANK N.A. in the amount of up to CZK 1,000,000 thousand, outstanding amount: CZK 354,929 thousand;
- Overdraft in HSBC in the amount of up to CZK 1,000,000 thousand, outstanding amount: CZK 189,843 thousand;
- Loan facility from UNIPETROL Services in the amount of CZK 151,000 thousand, outstanding amount: CZK 151,063 thousand; loan repaid in January 2008;
- Loan facility in ČSOB, a.s. in the total amount of CZK 500,000 thousand, outstanding amount: CZK 244,674 thousand; maturity: 2008-2011;
- Loan facility in Dresdner Bank in the amount of CZK 79,860 thousand, outstanding amount: CZK 53,266 thousand; maturity: not specified;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to CZK 214,100 thousand, outstanding amount: CZK 55,429 thousand.

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Mazeikiu Group

- State Treasury loan facility in the amount of USD 323,928 thousand, outstanding amount: USD 298,042 thousand; maturity: July 2013;
- Loan facility in AB "Vilniaus Bankas" & "Vereins-Und Westbank" AG Vilnius Skyrius in the amount of USD 150,000 thousand, outstanding amount: 150.000 thousand USD; maturity: July 2013;
- Loan facility in AB Bankas Hansabankas in the amount of USD 50,000 thousand, outstanding amount: USD 2,632 thousand; maturity: January 2009;
- Loan facility in AB Bankas Hansabankas in the amount of USD 13,158 thousand, outstanding amount: USD 7,502 thousand; maturity: January 2009;
- Overdraft in Hansa Bankas in the amount of USD 50,000 thousand, outstanding amount: USD 43,071 thousand; maturity: September 2008;
- Overdraft in NORDEA Bank in the amount of USD 90,000 thousand, outstanding amount: USD 87,428 thousand; maturity: September 2008;
- Overdraft in AB "Vilniaus Bankas" in the amount of USD 70,000 thousand, outstanding amount: USD 58,627 thousand; maturity: November 2008;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to USD 7,699 thousand, outstanding amount: USD 5,430 thousand.

Anwil S.A.

- Preferential loan facility relating to environmental protection in BOŚ S.A. in the amount of PLN 63,000 thousand; outstanding amount: PLN 32,807 thousand; maturity: March 2011;
- Multi-currency loan facility in Bank Handlowy S.A. in the amount of PLN 40,000 thousand; undrawn as at 31 December 2007; maturity: December 2007;
- Loan facility in Citibank a.s. in the amount of PLN 30,330 thousand; outstanding amount: PLN 30,330 thousand; repaid in February 2008;
- Loan facility in UniCredit Bank Czech Republic a.s. in the amount of PLN 30,330 thousand; outstanding amount: PLN 30,330 thousand; repaid in February 2008;
- Overdraft in BPH S.A. in the amount of PLN 20,000 thousand; undrawn as at 31 December 2007; maturity: June 2008;
- Overdraft in Citibank a.s. in the amount of PLN 20,220 thousand; outstanding amount of PLN 5,949 thousand; maturity fell in February 2008 but it was extended;
- Overdraft in UniCredit Bank Czech Republic a.s. in the amount of PLN 20,220 thousand; outstanding amount of PLN 6,997 thousand; maturity fell in January 2008 but it was extended;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 30,066 thousand; outstanding amount: PLN 8,281 thousand.

Basell Orlen Polyolefins Sp. z o.o.

- Investment loan granted by the consortium of 10 banks in the amount of EUR 224,573 thousand; outstanding amount: EUR 224,573 thousand; maturity: the amount of EUR 28,381 thousand - December 2008; the amount of EUR 196,192 thousand - December 2011.

Rafineria Trzebinia S.A.

- Loan facility in Pekao S.A. in the amount of PLN 30,000 thousand, outstanding amount: PLN 24.590 thousand; maturity: December 2008;
- Loan facility in Bank DnB NORD in the amount of PLN 10,000 thousand, outstanding amount: PLN 6,798 thousand; maturity: May 2008;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 7,500 thousand; outstanding amount: PLN 4,828 thousand.

ORLEN Oil Sp. z o.o.

- Loan facility in Nordea Bank Polska S.A. in the amount of PLN 60,000 thousand; outstanding amount: PLN 28,108 thousand; maturity: February 2011;
- Borrowing from PKN ORLEN S.A. in the amount of PLN 47,000 thousand, maturity: December 2009;
- Loan facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 20,000 thousand; outstanding amount: PLN 10,458 thousand, maturity: December 2008;
- Loan facility in Bank Pekao S.A. in Warsaw in the amount of 20.000 thousand; outstanding amount: 8.392 thousand; repaid in February 2008;
- Loan facility in Societe Generale S.A. in Warsaw in the amount of PLN 18,000 thousand; outstanding amount: PLN 8,209 thousand, maturity: December 2008;

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- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 6,000 thousand, outstanding amount: PLN 4,888 thousand.

Rafineria Nafty Jedlicze S.A.

- Loan facility in NORDEA BANK POLSKA S.A. in the amount of PLN 35,000 thousand, outstanding amount: PLN 7,527 thousand; maturity: September 2010;
- Loan facility in PEKAO S.A. in the amount of PLN 30,000 thousand; outstanding amount: PLN 29,600 thousand; maturity: August 2009;
- Loan facility in ING Bank Śląski S.A. in the amount of PLN 20,000 thousand, outstanding amount: PLN 5,730 thousand; maturity: November 2009;
- Loan facility in ING Bank Śląski S.A. in the amount of PLN 15.500 thousand, outstanding amount: PLN 15,500 thousand; maturity: September 2012 ;
- Loan facility in Pekao S.A. in the amount of PLN 10,000 thousand, outstanding amount: PLN 9,992 thousand; maturity: August 2009;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 10,700 thousand, outstanding amount: PLN 4,044 thousand.

Inowrocławskie Kopalnie Soli SOLINO S.A.

- Loan facility in Pekao S.A. in the amount of PLN 175,909 thousand, outstanding amount: PLN 103,890 thousand, maturity: June 2017 ;
- Loan facility in Pekao S.A. in the amount of PLN 17,934 thousand, outstanding amount: PLN 17,934 thousand, maturity: December 2008.

ORLEN Deutschland AG

- Loan facility in KBC Bank Hamburg in the amount of EUR 65,000 thousand, outstanding amount: EUR 44,659 thousand, maturity: February 2008;
- Loan facility in Wecotect Bank Elmshorn in the amount of EUR 156 thousand, outstanding amount: EUR 155 thousand, maturity: December 2007.

ORLEN Petrotank Sp. z o.o.

- Loan facility in Bank Handlowy w Warszawie S.A. in the amount of PLN 18,000 thousand, outstanding amount: PLN 15,363 thousand, maturity: June 2008;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 10,000 thousand, outstanding amount: PLN 1,567 thousand.

ORLEN Gaz Sp. z o.o.

- Loan facility in Bank PKO PB S.A. in the amount of PLN 40,000 thousand, outstanding amount: PLN 17,000 thousand, maturity: 2015;
- Loan facility in Bank PKO PB S.A. in the amount of PLN 5,000 thousand, outstanding amount: PLN 5,000 thousand, maturity: July 2008;
- Loan facility in Bank PEKAO S.A. in Warsaw in the amount of PLN 4,400 thousand, outstanding amount: PLN 4,318 thousand, maturity: June 2008.

Petrolot Sp. z o.o.

- Overdraft in BPH S.A. in the amount of PLN 15,000 thousand, outstanding amount: PLN 12,389 thousand;
- Overdraft in PEKAO S.A. in the amount of PLN 15,000 thousand, outstanding amount: PLN 13,824 thousand;
- Overdraft in BRE Bank S.A. in the amount of PLN 10,000 thousand, outstanding amount: PLN 7,489 thousand;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 34,600 thousand, outstanding amount: PLN 7,753 thousand.

Ship Service S.A.

- Overdraft facility in the amount of PLN 8,000 thousand in Pekao S.A., outstanding amount: PLN 7,290 thousand; maturity: October 2008;
- Loan facility in the amount of USD 4,000 thousand in Pekao S.A., outstanding amount: USD 3,653 thousand; maturity: August 2008;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 3,000 thousand and USD 5,350 thousand, outstanding amount: PLN 2,000 thousand and USD 1,904 thousand.

ORLEN KoITrans Sp. z o.o.

- Loan facility in PKO BP S.A. in the amount of PLN 9,185 thousand, outstanding amount: PLN 7,515 thousand; maturity: September 2011;
- Total indebtedness resulting from other loans (of the value below PLN 4 million each) amounts to PLN 20,694 thousand, outstanding amount: PLN 5,117 thousand.

ORLEN Eko Sp. z o.o.

- Loan facility in BOŚ S.A. in the amount of PLN 19,505 thousand, outstanding amount: PLN 7,172 thousand, maturity: June 2008.

1.7.1 Contingent Liabilities of the ORLEN Group

As compared to the end of 2006 the total value of contingent liabilities as at the end of 2007 dropped by PLN 598,457 thousand down to PLN 1,910,220 thousand. The total value of the guarantees and sureties issued as at 31 December 2007 was reduced by PLN 1,244,568 thousand to PLN 114,192 thousand, mainly due the discharge of payment guarantee of PLN 1,283,452 thousand that PKN ORLEN S.A. was to deliver to the benefit of the Lithuanian bank SEB for the purpose of the mandatory tender offer (MTO) with respect to the acquisition of AB Mazeikiu Nafta. In 2007 the value of guarantees securing the performance by the ORLEN Group of its obligations and guarantee deposits (for tenders) has been increased in total by PLN 13,871 thousand to PLN 14,790 thousand. Other guarantees and sureties have risen insignificantly.

The other contingent liabilities as at the end of 2007 achieved the level of PLN 1,796,028 thousand and increased by PLN 646,111 thousand, mainly due to excise tax deposits to secure excise tax levied on harmonised products stored in warehouses during the suspension procedure in the amount of PLN 381,948 thousand.

For further details relating to the guarantees issued and other contingent liabilities see Note 37 to the consolidated financial statements.

In 2007, the ORLEN Group companies granted material loans and issued material sureties and guarantees (of the unit value above PLN 4 million as at the end of 2007):

Mazeikiu Group

- Payment guarantee for Foster Wheeler Italiana in the amount of USD 7,324 thousand, expiry: 2008;
- Excise tax security deposit in the amount of USD 3,045 thousand, expiry: 2008.

Anwil S.A.

- Guarantee in respect of loan for Spolana a.s., amount of PLN 73,768 thousand, expiry: March 2009;
- Blanc bill of exchange for PZU S.A., BOŚ S.A. and TUIR Warta S.A. for the amount of PLN 10,500 thousand.

Basell Orlen Polyolefins Sp. z o.o.

- Joint and several liability of investor Basell Orlen Polyolefins Sp. z o.o. and contractor (VOS) in respect of sub-contractor Przedsiębiorstwo Produkcyjno Handlowe Albud, amount: PLN 4,748 thousand.

Rafineria Trzebinia S.A.

- Surety in respect of overdraft for NaftoWax Sp. z o.o., amount of PLN 8,000 thousand, expiry: May 2011;
- Excise tax security deposit in the amount of PLN 9,913 thousand, expiry: day of return of confirmed ADT (Administrative Accompanying Document);
- Surety in respect of overdraft for Euronaft Trzebinia Sp. z o.o., amount of PLN 5,250 thousand, expiry: April 2010;
- Revolving loan guarantee for Euronaft Trzebinia Sp. z o.o., amount of PLN 4,000 thousand, expiry: May 2010;
- Blanc bills of exchange for PZU in the amount of PLN 26,000 thousand, expiry: April 2008.

ORLEN Oil Sp. z o.o.

- Bill of exchange security issued to Bank Przemysłowo-Handlowy in exchange for a guarantee securing excise tax liabilities on tax consignment warehouses in the amount of PLN 45,000 thousand with expiry until October 2008.
- Surety for the liabilities of the clients participating in the Pay-link program for Bank Handlowy S.A. in Warsaw, up to the amount of 25% of the program value, i.e. up to PLN 6,000 thousand, expiry: September 2009.

ORLEN Asfalt Sp. z o.o.

- Excise tax security deposit in the amount of PLN 5,700 thousand, expiry: August 2008.

Rafineria Nafty Jedlicze S.A.

- Pledge on current assets in the amount of PLN 56,558 thousand;
- Mortgage in the amount of PLN 43,000 thousand;
- Collateral transfer of ownership of the property of the value of PLN 72,234 thousand;
- Excise tax security deposit in the amount of PLN 13,026 thousand;

ORLEN Deutschland AG

- Tender deposit for Deutsche Bank Hamburg in the amount of EUR 50,000 thousand.

Ship Service S.A.

- Letters of credit in the amount of PLN 12,958 thousand;
- Excise tax security deposit in the amount of PLN 9,550 thousand to the benefit of the Tax Office and Customs Chamber.

ORLEN Eko Sp. z o.o.

- Blanc bill of exchange for PLN 19,505 thousand to the benefit of NFOŚiGW; bill of exchange declaration specifies its maturity until June 2013.

Płocki Park Przemysłowo-Technologiczny S.A.

- Liability for cutting down the trees due to the Municipal Office in Płock in the amount of PLN 6,682 thousand.

1.7.2 Issue of bonds

PKN ORLEN S.A. is a party to the agreement for the issue of bonds with a debt limit up to PLN 2,000,000 thousand executed with Bank Polska Kasa Opieki, BRE Bank, ING Bank Śląski, PKO Bank Polski and the Polish branch of Societe Generale.

Under this agreement PKN ORLEN S.A. issues unsecured bearer bonds. The offer is addressed to institutional investors and will not be offered to public. The banks choose 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.

Funds obtained under the issue can be allocated by PKN ORLEN S.A. for any business-related purpose, relating to both operating activities and investing activities. Under the program, PKN ORLEN S.A. is allowed to divide the issue into portions and additionally determine dates on which they will be released. It gives an opportunity to manage the funds with which the ORLEN Group intends to finance its operating activities. The issues made under the program make it possible to finance the working capital at an attractive cost, diversify the sources of PKN ORLEN S.A.'s financing.

In 2007, under the issue program, PKN ORLEN S.A. issued 5-year bonds in the amount of PLN 750,000 thousand and as at 31 December 2007 short-term bonds in the amount of PLN 356,000 thousand.

Additionally, under the Bond issue program on 10 March 2008 PKN ORLEN S.A. issued short-term bonds of the overall value of PLN 25,000 to Anwil S.A.

ORLEN Oil Sp. z o.o.

Under the resolution passed by the Management Board, ORLEN Oil Sp. z o.o. decided to issue the first portion of registered bonds. Below the issue terms of reference are specified:

- nominal value of 1 bond: PLN 1,000,000;
- number of issued AA Series Bond documents: 25;
- series AA bonds maturity date: 31 December 2008;

- interest: floating WIBOR 3M + margin 0.10%, paid quarterly in arrears;
 - bond security: no;
- PKN ORLEN S.A. took up the bonds in December 2007.

1.7.3 Financial instruments

The financial instruments were described in detail in Note 29 to the consolidated financial statements.

1.8 Employment

In 2007 the average employment in the ORLEN Group (PKN ORLEN S.A. and consolidated subsidiaries and jointly-controlled companies) amounted to 23,223 persons as compared to 25,538 persons in 2006. The employment in the ORLEN Group as at 31 December 2007 amounted to 22,927 persons, which means a drop by 1,186 persons as compared to the situation as at 31 December 2006.

1.9 Publication of financial results forecast

“Strategy of the ORLEN Group for the years 2007-2012” approved by the Supervisory Board of PKN ORLEN S.A. on 16 November 2007 set the objectives in respect of investment expenditures per business segments of the ORLEN Group, that is:

- refining segment: PLN 8.4 billion,
- retail segment: PLN 3.2 billion,
- petrochemical segment: PLN 5.8 billion,
- chemical segment: PLN 1.7 billion,
- other activities: PLN 2.2 billion.

One of the elements of the ORLEN Group strategy is internal strengthening of companies, by:

- increase in usage of production capacity;
- increase in wholesale market share;
- implementation of two trade marks strategy and increase in retail sale effectiveness.

Within inorganic growth strategy it is planned to expand sales to new markets, particularly to Baltic states, where investment program has been already realized. Priority is also given to projects connected with consolidation of domestic oil sector, launching of crude oil exploration and extraction activities, crude oil trading optimization, strengthening of wholesale of refining products by sea and monitoring of potential acquisition targets.

The following investments are the most important to development of the ORLEN Group:

- Enlargement and improvement of refining complex in AB Mazeikiu Nafta;
 - Paraxylene (PX) and Terephthalic Acid (PTA) Complex;
 - HON VII and Hydrogen Manufacturing Plant Complex;
 - Ethylobenzene Installation;
 - Modernization and Intensification of Butadiene Installation;
 - Construction of Propylene Manufacturing Plant in AB Mazeikiu Nafta;
 - Modernization and Intensification of Alkylation Installation;
 - Enlargement of CV and PCV Manufacturing Plant in Spolana
- as well as many minor investments connected with adjusting the infrastructure of the plant to new legal and ecological requirements.

Despite the increase of net financial indebtedness of the ORLEN Group by PLN 827,401 thousand to the level of PLN 8,655,755 thousand as compared to the end of 2006, the financial standing of companies remains on secure level. It is reflected above all by financial leverage ratio which amounted to 37.3% as at the end of 2007. Taking into account realization of the further investments in 2008 as well as high indebtedness of PKN ORLEN S.A. resulting from realized acquisition of Mazeikiu Group, planned financial leverage ratio should not exceed 38.2% at the end of 2008, which is in line with the strategy assumptions. Net indebtedness/ EBITDA ratio which amounted to 1.6 as at the end of 2007 is estimated to reach the level of 2.2 in 2008. The levels achieved by these ratios are generally considered to be secure and will not limit the process of gaining new sources of financing investments.

Despite the increase in indebtedness, the financial liquidity is on the secure level as at the end of 2007.

1.10 Predicted situation in respect of macroeconomic factors

Estimates in respect of particular macroeconomic factors were presented on the basis of assumptions to “Strategy of the ORLEN Group for the years 2007-2012” updated in November 2007.

Economic growth

The year 2007 witnessed in Poland high level of GDP growth which reached the level of 6.1%. In 2000-2006 the ratio oscillated between 4.3% and 6.1%. Based on available market data, PKN ORLEN S.A. estimates that GDP growth will amount to 5.4% in 2008. Lower level of GDP will result from the increase in trading deficit which will slightly slow down the economic growth. In 2009-2012 economic growth is expected to remain on high level between 4.3% and 5.5%.

Unemployment rate

In 2007 advantageous tendencies on the labour market have strengthened. The unemployment rate decreased from 14.8% in 2006 down to 11.4% in 2007. The restructuring process of the Polish economy ends and there are firm signs of the increase in the number of the employed and the decrease of the unemployed. PKN ORLEN S.A. estimates that unemployment rate will decrease down to the level of 10.5% at the end of 2008. The downwards trend is expected to continue in the following years.

Inflation

High domestic demand contributed to the increase in inflation up to the level of 2.5% in 2007 as compared to 1.0% in 2006. PKN ORLEN S.A. estimates that the consumer goods and services prices index will further increase in 2008 to the level of 2.7%. However according to the Report on inflation published by the National Bank of Poland, which contains actualized inflation projection for 2008-2010, the inflation in 2008 may amount to 4.0%, assuming constant level of interest rates. In 2009-2010 the consumer goods and services prices index will return to the level of 3.5%. The higher level of inflation results from factors remaining outside the control of the Monetary Policy Council (more expensive food, fuel, electric energy).

Exchange rate

PKN ORLEN S.A. assumes that in 2008 the average exchange rate of the American dollar will remain at the level of 2.73 PLN/USD as compared to 2.77 PLN/USD in 2007. In respect of EURO it is expected that the Polish currency will slightly appreciate to the level of 3.65 PLN/EUR, as compared to 3,78 PLN/EUR in 2007. It is also expected that in 2008 the average exchange rate of the Czech crown will decrease to the level of 0.1320 PLN/CZK as compared to 0.1363 PLN/CZK in 2007.

Market interest rates

PKN ORLEN S.A. assumes that the monetary authorities will increase basic interest rates in 2008. Therefore it is expected that WIBOR 3M rate will increase up to the level of 5.6%. LIBOR 3M rate and EURIBOR 3M rate were also assumed at the level slightly higher than in 2007 – 5.4% and 4.5% respectively.

Crude oil quotations and margins

Based on the market information PKN ORLEN S.A. assumed that the average crude oil price will amount to 61.0 USD/bbl in 2008. In respect of an Ural/ Brent differential for 2008 the amount of 3.4 USD/bbl was assumed. In the following periods, that is in 2009-2012, crude oil prices are expected to fluctuate between 48 and 53 USD/bbl and differential is expected to fluctuate between 3.0 and 3.3 USD/bbl.

Margin on quotations of gasoline (crack) is expected to reach the level of 134.0 USD/t in 2008. In 2009-2012 it is assumed that the margin on gasoline will oscillate between 118.2 USD/t and 125.0 USD/t. Annual crack on diesel oil was assumed at the level of 119.5 USD/t which is comparable to the realization for 2007. In the following years fluctuations of margins on diesel oil are expected within the range of 110.6 – 117.1 USD/t. In respect of margin on Jet fuel, PKN ORLEN S.A. assumes slightly lower level than in the prior year, amounting to 161.8 USD/t. In 2009-2012 crack on Jet fuel will oscillate between 133.6 USD/t and 142.1 USD/t. As far as petrochemical products are concerned, slight decrease in advantageous tendencies is assumed. In 2008, in case of ethylene the average annual margin at the level of 629.0 USD/t is expected and in case of propylene of 610.0 USD/t. It is assumed that in 2009-2012 margin on ethylene will fluctuate between 523.0 USD/t and 584.0 USD/t and margin on propylene will oscillate between 485.0 USD/t and 549.0 USD/t.

1.11 Publication of financial results forecasts

PKN ORLEN S.A. in its current report no. 10/2008 of 7 February 2008 specified estimates of selected financial and operational data for the PKN ORLEN S.A. Group relating to the fourth quarter of 2007. The published estimates as regards macroeconomic and operational data do not differ materially from the values presented herein. The total effect on the profit from operations of the repair and upgrading standstills, provisions for restructuring and pension benefits and macro factors in the fourth quarter of 2007 was estimated to amount to PLN 750 million approximately.

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

In 2007 PKN ORLEN S.A. has 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 impact of manufacturing activities on the environment. In aggregate, in 2007, 97 new contracts were executed and 49 were amended amounting in total to PLN 11,668 thousand, out of which: the work realized under the so-called "annual contracts" for analytic and technological works; ongoing monitoring of corrosion processes in manufacturing installations; analysis of environmental impact on PKN ORLEN S.A.' employees health and indication its potential effects. For the purpose of comparison, in 2006, 99 new agreements and 39 appendices for the total amount of PLN 10,180 thousand were signed.

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

The most important studies and developments within the scope of technical R&D in the Parent Company in 2007 include as follows:

- "Defining the Impact of Various Contents of Bio components (bioethanol, EETB, 80/20 bioethanol component) on the Quality of Gasoline Formulas". Performed by: Institute of Petroleum Processing in Kraków. The research study conclusions will be used mainly for the purpose of taking decisions on and introducing to production fuels of the content of bio components above 5% in view of the obligation to meet the National Target Index.;
- "Study of engine gasoline quality during storage in a salt cavity in more sever conditions". Performed by: Institute of Petroleum Processing in Kraków. The study was performed due to the obligation imposed on PKN ORLEN S.A. to keep mandatory strategic reserves of fuels;
- "Comparative analysis of newly produced gudron in the Oil Processing Unit sold to ORLEN Asphalt Sp. z o.o. in comparison to the input produced currently". Performed by: Road and Bridge Research Institute seated in Warsaw. The results of this analysis confirm that the quality of the new raw material is comparable to that produced currently, therefore the new raw material may be supplied to ORLEN Asphalt Sp. z o.o.;
- "Intensification of the processing power of Diesel Oil Hydrodesulphurization Installation II ("HON II") and Diesel Oil Hydrodesulphurization Installation III ("HON III") by 10% at minimum in order to increase the diesel oil pool." Performed by: Refinery Industry Research and Development Centre (Ośrodek Badawczo-Rozwojowy Przemysłu Rafineryjnego SA) in Płock. The work covered, among others, the industrial test carried out on HON III installation, analysis of results and simulation calculation. The work confirms that the capacity of HON II and HON III installations can be increased by 10 % and, therefore, the diesel oil pool can be increased as well.

Key ORLEN Group companies achieved the following results in research and technological development:

Anwil S.A.

- Intensification of the production of the suspensive PVC in the volume up to the level of 340 kt/year. Once completed, this project will enable the use of the technological and product reserves existing in the installation and to decrease the unit production costs;
- Catalytic reduction of nitrogen oxides. This investment aims at achieving a level of technology to comply with BAT due to considerable limitation of the emissions of NOx to the atmosphere from the level of 400+500 ppm to approximately 80 ppm;
- Construction of turbine 4.0 MPa. This project made it possible to use the surplus of technological steam from the Fertilisers Complex to produce electrical energy in the quantity of approximately 1 MW and, consequently, to eliminate in this way the losses on energy suffered previously on the reduction station.

ORLEN Oil Sp. z o.o.

- Improvement of quality of base oils of ORLEN Oil Base Group I+. As a result of undertaken activities the guidelines were developed for the production of Base Group I+: ORLEN Oil Base 150 and ORLEN Oil Base 400;
- 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 base oils ORLEN Oil Sp z o.o. will be free from the necessity to import base oils and, if the demand

for homologated base oils is maintained at the current level, will be able to resell them at much higher price. The BOI Program is expected to be completed in November 2008.

- Extension of Platinum products family by a high quality gear oils line. In 2007 a Platinum Gear high quality gear oils line was being prepared for implementation. A technological documentation was drawn up as well as information materials for the clients;
- Introduction to the production of a catalogue of new emulating cutting oils: mineral, semi synthetic and synthetic;
- Implementation to the production of technologies enabling to obtain new generation anti-adhesive oils for building industry;
- Exploitation study of cooperation of ORLEN OIL engine oils with biodiesel;
- Exploitation study of Platinum oils on agricultural equipment;
- Development of the technology for producing a plasticizer for natural and artificial rubber type TDAE.

Rafineria Nafty Jedlicze S.A.

- Upgrading of a catalytic system on the Used Oil Hydrorefining Unit ("HOP") to obtain oil bases on the industrial scale meeting the quality requirements for group I+ oil bases. The works carried out as part of the project implemented together with the Institute of Petroleum Processing in Kraków entitled "Improvement of low-temperature qualities of base oils";
- Continued activities relating to the raw material segregation to the Used Oil Distillation System ("DOP") and HOP. Developing a structure for applying the used oil for the production of oil bases, power revaluation and other methods of used oil management;
- Continued activities to prepare the implementation analysis and proposed modification in respect of individual modules of TETA system;
- Research on the possibilities to use the diesel oil from the HOG installation in PKN ORLEN S.A. as input for the Hydrorefinery installation in order to improve its physical and chemical parameters;
- Upgrading of PTD installation to secure raw material for the production of solvents and components for heating oil manufacturing.

Inowrocławskie Kopalnie Soli SOLINO S.A.

- Providing for a long-term strategy for crude oil and fuel warehousing beyond the time limits defined by the resources and volume of the "Góra" deposits and extending the assortment of media stored in the salt cavities, numerous stimulations and analysis showed the need to prepare an investment process aimed at acquiring a new salt deposit, construction of a leaching plant and, at the same time, a warehouse for storing natural gas, crude oil, fuels and reactive gases. Also the works were conducted involving the project of warehousing LPG in the "Góra" deposits;
- Continuation of works to deepen the knowledge of an internal structure and bordering of the salt diapiric fold "Mogilno", geophysical seismic research has been completed to identify the bordering of the diapiric fold in its part expected to home new leaching installations and a programme for hydrogeological studies has been developed to examine the water relations within the overburden of the diapiric fold;
- Preparation of the development of Lubień Kujawski deposit including perspectives of supporting its installations with the installation at the Łanięta deposit. This deposit has been chosen as the place for new warehouses because of its location in respect of the following pipelines: of crude oils ("Druzhba" Pipeline), of products from PKN ORLEN S.A. and of natural gas ("Jamal" Pipeline) and also the potential availability of water for technological purposes from the PKN ORLEN S.A. intake on the Vistula river as well as quite a short distance from PKN ORLEN S.A. and Anwil S.A. In 2007 a consistent concept for splitting the deposit was prepared to separate warehousing areas of crude oil and fuels, natural gas and reactive gases (ethylene and propylene).

ORLEN Projekt S.A.

- Application, in projects completed, of new technological and technical solutions being in line with international tendencies observed in the refinery and petrochemical segments;
- Updating the quality management system to comply with the requirements of ISO 9001 and NATO as defined in AQAP 2110 and obtaining certificates for the system issued by BVQI and NATO.

ORLEN Laboratorium Sp. z o.o.

- Works aimed at implementing new brand for fuel quality monitoring – BAQ. This is a complex system for monitoring fuel on stations, ensuring good quality of fuel for clients and station owners. In 2007 brand BAQ was reported to the Patent Office of the Republic of Poland.

Płock Park Przemysłowo – Technologiczny S.A.

- In 2007 the works were continued in relation to the implementation of the project “Construction and Development of the Industry and Technology Element of PPP-T in Płock for the Over-Regional Innovative Activity” placed on the list of key projects covered by the Local Operating Programme of the Mazowieckie Voivodship for the years 2007 – 2013;
- Launch and conduct of the activities relating to the establishment of a special economic zone on a part of the PPP-T premises. In 2007, PPP-T S.A. obtained a consent of competent authorities to establish the Łódź Special Economic Zone on the part of its area. In July 2007, as one of new economic initiatives of the Ministry of Economy, an application was filed for the establishment of the Regional Park of Łódź Special Economic Zone within the Płocki Park Przemysłowo – Technologiczny area.

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

The key factors for the development of the PKN ORLEN Group in 2007 included:

Updating of the strategy implemented by PKN ORLEN S.A.

The key external factors influencing the development of PKN ORLEN S.A. are:

- boom in the global economy, especially high economy growth in Central-Eastern Europe;
- foreign investment stream and European Union funds;
- political tensions and increased protectionism in countries – producers of crude oil;
- intensified consolidation process of oil sector in the region.

Hitherto existing strategy of the Company, being implemented since 2005, resulted in few large achievements in the field of organic as well as inorganic growth. The main achievement is the finalization of purchase transaction and taking over the control over Lithuanian company AB Mazeikiu Nafta. Additionally, purchase transaction of UNIPETROL a.s. was finally closed and the Partnership program was finished. In the field of organic growth pro-efficiency actions through the whole value chain were intensified. Petrochemical segment and whole and retail sales were developed, what resulted in increase of volume sales in those segments.

On 16 November 2007 the Supervisory Board of PKN ORLEN S.A. approved the document “Strategy of the PKN ORLEN Group for the years 2007-2012”. The Strategy assumes the updating of the existing approach to the value creation process at the PKN ORLEN Group. The value will be generated through complementary pillars of the strategy: organic and inorganic growth.

The release of organic potential will be realized particularly through:

- realization of Value Creation Program in AB Mazeikiu Nafta and intensification of intergation with UNIPETROL a.s.;
- increase in crude oil processing capacities (the target effective processing power of the whole PKN ORLEN Group planned for 2012 is to amount to 33 million tones per year);
- increasing the wholesale share market (by 2012, the 65% Polish market share and the 75% Baltic States market share to be achieved);
- continuation of implementation of strategy of two brands in the Polish and Czech markets and significant improvement of retail sale effectiveness by adjusting the offer to the local markets’ demand (by 2012 the target of a more than 30% share in the Polish market and an at least 20% share in the Czech and Baltic States markets to be achieved);
- assets optimization through further divestments of the non-core business companies (mainly Polkomtel S.A.).

As part of the inorganic improvement, an expansion of sales to new markets as well as increasing the products range is planned, particularly to that of the Baltic states where an investment Program has been already implemented and to Ukraine.

The corporate strategy assumes the achievement of the following financial objectives in 2012:

- EBITDA in accordance with LIFO: PLN 11 billion;
- ROACE: 14%;
- Investment expenditures: PLN 3.5 billion yearly average; PLN 21.3 billion in total;
- Financial leverage index (FLI): 30 – 40%.

The highest EBITDA increase generating segment (at the level of PLN 3.8 billion) is the refinery segment. The second EBITDA increase generating segment is a petrochemical segment, where the result will increase by PLN 0.9 billion. The retail segment will witness a dynamic development and will bring another PLN 0.6 billion. The chemical segment and the other operations segment will generate approximately PLN 1.0 billion.

Capital expenditures to be achieved by the ORLEN Group in 2007-2012 broken down by the business segments are as follows:

- Refinery: PLN 8.4 billion,
- Retail: PLN 3.2 billion,
- Petrochemistry: PLN 5.8 billion,
- Chemistry: PLN 1.7 billion,
- Other: PLN 2.2 billion.

The strategy does not assume any change in the dividend policy. In accordance with the applicable dividend policy half of free cash flows will be paid to the shareholders. The priority will be sustaining of the rank given by rating agencies at the investment level.

Integration Program with the Mazeikiu Group

In June 2007 the principles of the Value Creation Program ("VCP") were presented. The effects of a similar integration Program implemented in UNIPETROL a.s. in the Czech Republic were better than assumed. The teams of best experts from both companies are to manage the integration process and identify possible benefits and synergy and then to plan the related activities and to implement specific initiatives. In accordance with the VCP principles the target EBITDA of AB Mazeikiu Nafta in 2012 is to amount to USD 700 million in the fluctuating macroeconomic conditions and to USD 727 million in fixed macroeconomic conditions. The capital expenditures planned for 2007-2012 will amount to USD 1.6 billion.

The Value Creation Program will be implemented in three subsequent stages:

1. Reconstruction of production capacities of AB Mazeikiu Nafta – following the fire of 12 October 2006 and resulting from the break in crude oil supply by the pipeline which commenced on 29 July 2006. The stage aimed at reconstructing the production capacities is to be implemented through:
 - Restoration of a vacuum column (which has not been in use for 20 years) in the Asphalt Oxidation installation, which has enabled to reduce the heating oil production;
 - Reconstruction of a thermal cracking (Visbreaking) installation damaged during the fire, which has enabled to return to the full conversion regime;
 - Launch of the vacuum gas oil supplies to use in full a fluid catalytic cracker;
 - Reconstruction of the Vacuum Distillation Installation by the end of I quarter 2007;
 - Procurement of crude oil supplies:
 - import of crude oil by sea with the use of the AB Mazeikiu Nafta infrastructure located in Butinge and common procurement of crude oil from PKN ORLEN S.A.,
 - involvement in contacts with relevant parties to restore the pipeline supplies;
2. Operating Performance Enhancement in all segments of the Mazeikiu Group's business activity. PKN ORLEN S.A. has already commenced to implement initiatives at the VCP second stage, which, among others, includes:
 - Implementation of initiatives aimed at enhancing performance in all business and functional fields;
 - Expansion of the Mazeikiu Group retail network in the Baltic countries;
 - Launch, by the Mazeikiu Group, of trading activity by sea on its own account;
 - Implementation of segment management at Mazeikiu Group;
3. Value improvement through introducing a New Investment Program. The New Investment Program has already started to be prepared and during 2007 this stage is expected to be prepared in detail and thoroughly planned. The implementation will be continued in 2008 and most of works will have been completed by the end of 2011. The New Investment Program will be implemented through:
 - Increasing the Mazeikiu Group refinery conversion index:
 - hydrocracking installation;
 - column for vacuum separation on the thermal cracking installation (Visbreaking),
 - propane – propylene separation column;
 - Investment ensuring the compliance of the Mazeikiu Group refinery with the European regulations.

The higher EBITDA of the AB Mazeikiu Nafta by 2012, as compared to 2007, amounting to USD 650 million, in the fixed macroeconomic conditions will be the result of the synergetic effect of individual stages of the VCP implementation comprising the following:

- Reconstruction of production capacity: USD 200 million;
- Operating Performance Enhancement: USD 250 million;
- New Investment Program: USD 200 million.

The target capital expenditures of AB Mazeikiu Nafta in 2007-2012, amounting to USD 1.6 billion, at individual stages of the VCP implementation will be as follows:

- Reconstruction of production capacity: USD 300 million;
- Operating Performance Enhancement: USD 550 million;
- New Investment Program: USD 750 million.

The Value Creation Program will indicate the directions of development of the Mazeikiu Group for the subsequent five years.

Integration with UNIPETROL a.s.

The year 2007 witnessed the next stage in the business and organisational integration process involving PKN ORLEN S.A. and the UNIPETROL Group. The Partnership Program was completed one year earlier than scheduled and it procured not only measurable financial effects but also provided a platform for standardization procedures and exchange of experience. The Program was launched by UNIPETROL a.s. in June 2005 and starting from this moment PKN ORLEN S.A. has been providing support in the form of know-how and its experts.

On the grounds of the outcome of the works performed under the project "Strengthening of corporate supervision in the UNIPETROL Group" further activities in respect of the UNIPETROL Group organizational restructuring and legal structure optimisation were carried out. The corporate supervision rules were lessened and replaced with the strengthened role of UNIPETROL a.s. Management and Supervisory Boards and more centralised operation of the UNIPETROL Group. The above goals were performed through:

- transformation of the UNIPETROL Group companies from joint stock companies into limited liability companies (BENZINA s.r.o., Petrotrans s.r.o. and UNIPETROL DOPRAWA s.r.o.);
- merger of UNIPETROL RAFINERIE a.s. and CHEMOPETROL a.s. with UNIPETROL RPA s.r.o.;
- amending articles of association of the Unipterol Group companies through strengthening the role of their general meetings;
- executing a corporate agreement with subsidiaries, standardization of business process, amending organizational by-laws and signature by-laws, making more precise the roles and scopes of responsibility as well as transferring "non-corporate" functions to the Shared Service Centre.

Thanks to the Shared Service Centre having been set up in January 2007 it was possible to strengthen the existing centrally managed functions for the UNIPETROL Group in respect of, among others, internal audit, margin optimization and management of supply chain, safety, controlling and procurement. The Shared Service Centre was set up within the company UNIPETROL RAFINERIE a.s., and since the beginning of April 2007 this company has operated as a stand-alone entity, UNIPETROL Services, s.r.o.

Moreover, in 2007 further steps were undertaken to unify the structures of PKN ORLEN S.A. and of UNIPETROL a.s. through the separation of production and commercial operations having been started (introduction of the best operational and commercial practices) and, subsequently, the merger with relevant business segments of PKN ORLEN S.A. via personal unions. The currently existing commercial and production segments of UNIPETROL RPA s.r.o. are to be demerged in 2008 to form separate companies.

These changes will be helpful in further implementation of the management by segments and allow for further integration of business processes, which will eventually translate to the improved value generated for the shareholders of both capital groups. The process of merging the companies CHEMOPETROL a.s., UNIPETROL RAFINERIE a.s. and UNIPETROL RPA s.r.o. was implemented in compliance with the schedule adopted. The share capital of the new company was increased so as its value was relevant for the size of business operations.

In 2007 also investment and divestment activities were carried out with the aim to put in order the capital structure of the UNIPETROL Group. Therefore, the shares were acquired in PARAMO a.s. (14.51%) and in CESKA RAFINERSKA a.s. (0.225%). Additionally, an agreement was signed with DEZA a.s. company for the sale of shares held in AGROBOHEMIE a.s. (50%) and Synthesia a.s. (38.8%). In exchange DEZA a.s. withdrew its claims for contractual penalties. In July 2007 also the shares in KAUCUK a.s. (100%) were disposed of.

The steps undertaken in 2007 to unify the structures of PKN ORLEN S.A. and of UNIPETROL a.s. lead to the process of splitting the business into production and commerce having been commenced (best operational and commercial practices were introduced) and, subsequently, the merger with business segments of PKN ORLEN S.A. via personal unions.

Operating expenses reduction Program OPTIMA

OPTIMA, the program for reducing operating expenses, has replaced the COCCP program operating in years 2004-2005. OPTIMA is one of the elements of the PKN ORLEN S.A. strategy for 2006-2009, which is supposed to ensure that the ambitious development goals are implemented and the value for the shareholders is improved. According to the Program principles, by 2009 the improvement in operating expenses efficiency of at least PLN 600 million is expected.

OPTIMA covers PKN ORLEN S.A. and the ORLEN Group companies. In 2007 the savings obtained on operating expenses amounted to PLN 466 million as a result of OPTIMA implementation. This represents 144% of the whole target set for 2007, i.e. PLN 324 million. The efficiency improvement Program covers the following saving areas: production, subsidiaries, retail, logistics, procurement and support. The result obtained was mainly due to the

improved efficiency in the production segment – PLN 224 million, retail segment - PLN 115 million, logistics – PLN 70 million. The result obtained in subsidiaries amounted to PLN 131 million. The support function in the generated result makes up almost PLN 43 million. Such a favourable result generated by OPTIMA was also due to the procurement segment which contributed for more than 76 million. This value directly translates to additional effects in all the segments.

Investment Program in PKN ORLEN S.A.

The Development Program for the Manufacturing Plant in Płock assumes the implementation of the following key investments till 2012:

- Paraxylene (PX) and Terephthalic Acid (PTA) Complex;
- Diesel Oil Hydrodesulphurisation Complex (HON VII) with Hydrogen Installation;
- Ethylobenzene Installation;
- Modernisation and intensification of Butadiene Installation;
- Modernisation and intensification of Alkylation installation

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

In 2007, PKN ORLEN S.A. implemented its strategy through focussing on the following areas in the investment activity:

- Business tasks;
- Quality improvement, adjustments to meet the European Union requirements;
- Replacement of property;
- Ecology.

The crucial tasks, which have been started and continued in 2007 include:

- Construction of the Paraxylene installation (PX) of the nominal capacity of 400 thousand t/y plus infrastructure in order to produce paraxylene (PX) in the quantity of 400 thousand t/y to be further processed to 600 thousand t/year of PTA as the primary raw material for polyesters production;
- Construction of the installation for the production of Terephthalic Acid (PTA) of the capacity of 600 thousand t/y with the infrastructure in order to produce PTA, which is the raw material needed to manufacture polyester (PET);
- Construction of HON VII installation with the infrastructure in order to manufacture, at PKN ORLEN S.A., diesel oil with the sulphur content below 10 ppm. Once this task has been completed HON II and III installations could be cut off. These installations cannot produce diesel oil with the sulphur content of 10 ppm, and have also been already worn and torn in terms of engineering aspects. HON VII processing 2.2 million tonnes/year will secure the production of diesel oil with the sulphur content of 10 ppm for the increased crude oil processing resulting from the intensification of Olefins II, and the production of 400 thousand tonnes/year of paraxylene;
- Construction of Hydrogen Manufacturing Plant II of the capacity of 5 t/h, i.e. 40,000 t/year with the infrastructure in order to increase the hydrogen production for hydrodesulphurisation processes;
- Clause II installation to secure recycling of hydrogen sulphide gas through the construction of new Claus unit;
- Increasing the storage capacity for propylene – due to the need to increase the storage capacity for liquid propylene of the total capacity of 6,600 m³, originating from the Olefins Manufacturing Plant II and Catalytic Fluid Cracking II (FKK II) Installation;
- Modernisation of tanks 5 and 6 in the Warehousing Centre No. 101 in Mościska – to increase warehousing capacities of the centre due to the needs of Warsaw agglomeration and adjustment of tanks 5 and 6 to the requirements laid down in the Minister of Economy Regulation, Journal of Laws No. 243 of 21.11.2005;
- Fuel pipeline Ostrów Wielkopolski – Wrocław – the aim of this investment is to develop own fuel pipeline system. The pipeline when completed will reduce the logistics expense of supply of fuels to the southern west of Poland;
- Construction of the Automatic Pouring Station no. 5 with the infrastructure in order to secure the dispatches of greater volume and the assortment of products;
- Modernisation of stations 110 kV and 30 kV GPZ1 and GPZ2, stages I and II, in order to ascertain the supplies of electricity to the Manufacturing Plant;

The crucial tasks performed and delivered for operation in 2007 include:

- Construction of the Diesel Oil Hydrotreating Installation from the Gudron Hydrodesulphurisation System (“HOG”) – the HOG installation once completed, provided for a correct stability of oil fraction obtained from the HOG installation and appropriate parameters were obtained: reduced content of resins to 25g/m³, reduced content of sulphur to 50 ppm and nitrogen to 100 ppm and processing of 55 tonnes of oil per hour;
- Construction of tanks 17 A,B,C and 18 A,B of the Composition Division – the task is aimed to increase by 28,000 m³ of gasoline warehousing capacity in order to enable the increase in production and in safety at work and fire safety level;
- Upgrading of sewage disposal system I and II, as a result an appropriate technical condition was restored and the explosion, fire and ecological risks relating to the operation of industrial sewage disposal system were mitigated;

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(Translation of a document originally issued in Polish)

- Replacement of cables 30 kV from GPZ 1 and GPZ 2 to GPR P4. Due to the replacement a real risk of breaks in power supply to the technological installations: Hydrogen Recovery, Ethylene and Glycol Oxygen II, WAT II, Mektol, Flexpol, Acid Water Striping, Pyrolytic Gases Switching System, Reforming V;
- Four Warehouse Centres were upgraded in Bolesławiec, Żurawica, Kraków – Olszanica, Świnoujście. As a result of upgrading, the Centres were made compliant with the technical, fire and ecological safety requirements laid down in the “Ministry of Economy Regulation on Technical Conditions To Be Met By Liquid Fuel Stations, Transmission Far-Reaching Pipelines Used for Transportation of Crude Oil and Refinery Products and Their Location” (Journal of Laws of 2005 No. 243, Item 2063);
- Eight units started to be operated in the Warehouse Centres in Nowa Sól, Gdańsk, Mościska, Wrocław, Szczecin, Ostrów Wilk., Sokółka and on car terminal in Płock. The construction of biocomponent dosing units is a significant element of the ORLEN Group strategy to increase the volume of biofuels sales in 2009, in order to meet the National Index Target. The constructed units will enable to increase the use of renewable sources of energy.

Retail sale development

The market position of PKN ORLEN S.A. has been successively strengthening by an intensive investment program having been launched in 2005. As a result of a consistently implemented plan as at the end of 2007 the network comprised 308 BLISKA economic stations and 851 ORLEN premium stations (stations CODO¹ plus DOFO stations).

In 2007 also a number of franchise stations was increased and at the end of this year it amounted to 245 (180 ORLEN and 65 BLISKA). Concurrently with the franchise project being developed, the structure of patron stations bound upon with agreements executed with PKN ORLEN S.A has changed materially. Practically, in 2007 the number of DOFO and DODO stations were equal (245 DOFO versus 242 DODO stations), as compared to 2006, in which 345 DODO stations operated. In 2008 it is planned to reduce the number of DODO stations by another 100.

Good results of the retail segment were also possible due to a new strategy of FLOTA Program having been implemented, namely, involving, among others, introduction of new products for Truck Fleets: Twoja Lokalna Stacja (Your Local Station), Złoty Szlak (Golden Route) and an offer addressed to Small Enterprises – Twój Lokalny Rabat (Your Local Discount). The activities undertaken as part of the FLOTA Program enhanced the volume by more than 49% as compared to the prior year and increased the FLOTA's sale share in the total volume.

In order to optimize the sales and retail sales management in 2007 an IT retail price optimisation system was introduced, “PriceNet”; parallelly to the system implementation process the price management strategies were determined, including the strategies for differentiating prices at various Brand stations. As part of these strategies the central system for retail price management implemented at CODO stations in 2005 was extended to cover DOFO stations to which the suggested prices are sent.

The record dynamics of non-fuel margins, over 20%, which was achieved in 2007, is due to a positive tendency in almost all product categories. A particular attention should be drawn to the fact that an increase in the margin is mainly due to an increase in sales volume resulting from a much more frequent shop transactions. This is mainly an effect of the reorganisation of non-fuels goods and services management.

As part of the new concept of shop and bistro a final visualization has been prepared and first coffee corners and bistros called “Stop Cafe” were opened at Premium stations.

In 2007, numerous image campaigns and marketing activities were carried out to support the sales plan realization. The biggest ones involved the implementation of fuels and non-fuel product promotions and the image building of Verva high quality fuels. An effective communication of marketing activities using the ORLEN TEAM players' image and sponsoring F1 relations brought a practical effect in the form of a 10-point increase in Verva brand recognisability as compared to the year 2006. Concurrently, the Premium products of competitors from western countries dropped to lower ranks. Having achieved a critical number of economic fuel stations, PKN ORLEN launched, in the end of 2007, a mass campaign of BLISKA brand.

As part of Vitay Program a system of managing awards for the Program participants was outsourced. The goal of this Program is to improve service quality and cost saving. Strategically, the Vitay Program developed a direct marketing system to build new direct channels to reach new segment clients, to actively promote high-margin products and services and to commence the work on developing dedicated analytic applications as part of the CRM (Customer Relations Management) concept.

¹ CODO - Company Owned Dealer Operated (own stations); DOFO – Dealer Owned Franchise Operated (franchise stations); DODO – Dealer Owned Dealer Operated (patron stations)

In order to prepare the implementation of National Target Ratio in 2008, in the autumn of 2007 pilot Programs for selling new product, bioester, were launched. The pilot retail sale of bioester (B100) was carried out in a period from 1 September 2007 to 31 December 2007 at 15 BLISKA stations in the Southern Poland.

The most important activities that remain to be implemented in PKN ORLEN S.A. in retail segment include:

- Continuation of the investment Program in respect of the stations;
- Continuation of the development of franchise stations (DOFO);
- Further improvement of profitability of own stations (CODO);
- Continuation of the operating expense optimization Program in respect of retail sale;
- Continuation of the new shop and bistro concept implementation;
- Further development of VITAY Program involving: cost optimisation, Program attractiveness improvement, and broader application of direct marketing;
- Continuation of Retail Sale Platform project; and
- Optimisation of the segment management process.

Retail sale strategy in the Baltic States

In Lithuania and Latvia 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 20% share in a consolidated market of both countries. At the first stage, by the end of 2008, PKN ORLEN S.A. will focus on take-overs of selected facilities or chains and will undertake preparatory steps with the aim to launch construction investments. At the second stage, which is planned for the years 2009-2010, the taking-over process will be continued and new fuel stations will be launched. The last, third phase, by 2012 will focus on strengthening the position in Lithuania and Latvia and on completing construction plans for new facilities. By the end of 2012 it is planned to buy approximately 20 stations in Lithuania and approximately 25 in Latvia. At the next stage, together with gaining more and more experience on the market the main focus will be the construction of new stations. In Lithuania there should be approximately 25 new stations and in Latvia – approximately 40. In a acquisition and construction period, the ORLEN Group's network will be also replenished with franchise stations. It is planned that at the end of 2012 there will be approximately 75 such stations. Consequently, in five years PKN ORLEN S.A. should manage the network of approximately 230 stations on the Lithuanian and Latvian joint market including 120 own stations. The capital expenditures projected to be spent on the retail network amount in aggregate to approximately EUR 200 million. By the end of 2007 a new offer for ORLEN station was modernised and introduced at 12 stations in Lithuania.

The specifics of the Lithuanian and Latvian markets and the consumer expectations expressed in the outcome of market research formed a decisive factor for introducing one Premium fuel station of ORLEN Brand with a relevant country name, i.e. ORLEN Lietuva and ORLEN Latvija (which solution is different from that implemented in Poland, Czech Republic and Germany). The designation associated with the country name enables the clients to identify themselves with the ORLEN brand as addressed to the given market and, concurrently they keep benefits offered by the ORLEN Group possessing a world-wide experience. The first brand to emerge was ORLEN Lietuva. The rebranding process will involve 34 stations owned by the Mazeikiu Group which were formerly branded Ventus. To start, in Lithuania 6 ORLEN Lietuva stations have commenced its operations.

At all the stations forming the ORLEN Lietuva chain a new standard for fuel offer will be introduced: non-lead gasoline: Pb 95, Pb 98 and diesel oil, as well as Premium fuels: Verva 95 and Verva Diesel. At the majority of stations in Lithuania also LPG will be available. Concurrently fuel A 92 and agrodiesel oil are removed from the stations (except for a few stations located in agricultural areas), which were formerly available at Ventus stations. All the ORLEN stations in Lithuania and Latvia are to be fully supplied with fuels produced by the Mazeikiu refinery. At least 30 % of ORLEN Lietuva stations are to be equipped with automatic auto wash stands. PKN ORLEN S.A. will offer to its corporate clients an attractive discount offer and will introduce an international fleet card. At majority of stations also the shops will be located offering a rich catalogue of non-fuel goods.

German market

In 2007 a new strategy "Rising Star" was developed with the aim to optimise the offer and reposition the STAR Brand as number 2 in the German economic segment. At the end of 2007 ORLEN held 518 stations on the German market out of which 460 operated under the STAR brand and 58 under the ORLEN brand.

It is assumed, as part of the adopted strategy, that the STAR Brand will continue with its development. In respect of a package of 58 stations bought in the end of 2006 from BP the brand was changed to STAR and, gradually and consistently, the rebranding process has been implemented in respect of the other ORLEN stations. As at the end of 2008 the rebranding of the whole network is planned to be completed. In accordance with the strategy principles ORLEN Deutschland AG is to take over approximately 250 facilities by 2009 and, therefore, achieve a 10% market share in the region of Northern Germany.

Retail strategy on the Czech fuel market

In line with a two-brand strategy adopted in 2006 the existing station network has been rebranded. At the end of 2007, 82 stations operated under the Benzina Plus Brand and offered the highest quality Verva fuels and a broad assortment of non-fuel goods. Moreover, 238 stations operated under the Benzina Brand and offered tested quality at competitive price. At 43 stations of Premium segment a new concept of bistro-Minute was implemented. By the end of 2012 an increase in the Czech market share is planned to achieve up to 20% (currently Benzina a.s. holds a 14% share).

Loyalty Programs at PKN ORLEN S.A.

FLOTA Program is designed for institutional customers operating their own means of transportation. Fuel cards enable non-cash purchases of fuel, merchandise and services at petrol stations belonging to PKN ORLEN S.A. The Program is mostly participated by: forwarding companies, production and trading companies, banks, offices of central and local administration and foreign branch offices. In 2007, more than 200 thousand FLOTA loyalty cards were issued, and the share of sales with Flota cards in the total sales of fuels within the network of petrol stations owned by PKN ORLEN S.A. increased in 2007 up to 18.8% from 13.9% as at the end of 2006.

At the turn of 2006 and 2007, as part of FLOTA Program innovative services were launched: Złoty Szlak (Golden Route) and Twoja Lokalna Stacja (Your Local Station). Both are designed for the companies from shipping and industrial sectors possessing big fleets of cars with specific requirements in respect of fuel purchase, which buy fuel in the amount of minimum 1 thousand litres per month, which need an easy and friendly system of fuelling which is beneficial in terms of economy and basic roadside assistance services. In 2007 approx. 560 agreements were signed for the Your Local Station Program and 62 agreements for the Golden Route Program. The total volume of sales realised through both Programs in 2007 amounted to 65 million litres. A common feature of new services is a special offer of discounts on fuel, much higher than in the case of standard offer while other permanent benefits of the FLOTA Program are kept. The developed and implemented new strategy of FLOTA Program enabled a highly dynamic increase in sales realised with the use of fuel cards, competition to be undertaken and position of PKN ORLEN S.A. to be strengthened in the LTF (Logistics, Transport, Forwarding) segment.

In March 2006 a new product was introduced addressed to the segment of small and medium fleets – Twój Lokalny Rabat (Your Local Discount). This product is addressed to institutional clients, whose monthly demand for fuel amounts to at least 500 litres. This is a cash agreement concluded on the stations owned by PKN ORLEN S.A., under which clients obtain a discount and receive one invoice per month. Currently, the fleet cards are acknowledged by nearly 1,700 ORLEN and BLISKA petrol stations. As at the end of 2007 almost 34 thousand agreements were concluded under which the clients declared to buy approx. 31 million litres per month.

VITAY Program is a loyalty Program aimed at individual customers visiting ORLEN petrol stations on a regular basis. Super VITAY is a loyalty Program for PKN ORLEN S.A.'s clients, who have been already enrolled to VITAY Program and collect the biggest number of points. Super VITAY provides clients with additional benefits and prestige of a gold bearer card. On a quarterly basis these clients receive a new free VITAY Journal titled "Szerokiej Drogi", which contain, apart from the current offer of collecting points in exchange for goods and services, a list of awards and attractive commercial promotions. Until 31 December 2007, the program had a group of 6,800 thousand participants within 1,367 participating petrol stations, including 1,138 owned by the Company, 61 partner petrol stations and 168 franchise petrol stations. In the second half of 2007, the average daily sales under VITAY program amounted to approx. 5,200 thousand litres.

Restructuring activities carried out in PKN ORLEN S.A.

In 2007 at PKN ORLEN S.A. the restructuring and reorganisation processes were carried out in respect among others, following areas: accounting and logistics. They include continued building Accounting Shared Service Centre for ORLEN Group and rebuilding the regional logistics structures..

According to the process of establishing Accounting Shared Service Centre the Property Plant and Equipment Accounting Department function and Inventory Accounting Department function (on 1 May 2007), the process of handling liabilities, labour costs, and financial operations (on 1 September 2007) and accounting process relating to receivables and general ledger (on 1 November 2007) were transferred to the company ORLEN Księgowość Sp. z o.o. All the processes were centralised in Płock, thanks to use of modern information technology tools (scanning, electronic documents shipment and automated bookings). The persons employed in these sectors were transferred to ORLEN Księgowość Sp. z o.o. pursuant to article 23 of Labour Code. According to the concluded agreements with the labour unions, part of employees took advantage of the Voluntary Leave Program. Employees that changed their place of work service were entitled to relocation package.

A new local logistic structure consisted in separating and transferring operating activities from eleven existing regional organisational units to five Logistics Regions located in: Warszawa-Mościska – Logistics Region Centre, Lublin – Logistics Region East, Poznań – Logistics Region West, Nowa Wieś Wielka – Logistics Region North and Katowice – Logistics Region South. The replacement of the existing regional structure with five Logistics Regions is related to the implementation of the Logistics Strategy. Logistics employees, based on concluded agreements with the labour unions, were entitled to Voluntary Leave Program and relocation package.

Strategy for Human Resources Management

The policy for human resources management represents an important element of the firm's strategy, which supports the activities performed in the business areas aimed at achieving the scheduled strategic goals. The undertaken activities have materially affected a process of building the image of PKN ORLEN S.A. as a leading employer sticking to the market highest standards of recruitment and selection.

The recruitment policy at PKN ORLEN S.A. is strictly related to the strategy of human resources development and its characteristics is to be open to social environment inside and outside the company. While paying attention to a professional development of employees, the recruitment processes were always first addressed to the ORLEN Group employees.

In 2007, the activities relating to human resources management at PKN ORLEN S.A. were carried out through the following Programs:

- Adaptation Program – relating to the commencement of training sessions for new employees. The goal of the Program is to adapt a new employee to new conditions, environment, duties and working hours as well as to develop his/her loyalty towards the company;
- Competence Development Program – the purpose of this Program is to develop professional competence of PKN ORLEN S.A. employees enabling them to perform their tasks in accordance with the highest standards;
- Talent Management – its aim is to build a flexible reserve management staff of high potential, motivation and leader skills. Moreover, the "Talent Management" Program has enabled an optimal use of the potential of talented employees and supported the desired change tendencies in the organisational culture of PKN ORLEN S.A. to enhance the employees' flexibility and openness to changes;
- Succession and Career Path – in 2007 it was possible to appraise the PKN ORLEN S.A. employees designated to the succession and career path project. In 2008 this will be continued and will eventually result in a unique system of development paths;
- Implementation of an IT tool for e-recruitment – TalentLink – in 2007 an Internet application was implemented which made significantly easier common work of all persons involved in the recruitment process, supported the overall recruitment process starting from the creation and publication of job offers, through selection of candidates to the execution of employment contracts with relevant candidates. The application is effective and reduces recruitment and selection costs thanks to the possibility of reviewing the applications with no need to print them out and store in hard copies.

Upstream activities

In 2007, the activity of PKN ORLEN S.A. in the area of upstream was mainly focussed on a consistent implementation of the upstream strategy taking into account external and internal factors, conditioning and influencing the intended results.

The main activities carried out in 2007 and assumed for realisation in subsequent years include:

- Implementation of a development strategy in the area of hydrocarbon upstream by PKN ORLEN S.A. through regional concentration. The option of regional concentration enables PKN ORLEN S.A. to limit the risks relating to the upstream activities (mainly geopolitical risk) and to build competence in a stable environment;
- Implementation of upstream segment development through creating business on the basis of both organic and non-organic improvement. This means that PKN ORLEN S.A. has focussed on a step-by-step building of a balanced portfolio of research and manufacturing assets, which meet certain criteria (edge conditions) relating to location, risk, level of employed capital, term, etc.;
- Analysis of projects enabling PKN ORLEN S.A. to participate in the entities existing on the market and holding appropriate portfolios of assets, including production assets;
- Creation of a material and organisational base for a team of experts;
- Obtaining and training personnel for the Upstream Office;
- Studies and research analyses in respect of projects (in 2007, 51 projects underwent the analysis of different level of comprehensiveness);
- Comprehensive analysis of selected projects aimed at the purchase of assets; and
- Obtaining two first upstream projects for PKN ORLEN S.A.

The development strategy of PKN ORLEN S.A. in the area of hydrocarbon upstream assumes a common implementation of projects with co-operation of companies operating in the area of upstream. The benefits for PKN ORLEN S.A. resulting from the co-operation with experienced partners include among others:

- Participation in investment projects prepared and implemented by the partner;
- Direct access to the information on potential upstream projects in the area of the partner's operation;
- Optimisation of the upstream operations risk due to a mutual support in selection, assessment and implementation of projects;
- Access to the partner's know-how in the upstream area;
- Access to qualified and experienced personnel.

The opportunity to work together with external partners provides PKN ORLEN S.A. with a balanced increase with optimised risk.

The implementation of the strategy to the extent of gaining new upstream projects was founded on the analysis of a few dozens of proposed projects which met, among others, the following criteria:

- geographical location;
- acceptable risk level; and
- financial dimension of the project and relevant return on investment.

The implementation of the projects which are most optimal for PKN ORLEN S.A. (comprehensive due diligence was carried out) resulted in purchase offers having been submitted and enabled further preparation to implement subsequent projects. As a consequence, five concessions were issued by the Minister of Environment – Department of Geology and Geological Concessions for the upstream and recognition of hydrocarbon deposits and the mining usufruct was established in the Lubelszczyzna region as well as some agreements were signed for the mining usufruct for a period of five years. The organisational and technical preparation to the purchase of shares in the upstream undertaking in the Baltic Sea shelf was completed in April 2008.

Implementation of mergers and acquisition strategy

In 2007, PKN ORLEN S.A. increased its capital participation in AB Mazeikiu Nafta through the acquisition of its minority shares (save for the shares owned by the Government of the Republic of Lithuania). The purchase process was carried out in stages with the use of the following procedures:

- mandatory call to subscribe for the AB Mazeikiu Nafta shares;
- standing order for the acquisition of shares filed with the Stock Exchange in Vilnius;
- mandatory squeeze out of AB Mazeikiu Nafta shares.

In total PKN ORLEN S.A. acquired approximately 5.81% of shares in AB Mazeikiu Nafta and increased its share in the Mazeikiu Nafta's share capital up to 90.019%. All the transactions were realised at the uniform lump sum price. As a result of the above, the sole minority shareholder of Mazeikiu Nafta is the Government of the Republic of Lithuania holding 9.981% in the share capital and the shares of Mazeikiu Nafta were withdrawn from the stock exchange trading.

In line with the capital strategy of PKN ORLEN S.A. the divestment processes were continued in relation to the non-core assets of ORLEN Group. As part of the divestment activity in 2007 the shares in Niezależny Operator Międzystrefowy Sp. z o.o., Mostostal Zabrze Holding S.A., Petromor Sp. z o.o., Motell Sp. z o.o. and Poilen Sp. z o.o. in liquidation were sold. Concurrently, the consolidation processes were commenced within the ORLEN Group. In 2007, six regional shipping companies were merged to form a new company ORLEN Transport S.A. registered in the beginning of 2008.

In relation to the pending arbitration before the International Court of Arbitration at the Federal Chamber of Commerce in Vienna, in 2007 the transaction of the acquisition of a block of 4.78% shares in Polkomtel S.A. was not completed. This transaction follows from the share sale offer made by TDC Mobile International A/S which was approved in 2006. The performance of the transaction in 2008 will be dependent on a binding award to be issued by the Court of Arbitration.

Mazeikiu Group

In December 2007 the reconstruction of the Vacuum Distillation Unit (VDU) in the Mazeikiu refinery, destroyed by a fire in October 2006, was completed. In February 2007 the Bitumen Distillation Unit (BDU) was started up which partly replaced the installation destroyed by fire and made it possible to reduce the losses. The VDU reconstruction, following the removal of the destroyed unit was started in February 2007. The reconstruction was carried out by the designing and engineering companies from Lithuania, Poland and Italy. The material subassemblies were also constructed in the Russian, Ukrainian and Czech plants. The unit was started up for production purposes on 20 January 2008 following the connection of the reconstructed VDU installation with other refinery installations. After the reconstructed VDU has been started, the refinery processing capacities achieved the level before the fire in October 2006, i.e. above 10 million tonnes. In autumn 2007 the biggest ever overhaul of AB Mazeikiu Nafta was carried out

accompanied by modernisation works. The scope of works performed was three times as much as the scope of work performed during the last repair in 2003. The repair work in the refinery was started in autumn 2007. As a result also an overhaul and repair of over 450 pipelines, 64 units, 16 reactors and approximately 1,600 valves were carried out. The overall cost of repair and modernization work amounted to approximately USD 85 million. In order to adjust the Mazeikiu refinery to ecological and quality requirements of the European Union and to general material savings in the power consumption an investment program has been implemented of the total value of USD 1.6 billion. The program is scheduled to end in 2012. The main assumptions of the program include the construction of new installations, among others, hydrocracking, Visbreaking vacuum distillation as well as propylene installation and Heat and Power Plan exhaust gases desulphurization system. By today 12 investment projects have been implemented as part of the performed modernisation work. The modernization works are continued, therefore, the effective processing capacities of the refinery will achieve the level of 11 million tones of crude oil per year and the raw material processing depth will increase from 75 to 88 %.

Program for Anwil S.A. development

In line with the concept of building a chemical segment within the ORLEN Group the current mission of Anwil S.A. determined the development tendencies and strategies of the segment core and service-providing companies which are considered to be material for the segment operation. The future shareholding policy of Anwil S.A. in respect of subsidiaries and associated companies will be a continuation of the shareholding policy resulting from the PKN ORLEN S.A. corporate governance. The tasks already performed in accordance with this strategy include: the maximum use of production capacities, reorganisation of management structures and systems relating to the extension of the Anwil Group, development of the production capacities relating to PVC production and processing as well as fertilizers production, further optimization of transportation costs, specific railway transport by the use of the economies of scale.

Concurrently, in the nearest future, the Anwil Group is facing numerous challenges, which once met will enable the production volume to be increased and the Anwil Group to develop. The material tasks in this area include without limitation: increasing the production capacities of nitrogenous fertilizer installation up to approximately 1 million tonnes per year, increasing the production capacities of PVC in Włocławek and Neratovice up to approximately 500 thousand tonnes per year (in total in Anwil S.A. and Spolana a.s. companies), revitalization of PVC granulate production in Spolana a.s. with the application of technologies held by Anwil S.A. aimed at fighting the current competitive PVC granulates imported to the Czech Republic, completion of the acquisition transaction regarding 100% of shares in Spolana a.s. through the scheduled purchase of the remaining shares of the company which are not currently held by Anwil S.A.

A material task is still to optimize the use of resources already held by the Anwil Group. The tasks implemented in this respect include among others: integration of the production process of the companies Anwil S.A. and Spolana a.s., including supplies of ammonia from Anwil S.A. for the needs of caprolactam production at Spolana a.s.; development of the supply infrastructure for power utilities and raw materials for newly constructed installation, including the PTA production plant in the ORLEN Group connected with the ORLEN Group having started the production of terephthalic acid, successive withdrawal of employed and operating capital of the company, which is not strategic for the business of the Anwil Group, including also the sale of property and real estate to the subsidiaries.

The main factor for the development of the Anwil Group is a caprolactam production chain of Spolana a.s. to be extended by the new cyclohexane installation to be constructed. The final location is still to be decided but one of the options assumes the construction of the installation in Włocławek on the premises of Anwil S.A. with the participation of an external partner or by its own with its own potential and the potential of the overall ORLEN Group; participation in the acquisition Programs relating to selected companies from the great chemical synthesis sector covered by the consolidation of the chemical sector in Poland and in the region; construction of the installation for ammonium sulphate granulation. There are preliminary plans to engage in the Ukraine, through the construction and operation of the plant manufacturing PVC dry mixtures and, eventually, granulates on the Ukrainian and neighbouring markets.

The ambitious plans in terms of quantity adopted for the nearest future for the production and sale of all the basic products of the Anwil Group will not unequivocally translate to generated profits. The main reason is the increment of the costs of raw material and power and production limits resulting from the standstill in respect of PVC, which will prevent a full advantage to be taken of the economies of scale. The assumptions made will let the Anwil Group to carry out safe operations in the future years and the generated financial surplus will be sufficient to finance the ongoing business activity and performance of projected investments in terms of development and modernisation. It is also assumed to take advantage of bank lendings in the form of overdraft and preferential loans designated for pro-ecological investments. The basic financial indicators showing financial liquidity and financing structure will remain at safe levels enabling further balancing of the Segment development.

Activity of the Basell Orlen Polyolefins Capital Group

At present Basel Orlen Polyolefins Sp. z o.o. possesses a modern production and logistics base which enables it to effectively compete on the polyolefins market. The company has two manufacturing plants of polypropylene and polyethylene, which belong to the most modern plants manufacturing polyolefins worldwide. The annual production capacity of the plants amounts to 400 thousand tonnes of polypropylene manufactured with the use of Spheripol technology and 320 thousand tonnes of high density polyethylene manufactured with the use of Hostalen technology. In aggregate with production capacity of the low density polyethylene installation the annual yield of Basel Orlen Polyolefins Sp. z o.o. plants amounts to approx. 820 thousand tonnes of polyolefins. Both installations possess modern auxiliary logistic infrastructure used for storing, packing and dispatching products by trucks and by train. The present macroeconomic conditions and the growth perspectives for the petrochemical products market for the nearest years are promising. The modern production base, attractive prices of raw materials, cooperation with one of the biggest enterprises operating in this sector worldwide and beneficial geographical location permit to favourably assess Basel Orlen Polyolefin Sp. z o.o.'s perspectives in respect of results and cash flows to be generated. Basel Orlen Polyolefins Sp. z o. o. will continue to carry out the activities aimed at optimal use of the market, production and distribution bases, which are already held. In particular, it is planned to:

- Increase the Polish market share for new products from the Basell group, i.e. high density polyethylene and copolymers;
- Optimise the distribution of products, i.e. reduce the costs and gradually increase the possibilities of product storage;
- Introduce to the production new types of polymers.

ORLEN Oil Sp z o.o.

A factor which is material for the development of the company ORLEN Oil sp. z o.o. is the idea basing on the organisation altering tendencies within the ORLEN Group which assume that the Group's oil assets will be concentrated in ORLEN Oil sp. z o.o. and also that the operations will be further carried out on the basis of three own production centres in Plock, Trzebinia and Jedlicze and on the basis of the Czech assets as well, if feasible and reasonable. It is assumed that in 2008 the overall Polish market of lubricants will increase up to 234 thousand tones and in the subsequent years it will be still growing.

A supporting factor is the increasing tendency in the number of cars in Poland and, therefore, the market of lubricants for the automotive industry. The highest increase will occur in the group of other automotive products, i.e. by almost 2.5% in 2008, as compared to 2007. Consequently, the company will be developing towards the automotive products supported by marketing activities and with a concurrent update of the offer of industrial products. A further development in terms of technology and product base is planned through long-term relations with key clients, restructuring divisions responsible for sale and marketing, and improving control over the distribution network. A significant threat for the company may be an increase in crude oil product prices and currency exchange rates. In order to minimise its effects the company successively increases the sales on the EUR and USD markets.

ORLEN Asfalt Sp. z o.o.

The factor, which is most important for the company's development is the expected increase in demand for asphalts by 2012 in relation to the national Program for constructing express roads and highways and the increase in demand for asphalts in all the neighbouring countries. A crucial factor is a still dynamic increase in crude oil prices procuring for the prices for the clients being unstable and the Lotos Asfalt price competition becoming more and more strong. In order to meet the faced challenges the company modifies its organization to make the logistics more efficient and implements a commercial strategy oriented to get to end-key clients and to develop intensive market relations.

New strategy for development of Rafineria Nafty Jedlicze S.A.

In the end of June 2007, the Supervisory Board of Rafineria Nafty Jedlicze S.A. approved a development strategy for the company. This strategy covers the years 2007–2017 and is a long-term program which refers to all aspects of the production, marketing and investing activities of the company. In accordance with the new strategy, within the nearest decade three production pillars will be built.

First of all the company will continue the processing of crude oil on the upgraded PTD (Pipe and Column Distillation) installation. As assumed it will be the processing of crude oil and gas condensate coming from the local sources (relatively less expensive) exploited by the Sanok branch of PGNiG S.A., only to a small extent supplemented with crude oil and condensates from other sources. From the processed crude oil the company will obtain cheaper components for the production of solvents and heating oils, mainly light heating oil sold through the PKN ORLEN S.A. commercial chain. Solvents and heating oil will then represent the second pillar of the business activity. The third pillar is represented by the organized system of collecting and regenerating used oils, owing to which the company will

obtain high quality bases used by other companies to produce industrial oils and lubricants. As part of the new strategy specific capital expenditures are to be implemented. First of all the solvent installation was delivered for operation. The costs of the above-mentioned investment amounted to PLN 27 million and it was considered to be covered by the new strategy although its construction has been started long time ago (18 October 2006).

Moreover, in the nearest years Rafineria Nafty Jedicze S.A. will modernise and, in practice, will construct, a new PTD system for preliminary processing of crude oil. The works over the technical project started at the turn of September and October 2007, the facility will be delivered for operation at the beginning of the second half of 2009. It is also planned to sell shares and assets of ORLEN Group non-core companies. Concurrently, the company is still materially threatened by an increase in international prices of raw materials, which tendency may result in a material drop in demand. While the increase in prices of raw materials can effectively translate to the prices of goods only to a limited extent, the production profitability may decrease. The strategy being implemented will provide the company with a stability in terms of production and finance and will make the company independent from excise tax relieves relating to the processing of used oils, which in the past constituted its material or even main source of income.

IKS SOLINO S.A.

The market witnesses a continuously increasing demand for storage of liquid and gas hydrocarbons in salt cavities. The market trends will be stimulating the company's investment activities addressed to increase the storage capacity, introduce new products to the storage program and, first of all, aimed at developing new deposits, which would enable the company to develop this area of activity. It is also of importance for the company that the strategic and operational reserves of liquid and gas hydrocarbons are growing up on a continuous basis. Apparently, a system of mines connected with pipelines will have to be built to increase the operating capacities and to enable more reasonable management of deposits.

The current upwards trends in respect of market demand for industrial brine enable the development of its excavations and the replacement investments in respect of production capacity. In the long-term perspective this area of the company's activity will also need high-cost investments to develop new deposits.

ORLEN Deutschland AG

In 2007 ORLEN Deutschland continued to implement the "Fit for Growth" restructuring program involving the following projects (initiatives):

- Significant increase in the LPG sales volume;
- Increase in volumes under fleet cards;
- Improved effectiveness of logistics due to reduction of transport costs; and
- Organisational changes in the company.

The above projects having been consistently implemented, brought the following advantages for the company in 2007:

- Increase in proceeds from non-fuel activity;
- Reduction of the costs of stations and station maintenance;
- Increase in volumes as a result of accelerated rebranding from ORLEN to STAR;
- Material improvement of financial expenses and revenues;
- Opening additional 40 selling outlets for LPG;
- Increase in volumes under fleet cards by more than 2 million litres as compared to the planned volume.

The undertaken activities and their effects improved competitiveness of ORLEN Deutschland AG on the German market and reduced the company's sensitivity to seasonal drops in retail margins. To continue this trend, apart from the increase in the sales volume, is still one of the ORLEN Deutschland AG basic tasks for 2008.

ORLEN Gaz Sp. z o.o.

In 2007, the principles of the "Strategy for Power Safety of ORLEN Gaz sp. z o.o." were adopted. The strategy, once implemented, will enable the company's share in the domestic gas market to increase up to 25%, provide for better price stability for the clients, expansion of supply sources and real power safety in respect of LPG supplies.

The key investment projects that already commenced to be implemented in 2007 include the construction of a sea terminal for reloading liquid gas in Szczecin and a similar one in Sokółka as well as a project of the biggest country wide LPG storage centre next to Inowrocław where the gas is stored with the use of technology first ever applied in Poland. Due to the planned investments, the sources of liquid gas supply will be diversified. Once implemented they will significantly increase the reloading and storage potential of the company. The reloading capacity of the sea terminal will amount to approximately 200 tonnes of gas per hour. It will be adjusted to handle tankers of displacement

of up to 6 thousand DWT and it will possess its own warehouses. Thus, it will be possible to import gas from various sources, mainly from north and west.

As part of implementation of its strategy ORLEN Gaz sp. z o.o. will construct also, by 2012, two underground tanks (cavities) of the total capacity of 300 thousand m³ in salt deposits located next to Inowrocław. First cavity will be started to be used already in less than three years. This investment will enable a safe and modern storage of gas, creation of reserve and independence from seasonal fluctuations of gas prices. At the location of a future warehousing centre the underground work has already started but the overground work on the terminal will commence in the end of 2008 or in the beginning of 2009. The start-up of the installation should be possible at the turn of 2009 and 2010. The cavities storage potential will satisfy in full the company's needs relating to making mandatory reserves.

The supplies from the East will significantly procure for making more efficient two reloading terminals in Sokółka in the Podlasie region and in Żurawica in the Podkarpacie region. The first of them will be ready at the end of the first quarter of next year. In Sokółka already two storage tanks were placed. At present, the construction of technological infrastructure is still in progress. Also a permit was obtained for the construction of the other terminal in Żurawica, which the commencement of is planned to start in 2009.

ORLEN KolTrans Sp. z o.o.

After the national regulations had been adjusted to the European regulations in respect of availability of railway infrastructure, the grounds were created on the Polish market for foreign private operators. The company has been improving the quality of its services due to the professional railway rolling stock, which it has acquired, and the expansion of a fleet of traction vehicles while maintaining competitive prices. A further development of the company relates to the development of license shipping and the increase in quantity of poured, unloaded and shipped crude oil products. A material factor affecting the company's development is the continuous attractiveness of railway transport as compared to other means of transport.

ORLEN Laboratorium Sp. z o.o.

The company plans to expand the LPG researches through involve selected regional laboratories. The fact that LPG services are monitored only by Płock with the increasing demand for such type of services, specifically within the eastern border zone and in the Pomorze region, makes the research longer and increases the costs of travel. Apart from the price, prospective clients are interested in the time limits within which the service can be performed and in low costs of logistics, transportation, inspector's fee and of analysis in accordance with a relevant norm. The biggest need for analytical services is recognised on terminals and in bottling plants where autogas and liquid gas is stored for municipal needs. The controlling companies focus their operations on reloading terminals. The areas offering the company's development in the nearest future include: LPG, FAME, environmental studies and analysis of piezometers.

ORLEN Eko Sp. z o.o.

The year 2007 saw the continuation of work on the construction of a modern installation of hazardous wastes thermal transformation. The investment was commenced in June 2007 and it involves the second stage of the Adjusting Program, which has been implemented by the company since 2005. At the first stage of this Program, which was ended in December 2006, a system of sludge thickening was constructed. A modern waste incinerating plant should be started up already in 2008 to replace the old one which will be totally excluded. Once it is started up the company will possess two independent technological lines with fluid furnaces, each of the annual capacity of 25,000 tonnes. The installation will comprise a developed system for gas exhaust cleaning and monitoring on an ongoing basis to meet all the environmental requirements of the European Union. The waste incinerating plant will be operating mainly for the needs of the Production Plant of PKN ORLEN S.A. to neutralise sludge which is produced in the Central Sewage Treatment Plant. Nonetheless, it will be also providing commercial services to external entities (e.g. municipal sewage treatment plants) with the use of 15-20% of its capacity. The cost of the investment will amount to more than PLN 130 million. The additional funding, in the amount of PLN 19.5 million, comes from the EU funds obtained thanks to the company's endeavours.

Płocki Park Przemysłowo-Technologiczny S.A.

In 2007 the Company's Management Board drew up the Development Strategy for the company for the years 2007-2013, which laid down strategic goals, development tendencies and results assumed. The strategy was adopted by the company's Supervisory Board in November 2007. Its strategic goal to "construct in Płock a strong and dynamically developing business centre using the synergy of Płock industry and scientific and research infrastructure and to

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achieve financial effect enabling a long-term increase in the company's goodwill" will be implemented through the following strategic goals:

- Improving the attractiveness of the investment offer;
- Performance enhancing;
- Building an effective organization.

The main trends in the company's activities, in the medium-term perspective, are focused on securing investors and further construction of Plock Industry and Technology Park. In the first case the most crucial element is the investment climate, including foreign investment climate. The company's management board launched the actions aimed at improving the investment quality in the PPPT area by taking efforts to establish the Łódź Special Economic Zone Regional Park thereon as part of a new economic initiative of the Ministry of Economy. Consequently, this may result in the area of more than 130 ha to be covered by public aid, which is available only in special economic zones, namely the income tax exemptions for investors. At the first stage the company filed, on 30 July 2007, an application for the establishment of the regional park for the Łódź Special Economic Zone, which, on 31 July 2007, submitted a relevant application to the Ministry of Economy. In the other case, the investment plans of PPPT would be conditional on the disbursement of financial resources from the European structural funds. The target level of financing to be obtained, and the scope of aid to be allocated to the PPPT Project, once determined, will be decisive for the way in which the investments assumed for the years 2007 – 2013 will be implemented.

IV. STRUCTURE OF THE ORLEN GROUP IN THE COURSE OF THE YEAR 2007

As at the end of 2007, Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN S.A.") held directly or indirectly shares in the following companies:

- 105 subsidiaries;
- 5 jointly controlled entities;
- 17 associate companies.

As compared to the end of 2006, the number of subsidiaries, jointly controlled entities, as well as associate companies of the PKN ORLEN Capital Group ("ORLEN Group") has decreased from 140 to 127.

The ORLEN Group (directly affiliated companies) are divided in accordance with the following set of criteria:

4.1 Companies of a core activity

4.1.1 Companies from main branch (order based on the magnitude of the turnover)

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

4.1.2 Companies trading in fuel and gas (order based on the magnitude of the turnover)

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

4.2 Companies of a supplementing activity

4.2.1 Shipping companies (order based on the magnitude of the turnover)

- ORLEN KolTrans Sp. z o.o. seated in Płock,
- ORLEN Transport Płock Sp. z o.o. seated in Płock,
- ORLEN Transport Słupsk Sp. z o.o. seated in Słupsk,
- ORLEN Transport Nowa Sól Sp. z o.o. seated in Nowa Sól,
- ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. seated in Kędzierzyn-Koźle,
- ORLEN Transport Olsztyn Sp. z o.o. seated in Olsztyn,
- ORLEN Transport Szczecin Sp. z o.o. seated in Szczecin,
- ORLEN Transport Kraków Sp. z o.o. seated in Cracow (in bankruptcy).

4.2.2 Maintenance companies (order based on the magnitude of the turnover)

- ORLEN Automatyka Sp. z o.o. seated in Płock,
- ORLEN Wir Sp. z o.o. seated in Płock.

4.2.3 Other companies (order based on the magnitude of the turnover)

- ORLEN Projekt S.A. seated in Płock,
- ORLEN Budonaft Sp. z o.o. seated in Cracow,

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- ORLEN Laboratorium Sp. z o.o. seated in Płock,
- Petrotel Sp. z o.o. seated in Płock,
- ORLEN Księgowość Sp. z o.o. seated in Płock,
- ORLEN Eko Sp. z o.o. seated in Płock,
- ORLEN Administracja Sp. z o.o. seated in Płock,
- ORLEN Medica Sp. z o.o. seated in Płock, including its own Capital Group,
- ORLEN Prewencja Sp. z o.o. seated in Płock,
- Orlen Insurance Ltd. seated in Selima on Malta,
- Płocki Park Przemysłowo-Technologiczny S.A. seated in Płock, including its own Capital Group,
- Orlen Finance AB seated in Stockholm,
- ORLEN Powiernik Sp. z o.o. seated in Płock,
- Orlen Holding Malta Ltd. seated in Selima on Malta.

4.3 Ownership changes in the ORLEN Group in 2007

The structure of the ORLEN S.A. Group in terms of entities subject to consolidation and with respect to significant stakes of shares and stock held in affiliates and other entities has been outlined in Notes 2, 9 and 10 to the consolidated financial statements for 2007.

Major changes in structural and capital relations within the ORLEN Group in 2007 and as at the day of preparation of this report, refer to the following events:

- The execution on 30 January 2007 by UNIPETROL a.s. as the seller and Firma Chemiczna Dwory S.A. ("Dwory") as the buyer a share sale agreement in respect of 6,236,000 ordinary bearer shares in the company KAUCUK a.s. ("KAUCUK"), each of the nominal value of CZK 1 thousand. The purchased shares represent 100% of KAUCUK's share capital and 100% of votes at KAUCUK's General Meeting. The price for the shares purchased amounts to EUR 195,000 thousand and shall be covered up by Dwory S.A. in cash. The carrying value of the purchased shares entered in the accounting books of UNIPETROL a.s. as at 31 December 2006 amounted to CZK 5,460,000 thousand. KAUCUK a.s. is a petrochemical enterprise manufacturing, among others, ethylbenzene, styrene-butadiene, polystyrene products and synthetic rubber;

The share purchase agreement was signed on 30 January 2007 but the transaction was finally closed on 19 July 2007 upon satisfaction of covenants specified in the agreement executed on 30 January between Dwory S.A. and UNIPETROL a.s.;

- The execution, on 23 April 2007, by the companies: ORLEN PetroProfit Sp. z o.o. and ORLEN Oil Sp. z o.o. ("ORLEN Oil") of a share sale agreement in respect of shares in the company Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o. ("Petro-Oil LCS"). As a result of the agreement execution, ORLEN Oil acquired from ORLEN PetroProfit, for PLN 2,280 thousand, 2,888 shares in Petro-Oil LCS, of a nominal value of PLN 500 each, of a total nominal value of PLN 1,444 thousand, representing 76% of Petro-Oil LCS's share capital and 76% of votes at Petro-Oil LCS's Shareholders' Meeting. ORLEN Oil purchased the shares in Petro-Oil LCS out of its own funds. As a result of the transaction ORLEN OIL holds 100% of shares in Petro-Oil LCS's share capital. The share capital of Petro-Oil LCS amounts to PLN 1,900 thousand and is divided into 3,800 equal and indivisible shares of the nominal value of PLN 500 each. The carrying value of the shares sold as entered in the accounting books of ORLEN PetroProfit Sp. z o.o. amounted to PLN 1,438 thousand as at 23 April 2007;
- The acquisition, on 23 April 2007, of 588 shares in the company Etylobenzen Płock Sp. z o.o. (Etylobenzen Płock) of a value of PLN 10 thousand each and of a total nominal value of PLN 5,880 thousand from Firma Chemiczna Dwory S.A. The shares acquired represent 49% of Etylobenzen Płock's share capital and 49% of votes at Etylobenzen Płock's Shareholders' Meeting. The total price for the shares acquired amounts to PLN 6,016 thousand and was paid by PKN ORLEN S.A. out of its own funds. The carrying value of the shares acquired as entered in accounting books of PKN ORLEN S.A. was equal to their purchase price. As a result of the transaction PKN ORLEN S.A. holds 100% of shares in Etylobenzen's share capital, i.e. 1,200 shares of a total nominal value of PLN 12,000 thousand.

On 4 July 2007, the Extraordinary Shareholders' Meeting of Etylobenzen Płock Sp. z o.o. passed a resolution on dissolution of this company and appointing its liquidator;

- The registration, on 27 April 2007, by the Municipal Court in Prague, of the company Butadien Kralupy a.s. ("Butadien Kralupy") seated in Kralupy by Vltavou (Czech Republic). The company KAUCUK a.s. (KAUCUK) acquired in the above company 300 shares representing 100% of the share capital and 100% of votes at the General Meeting. The price for the shares acquired amounted to CZK 150,000 thousand and was paid in cash. The basic activities of Butadien Kralupy a.s. includes without limitation lease of real property, apartments and non-residential buildings. Butadien Kralupy a.s. will be used to construct and operate a new butadiene plant in

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respect of which UNIPETROL a.s., Dwory S.A., CHEMOPETROL a.s. and KAUCUK a.s. have signed an agreement.

Concurrently, on 9 May 2007, Butadien Kralupy a.s. and Chemoprojekt a.s. signed the Agreement for the Construction of New Butadiene Installation and other documents relating to this agreement, of the total value of CZK 1,147,364 thousand.

On 10 July 2007, the company UNIPETROL a.s. acquired from the company KAUCUK a.s. 51% of shares in the company Butadien Kralupy a.s. at the price of CZK 76,500 thousand. Consequently, UNIPETROL a.s. acquired 153 shares in Butadien Kralupy a.s. of a nominal value of CZK 500,000 CZK each, representing 51% Butadien Kralupy's share capital and 51% of the total number of votes at Butadien Kralupy's Shareholders' Meeting. The price for shares was paid by UNIPETROL a.s. in cash. The carrying value of the acquired shares as recorded in the accounting books of KAUCUK a.s. as at 9 July 2007 amounted to CZK 76.500 thousand.

The above agreements were signed in relation to the sale, by UNIPETROL a.s., of 100% of shares in KAUCUK a.s. and pursuant to the Cooperation Agreement relating to the common construction and operation of a new butadiene installation signed on 30 January 2007 between UNIPETROL a.s., Dwory S.A., CHEMOPETROL a.s. and KAUCUK a.s. The process of selling shares in KAUCUK a.s. is being carried out in accordance with the share sale agreement signed on 30 January 2007 between UNIPETROL a.s., as the seller and Dwory S.A., as the buyer;

- The acquisition, on 15 June 2007, from the company Svenska Standardbolag AB, seated in Falun (Sweden) of 5,000 shares in the company Aktiebolaget Grundstenen 108770 ("Aktiebolaget Grundstenen"), seated in Falun (Sweden) for the total amount of SEK 500,000. PKN ORLEN S.A. acquired shares in Aktiebolaget Grundstenen 108770 in order to, among others, issue Eurobonds at the turn of June and July 2007. Aktiebolaget Grundstenen is planned to be wound up after all the Eurobonds to be issued by PKN ORLEN S.A. have been repurchased from their holders. Aktiebolaget Grundstenen had not carried out any business activity before. In accordance with the share purchase agreement relating to Aktiebolaget Grundstenen, after PKN ORLEN S.A. had paid for the purchased shares, the company's General Meeting was held, which changed the company's business name to ORLEN Finance AB and defined the core business activity to be the holding and managing the assets;
- The disposal, on 6 July 2007, to EXATEL S.A. of all shares held in the company Niezależny Operator Międzystrefowy Sp. z o.o. (NOM), i.e. 168,000 shares, for the total amount of PLN 22,209 thousand representing 35% of its share capital, each of the nominal value of PLN 125. The shares transferred were paid for not earlier than on 30 July 2007 and as of this day the ownership of NOM shares passed to EXATEL S.A.;
- The merger, on 1 August 2007, of the companies CHEMOPETROL a.s. and UNIPETROL RAFINERIE a.s. to form UNIPETROL RPA s.r.o. As a result of this merger, CHEMOPETROL a.s. and UNIPETROL RAFINERIE a.s. were dissolved and their assets, including all the rights and obligations arising out of labour law, were transferred to UNIPETROL RPA a.s. The sole shareholder of UNIPETROL RPA a.s. is UNIPETROL a.s. UNIPETROL RPA a.s.'s share capital amounts to CZK 200,000;
- The filing, on 6 August 2007, by ORLEN Transport Kraków Sp. z o.o. with the District Court for Kraków – Śródmieście in Cracow, VIII Commercial Division for bankruptcy and rehabilitation, of a petition in bankruptcy in respect of the company including the winding-up of the company's assets. The petition was filed by the company's Management Board due to the fact that the total amount of liabilities of ORLEN Transport Kraków Sp. z o.o. exceeds the value of its share capital. This situation resulted from the tax decisions issued by the Customs Office in Cracow in respect of excise tax. PKN ORLEN S.A. holds 98.41% of shares in the share capital of ORLEN Transport Kraków Sp. z o.o.

On 29 October 2007, the District Court for Cracow declared ORLEN Transport Kraków Sp. z o.o. bankrupt and its assets to be wound up;

- The sale of shares in the company Petromor Sp. z o.o., on 28 September 2007, to Siarkopol Gdańsk S.A. ("Siarkopol Gdańsk"). As a result of the agreement execution, PKN ORLEN S.A. sold to Siarkopol Gdańsk 26,475 shares in the company Petromor Sp. z o.o. of the nominal value of PLN 50 each and of the total nominal value of shares sold of PLN 1,323.75 thousand representing approximately 51.31% of the share capital and votes at Petromor's Shareholders' Meeting for the total price of PLN 970 thousand. The price for the shares sold was paid within 4 days of the agreement execution. The ownership of shares was transferred to Siarkopol Gdańsk S.A. upon the payment of price;
- The entry, on 23 October 2007, in the Lithuanian commercial register an indirect subsidiary of PKN ORLEN S.A. – UAB Mazeikiu Nafta Health Care Centre z ograniczoną odpowiedzialnością ("MN Health Centre") seated in Juodeikiai. The company AB Mazeikiu Nafta ("Mazeikiu Nafta") acquired in the company MN Health Centre 10 thousand shares of the nominal value of LTL 1 each. The acquired shares represented 100% of the share capital and 100% of votes at MN Health Centre's General Meeting of Shareholders. The carrying value of the shares

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acquired as disclosed in the accounting books of Mazeikiu Nafta as at 23 October 2007 amounted to LTL 10 thousand. The price for the shares acquired was paid up by Mazeikiu Nafta in cash in the amount of LTL 10 thousand;

- The sale, on 31 October 2007, by UNIPETROL a.s. to DEZA a.s. of the shares in the company AGROBOHEMIE a.s. ("Agrobohemie") and the shares in the company Synthesia a.s. ("Synthesia"). On the basis of the two above agreements, UNIPETROL sold to DEZA a.s.:
 - 46,950 ordinary shares in AGROBOHEMIE a.s., representing 50% of AGROBOHEMIE's share capital and the same number of votes at AGROBOHEMIE's General Meeting. The nominal value of one share in AGROBOHEMIE a.s. amounted to CZK 10.8 thousand;
 - 26,447,571 ordinary bearer shares in Synthesia, representing 38.79% of Synthesia's share capital and the same number of votes at Synthesia's General Meeting. The nominal value of one Synthesia's share amounted to CZK 40.

Concurrently with the execution of the above share purchase agreements, on 31 October 2007, UNIPETROL a.s. and DEZA a.s. executed the agreement concerning the disputes pending between them. As a result of the signed Agreement UNIPETROL a.s. will not be obliged to pay DEZA a.s. any damages or contractual penalties, which DEZA a.s. was claiming from UNIPETROL a.s.; concurrently DEZA a.s. will withdraw all its court actions filed against UNIPETROL a.s..

On 18 January 2008, the ownership of 47 thousand shares in AGROBOHEMIE a.s. and 26,447,571 shares of a nominal value of CZK 40 and 1,529,591 shares of a nominal value of 400 CZK in Synthesia were transferred from UNIPETROL a.s. to DEZA a.s.. The shares were transferred on the basis of two agreements executed on 31 October 2007 between UNIPETROL as the seller and DEZA a.s., as the buyer;

- The acquisition, on 9 November 2007, by the company UNIPETROL a.s. from MEI-Tsjechie en Slowakije Fonds N.V. ("TSF"), MIDDEN EUROPESE BELEGGINGSMAATSCHAPPIJ S.A. ("MEB") and Blue Mountain s.r.o. ("Blue Mountain") the shares in PARAMO a.s. company. On the basis of three agreements UNIPETROL a.s. bought shares representing 14.51% of PARAMO a.s.'s share capital for the total amount of CZK 241,303,750. The ownership of shares was transferred on 23 November 2007 against the payment of the agreed price;
- The acquisition, on 14 November 2007, by UNIPETROL a.s. from ConocoPhillips Central and Eastern Europe Holdings B.V. of 2,101 shares in the company Czeska Rafinerska a.s, representing 0.225% of this company's share capital;
- The sales, on 12 December 2007, by Rafineria Nafty Jedlicze Spółka Akcyjna S.A. to Petro-Mechanika Sp z o.o. of 16,879 shares in Raf-Remat Sp. z o.o. The ownership of sold shares in Raf-Remat to Petro-Mechanika was transferred upon signing the agreement. The sold shares represented 96% Raf-Remat's share capital and 96% of votes at the General Meeting of Raf-Remat. A nominal value of each Raf-Remat share amounted to PLN 100. The carrying value of the shares sold disclosed in the accounting books of Rafineria Jedlicze as at 12 December 2007 amounted to PLN 1,687.9 thousand. The price for the shares sold amounts to PLN 2,600 thousand and was paid up by Petro-Mechanika in cash. Additionally, on 12 December 2007 Rafineria Jedlicze sold to Petro-Mechanika non-current assets used by Raf-Remat for its operations, for the net total amount of PLN 1,050 thousand;
- On 20 December 2007 PKN ORLEN S.A., acting as Donator concluded an agreement with the Community of Płock regarding donation of shares of Wisła Płock S.A. seated in Płock as well as donation agreement of Kazimierz Górski Stadium. PKN ORLEN S.A. donated to the Community of Płock 10,000 registered shares in Wisła Płock S.A. of a nominal value PLN 100 each and of a total nominal value of PLN 1,000 thousand accounting for 100% share capital and votes at the General Shareholders Meeting of Wisła Płock S.A. The transfer of rights to donated shares was performed as at the moment of signing the donation agreement.
- The registration, on 2 January 2008, by the District Court for the capital city of Warsaw, of the company ORLEN Transport Spółka Akcyjna seated in Płock ("ORLEN Transport S.A."). PKN ORLEN S.A. took up 65,460,141 shares in ORLEN Transport S.A., of a nominal value of PLN 1 each, representing approximately 97.61% of the share capital and 97.61% of votes at the General Meeting of ORLEN Transport S.A. 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 core operations of ORLEN Transport S.A. include road transport of goods with specialized vehicles, including particularly fuel transport. The investment of PKN ORLEN S.A. in the shares of ORLEN Transport S.A. is a long-term investment;

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- The registration, on 14 March 2008, by Kamer Van Koophandel in Amsterdam (Chamber of Commerce), of a Dutch law company which will operate under the name of ORLEN International Exploration & Production Company BV seated in Amsterdam ("OIEP"). PKN ORLEN S.A. took up 180 shares in OIEP, of a nominal value of EUR 100 EUR each, representing 100% of the share capital and 100% of votes at OIEP's shareholders' meeting. The shares which were taken up were paid up in full by PKN ORLEN S.A. in cash in the amount of EUR 18,000.

The core operations of OIEP include, among others: crude oil mining, natural gas mining, geological operations, research activity. The PKN ORLEN S.A.'s investment in the company OIEP is a long-term investment.

- On 18 March 2008, the Extraordinary Shareholders' Meeting of the company Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o. seated in Legnica ("Petro-Oil DCS"), passed a resolution on the acquisition by Petro-Oil DCS of own shares held by ORLEN Oil Sp. z o.o. (under article 199 § 1, 2 and 6 and article 200 § 1 of the Code of Commercial Companies). Therefore, on 18 March 2008 ORLEN Oil Sp. z o.o., as the seller and Petro-Oil DCS, as the buyer entered into a share purchase agreement in respect of 264 shares in Petro-Oil DCS, representing 24% of the company's share capital, in order to redeem them. The nominal value of each redeemed share of Petro-Oil DCS amounts to PLN 500. The carrying value of the redeemed shares reflected in the accounting books of ORLEN Oil Sp. z o.o. as at 18 March 2008 amounted to PLN 132,000. The total net payment due to ORLEN Oil Sp. z o.o. for the redeemed shares amounts to PLN 600,000.72.
- On 9 April 2008 OIEP purchased from Odin Energi A/S seated in Hellerup, Denmark ("Odin Energi") shares in Odin Energi Latvija ("Odin Energi Latvija").

As a result of the contract OIEP acquired from Odin Energi 500 shares in Odin Energi Latvija of a nominal value of 5 LVL each share (i.e. approximately PLN 24.81 based on PLN/LVL average exchange rates of the National Bank of Poland as at 9 April 2008), accounted for 50% of share capital of Odin Energi Latvija and 50% of votes at the Shareholders General Meeting of Odin Energi Latvija. The agreement was concluded parallel to share purchase agreement for the other 50% shares in Odin Energi Latvija by the PKN ORLEN's partner Kuwait Energy Company. Kuwait Energy Company purchased shares indirectly through its subsidiary Kuwait Energy Netherlands Corporation.

The price for the shares amounts to USD 950,000 (i.e. approximately PLN 2,089,715 based on average PLN/USD exchange rates of the National Bank of Poland as at 9 April 2008) and will be covered by own means of OIEP. The transfer of ownership of Odin Energi Latvija shares to OIEP will be carried out on the day of the payment for purchased shares. The carrying value of purchased shares in the OIEP's books will amount to their purchase price.

The OIEP's investment in shares of Odin Energi Latvija is of a long-term character. The purchase of shares in Odin Energi Latvija gives the right to 45% stake in concessions for exploration and extraction of crude oil and natural gas in the Latvian economic zone of the Baltic Sea.

The core activities of Odin Energi Latvija is mainly exploration, recognition and extraction of hydrocarbons.

4.4 Projected directions of development and policy of the ORLEN Group

On 16 November 2007 the Supervisory Board of PKN ORLEN S.A. accepted the document called "Strategy of the PKN ORLEN Group for years 2007 to 2012". The Strategy assume updated approach towards previous process of creating the value of ORLEN Group. The new value will be generated by two complementary strategy pillars in the area of organic and inorganic growth.

The strategy assumes achievement of the following financial goals by the PKN ORLEN Group in 2012:

- EBITDA indicator (valuation of stock expenditure based on LIFO): PLN 11 billion,
- ROACE indicator: 14%,
- CAPEX expenditure: PLN 3.5 billion annually on average; PLN 21.3 billion in total,
- Financial leverage ratio: 30-40%.

The segment generating the most significant growth of EBITDA (PLN 3.8 billion) is to be refinery segment. This will be a result of significant investment program, which will be realized in all refineries of the ORLEN Group (CAPEX – PLN 8.4 billion). Second most significant segment as far as EBITDA growth is concerned is to be the petrochemicals segment, with the result growth amounting to PLN 0.9 billion. The dynamic development is also foreseen as far as retail segment is concerned, with its growth up to additional PLN 0.6 billion. The Chemical segment and the segment of other activities will generate approximately PLN 1 billion.

The planned CAPEX in years 2007 to 2012 in the ORLEN Group divided into segments of activities amount to:

- Refinery PLN 8.4 billion,
- Retail PLN 3.2 billion,
- Petrochemicals PLN 5.8 billion,

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- Chemicals PLN 1.7 billion,
- Other PLN 2.2 billion.

The strategy does not assume the change in the previous dividend policy. Based on that assumption the half of free cash flow will be paid to the shareholders. The priority is given to the necessity of maintaining the appropriate level of investment rating though.

More details regarding planned actions within the updated strategy was described in point III on page 28.

As regards the Capital Group companies, the following development directions are implemented in order to increase the efficiency of the companies' operations:

Strategic companies

UNIPETROL a.s.

- In 2007 the implementation was continued of the projects comprised by the Partnership Program aimed at improving operational effectiveness in the UNIPETROL Group companies by a transfer of the best practices from PKN ORLEN S.A. It is initially assessed that the business objectives relating to the Partnership Program were achieved already in 2007, i.e. one year before the scheduled end of the Program with the estimated impact on EBITDA of UNIPETROL Group in 2007 at the announced level of EUR 138 million (in the constant macroeconomic conditions);
- In 2007 further steps were undertaken in the area of restructuring the organisation of the Unipterol Group and optimisation of legal structures which made it possible to simplify the management and organisational structure model and to harmonise business streams. The business process standardisation resulted in the Shared Service Centre having been established which allowed to make more uniform the activities in the area of accounting, payroll, IT assistance and procurement services for the UNIPETROL group companies. Moreover, in 2007 further activities were carried out in order to unify the structures of PKN ORLEN S.A. and UNIPETROL through the commencement of the process of splitting the business into production and commerce and, subsequently, the merger with business segments of PKN ORLEN S.A. through personal unions. In 2008 the present commercial and production segments of UNIPETROL RPA s.r.o. are to be demerged to form separate companies. These changes will help to further implement the segment management idea and to deeper integrate business processes;
- In 2007 the works were carried out in relation to the UNIPETROL capital group divestment and restructuring processes involving the disposal of shares in AGROBOHEMIE a.s., Synthesia a.s. and KAUCUK a.s.;
- The acquisition of shares in PARAMO a.s. and Butadien Kralupy a.s. will allow to manage the company more efficiently and to strengthen the UNIPETROL a.s. position on the petrochemical products market;
- The increased number of shares in the company CESKA RAFINERSKA a.s. is another step in the long-term UNIPETROL a.s. strategy basing on three basic areas of operations: crude oil processing, petrochemistry development and reconstruction of its position on the retail market.

Anwil S.A.

- The target area of operations includes PVC and plastics manufacturing;
- The modern production line for CV and PVC as well as the modern installation for nitro-chalk and other production line installations (ammonia, nitric acid, ammonium nitrate) put the company amongst the international leaders in the chemical sector;
- Creating and development of chemical segment of the ORLEN Group; among others: through the acquisition of the majority stake in the Czech company Spolana.

Basell Orlen Polyolefins Sp. z o.o.

- At present, the company holds a modern manufacturing and logistics base which enables it to effectively compete on the polyolefins market;
- Basell Orlen Polyolefins Sp. z o.o. has two plants manufacturing polypropylene and polyethylene which are amongst the most modern polyolefins manufacturing plants world wide. The annual production capacity of the plants amounts to 400 thousand tonnes of polypropylene manufactured in Spheripol technology and 320 thousand tonnes of high density polyethylene manufactured in Hostalen technology. Including the production capacity of the low density polyethylene installation, the annual capacity of the BOP plants amounts to approximately 820 thousand tonnes of polyolefins.
- It is forecast that the domestic polyolefins market should be further developing at the rate of 6 to 9 % per year, i.e. by a few percentage points faster than the Western European market where the consumption of plastic per one inhabitant is twice as much as in Poland.

Rafineria Trzebinia S.A.

- The role of Rafineria Trzebinia S.A. in the ORLEN Group is of great significance due to the obligation to achieve the National Target Ratio starting from 2008, which imposes the obligation to introduce to the market a specified volume of biocomponents, for instance esters;
- The recommencement in April 2007 of crude oil processing on the Pipe and Tower Distillation Plant ("PTD") and a contract with PGNiG for the purchase of crude oil (executed for a period until the end of 2008) will enable Rafineria Trzebinia to generate a positive margin on the sale and to increase the sales volume;
- The Voivodship Administrative Court in Kraków lifted the mortgage established by the Custom Duty Chamber on the real property of Rafineria Trzebinia S.A. for the total amount of approximately PLN 100 million, what allows the entity to incur liabilities pledged by the released mortgage;
- In December 2007 a fiscal inspection was completed. The inspection took almost three years and was related to the reliability of taxable bases declared by Rafineria Trzebinia S.A. and correctness of calculation and payment of VAT and excise tax for 2002. The collected evidence against applicable tax regulations showed that the excise tax settlements conducted by Rafineria Trzebinia S.A. for 2002 was correct. The inspection relating to the years 2003 – 2004 is pending.

ORLEN Oil Sp. z o.o.

The development of ORLEN OIL Sp. z o.o., was enhanced mainly by the organisational changes within the ORLEN Group aimed at focussing oil assets of the Capital Group around the company ORLEN-Oil Sp. z o.o., including without limitation:

- Further business activity carried out on the basis of two internal manufacturing centres in Płock and Trzebinia and, eventually, in Jedlicze;
- Oil business being carried out, taking into account Czech manufacturing assets, if feasible and reasonable.

Rafineria Nafty Jedlicze S.A.

The Company's development strategy is implemented through:

- Improvement of the used oil collection system;
- Completion of the investment in the installation for the production of organic solvents in 2007;
- Modernisation and start up of Pipe and Tower Distillation Plant until 2009.

IKS SOLINO S.A.

- The increased demand for storing liquid and gas hydrocarbons in cavities stimulates the company's investments;
- IKS Solino S.A. uses the exploited areas in salt mines as unconventional storage sites for PKN ORLEN S.A.'s crude oil and fuels;
- In accordance with the assumptions adopted, for the purpose of storing mandatory reserves, in 2007 the following warehousing capacity was designed:
 - 3,502 thousand tonnes for crude oil and
 - 841 thousand tonnes for liquid fuels.

Fuel distributing companies

Regional Market Operators, the "RMO"

The main assumptions of the strategy relating to the operation of PKN ORLEN S.A. Regional Market Operators, provide for the following:

- Concentrating the RMO companies' business on the fuel wholesale with total exclusion of, for instance, retail business;
- Restructuring of the RMO companies in order to optimise distribution costs and improve efficiency of their core business;
- Improving operational control and effectiveness through the implementation of personal union, i.e. the common Management Board and Supervisory Board to govern all the RMO companies;
- Takeover by PKN ORLEN S.A. of full control over the RMO companies; at present PKN ORLEN S.A. holds 100% of shares in all the five RMO companies;
- Implementing in all the RMO companies a common IT system SAP-OIL in order to make more efficient the sale handling and reporting;
- Launch of the RMO companies consolidation process. Four out of five ROR companies (ORLEN Morena Sp. z o.o., ORLEN PetroCentrum Sp. z o.o., ORLEN PetroProfit Sp. z o.o., ORLEN PetroZachód Sp. z o.o.) will be

merged to form one entity. The merged entity will operate on the basis of a scheme assuming headquarters and local offices. Given its unregulated legal situation and costs that it may potentially incur because of losing a status of a supported enterprise (*zakład pracy chronionej*), ORLEN PetroTank Sp. z o.o. will be formally and legally merged later on. The company participates however in the consolidation of ROR companies in terms of business (personal union, procurement group).

ORLEN Deutschland AG

It has been planned to maintain the company within ORLEN Group. In 2007 the Company successfully finished the restructuring program called "Fit for Growth", with its following main initiatives:

- Direct costs reduction on the petrol stations and an increase in non-fuel goods turnover;
- Improvement in revenues from sales of services and non-fuel merchandise as a result of implementing the so-called "category management", loyalty program for dealers and rental of any vacant warehouse spaces;
- Lowering of retail expenses (network costs, IT, technical petrol station expenses as well as personnel costs);
- Improvement of network structure;
- Lowering of financial costs.

All of these initiatives allowed to achieve positive and higher than planned operating profit, as well as significant decrease in costs as compared to prior years and they have improved the competitiveness of ORLEN Deutschland AG on the German market.

ORLEN Deutschland AG will realize its further development through:

- Widening of petrol station network through the acquisition, construction and reconstruction of petrol stations;
- An increase in the turnover as a result of the new problem-oriented marketing strategy;
- Optimization of the costs structure and the organization structure as a result of fulfilment of budgeted goals assumed for the year 2008;
- Consequent network restructuring policy as well as divestment activity depending on closing down not profitable petrol stations in 2008 and further change of dealers on the stations based on the assessment ratios.

Other companies

Transportation companies

In January 2008 the entity ORLEN Transport S.A. was created out of six shipping companies of ORLEN Group:

- ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.,
- ORLEN Transport Nowa Sól Sp. z o.o.,
- ORLEN Transport Olsztyn Sp. z o.o.,
- ORLEN Transport Płock Sp. z o.o.,
- ORLEN Transport Słupsk Sp. z o.o.,
- ORLEN Transport Szczecin Sp. z o.o.

ORLEN Transport S.A. is subsidiary of PKN ORLEN S.A. that owns 65,460,141 shares of new entity i.e. 97.61% of the share capital. Consolidation of the entities will ensure an increase of the economical and financial potential of a new entity as well as an increase in assurance of capability to function in a market conditions. A new strong entity is also a sign of unified fleet, CAPEX rationalization, an increase in a transportation possibilities, optimization of shipping itineraries and stopping-places as well as an increase in efficiency of usage of the fleet and simultaneously decreasing expenses. Integrated entity guarantee significantly better position in relation to competitors. Core activities of ORLEN Transport S.A. will comprise insurance of timely deliveries to PKN ORLEN S.A. petrol stations or to the clients of ORLEN Group, realizing additionally program of optimization of logistics expenses in the whole supply chain. Additionally the company provides with people microbus and bus transportation, canvas cover transportation and specialist services (oversize transportation and lifting services). Until 2014 the new entity is to invest PLN 90 million especially for reconstruction of the fleet. The company commenced its activity on 1 January 2008 and employed 765 people, who were transferred based on art. 23' of Labor Code.

Service providing companies

The companies will remain within the ORLEN Group as a result of strong relationships with key activity of ORLEN Group as well as the significant role they play in the maintaining of technical efficiency of the machinery.

V. CHANGES IN ORGANIZATION AND MANAGEMENT OF PKN ORLEN S.A. AND ENTITIES FROM ORLEN GROUP

The Organization Regulations of PKN ORLEN S.A. accepted by the Management on 24 October 2006 was in force until 10 January 2007. On 11 January 2007 the Management accepted the new Organization Regulations, based on which the following duties were assigned among the Management Board Members:

- President of the Management Board, General Director,
- Vice President of the Management Board, Capital Expenditure,
- Vice President of the Management Board, Cost Management,
- Vice President of the Management Board, Upstream & Crude Oil Procurement,
- Vice President of the Management Board, Audit and Regulations,
- Vice President of the Management Board, Sales,
- Member of the Management Board, Chief Financial Officer,
- Member of the Management Board, Organization and Capital Group.

The Deputy General Director (Operations) is responsible for the area of production, motion maintenance, development of production, technology and capital expenditure.

The Supervisory Board of PKN ORLEN S.A. during the meeting held on 18 January 2007 dismissed Mr Igor Chalupiec from the position of the President of the Management Board and appointed Mr Piotr Kownacki, previous Vice President of the Management Board (Audit and Regulations), performing the function since 23 October 2006.

On 30 January 2007 the Management Board of PKN ORLEN S.A. passed a resolution on new division of competences among Members of the Management Board, based on which area of Vice President of the Management Board (Audit and Regulations) was liquidated. Supervision over the areas of technology, energy supply, production and technology development, capital expenditure, refinery production, chemical production, petrochemical production and oil production was transferred to the Deputy General Director (Operations).

The Supervisory Board of PKN ORLEN S.A. during the meeting held on 15 March 2007 dismissed with the majority of votes Mr Jan Maciejewicz, on his motion, from the position of Vice President of the Management Board (Cost Management) and on the President's motion, Mr Cezary Smorszczewski was appointed unanimously to the position of Vice President of the Management Board (Capital Expenditure). Concurrently during the same meeting Mr Krystian Pater was appointed to the position of the Member of the Management Board of PKN ORLEN S.A.

As a result of the above mentioned changes on 20 March 2007 the Management Board of PKN ORLEN S.A. passed the resolution changing the division of competence among the Board Members of PKN ORLEN S.A. and as a result the effective division is as follows:

- President of the Management Board, General Director,
- Vice President of the Management Board, Upstream & Crude Oil Procurement,
- Vice President of the Management Board, Sales,
- Member of the Management Board, Chief Financial Officer,
- Member of the Management Board, Organization and Support Functions,
- Member of the Management Board, Production.

Organization structure of PKN ORLEN S.A. has been adjusted to the new division of competences among the Members of the Management Board as at 12 April 2007.

As a consequence of passed resolution by the Supervisory Board resulting in a change of the function of the Member of the Management Board (Chief Financial Officer) into the function of the Vice President, the Management Board of PKN ORLEN S.A. passed the resolution as at 16 May 2007 complied with the above mentioned changes. As at the same date the new Organization Regulations of PKN ORLEN S.A. became binding.

The Supervisory Board of PKN ORLEN S.A. during the meeting held on 30 July 2007 on a motion of the President of the Management Board dismissed Mr Paweł Szymański from the position of the Vice President of the Management Board (Chief Financial Officer). Concurrently Mr Dariusz Formela has been appointed by the Supervisory Board to a position of the Member of the Management Board of PKN ORLEN S.A. As a result of the above mentioned changes on 31 July 2007 the Management Board of PKN ORLEN S.A. performed the new division of competence among the Board Members of PKN ORLEN S.A. As a result of that the area of the Member of the Management Board (Organization and Support Functions) has been split into two areas:

- Area of the Member of the Management Board (Organization and Capital Group), that covers the supervision over organization area and integration of possessed assets, safety of work and environmental protection among

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the entities from the ORLEN Group, including also UNIPETROL Group, that has been so far under supervision of the General Director;

- Member of the Board (Purchases and IT), who took over the supervision over the IT, purchases, legal services, regulation risk exposure, regulation market, protecting the classified information as well as security and control.

As a result of the dismissal of the Vice President of the Management Board (Chief Financial Officer) particular divisions from the area of the Vice President of the Management Board (Chief Financial Officer) have been reassigned to the area of the Vice President of the Management Board (Upstream and Crude Oil Procurement), who finally took over the control over the area of crude oil procurement, exploration and extraction, planning and controlling, finance management, cost management, taxation, coordination of the Complex Margin Optimization Program (CMO), investor relations and capital investments and divestments. Coordination of the area connected with planning and controlling, finance management, cost management, taxation, coordination of the CMO program as well as investor relations was handed over to Executive Director responsible for Planning and Controlling.

Above presented changes in division of competences among the Members of the Management Board of PKN ORLEN S.A. were introduced to the Organization Regulations of PKN ORLEN S.A. by means of the appendix no.1 as at 14 August 2007.

The Supervisory Board of PKN ORLEN S.A. during the meeting on 23 August 2007, on motion of the President of the Management Board appointed Mr Waldemar Maj to the position of the Vice President of the Management Board of PKN ORLEN S.A. effective 3 September 2007. As a result, at 4 September 2007 the Management Board passed resolution introducing changes in the division of competences among the Members of the Management Board. According to that the competences of the President of the Management Board, General Director, has been extended by the supervision over the HR area, strategy and development, public relations, management service and audit. Additionally the new area was designed under the authority of the Vice President (Chief Financial Officer), such as supervision over accounting, controlling, finance management, cost management, taxation, management of the deliveries chain as well as investors relations. As at that day the competences of the Vice President (Upstream & Crude Oil Procurement) was changed in a way that the main responsibilities covered crude oil trade, exploration and extraction of crude oil, capital investments and divestments.

Additionally the works connected with the creation of the Accounting Shared Services Centre for PKN ORLEN S.A. and the ORLEN Group have continued in 2007. During 2007 there have been employees transferred from the Property Accounting Department area of liabilities, employees expenditure, financial operations, receivables and general ledger accounting to the ORLEN Księgowość Sp. z o.o.

The Supervisory Board of Rafineria Nafty Jedlicze S.A. accepted the modified Organization Regulations on 13 April 2007. New Organization Regulations include new organization structure, where new production unit has been separated due to starting up a new installation of dissolvent production.

Realizing the assumptions of implemented segment management in ORLEN Group, established for the purposes of regulating ORLEN Group crucial issues regarding core activities, Rafineria Nafty Jedlicze S.A. introduced the following procedures and regulations in 2007:

- Recruitment and selection procedure in Rafineria Nafty Jedlicze S.A.,
- Employees adopting procedure in Rafineria Nafty Jedlicze S.A.,
- Succession plan regulations,
- Handing over the information regarding lobbying activities in Rafineria Nafty Jedlicze S.A.

Moreover the Management Board of Rafineria Nafty Jedlicze S.A. recommended to all Supervisory Boards from the entities belonging to capital group of Rafineria Nafty Jedlicze introducing in the supervised entities the following procedures of the segment management:

- Procurement procedure,
- Procedure for creating the image of the entity,
- Recruitment and selection procedure,
- Employees adopting procedure,
- Succession plan regulations.

On 6 November 2007 the Supervisory Board of Rafineria Trzebinia S.A. decided to make changes in the system of the company's management, resulting in appointment of the third Member of the Management Board responsible initially for finance and restructuring, and afterwards for trade and logistics. Additionally the previous Chairman of the Supervisory Board of the entity became the President of the Management Board. Within the structure of the Management Board remained Member of the Board responsible for the production segment.

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The Management Board after analysing of the previous organization structure decided to implement changes in order to improve its functionality and mutual relations among existing organization structures. The following step was the division of competences among the Members of the Management Board in order to assign to all its Members responsibilities for certain activities areas in relation to the new organization structure. The particular emphasis was put on deep restructuring of particular areas of activities of Rafineria Trzebinia S.A. and its capital group. In relation to assumptions, the restructuring of Rafineria Trzebinia S.A. Group will be focused on cost saving and simultaneously aiming at fast revenues growth from sales in new areas, which will allow to realize the development strategy and the increase of Rafineria Trzebinia Group value.

The aim of above mentioned changes will also be the improvement of management organization as well as the improvement of the image perceived externally and reconstruction of clients relations of Rafineria Trzebinia S.A.

On 23 October 2007 a new entity UAB Mazeikiu Nafta Health Care was registered within the Mazeikiu Group. Main activity of the company is providing with health care services for both individual clients and public health care purposes, training services and performing of working conditions analysis for the clients of AB Mazeikiu Nafta. Additionally by the end of 2007 the Mazeikiu Group commenced preparation works in the area of separating the administrative activity into the subsidiary. On 18 January 2008 the idea of establishing administration entity was accepted by the Management of AB Mazeikiu Nafta. The entity will commence its activity in 2008. Its activity will cover gastronomy, maintenance of the property and washing services. It is possible that there will be more administrative areas transferred from other entities.

As a result of restructuring activities of the UNIPETROL Group the Shared Service Centre was created in January 2007. This Centre provides with accounting services, payroll calculations, IT support as well as purchases. Shared Services Centre was created within the structure of UNIPETROL RAFINERIE a.s. and since the beginning of April 2007 the company has been acting as an independent entity named UNIPETROL Services s.r.o. In the company there have been further works performed in order to cover more UNIPETROL Group entities.

In 2007 there have been divestments and investments activities carried out in order to organize the structure of the capital Group of UNIPETROL based on the strategic assumptions accepted in 2006. In August 2007 both CHEMOPETROL a.s. and UNIPETROL RAFINERIE a.s. merged into UNIPETROL RPA s.r.o. which is to be a temporary stage on the way to fully separating production part from commercial one within UNIPETROL Group. Such split will allow to simplification of deciding process and will improve management efficiency. In October 2007 the agreement was concluded with DEZA a.s. regarding disposal of shares in AGROBOHEMIE a.s. and Synthesia a.s., resulting in DEZA's withdrawal of the claim for contractual penalties. In July 2007 the company disposed also shares in KAUCUK a.s. In November 2007 the company acquired shares in PARAMO a.s. and CESKA RAFINERSKA. The company continue searching for attractive assets to acquire in its strategic area. Concurrently in 2008 there are plans for further restructuring actions in order to organize UNIPETROL Group in the area of UNIPETROL TRADE a.s.

VI. DECLARATION OF THE MANAGEMENT BOARD CONCERNING THE APPLICATION OF CORPORATE GOVERNANCE

Since 1 January 2008 at the Warsaw Stock Exchange the amended corporate governance principles applicable on the capital market have applied. They have been announced in the form of "Best Practices of the Companies Listed at Stock Exchange". The amended Best Practices provide for a slightly different, as compared to the formerly applicable, approach to the notification by a company of its compliance with corporate governance principles. Since 1 January 2008 the companies have not declared, as before, their compliance with best practices in the form of a table but they submit relevant annual compliance reports.

PKN ORLEN S.A. submitted the Report on the Company's compliance with corporate governance principles in the form of a separate attachment to the annual financial statements for 2007.

VII. ADDITIONAL INFORMATION

7.1 Significant agreements

The significant agreements concluded by PKN ORLEN S.A. in 2007 include the following:

1. On 17 January 2007 PKN ORLEN S.A. signed an agreement with PETRACO Oil Company Ltd. for the supplies to PKN ORLEN S.A., via "Druzhba" pipeline up to 3,360 thousand tonnes of REBCO type crude oil annually. The crude oil will come from the resources of the Rosneft company. The agreement has been in force from 1 January 2007 and it expires on 31 December 2011. The Parties to the agreement provided for an option of extension of 1 year or more. In the case of no supplies or delayed supplies, the agreement provides for contractual penalties in excess of the PLN equivalent of EUR 200 thousand translated at the average EUR exchange rate of the National Bank of Poland as at the agreement execution date. The forecast value of supplies by 31 December 2011 amounts to approx. USD 6,000,000 thousand (i.e. approx. PLN 18,100,000 thousand at the average USD exchange rate of the National Bank of Poland as at 17 January 2007).
2. On 18 January 2007 PKN ORLEN S.A. concluded with Dwory S.A. three long-term agreements for the supply to Dwory S.A. of ethylobenzene, butadiene 1.3 and C4 fraction. The first agreement concerns the sale of ethylobenzene in annual quantities of 120 thousand tonnes of the product, not less however than 105 thousand tonnes per year. The estimated value of the agreement during its term, i.e. minimum 15 years, amounts to approx. PLN 6,000,000 thousand. The ethylobenzene supplies to Dwory S.A. will start at the latest by 1 January 2010, with the right to delay this date once by not more than 9 months without any consequences for PKN ORLEN S.A. The agreement entered into force on 18 January 2007 and cannot be terminated by any of the parties for at least fifteen years starting from the date when the ethylobenzene supplies start. The second agreement concerns the sale of butadiene 1.3 in the amount of not less than 57 thousand tonnes in 2007 and not less than 60 thousand tonnes in the period from 1 January 2008 to 31 December 2023. In total PKN ORLEN S.A. will provide not less than 897 thousand tonnes of butadiene 1.3 during the term of the agreement. The estimate value of the agreement for the sale of butadiene during its term amounts to approx. PLN 2,500,000 thousand. The third agreement concerns the sale of C4 fraction in the quantities specified in the supply schedule revised on an annual basis, not less than 20.6 thousand tonnes in 2007. The agreement was concluded for a period from 1 February 2007 to 31 December 2022. The estimate value of the agreement for sale of C4 fraction during its term amounts to approx. PLN 68,000 thousand.
3. On 18 July 2007 PKN ORLEN S.A. signed an agreement with KD Petrotrade FZE seated in the United Arab Emirates ("Petrotrade"), for the supplies via "Druzhba" pipeline, to PKN ORLEN S.A. of 2,400 thousand tonnes of REBCO type crude oil annually. The agreement entered into force on 1 July 2007 and will remain in force until 30 June 2010. The parties to the agreement provided for an option of extension by 2 years or more. As at the agreement conclusion date the forecast value of supplies until 30 June 2010 amounts to approx. USD 3,900,000 thousand (i.e. approx. PLN 10,600,000 thousand translated at the average PLN/USD exchange rate of the National Bank of Poland as at 18 July 2007).
4. On 20 December 2007 PKN ORLEN S.A. executed an annual agreement with Anwim S.A. of an estimate total value of PLN 1,200,748 thousand. Under this agreement PKN ORLEN S.A. sells to Anwim S.A. gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. Additionally on 28 December 2006 PKN ORLEN S.A. concluded an agreement with Anwim Sp. z o.o. (currently Anwim S.A.) for sale of gasoline and diesel oil in 2007 in amount of PLN 938,776 thousand. The estimate total value of the agreements executed within the last 12 months between PKN ORLEN S.A. and Anwim S.A. amounts to PLN 2,139,525 thousand;
5. On 21 December 2007 PKN ORLEN S.A. executed with Shell Polska Sp. z o.o. an annual agreement for the sale of gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008 to Shell Polska Sp. z o.o. The value of the agreement during its term is estimated to amount to approx. PLN 5,022,472 thousand;
6. On 21 December 2007 PKN ORLEN S.A. executed two annual agreements with BP Polska Sp. z o.o. Under these agreements PKN ORLEN S.A. sells to BP Polska Sp. z o.o. gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The total value of the agreements amount to approx. PLN 5,630,166 thousand;
7. On 21 December 2007 PKN ORLEN S.A. signed a loan agreement with the European Investment Bank ("EIB") of the value of EUR 300,000 thousand (approx. PLN 1,085,400 thousand translated at the average PLN/EUR rates of the National Bank of Poland as at 21 December 2007). The agreement concerns a twelve-year loan for EUR 300,000 thousand (i.e. approx. PLN 1,085,400 thousand translated at the average PLN/EUR rates of the National Bank of Poland as at 21 December 2007). The purpose of the agreement for PKN ORLEN S.A. is to procure funds to cover part of the construction costs of the installation to produce paraxylene (PX) and terephthalic acid (PTA).

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Moreover, on 25 June 2007 PKN ORLEN S.A. signed a loan agreement with EIB of a value of EUR 210,000 thousand (approx. PLN 759,800 thousand translated at the average PLN/EUR rates of the National Bank of Poland as at 21 December 2007) to fund the investment involving the development of a fuel station chain and the environmental protection investment. As at 21 December 2007 a total value of the agreements executed between PKN ORLEN S.A. and EIB amounted to EUR 510,000 thousand (approx. PLN 1,845,180 thousand translated at the average PLN/EUR rates of the National Bank of Poland as at 21 December 2007);

8. On 27 December 2007 PKN ORLEN S.A. executed three annual agreements with J&S Energy S.A. of an estimate total value of PLN 1,915,763 thousand. Under the first agreement PKN ORLEN S.A. sells to the company J&S Energy S.A. gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The estimate value of the first agreement amounts to PLN 1,094,087 thousand. The second and third agreement concern the purchase by PKN ORLEN S.A. from J&S Energy S.A. of gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The estimate values of these agreements amount to, respectively PLN 183,571 thousand and PLN 638,105 thousand.

Moreover, within the last 12 months PKN ORLEN S.A. executed with J&S Energy S.A. a sale purchase agreement relating to gasoline and diesel oil of a total value of PLN 89,037 thousand. The estimate total net value of all the agreements executed within the last 12 months between PKN ORLEN S.A. and J&S Energy S.A. amounts to PLN 2,004,801 thousand;

9. On 27 December 2007 PKN ORLEN S.A. executed an annual agreement with ORLEN PetroCentrum Sp. z o.o. Under this agreement PKN ORLEN S.A. sells to Orlen PetroCentrum Sp. z o.o. gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The estimate value of the agreement amounts to approx. PLN 5,630,168 thousand. PKN ORLEN S.A. holds 100% of shares in Orlen PetroCentrum Sp. z o.o.;
10. On 16 January 2008 PKN ORLEN S.A. signed an annual agreement with Lukoil Warsaw Sp. z o.o. ("Lukoil Warsaw"). Under this agreement PKN ORLEN S.A. sells to Lukoil Warsaw gasoline and diesel oil in a period from 16 January 2008 to 31 December 2008. The value of the agreement during its term is estimated to amount of approx. PLN 1,286,756 thousand.

Moreover, during the last 12 months PKN ORLEN S.A. executed with Lukoil Warsaw Sp. z o.o. three agreements under which PKN ORLEN S.A. was selling gasoline and diesel oil to Lukoil Warsaw Sp. z o.o. The total value of all the agreements executed by PKN ORLEN S.A. with Lukoil Warsaw Sp. z o.o. within the last 12 months amounts to PLN 2,025,312 thousand.

Significant agreements concluded by other ORLEN Group companies in 2007 not mentioned in the part concerning the agreements concluded by PKN ORLEN S.A.:

UNIPETROL a.s.

1. On 9 July 2007, Chemopetrol a.s. signed with Kaucuk three sale agreements for:
 - fraction C4, of a value of CZK 2,248,841,804,
 - benzene of a value of CZK 3,856,144,150,
 - ethylene, of a value of CZK 1,806,042,150.The above agreements are in force from 2008 to 2012.
2. On 10 July 2007, UNIPETROL acquired from KAUCUK a.s. 51% of shares in the company Butadien Kralupy a.s. for the price of CZK 76,500,000. As a result of this agreement UNIPETROL a.s. acquired 153 shares in Butadien Kralupy a.s., each of the nominal value of CZK 500,000, representing 51% of the share capital of Butadien Kralupy a.s. and 51% of the total number of votes at the Shareholders' Meeting of Butadien Kralupy a.s. The price for the shares was paid by UNIPETROL a.s. in cash. The carrying value of the shares as recorded in the accounting books of KAUCUK a.s. as at 9 July 2007 amounted to CZK 76,500 thousand. The agreement was signed in relation to the sale by UNIPETROL a.s. of 100% of shares in the company KAUCUK a.s. and on the basis of the Agreement for cooperation in respect of the construction and exploitation of the new butadiene installation, signed on 30 January 2007 between UNIPETROL a.s., Dwory S.A., Chemopetrol a.s. and KAUCUK a.s.;
3. On 31 October 2007 UNIPETROL a.s. as the seller and DEZA a.s. as the buyer executed an agreement for purchase of shares in the company AGROBOHEMIE a.s. and an agreement for purchase of shares in the company Synthesia a.s. Under these agreements UNIPETROL a.s. sold to Deza a.s.:
 - 46,950 ordinary shares in AGROBOHEMIE representing 50% of AGROBOHEMIE's share capital and 50% of the total votes at AGROBOHEMIE's a.s. Shareholders Meeting. The nominal value of one AGROBOHEMIE share amounted to CZK 10.8 thousand;

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- 26,447,571 ordinary bearer shares in Synthesia a.s. representing 38.79% of Synthesia's share capital and 38.79% of votes at Synthesia's a.s. Shareholders' Meeting. The nominal value of one Synthesia a.s. share amounted to CZK 40.

Parallely to the above share purchase agreements having been executed, on 31 October 2007 UNIPETROL a.s. and DEZA a.s. executed the Agreement relating to the disputes pending between them. As a result of this Agreement UNIPETROL a.s. will not be obliged to pay DEZA a.s. any compensation or liquidated damages claimed by Deza a.s from UNIPETROL a.s.; concurrently DEZA a.s. will withdraw all the statements of claim filed with courts against UNIPETROL a.s.

UNIPETROL a.s. and DEZA a.s. agreed in the above agreements that the price for AGROBOHEMIE a.s. shares and the price for Synthesia a.s. shares will be determined on the basis of market valuation carried out by a reputable expert appointed by UNIPETROL a.s. and DEZA a.s. acting together.

On 18 January 2008, the ownership of 47 thousand of AGROBOHEMIE a.s. shares and 26,447,571 Synthesia a.s. shares of a nominal value of CZK 40 and 1,529,591 Synthesia a.s. shares of a nominal value of CZK 400 was transferred from UNIPETROL a.s. to DEZA a.s. The shares were transferred under two agreements signed on 31 October 2007 by UNIPETROL a.s. as the seller and DEZA a.s. as the buyer;

4. On 9 November 2007, UNIPETROL a.s. signed with TSF, MEB and Blue Mountain three share purchase agreements in respect of the shares in PARAMO a.s. Under the agreements UNIPETROL a.s. bought the shares representing 14.51% of PARAMO a.s.' share capital for the total amount of CZK 241,303,750. The ownership of shares was transferred on 23 November 2007 together with the payment of the agreed price;
5. On 14 November 2007, UNIPETROL a.s. signed with ConocoPhillips Central and Eastern Europe Holdings B.V. an agreement for the purchase of 2,101 shares in the company CESKA RAFINERSKA a.s. representing 0.225% of the company's share capital;

AB Mazeikiu Nafta

1. On 5 January 2007, PKN ORLEN S.A. signed an agreement with AB Mazeikiu Nafta, under which PKN ORLEN S.A. was granted the exclusive right to supply crude oil to AB Mazeikiu Nafta. The agreement was signed in relation to the centralisation of crude oil procurement for the PKN ORLEN Group S.A., including to its refineries in Poland, Czech Republic and Lithuania. The agreement was executed for indefinite period and entered into force on the day it was signed. The supplies of crude oil under the agreement will be performed via the "Druzhba" pipeline and by sea via Butynga harbour. As at the agreement execution date the forecast value of crude oil supplies to AB Mazeikiu Nafta under the agreement during the first five years will amount to approx. USD 19 billion (i.e. PLN 56.5 billion translated at the average PLN/USD exchange rate of the National Bank of Poland as at 5 January 2007).
2. On 29 May 2007, AB Mazeikiu Nafta executed four insurance agreements with ORLEN Insurance Ltd.:
 - all-risk insurance agreement of a value of USD 14,349,673;
 - loss of gross margin insurance agreement of a value of USD 3,828,873;
 - two insurance agreements for the installation break down risk;
3. On 17 June 2007, the insurance agreement at Ventus Nafta AB was updated relating to assets and liabilities towards third parties. The total insurance cost amounts to LTL 89,383. Under this insurance contract all the assets located at the stations and in the Headquarters were covered with the insurance. The total value of the insured assets amounts to approx. LTL 70 million.
4. On 31 January 2008, Mazeikiu Nafta completed the process of negotiations and executed annual agreements for the sale by sea of gasoline, diesel oil and heating oil. As part of this process two annual agreements were executed with GT Trading OY seated in Espoo, Finland. Under these agreements in 2008 Mazeikiu Nafta sells to GT Trading OY gasoline and diesel oil. The estimate value of the gasoline sale agreement amounts to approx. USD 350 million (i.e. approx. PLN 855 million at the PLN/USD average exchange rates of the National Bank of Poland as at 31 January 2008), and of the diesel oil sale agreement to approx. USD 600 million (i.e. approx. PLN 1,466 million at the PLN/USD average exchange rates of the National Bank of Poland as at 31 January 2008). The two above mentioned agreements provide for a more stable sale of Mazeikiu Nafta fuel products by sea.

ORLEN Deutschland AG

1. On 25 January 2007 ORLEN Deutschland AG executed an annual contract with Deutsche BP Aktiengesellschaft. The contract concerns the sale of fuel to the company ORLEN Deutschland AG in a period from 1 January 2007 to 31 December 2007. The estimate value of the transaction amounts approx. to EUR 900,000 thousand, i.e. approx. PLN 3,490,650 thousand, translated at the average PLN/EUR exchange rate of the National Bank of Poland as at 25 January 2007;

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2. On 19 March 2007 ORLEN Deutschland AG signed an agreement with Shell Deutschland Oil GmbH, Hamburg for the supplies of fuel to ORLEN Deutschland stations in Germany in a period from 1 January 2007 to 31 December 2007. The estimate value of the transaction amounts to approx. EUR 800,000 thousand, i.e. approx. PLN 3,102,240 thousand, translated at the average EUR/PLN exchange rate of the National Bank of Poland as at 19 March 2007;
3. On 29 January 2008 ORLEN Deutschland AG executed an annual contract with z Deutsche BP Aktiengesellschaft for the sale of fuel to ORLEN Deutschland AG in a period from 1 January 2008 to 31 December 2008. The estimate value of the transaction amounts approx. to EUR 1,200 million (i.e. approx. PLN 4,342.2 million translated at the average PLN/EUR exchange rate of the National Bank of Poland as at 29 January 2007).

ORLEN PetroCentrum Sp. z o.o.

1. On 27 December 2007, ORLEN PetroCentrum Sp. z o.o. executed with PKN ORLEN S.A. an annual agreement for procurement of gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The estimate value of the agreement amounts to approx. PLN 5,630,168 thousand;
2. On 31 December 2007, ORLEN PetroCentrum Sp. z o.o. ("ORLEN PetroCentrum") executed an agreement with ORLEN PetroTank Sp. z o.o., under which ORLEN PetroCentrum Sp. z o.o. sells to ORLEN PetroTank Sp. z o.o. gasoline and diesel oil in a period from 1 January 2008 to 31 December 2008. The estimate value of the agreement amounts to PLN 1,607 million. Moreover, the company ORLEN PetroCentrum Sp. z o.o. during the last 12 months executed with ORLEN PetroTank Sp. z o.o. an appendix to the agreement for the sale of fuels of an estimated value of PLN 847 million. The estimate total value of all the agreements executed by ORLEN PetroCentrum Sp. z o.o with ORLEN PetroTank Sp. z o.o. within the last 12 months amounts to PLN 2,002 million.

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

Consolidated companies	Basic products, goods and services	Sales market (areas of activity)	Major supplier	Revenues from sale (in PLN thousand)
PKN ORLEN S.A.				
PKN ORLEN S.A.	Gasolines and Ethyl Gasolines, Diesel, Heating, Lubricating, Special Purpose oils, Asphalts, Ethylene, Propylene, Butadiene, Glycols, Phenol, Acetone	Domestic market and export	J&S Service&Investment Ltd, Fisotra, Petraco, KD Petrotrade, PGNiG S.A.	42 703 667
Subsidiaries				
Grupa UNIPETROL:				12 054 738
UNIPETROL a.s.:	Consulting and advisory services			
CHEMOPETROL a.s. ²	Polyethylene, Polypropylene Ethylene, Propylene Benzene, C4 Fraction, C5 Fraction, C9 Fraction, BTX, Ethanol, OXO Alcohols, Ammonia, Carbamide	Czech Republic and foreign markets	UNIPETROL RAFINERIE a.s.	-
KAUCUK a.s.	E-SBR, EPS, CPS, Butadiene, Raffinate II, ABS	Czech Republic and foreign markets	CHEMOPETROL a.s.	-
UNIPETROL RAFINERIE a.s. ²	Diesel oil, Gasoline, Raw materials for pyrolysis, HCVD, LPG, Jet A-1, Asphalts, Propylene, Raw Materials for POX, Oils	Czech Republic and foreign markets	PKN ORLEN S.A.	-

² On 1 August 2007 the merger of CHEMOPETROL a.s and UNIPETROL Rafinerie a.s into UNIPETROL RPA s.r.o took place.

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Consolidated companies	Basic products, goods and services	Sales market (areas of activity)	Major supplier	Revenues from sale (in PLN thousand)
PARAMO a.s.	Raw materials for pyrolysis, Diesel oil, LFO, HFO, Asphalts, Lubricants i Oils	Czech Republic and foreign markets	UNIPETROL RAFINERIE a.s.	-
BENZINA a.s.	Gasoline, Diesel oil	Czech Republic	UNIPETROL RAFINERIE a.s.	-
UNIPETROL TRADE a.s.	HDPE (high density polyethylene) , polypropylene, PVC, polystyrene, benzene, cyclohexanone, caprolactam, acids, caustic soda, pigments, ammonia, carbamide, ammonium nitrate	Western Europe and Russia, Romania, Ukraine, Bulgaria and Turkey	UNIPETROL Group companies	-
CESKA RAFINERSKA a.s.	Gasoline, Diesel oil, Raw materials for pyrolysis, HCVD, LPG, Jet A-1, Asphalts, Propylene, Raw materials for POX	Czech Republic	-	-
Mazeikiu Group	Gasolines, Diesel oils, Light heating oil, Aviation fuel Jet A-1, Heating oil 3, LPG, Sulphur, Asphalts, other refinery products	Lithuania and foreign market	PKN ORLEN S.A., TNK TRADE LTD., Technip KTI SPA, IPCO Trading, S.A., ESC Trading, SA, Glencore Energy UK LTD., Litasco, Gunvor International, Lietuvos Geležinkeliai, SHELL, Belorusneft, Production Association, Petroval PTE LTD.	9 623 770
Anwil Group	Ammonium nitrate, Nitro-chalk CANWIL, Ammonia, PVC, Soda lye, Caustic soda, soft and hard granulates	Domestic and foreign markets	PKN ORLEN S.A., PGNIG S.A., IKS Solino SA, Energa S.A.	2 824 798
Rafineria Trzebinia Group	Gasoline for pyrolysis, Heating oils, Other products, Rapeseed oil methyl esters and other oleochemical products, Gasolines, Heating oils, Diesel oils, Paraffins, Emulsions,	Domestic and foreign markets (Europa	Ewico Sp. z o.o., PGNIG S.A., Orlen Petrocentrum, Ekonaft, Naftowax, ColorCap, Alopak, Stacje Paliw, Eltech, Edytmarm, Hydroster, Elstal Energomedia, RT S.A. PetroMechanika, Eltem, Gatx Rail Poland, Chemont Sp z o.o., Enion, Orlen Oil Sp. z o.o.	1 097 503
Rafineria Nafty Jedlicze Group	Engine Gasolines, Diesel oils, Heating oils, Base oils, Special purpose gasolines, Other, Semi finished goods, Services	Domestic and foreign markets (Czech Republic, Slovakia)	PKN ORLEN S.A., ORLEN Petro Tank Sp. z o.o., PGNIG S.A., Unimot Express Sp. z o. o., BMP Trading GmbH, Konsorcjum Olejów Przetworzonych - Org. Odzysku S.A., ORLEN Transport Kraków Sp. z o.o.	405 941
ORLEN Oil Group	High grade engine oils, Low grade engine oils, Other automotive lubricants, Industrial oils, Maintenance fluids, Car cosmetics and chemistry, Oil bases, Other oil products	Domestic and foreign markets	PKN ORLEN S.A., C.H. Erbsloh Polska, Lubrizol Francja, Chevron Oronite Francja, Infineum Uk ltd., Basic components sp. Z o.o., Rohmax Niemcy, Zenteum ltd., Brenntag Polska, Rafineria Nafty Jedlicze, Paramo a.s., Lotos Oil S.A.	680 019

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ORLEN Asphalt Sp. z o.o.	Asphalts: road, BITREX, modified ORBITON, industrial, bitumen products, glue, Transportation services,	Domestic and foreign market, (Hungary, Lithuania, Germany, Czech Republic, Romania, Ukraine)	PKN ORLEN S.A., Kraton Polska, ORLEN Oil Sp. z o.o., Tomex, Petro-Mechanika, Orlen Automatyka Sp. z p.p., Petro Eltech, Laboratorium Sp. z o.o.	649 961
IKS SOLINO S.A.	brine for trading, domestic salt, iodine sodium, salt tablets, bagsy, salt for pickling, compact salt, dry salt granulate, fuel storage service at PMRiP	Domestic and foreign markets (Europe)	Ciech S.A., Anwil S.A., PKN ORLEN SA, Marma Polskie Folie Rzeszów, B+K Poland, PPU Libamix, Marflex Maillis Storaenso Sp. z o.o.	121 344
ORLEN PetroTank Sp. z o.o.	Gasolines, Diesel and heating oils, liquid gas	Poland (Voivodships: Podkarpackie, Małopolskie, Świętokrzyskie, Śląskie, Opolskie)	PKN ORLEN S.A., ORLEN PetroCentrum Sp. z o.o.	1 325 445
ORLEN PetroProfit Group	Engine gasolines, Diesel oils, Heating oils	Poland	ORLEN PetroCentrum Sp. z o.o.	684 156
ORLEN PetroCentrum Sp. z o.o.	Engine gasolines, Diesel and heating oils, Liquid gas, Non-fuel goods	Poland	PKN ORLEN S.A., Mazeikiu Group ORLEN Gaz Sp. z o.o., ORLEN Transport Płock Sp. z o.o.	4 087 611
Petrolot Sp. z o.o.	Aviation fuel Jet A-1, Aviation gasoline 100LL, Car fuels	Domestic and foreign airlines at Polish airports, sale of automobile gasoline in Warsaw, Gdańsk, Poznań	PKN ORLEN S.A., Agencja Rezerw Materiałowych S.A., the Lotos S.A. Group, Research and Development Center for Petroleum Industry in Płock	923 762
ORLEN PetroZachód Sp. z o.o.	Gasolines, Diesel oil, Diesel oil BIO, Heating oil, Gas, Goods sold at stations	Poland, Voivodships: wielkopolskie, lubuskie, dolnośląskie	PKN ORLEN S.A., ORLEN PetroCentrum Sp. z o.o.	575 304
ORLEN Morena Sp. z o.o.	Gasolines, Diesel oils, Heating oils, LPG, logistics services	Northern Poland	ORLEN PetroCentrum Sp. z o.o., PKN ORLEN S.A., Romgaz	595 209
Ship – Service Group	HS IFO - Intermediate Fuel Oil, LS IFO, MDO- Marine Diesel Oil, MGO - Marine Gas Oil	Sea and inland navigation, fishery harbor vessels.	PKN ORLEN S.A., Gunvor International, O.W. Supply & Trading, Tintrade, Grupa LOTOS	316 240

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Consolidated companies	Basic products, goods and services	Sales market (areas of activity)	Major supplier	Revenues from sale (in PLN thousand)
ORLEN Gaz Sp. z o.o.	Liquid gas	Domestic market, export (Slovakia, Czech Republic, Germany)	PKN ORLEN S.A., Mazeikiu Group, BM Reflex Sp. z o.o., BP Polska Sp. z o.o., UNIPETROL Rafinerie a.s.	991 293
ORLEN Deutschland AG	Engine gasolines, Diesel oils, Heating oils	Northern Germany	BP, Shell, Mabanaf, Holborn, Sonstiges	8 676 213
ORLEN Automatyka Sp. z o.o.	Installation, repair, maintenance services for controlling and measuring apparatus and facilities	Domestic market	Zakłady Automatyki POLNA S.A., ASE Sp. z o.o., Atmoservice Sp. z o.o., Sema Sp. z o.o., Emerson Process Management, Endress+Hauser Polska, Honeywell, Polycy, IP&S, Technopomiar, Antycor Controls, KLIMA-THERM, SFM Filtry Łuczak, Kujawska Fabryka Manometrów, Linde Gaz Polska Sp. z o.o., BOC Gazy	29 430
ORLEN Wir Sp. z o.o.	Services in respect of maintenance and repairs of whirling machines	Poland	Neo-Tec, ZBA, Hartmak, Transfer, Transfer-Bis, Alfa, Euro-Tech	9 051
ORLEN Transport Płock Sp. z o.o.	ADR transport, Transport of employees, Passenger and cargo transport, Forwarding services, International transport, Construction machines service and repairs, sale of Petrygo, Ekoterm, fuel, Sale of fuel stations, transport of chemistry	Poland and Europe	PKN ORLEN S.A.	92 066
ORLEN Transport Szczecin Sp. z o.o.	Shipping services	Poland, Voivodships: zachodniopom., lubuskie, wielkopolskie, pomorskie	PKN ORLEN S.A.	4 016
ORLEN Transport Kraków Sp. z o.o.	Shipping services	Domestic and foreign markets	PKN ORLEN S.A., ORLEN PetroTank Sp. z o.o., ORLEN Oil Sp. z o.o.	24 979
ORLEN Transport Nowa Sól Sp. z o.o.	Shipping services, Sale of fuels	Poland, Voivodships: lubuskie, dolnośląskie and part of zachodniopom.	PKN ORLEN S.A., ORLEN Morena Sp. z o.o.,	16 328
ORLEN Transport Słupsk Sp. z o.o.	Shipping services, Automotive services, Sale of exterm, diesel oil, gasolines, gas	Domestic market	PKN ORLEN S.A.	23 025

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ORLEN Transport Olsztyn Sp. z o.o.	Shipping services, Sale of fuels	Domestic market	PKN ORLEN S.A., ORLEN Morena Sp. z o.o.	11 866
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	Shipping services	Domestic and foreign markets	PKN ORLEN S.A., ORLEN PetroTank Sp. z o.o., ORLEN Oil Sp. z o.o.	15 071
ORLEN KolTrans Sp. z o.o.	Lease of tanks, Operation, Sale of services – licensed transport, Service of DEC cars; Auxiliary activity: Repair of tanks and locomotions, Cleaning, Handling of railway siding, Puring, Unloading	Poland	PKN ORLEN S.A., ORLEN PetroCentrum Sp. z o.o., Hagans, Transchem, ORLEN Transport Płock Sp. z.o.o., PKP PLK	116 396
Petrotel Sp. z o.o.	Telecommunication services, Goods and materials	Płock municipality of Stara Biała	Exatel, Limex, Telekom Warmia, Europejska Grupa Telekomunikacyjna Eurotelekom Sp. z o.o.	31 391
ORLEN Projekt S.A.	Designing services, General contracting, Investment start-up, investor's supervision, representation of investor, Polygraphic services	Domestic market,	Agat Sp. z o.o., Mostostal S.A., Prochem S.A., Lubuskie Przedsiębiorstwo Budownictwa, Merrid Controls, Mercomp Sp. z o.o.	99 445
ORLEN Medica Sp. z o.o.	Health care services	Domestic market	CSK Wim, Euomed Sp. z o.o., Voivodship Emergency Ambulance Service and Sanitarny Transport Station, GlaxoSmithKline, Z. P. Ch. Roka	15 574
ORLEN Laboratorium Sp. z o.o.	Laboratory services: analysis of crude oil products, environmental analysis, Additional services	Domestic and foreign markets (Germany)	PKN ORLEN S.A., Rafineria Nafty Jedlicze S.A., Inkom Instruments Co., Syl&Ant Instruments, ORLEN Automatyka Sp. z o.o., Labart Sp. z o.o.	45 862
ORLEN Powiernik Sp. z o.o.	Services and trusteeship for PKN ORLEN S.A.	Płock	PKN ORLEN S.A.	-
ORLEN Budonaft Sp. z o.o.	Construction and assembling in respect of construction and modernisation of fuel stations and production and assembly of steel structures	Poland	Gamart, Megaset, Elektret, Deiterman/Maxit, Akord	61 801
ORLEN Eko Sp. z o.o.	Waste management services	Domestic market	SITA Starol PETRO WodKan, ZBA S.A. Płock, ORLEN Automatyka, Petro Eltech, PKN ORLEN S.A., Ciba Speciality Chemicals Hungary LTD., Korona, Allied Solutions	22 144

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ORLEN Administracja Sp. z o.o.	Real estate management services, Office and polygraphic services, filing services, additional services, restaurant and catering services, office cleaning, handling the Procurement Office and Vitay warehouse	Domestic market	ORLEN Transport Płock, Zakłady Mięsne Płock, Partner Premium Płock	20 759
ORLEN Księgowość Sp. z o.o.	Payroll services, accounting services, stock recording services, property, plant and equipment handling services, IT services	Domestic market	PKN ORLEN S.A., Softal Consulting, Car Transport Enterprise "Transport", Lyreco Polska S.A., ORLEN Administracja Sp. z o.o.	27 331
ORLEN Prewencja Sp. z o.o.	Anti fire and health and safety at work services, environmental services, servicing life-saving and fire-extinguishing equipment	Domestic and foreign markets	PKN ORLEN S.A., ORLEN Administracja Sp. z o.o., ORLEN Księgowość Sp. z o.o.	10 974
ORLEN Upstream Sp. z o.o.	Supporting development of PKN ORLEN S.A. in the upstream segment	Domestic market	-	2 127
Etylobenzen Płock Sp. z o.o. In liquidation	Organic chemicals sale and production	Domestic and foreign markets	PKN ORLEN S.A.	19
ORLEN Holding Malta Ltd.	Investing in/holding shares in other companies, joint-ventures, consortia and trusts	Domestic and foreign markets	-	-
Orlen Insurance Ltd	Insurance business in respect of the PKN ORLEN S.A. group property insurance	Domestic and foreign markets	-	5 557
ORLEN Finance AB	Management of durable and non-durable goods	Domestic and foreign markets	-	-
Jointly controlled companies				
Basell Polyolefins Sp. z o.o.	ORLEN Low density polyethylene (LDPE), High density polyethylene (HDPE), Polypropylene (PP), Waste products	Domestic and foreign markets	PKN ORLEN S.A., Karl Schmidt Spedition GmbH & Co., Bertschi AG Durrenasch, Mexem Sp. z o.o., Intra S.A., Norbert Dentressangle, Hoyer-Talke GmbH&Co., LKW Walter International, Kuehne+Nagel Sp. z o.o., Nijhof Wassink, Equus Sp. z o.o.	1 580 465
Płocki Park Przemysłowo - Technologiczny S.A.	Lease of real estate on its own account and re-invoicing costs of power and water carriers	Domestic market	DESS Sp. z o.o., Elwod Sp. z o.o., Koncern Energetyczny Energa, Parter Premium s.c., Merdia Sp. z o.o., Petrotel Sp. z o.o., ORLEN Ochrona Sp. z o.o.	811

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7.3 Transactions executed by PKN ORLEN S.A. with related entities

A specification of transactions between PKN Orlen S.A. and its affiliates, where the single or aggregate value of the transactions executed by the affiliate in a period of 12 months of 2007 exceeds the PLN equivalent of EUR 500,000:

No.	Party to the transaction	Sale in PLN thousands	Purchase in PLN thousands
1.	AB Mazeikiu Nafta	6 315 462	143
2.	UNIPETROL RPA a.s.	5 961 938	192 981
3.	Basell ORLEN Polyolefins sp. z o.o.	2 413 305	21 462
4.	ORLEN PetroCentrum Sp. z o.o.	2 326 497	1 126
5.	PETROLOT Sp. z o.o.	687 465	4 774
6.	ORLEN Asfalt Sp.z o.o.	491 473	3 147
7.	ANWIL S.A.	456 751	7 960
8.	ORLEN Oil Sp. z o.o.	387 781	126 621
9.	ORLEN Gaz Sp. z o.o.	320 844	667 918
10.	Ship-Service S.A.	132 089	243
11.	Rafineria Nafty Jedlicze S.A.	80 054	194 523
12.	ORLEN PetroTank Sp. z o.o.	63 570	19 182
13.	ORLEN Morena Sp. z o.o.	47 742	381
14.	ORLEN PetroProfit Sp. z o.o.	40 191	636
15.	ORLEN Transport Płock Sp. z o.o.	29 605	44 087
16.	ORLEN PetroZachód Sp. z o.o.	26 827	338
17.	Rafineria Trzebinia S.A.	22 630	186 766
18.	ORLEN KolTrans Sp. z o.o.	10 475	90 906
19.	ORLEN Transport Słupsk Sp. z o.o.	9 756	7 769
20.	Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o.	8 976	38 947
21.	Polkomtel S.A.	7 812	42 311
22.	Mazeikiu Nafta Trading House Sp. z o.o.	5 685	72 553
23.	ORLEN Transport Kraków Sp. z o.o.	5 569	8 901
24.	Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o.	5 464	25
25.	KAUČUK, a.s.	5 414	0
26.	Platinum Oil Sp. z o.o.	4 283	30 200
27.	SPOLANA as	2 942	0
28.	ORLEN Eko Sp. z o.o.	2 931	22 432
29.	ORLEN Ochrona Sp. z o.o.	2 764	34 475
30.	ORLEN Transport Olsztyn Sp. z o.o.	2 328	6 991
31.	ORLEN Laboratorium Sp. z o.o.	2 061	35 272
32.	ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	2 051	9 406
33.	ORLEN Centrum Serwisowe Sp.z o.o.	1 377	46 061
34.	Inowrocławskie Kopalnie Soli "SOLINO" S.A.	1 153	36 460
35.	ORLEN Budonaft Sp. z o.o.	1 112	61 574
36.	ORLEN Księgowość Sp. z o.o.	1 093	25 811
37.	ORLEN Transport Nowa Sól Sp. z o.o.	925	13 870
38.	Orlen Administracja Sp. z o.o.	891	16 770
39.	Orlen Prewencja Sp. z o.o.	848	8 325
40.	Petrotel Sp. z o.o.	557	7 266
41.	ORLEN Transport Szczecin Sp. z o.o.	499	2 913
42.	ORLEN Wir Sp. z o.o.	481	5 225

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No.	Party to the transaction	Sale in PLN thousands	Purchase in PLN thousands
43.	ORLEN Automatyka Sp.z o.o.	385	19 731
44.	Centrum Edukacji Sp. z o.o.	315	1 953
45.	ORLEN Medica Sp. z o.o	142	5 195
46.	ORLEN Projekt S.A.	130	85 894
47.	Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o.	101	19 075
48.	Orlen Upstream Sp. z o.o.	16	2 170
49.	Wisła Płock Sportowa S.A.	11	11 699
50.	Orlen Insurance	0	29 423
51.	EURONAFT Trzebinia Sp. z o.o.	0	4 685
	Total	19 892 769	2 276 579

Transactions with affiliates were evaluated at the exchange rate representing an arithmetical mean of the average exchange rates set by the National Bank of Poland as at the last day of each month ended in a period from 1 January 2007 to 31 December 2007 – 3.7768 PLN/EUR; 2.7484 PLN/USD; 0.1361 PLN/CZK.

a) Transactions with PKN ORLEN S.A. Management and Supervisory Boards members, their spouses, siblings, ascendants, descendants, or other relatives

In 2007 the ORLEN Group companies did not pay any advances, grant loans, credits, issue any guarantees or sureties to, or executed any other agreements that would impose any obligation for any performances to the benefit of PKN OLEN and its affiliates.

As at 31 December 2007 the ORLEN Group companies did not extend any loans to the managing persons or supervising persons or their relatives.

In 2007 no material transactions were executed with PKN ORLEN S.A. Management or Supervisory Boards members, their spouses, siblings, ascendants, descendants, or other relatives.

b) Transactions with related entities via supervising persons in PKN ORLEN S.A. and in the ORLEN Group companies

In 2007 the supervising persons in PKN ORLEN S.A. or in the ORLEN Group companies submitted declarations relating to the transactions executed with related entities, within the extended meaning of this term in accordance with the updated IAS 24 "Information disclosed about related entities".

	Sale	Purchase	Receivables	Liabilities
Legal persons *	565 230	668 985	153 317	58 710
Individuals	-	-	-	-

* Transactions in the period when the persons fulfilled functions in the supervisory authorities of PKN ORLEN S.A.

c) Transactions with related entities via managing persons in PKN ORLEN S.A. and in the ORLEN Group companies

In 2007 the persons in PKN ORLEN S.A. or in the ORLEN Group companies submitted declarations relating to the transactions executed with related entities, within the extended meaning of this term in accordance with the updated IAS 24 "Information disclosed about related entities".

	Sale	Purchase	Receivables	Liabilities
Legal persons	-	-	-	-
Individuals	-	113	-	-

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d) Transactions executed by the key management staff members of PKN ORLEN S.A. and of the ORLEN Group companies with related entities

In 2007 the key management staff members of PKN ORLEN S.A. and the ORLEN Group companies submitted declarations relating to the transactions executed with related entities, within the extended meaning of this term in accordance with the updated IAS 24 "Information disclosed about related entities".

	Sale	Purchase	Receivables	Liabilities
Legal persons	-	-	-	-
Individuals	13	14	-	-

7.4 Remuneration, including profit distribution paid and due or potentially due to the Management Board, Supervisory Board and members of key executive personnel, in accordance with IAS 24

The payments to the Management Board, Supervisory Board and key executive personnel include short-term employee benefits, post-employment benefits, other long-term benefits and compensation due to the termination of employment, which have been paid, are due or, are potentially due in the period.

a) Remuneration of Management Board, Supervisory Board Members and key executive personnel of the Company in 2007 (PLN thousand)

	<u>2007</u>
Remuneration of the Management Board Members of the Parent	27 207
including: compensation paid to the Management Board	20 421
Members performing the function in 2007	4 564
remuneration due and potentially due	1 956
remuneration paid to other Management Board Members	266
remuneration potentially due to other Management Board Members	
Remuneration of the Supervisory Board Members of the Parent	1 031
Remuneration of key executive personnel of the Parent	41 136
Remuneration of key executive personnel of the subsidiaries of the Capital Group	116 073

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b) Remuneration paid in 2007 to the Management Board Members of PKN ORLEN S.A. performing the function in 2007 (PLN thousand)

	salaries	bonus for 2006	severance pay, non-competition clause and compensation	insurance policies*	Total
Igor Chalupiec	84	1 297	3 220	8	4 609
Cezary Filipowicz	851	380	-	67	1 298
Dariusz Formela	363	-	-	18	381
Wojciech Heydel	1 154	1 049	-	76	2 279
Piotr Kownacki	1 444	-	-	75	1 519
Jan Maciejewicz	231	676	1 620	11	2 538
Waldemar Maj	362	-	-	-	362
Krystian Pater	669	-	-	38	707
Cezary Smorszczewski	283	622	2 420	20	3 345
Krzysztof Szwedowski	851	307	-	57	1 215
Paweł Szymański	544	604	990	30	2 168
Total	6 836	4 935	8 250	400	20 421

* Expenses incurred by the PKN ORLEN S.A..

c) Remuneration potentially due for 2007 and due in 2008 to the Management Board Members of PKN ORLEN S.A. performing the function in 2007 (PLN thousand)

	potentially due*	severance pay, non-competition clause and compensation	Total
Igor Chalupiec	37	140	177
Cezary Filipowicz	403	-	403
Dariusz Formela	146	-	146
Wojciech Heydel	1 148	-	1 148
Piotr Kownacki	717	-	717
Jan Maciejewicz	127	-	127
Waldemar Maj	228	-	228
Krystian Pater	323	-	323
Cezary Smorszczewski	155	220	375
Krzysztof Szwedowski	483	-	483
Paweł Szymański	347	90	437
Total	4 114	450	4 564

* Potentially due, not paid remuneration to Management Board Members is due to the new bonus policy - Management by Objectives (MBO) in force from 1 January 2005

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d) Remuneration paid to other Management Board Members of PKN ORLEN S.A. in 2007 (PLN thousand)

	severance pay, non-competition clause and compensation *
Zbigniew Wróbel	1 956

* compensation paid based on amicable settlement

e) Remuneration potentially due to other Management Board Members of PKN ORLEN S.A. for previous years (PLN thousand)

	potentially due
Janusz Wiśniewski	266

f) Principles of incentives for key executive personnel (including the Management Board Members)

In 2005 new incentive system for key executive personnel of PKN ORLEN S.A. and ORLEN Group was introduced – Management by Objectives (MBO). New incentive system concerns Management Board and key executive personnel. Individuals participating in MBO are rewarded for individual goals realization and solidarity goal (SVA), set at the beginning of the period. The Supervisory Board sets goals for each Management Board Member. Set goals are of qualitative and quantitative nature and are assessed on the basis of Bonus Policy, after the end of a year to which they relate.

The value of bonus granted depends also on the solidarity objective, which is consolidated SVA for ORLEN Group. When planned level of SVA is achieved, everybody receives bonus in full calculated amount. When the solidarity objective is not achieved, all employees are granted half of worked out bonus. Introduced system encourage employees for cooperation and timing for better results of ORLEN Group.

g) Remuneration regarding non-competition clause and dissolution of the contract as a result of dismissal from the position held

Agreements concluded between issuer and managing persons constitute that the persons are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of a termination or expiration of the contract. In the period members of the Management Board are entitled to receive remuneration in the amount of six or twelve monthly basic remuneration, paid in equal monthly installments.

Furthermore contracts include remuneration payments in case of dissolution of the contract as a result of dismissal from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

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h) Compensation paid to the Management Board and Supervisory Board of PKN ORLEN S.A. acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled companies or associates for the year 2007

Management Board Members of PKN ORLEN S.A., acting in 2007 as Supervisory Board Members of subsidiaries, jointly controlled companies or associates of ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL a.s., where compensations paid was transferred to ORLEN Dar Serca foundation. Management Board Members of PKN ORLEN S.A. acted in Management Board of AB Mazeikiu Nafta, what results from differences in role of Management Board in corporate governance between the Polish law and Lithuanian one. The role of Management Board of AB Mazeikiu Nafta is similar to the role of Supervisory Board in Polish legislation.

Remuneration of the Supervisory Board Members of PKN ORLEN S.A.	2007
Konstanty Brochwicz-Donimirski	47
Robert Czaplą	112
Marek Drac-Tatoń	112
Raimondo Eggink	112
Zbigniew Macioszek	124
Agata Mikołajczyk	65
Wojciech Pawlak	47
Krzysztof Rajczewski	112
Wiesław Rozłucki	47
Ryszard Sowiński	47
Małgorzata Ślepowrońska	83
Jerzy Woźnicki	55
Janusz Zieliński	54

Total remuneration of the Supervisory Board Members of PKN ORLEN S.A.	
Remuneration of the Supervisory Board Members of PKN ORLEN S.A. in subsidiaries	1 017
Małgorzata Ślepowrońska	14

Total remuneration of the Supervisory Board Members of PKN ORLEN S.A.	1 031
	=====

The Chairman of the Supervisory Board of PKN ORLEN S.A. performing this function since 31 May 2007, acted simultaneously as Supervisory Board Member of Petrolot Sp. z o.o. from 31 August 2007 as the representative of PLL LOT S.A. (second shareholder of that company) and received the remuneration in the amount of PLN 14 thousand. Other Supervisory Board Members of PKN ORLEN S.A. did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of ORLEN Group in 2007.

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i) Remuneration of the Management Board Members and Supervisory Board Members and key executive personnel of PKN ORLEN S.A. in 2006 (PLN thousand)

	2006
Remuneration of the Management Board Members of PKN ORLEN S.A. including: compensation paid to the Management Board Members performing the function in 2006	19 437
compensation due and potentially due	14 081
	5 356
Remuneration of the Supervisory Board Members of PKN ORLEN S.A.	739
Remuneration of key executive personnel of PKN ORLEN S.A.	28 992
Remuneration of key executive personnel of the ORLEN Group subsidiaries	99 792

j) Remuneration paid in 2006 to the Management Board Members of PKN ORLEN S.A. performing the function in 2006 (PLN thousand)

	salaries	bonus for 2005	severance pay, non-competition clause and compensation	insurance policies*	Total
Igor Chalupiec	1 939	1 250	-	98	3 287
Cezary Filipowicz	842	-	-	73	915
Wojciech Heydel	1 160	1 033	-	76	2 269
Piotr Kownacki	185	-	-	-	185
Jan Maciejewicz	1 091	776	-	43	1 910
Cezary Smorszczewski	1 328	626	-	80	2 034
Krzysztof Szwedowski	635	-	-	43	678
Paweł Szymański	854	609	-	51	1 514
Dariusz Witkowski	216	196	840	37	1 289
Total	8 250	4 490	840	501	14 081

* Expenses incurred by PKN ORLEN S.A.

k) Remuneration due and potentially due for 2006 to the Management Board Members of PKN ORLEN S.A. performing the function in 2006 (PLN thousand)

	Potentially due*
Igor Chalupiec	1 247
Cezary Filipowicz	506
Wojciech Heydel	1 154
Jan Maciejewicz	600
Cezary Smorszczewski	643
Krzysztof Szwedowski	408
Paweł Szymański	604
Dariusz Witkowski	194
Total	5 356

* Potentially due, not paid remuneration to Management Board Members is due to the new bonus policy - Management by Objectives (MBO) in force from 1 January 2005. Bonus was calculated based on preliminary appraisal of Management Board of PKN ORLEN S.A. performed by the Supervisory Board of PKN ORLEN S.A.

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I) Compensation of the Management Board and Supervisory Board Members of PKN ORLEN S.A. acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled companies or associates for the year 2006 (PLN thousand)

Management Board Members of PKN ORLEN, acting in 2006 as Supervisory Board Members of subsidiaries, jointly controlled companies or associates of ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL a.s., where compensations paid was transferred to ORLEN Dar Serca foundation. Management Board Members of PKN ORLEN acted in Management Board of AB Mazeikiu Nafta, what results from differences in role of Management Board in corporate governance between the Polish law and Lithuanian one. The role of Management Board of AB Mazeikiu Nafta is similar to the role of Supervisory Board in Polish legislation.

Supervisory Board Members did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of ORLEN Group in 2006.

Remuneration of the Supervisory Board Members of PKN ORLEN S.A.	2006
Konstanty Brochwicz-Donimirski	9
Robert Czapla	9
Dariusz Dąbski	54
Marek Drac-Tatoń	32
Raimondo Eggink	106
Maciej Gierej	9
Zbigniew Macioszek	100
Maciej Mataczyński	93
Krzysztof Oblój	9
Małgorzata Okońska - Zaremba	9
Andrzej Olechowski	52
Wojciech Pawlak	97
Adam Pawłowicz	25
Krzysztof Rajczewski	9
Wiesław Rozłucki	54
Adam Sęk	9
Ryszard Sowiński	54
Ireneusz Wesółowski	9

Total remuneration of the Supervisory Board Members of PKN ORLEN S.A.	739
	=====

7.5 Remuneration under an agreement with an entity authorised to audit financial statements, due or paid for the audit and review of the financial statements (PLN thousand).

In the period covered by these financial statements the auditor of PKN ORLEN S.A. has been KPMG Audyt Sp. z o.o. In accordance with the agreement signed on 30 May 2005 for the period of 2005 - 2007 it is in charge of interim reviews and audit of consolidated and unconsolidated financial statements starting from the 2nd quarter of 2005.

On 23 August 2007 Supervisory Board of PKN ORLEN S.A. has chosen KPMG Audyt Sp. z o.o., as the entity qualified for audit and review of unconsolidated and consolidated financial statements of PKN ORLEN and financial statements of the key companies from PKN ORLEN Group for years 2008 – 2009.

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	Year ending 31 December 2007	Year ending 31 December 2006
Fees for the audit payable to KPMG Audyt Sp. z o.o.*	1 414	1 414
Fees for related services payable to KPMG Audyt Sp. z o.o.**	1 118	1 282
Fees for the audit payable in respect of subsidiaries	7 800	4 754
Fees for related services payable in respect of subsidiaries	789	197
	-----	-----
	11 121	7 647
	=====	=====

* The audit fees include amounts payable to the entity authorized to audit financial statements in relation to professional services consisting in auditing unconsolidated and consolidated financial statements of PKN ORLEN S.A. as well as in review of the quarterly and half-yearly financial statements of the same.

** The fees payable for related services include other amounts paid to the entity authorized to audit financial statements. The fees cover services connected with audit or review of the unconsolidated and consolidated financial statements, other than those covered by the item "Fees payable for the audit".

In 2005, a procedure on soliciting additional services with the chartered accountant and entities related with the latter was introduced at PKN ORLEN S.A.. The Audit Committee of the Supervisory Board makes the decision on awarding contracts to the Auditor for additional services.

7.6 Changes in the composition of the management and supervisory authorities in PKN ORLEN S.A. and other companies of the ORLEN Group in 2007

The Members of PKN ORLEN S.A. Management Board are appointed and dismissed by the Supervisory Board. In a period from 1 January 2007 to 31 December 2007 the Management Board of PKN ORLEN S.A. was composed of the following persons:

Piotr Kownacki	Vice-President of the Management Board, Audit and Regulations till 18.01.2007. President of the Management Board, Chief Executive Officer from 18.01.2007.
Cezary Filipowicz	Vice-President of the Management Board, Upstream and Crude Trading
Wojciech Heydel	Vice-President of the Management Board, Sales.
Waldemar May	Vice-President of the Management Board from 3.09.2007. Vice-President of the Management Board, CFO from 4.09.2007.
Krzysztof Szwedowski	Management Board Member, Organisation and Capital Group till 30.01.2007. Management Board Member, Organisation from 30.01.2007. Management Board Member, Organisation and Support from 20.03.2007. Management Board Member, IT & Procurement from 31.07.2007.
Krystian Pater	Management Board Member from 15.03.2007. Management Board Member, Production from 20.03.2007.
Dariusz Formela	Management Board Member from 30.07.2007. Management Board Member, Organisation and Capital Group from 31.07.2007.
Paweł Szymański	Management Board Member, CFO by 19.04.2007. Vice-President of the Management Board, CFO from 19.04.2007 by 30.07.2007.
Igor Chalupec	President of the Management Board, CEO till 18.01.2007.

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Cezary Smorszczewski	Vice-President of the Management Board, Capital Investments till 15.03.2007.
Jan Maciejewicz	Vice-President of the Management Board, Cost Management till 15.03.2007.

PKN ORLEN S.A. Supervisory Board Members are appointed by the General Meeting of Shareholders. In 2007 the operations of PKN ORLEN S.A. were supervised by the Supervisory Board composed by:

Małgorzata Ślepowańska	Chairman of the Supervisory Board from 31.05.2007.
Zbigniew Macioszek	Chairman of the Supervisory Board till 31.05.2007. Supervisory Board Member from 31.05.2007.
Jerzy Woźnicki	Supervisory Board Member from 31.05.2007 to 30.11.2007. Vice-Chairman of the Supervisory Board from 25.06.2007 to 30.11.2007.
Krzysztof Rajczewski	Supervisory Board Member. Secretary of the Supervisory Board from 25.06.2007.
Robert Czapla	Supervisory Board Member.
Marek Drac-Tatoń	Supervisory Board Member.
Raimondo Eggink	Supervisory Board Member. Vice-Chairman of the Supervisory Board from 20.12.2007.
Agata Mikołajczyk	Supervisory Board Member from 31.05.2007.
Janusz Zieliński	Supervisory Board Member from 6.07.2007.
Wojciech Pawlak	Vice-Chairman of the Supervisory Board till 31.05.2007.
Ryszard Sowiński	Secretary of the Supervisory Board till 31.05.2007.
Konstanty Brochwicz-Donimirski	Supervisory Board Member till 31.05.2007.
Wiesław Rozłucki	Supervisory Board Member till 31.05.2007.

Composition of management and supervisory authorities of the ORLEN Group companies consolidated as at 31 December 2007 (the Supervisory Board members listed below include only those who are appointed by PKN ORLEN S.A)

Branch companies:

UNIPETROL a.s.	Management Board	François Vleugels - President Wojciech Ostrowski - Vice President Martin Durčák Miroslav Krejčí Ivan Ottis Arkadiusz Kotlicki
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	Supervisory Board	Piotr Kownacki – Chairman of the Supervisory Board Ivan Kočárník Dariusz Formela Robert Bednarski Czesław Bugaj Zdeněk Černý Miroslaw Jasiński Rafał Kapler Piotr Kearney Krystian Pater Miloslav Suchánek Waldemar Maj
AB Mazeikiu Nafta	Management Board	Piotr Kownacki - President Krystian Pater Cezary Filipowicz Saulius Spėčius Dariusz Formela Robert Bednarski Waldemar Maj
	Supervisory Board	Marek Moroz - Chairman of the Supervisory Board Czesław Bugaj, Marcin Wasilewski
Anwil S.A.	Management Board	Piotr Kearney Wojciech Wróblewski Rafał Zwierz Benedykt Michewicz - President Teresa Szeligowska Krzysztof Kamiński
	Supervisory Board	Czesław Bugaj - Chairman of the Supervisory Board Dominik Czajewski Jacek Bartmiński Rafał Kapler
Basell ORLEN Polyolefins Sp. z o.o.	Management Board	Paul Augustowski - President Karol Marek Sęp Willem Adolf Eduardus Waelput Jacek Podgórski
	Supervisory Board	Krystian Pater - Chairman of the Supervisory Board Mateusz Markiewicz
Rafineria Trzebinia S.A.	Management Board	Jerzy Pazura - President Piotr Rusakiewicz, Marek Gadowski
	Supervisory Board	Robert Czekaj - Chairman of the Supervisory Board Kazimierz Mosiński Renata Rosiak Krzysztof Kozera Aleksandra Sieczkowska
ORLEN - Oil Sp. z o.o.	Management Board	Milan Kuncir - President Mieczysław Markiewicz Gustaw Duda
	Supervisory Board	Czesław Bugaj - Chairman of the Supervisory Board Magdalena Grabowska Ivan Ottis Mateusz Markiewicz Tomasz Żuchewicz
ORLEN Asphalt Sp. z o.o.	Management Board	Piotr Heinrich - President Andrzej Zdzenicki Remigiusz Miecznikowski, Lech Krzysteczko

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	Supervisory Board	Marek Kaczorek - Chairman of the Supervisory Board Mateusz Markiewicz Renata Rosiak Waldemar Zaborowski Hanna Wolińska
Rafineria Nafty Jedlicze S.A.	Management Board	Krzysztof Janas - President Andrzej Płocic, Andrzej Kozioł
	Supervisory Board	Czesław Bugaj - Chairman of the Supervisory Board Mateusz Markiewicz Renata Rosiak Robert Pijus Jerzy Kralski Łukasz Iniański Jacek Matyjasik
IKS „Solino” S.A.	Management Board	Dariusz Nowaliński - President Celina Olszewska
	Supervisory Board	Krzysztof Szwedowski - Chairman of the Supervisory Board Marek Bakula Elwira Lewtak Jacek Bartmiński Mirosław Osiecki
ORLEN Upstream Sp. z o.o.	Management Board	Wiesław Prugar- President Tomasz Malinowski
	Supervisory Board	Cezary Filipowicz- President Marek Moroz Piotr Kearney
Etylobenzen Płock Sp. z o.o. in liquidation	Liquidator	Hanna Kowalska- Liquidator
	Supervisory Board	Jolanta Brudnicka- President Dariusz Kusiak Agnieszka Jarecka

Companies involved in fuels and gas sale:

ORLEN Deutschland AG	Management Board	Josef Bush - President Josef Niedworok Olivier Michels
	Supervisory Board	Wojciech Heydel - Chairman of the Supervisory Board Dominik Czajewski Grażyna Szajgin Tomasz Żuchewicz Anna Walczowska Rolad Makiela
ORLEN PetroCentrum Sp. z o.o.	Management Board	Wojciech Jański - President Grażyna Tomala Paweł Wysocki
	Supervisory Board	Paweł Maślakiewicz - Chairman of the Supervisory Board Ewelina Kokoszka Mariusz Igielski Krzysztof Kosiński
ORLEN PetroTank Sp. z o.o.	Management Board	Wojciech Jański - President Grażyna Tomala Łukasz Chmaj
	Supervisory Board	Paweł Maślakiewicz - Chairman of the Supervisory Board Maciej Maicki, Ewelina Kokoszka

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ORLEN Gaz Sp. z o.o.	Management Board	Tomasz Grzela - President Bernard Cichocki
	Supervisory Board	Wojciech Heydel - Chairman of the Supervisory Board Dariusz Kusiak Jerzy Pazura Hanna Wolińska
Petrolot Sp. z o.o.	Management Board	Urszula Wicińska - President Wojciech Kotlarek Ireneusz Wesołowski
	Supervisory Board	Jacek Bartmiński - Chairman of the Supervisory Board Paweł Maślakiewicz
ORLEN PetroProfit Sp. z o.o.	Management Board	Wojciech Jański - President Mariusz Galusiakowski
	Supervisory Board	Paweł Maślakiewicz - Chairman of the Supervisory Board Ewelina Kokoszka Krzysztof Kosiński
ORLEN Morena Sp. z o.o.	Management Board	Wojciech Jański - President Grażyna Tomala Izabella Olszewska
	Supervisory Board	Paweł Maślakiewicz - Chairman of the Supervisory Board Ewelina Kokoszka Krzysztof Kosiński
ORLEN PetroZachód Sp. z o.o.	Management Board	Wojciech Jański - President Grażyna Tomala Mieczysław Maciej Bittner
	Supervisory Board	Paweł Maślakiewicz - Chairman of the Supervisory Board Ewelina Kokoszka Krzysztof Kosiński
Ship – Service S.A.	Management Board	Jacek Szafranski – President Tomasz Konieczny
	Supervisory Board	Dariusz Kusiak - Chairman of the Supervisory Board Rafał Biczak Rafał Jędrzejewski Ewa Kowalska - Chodubs

Transportation companies:

ORLEN KolTrans Sp. z o.o.	Management Board	Andrzej Małecki - President Andrzej Dorosz Dorota Szewczyk- Kopcińska
	Supervisory Board	Marek Bakula - Chairman of the Supervisory Board Małgorzata Kosman Anna Jasińska Adam Woźniak Monika Kober Stefaniak Mirosław Osiecki
ORLEN Transport Płock Sp. z o.o.	Management Board	Jerzy Jasiński - President Roman Rutecki Rafał Buczek Tomasz Grzela
	Supervisory Board	Marek Bakula - Chairman of the Supervisory Board Anna Jasińska, Krzysztof Ościłowicz
ORLEN Transport Słupsk Sp. z o.o.	Management Board	Wiesław Idzkowski - President Sławomir Myśliński Tomasz Grzela
	Supervisory Board	Krzysztof Gawłowski - Chairman of the Supervisory Board Anna Jasińska, Krzysztof Ościłowicz

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON OPERATIONS OF THE CAPITAL GROUP PKN ORLEN
(Translation of a document originally issued in Polish)

ORLEN Transport Nowa Sól Sp. z o.o.	Management Board	Leszek Gnitecki - President Paweł Haczyk, Tomasz Grzela
	Supervisory Board	Krzysztof Gawłowski - Chairman of the Supervisory Board Anna Jasińska, Krzysztof Ościłowicz
ORLEN Transport Kędzierzyn Koźle Sp. z o.o.	Management Board	Waldemar Drymel - President Leszek Gnitecki Tomasz Grzela
	Supervisory Board	Krzysztof Gawłowski - Chairman of the Supervisory Board Anna Jasińska Artur Gawroński
ORLEN Transport Olsztyn Sp. z o.o.	Management Board	Stanisław Brykała - President Edward Klecha Tomasz Grzela
	Supervisory Board	Krzysztof Gawłowski - Chairman of the Supervisory Board Anna Jasińska Monika Kober - Stefaniak
ORLEN Transport Szczecin Sp. z o.o.	Management Board	Paweł Haczyk - President Bogdan Biskupski Tomasz Grzela
	Supervisory Board	Krzysztof Gawłowski - Chairman of the Supervisory Board Anna Jasińska Artur Gawroński
ORLEN Transport Kraków Sp. z o.o. in bankruptcy	Management Board	Waldemar Drymel - President Leszek Gnitecki Maria Thetschel-Zgud – Syndyk
	Supervisory Board	Marek Bakula - Chairman of the Supervisory Board Anna Jasińska Monika Kober - Stefaniak

Service companies:

ORLEN Automatyka Sp. z o.o.	Management Board	Andrzej Malinowski - President Jerzy Klatce
	Supervisory Board	Zdzisław Nicewicz - Chairman of the Supervisory Board Piotr Milewski Katarzyna Gębicka
ORLEN Wir Sp. z o.o.	Management Board	Józef Świątczak - President Witold Kapela
	Supervisory Board	Jacek Stanik – Chairman of the Supervisory Board Piotr Milewski Katarzyna Gębicka

Other companies:

ORLEN Projekt S.A.	Management Board	Wiesław Gontarek – President Andrzej Czarzasty
	Supervisory Board	Eugeniusz Korsak - Chairman of the Supervisory Board Beata Weber-Uliczny, Jakub Klimontowicz
ORLEN Budonaft Sp. z o.o.	Management Board	Zygmunt Frankowski - President Rafał Kupidłowski
	Supervisory Board	Marcin Jeżewski - Chairman of the Supervisory Board Wojciech Jaruzelski Piotr Milewski Arkadiusz Lewak Grzegorz Jabłoński

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ORLEN Laboratorium Sp. z o.o.	Management Board	Józef Więckowski - President Adam Wiśniewski Marek Witkowski
	Supervisory Board	Marek Gadowski – Chairman of the Supervisory Board Małgorzata Ołaskiewicz Cezary Chojnowski Piotr Giżyński
Petrotel Sp. z o.o.	Management Board	Marian Ostrowski - President Ewa Raczyńska Janusz Sawicki
	Supervisory Board	Andrzej Łobodziński - Chairman of the Supervisory Board Marek Banaśkiewicz
ORLEN Księgowość Sp. z o.o.	Management Board	Jarosław Serba – President Anna Holnicka - Szulc
	Supervisory Board	Jerzy Pazura - Chairman of the Supervisory Board Marcin Jeżewski Agata Kęszczyk – Grabowska Arkadiusz Lewtak Beata Weber-Uliczny
ORLEN Eko Sp. z o.o.	Management Board	Paweł Krupa – President Krzysztof Pius
	Supervisory Board	Ryszard Siemion - Chairman of the Supervisory Board Elwira Lewak Waldemar Tuszewicki Krzysztof Świerczewski Renata Rosiak
ORLEN Administracja Sp. z o.o.	Management Board	Izabela Jarota - President Krystyna Brudzińska – Kielbowicz, Krzysztof Jaworski
	Supervisory Board	Marek Gadowski – Chairman of the Supervisory Board Małgorzata Kalita Beata Weber-Uliczny Małgorzata Bobrek
ORLEN Medica Sp. z o.o.	Management Board	Krzysztof Pisula - President Monika Bernacka
	Supervisory Board	Andrzej Olejnik - Chairman of the Supervisory Board Paweł Pachniewski Jarosław Koziański Julian Wielądek
ORLEN Prewencja Sp. z o.o.	Management Board	Dariusz Łątka – President Wojciech Szumski
	Supervisory Board	Waldemar Tuszewicki - Chairman of the Supervisory Board Marcin Dolny Beata Weber-Uliczny
Orlen Insurance Ltd	Management Board	Wojciech Ostrowski – President Kevin Dingli Angelo Buhagian
Płocki Park Przemysłowo-Technologiczny S.A.	Management Board	Jarosław Troch – President Adam Trojanowski
	Supervisory Board	Marcin Jeżewski - Chairman of the Supervisory Board Agata Śmiechowska - Więckowska
ORLEN Finance AB	Management Board	Mateusz Markiewicz – President Robert Czekaj, Remigiusz Paszkiewicz

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ORLEN Powiernik Sp. z o.o.	Management Board	Arkadiusz Lewtak- President
	Audit Committee	Mateusz Markiewicz – Chairman Iwona Zawidzka Robert Czekaj
Orlen Holding Malta Limited	Management Board	Wojciech Ostrowski – President Kevin Dingli Angelo Buhagian

7.7 Number of PKN ORLEN S.A. shares and shares in other ORLEN Group companies held by the managing or supervising persons in PKN ORLEN S.A.

As at 31 December 2007, Raimondo Eggink, Supervisory Board Member held 2,950 shares in PKN ORLEN S.A.

7.8 Shareholding of PKN ORLEN S.A.

Shareholders structure of PKN ORLEN S.A. as at 31 December 2007.

	Number of shares	Number of votes	Nominal value of shares (in PLN)	Share in the share capital
Nafta Polska S.A.	74,076,299	74,076 299	92,595,374	17.32%
Skarb Państwa	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%

Management Board Report on Operations
of the Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group
for 2007
submitted by the Management Board composed of:

.....
Piotr Kownacki
President
Absent (suspended)

.....
Cezary Filipowicz
Vice-President

.....
Wojciech Heydel
Vice-President
(Acting as President)

.....
Waldemar Maj
Vice-President

.....
Dariusz Formela
Member of the Board

.....
Krystian Pater
Member of the Board

.....
Krzysztof Szwedowski
Member of the Board

Płock, 22 April 2008