

Letter of the President of the Management Board to the financial statement

Ladies and Gentlemen, dear Shareholders

Consistency in achieving strategic goals as well as successfully undertaken actions supporting efficiency allowed our company to end 2009 with very good financial results. In the course of the last year we managed to significantly decrease debt, the efficiency of the retail network rose substantially and our market share increased. At the same time we haven't neglected growth-oriented activities in the scope of building production capacity and the growth of upstream operations.

We achieved these successes even though 2009 was extremely difficult. One of the largest challenges was a significant decrease in refinery and petrochemical margins and a historically small differential at the level below 1 USD/bbl. A low level of differential weakens the competitiveness of refineries configured to process acidic crude oil (e.g. REBCO), i.e. for instance the refinery in Płock. In terms of macroeconomic conditions, it was the most difficult period in the ten-year history of PKN ORLEN. Despite the above we closed this year financially stronger, with a strengthened position as leader in the fuels market.

In the previous year the company achieved operating profit at a level of over 790 million PLN. A significant improvement was obtained in terms of net profit which exceeded 1.6 billion PLN in comparison to the similar loss observed in 2008. The company also maintained a stable financial position, which is confirmed by a higher value of cash from operating activities by 1.5 billion PLN in comparison to one year earlier and the reduction of net debt by 1.2 billion PLN.

Good results are due, inter alia, to a rapid implementation, already at the beginning of last year, of programmes of optimization of fixed costs, investment outlays and working capital as well as improvement of efficiency. It should be stressed that an additional charge on the results in the amount of 284 million USD was the redemption of 10% shareholding in Mazeikiu Nafta realized on demand of the Lithuanian Government and the payment of 106 million EUR for the arbitration with Agrofert Holding.

The most important of the strategic goals achieved last year was to ensure deliveries of crude oil to the Production Plant in Płock. Following intensive negotiations we have signed two profitable contracts for deliveries of approx. 10 million tons of the crude oil per annum. The estimated value of these contracts within three years will be approx. 45 billion PLN. The contracts guarantee that – in case of inability to deliver crude oil through the Friendship pipeline – deliveries will be made alternatively at the same price by sea.

In terms of achieving strategic goals relating to the divestment of assets from outside of our basic activities, the previous year was the time of intensive works on the preparation for sale of PKN ORLEN's shares in Anwil and Polkomtel. In both cases we managed to meet last year's assumptions of the timetable of divestment.

Thanks to that, at the beginning of 2010 we received three binding offers for purchase of shares in Anwil and we commenced their examination. At the same time we have prepared an information package on Polkomtel for potential investors.

In terms of building competence in upstream operations, we established cooperation with PGNiG regarding joint exploration undertakings in the area of Sieraków, described as the most promising for the prospect of hydrocarbons in the territory of Poland. We have also started works on the innovative project of extracting gas from unconventional deposits i.e. from shale.

Within the framework of building the energy segment, in 2009 we focused not only on the improvement of operational efficiency, but also on new projects in the scope of building generation capacity. We carried out one of the largest processes of changing energy suppliers within TPA (Third Party Access) in the history of Poland, and the first in our history joint purchase of energy for PKN ORLEN and the companies of the Capital Group. We started preparatory works for the construction of a gas cycle unit in Włocławek. The aim of the project is the diversification of revenues for PKN ORLEN. In Płock we commenced works related to the preparation for implementation of the programme of ecological and energy investment.

The efficient and consistent implementation of the strategy of retail sales brought very good results, and our share in the Polish fuels market has already reached the level of 31%. The efficiency of the network also improved significantly, which can be seen in the increase in average sales per station from 2.8 million to 3.1 million litres per annum. Works on development of the non-fuels offer (gastronomy, shop) enabled us to increase our margin by 87 million PLN.

In the area of production we focused on the growth of the technological potential of the Production Plant in Płock. At the end of the year the second Hydrogen Production Plant was launched. We also entered the ultimate phase of construction of diesel hydrodesulphurization (HON) VII, which will enable to increase the potential of diesel production by approx. 1 million tons per year. We also commenced the construction of Claus II installation, which will enable the recycling of hydrogen sulfide gas created in the process of desulphurization and conversion during increased crude oil processing. We also continued works related to the construction of the complex of installations for production of paraxylene (PX) and purified terephthalic acid (PTA). The task will be completed in the 4th quarter of 2010, to reinforce efficiency and maximize creating value in the chain of petrochemical production.

In 2009 a significant charge to the balance sheet of the company was the duty to keep obligatory reserves of crude oil and fuels. Their value in the balance sheet of the company at the end of the year was approx. 5.5 billion PLN. Pending the legislative regulations, we took up the challenge of elaborating our own operating and financial solutions, in accordance with the law in force, aimed at relieving the company's balance sheet.

The last year's achievements wouldn't be possible without the joint work of all employees of the Holding company, the Management Board and the Supervisory Board of PKN ORLEN. I would like to thank everyone who worked for this success.

Thanks to your involvement PKN ORLEN entered 2010 stronger and prepared for new challenges. I am certain that this year we will witness further dynamic growth of the company.

Jacek Krawiec

A handwritten signature in black ink, appearing to be 'JK' followed by a long horizontal stroke.

President of the Management Board of PKN ORLEN SA