



Polski Koncern Naftowy ORLEN
Spółka Akcyjna

**Management Board Report
on the operations of
Polski Koncern Naftowy ORLEN
Spółka Akcyjna
for the year 2007**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR THE YEAR 2007
(translation of a document originally issued in Polish)

Table of contents

I.	CURRENT AND PROJECTED FINANCIAL STANDING OF PKN ORLEN S.A.	3
1.1	Income statement	3
1.1.1	Revenues	3
1.1.2	Profit from operations	3
1.1.3	Financing activity	3
1.1.4	Gross result, income tax and net result	3
1.2	Balance sheet	4
1.2.1	Total assets	4
1.2.2	Net financial indebtedness	4
1.3	Cash flow statement	4
1.3.1	Operating activity	4
1.3.2	Investing activity	5
1.3.3	Financing activity	5
1.4	Description of significant risk factors	5
1.5	Production	11
1.6	Sales	11
1.6.1	Retail sales	12
1.6.2	Wholesale	13
1.7	Sales and supply markets	14
1.8	Debt structure of PKN ORLEN S.A.	14
1.8.1	Loans, sureties and guarantees	15
1.8.2	Issue of bonds	16
1.8.3	Cash management	16
1.8.4	Financial instruments	16
1.9	Employment	17
1.10	Assessment of a feasibility of realization of planned investment	17
1.11	Projected macroeconomic parameters	18
1.12	Announcement of financial results estimate	19
II.	MAIN ACHIEVEMENTS IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT	20
III.	DESCRIPTION OF FACTORS CRUCIAL FOR THE DEVELOPMENT OF PKN ORLEN S.A.	21
IV.	CHANGES IN ORGANISATION AND MANAGEMENT OF PKN ORLEN S.A.	30
4.1	Changes in organisation and management of PKN ORLEN S.A.	30
4.2	Changes in financial assets of PKN ORLEN S.A.	31
V.	ADDITIONAL INFORMATION	35
5.1	Information about material agreements	35
5.2	Production	37
5.3	Sales	38
5.4	Procurement	39
5.5	Transactions with related entities	40
5.6	Remuneration, including profit distribution paid and due or potentially due to the Management Board, Supervisory Board and members of key management, in accordance with IAS 24	42
5.7	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)	46
5.8	Changes in the composition of the management and supervisory authorities in PKN ORLEN S.A. during the last financial year	47
5.9	Number of PKN ORLEN S.A. shares and shares in other ORLEN Group companies held by the person fulfilling management or supervisory functions in PKN ORLEN S.A.	48
5.10	Shareholding of PKN ORLEN S.A.	49
5.11	PKN ORLEN S.A. on the capital market	49

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

1.1 Income statement

1.1.1 Revenues

In 2007 Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN S.A.") generated revenues from the total sales (finished goods, merchandise and raw materials) of PLN 42,703,668 thousand, i.e. by 27.5% more than in 2006. The increase in the sales volume is mainly due to the increase in the total quantity sales of the company's products by 6.3% (including: diesel oils by 19.4%, gasoline by 4.8% and liquid gas by 35.9%) and high quotations of fuel prices at international stock exchanges (increase in the average price quotations in 2007 as compared to 2006 is as follows: gasoline by 12.2%, diesel oil by 10.0%, light heating oil by 9.1% and aviation fuel Jet A-1 by 9.4%). Moreover, for instance, the resale of crude oil for an amount of app. PLN 12 billion triggered a 98.2% increase in the revenues from the sale of merchandise and raw materials as compared with 2006.

1.1.2 Profit from operations

Profit from operations in 2007 amounted to PLN 2,093,194 thousand and was higher by 4.6% than the profit for previous year.

The result generated by PKN ORLEN S.A. was favourably influenced by the increase in margins on gasoline by 15.8%, diesel oil by 5.3% and Jet A-1 fuel by 3.8%. A drop in margins was noted only in the case of light heating oil and heating oil III by 1.5% and 1.4% respectively. In 2007 PKN ORLEN S.A. recognised an increase in quantitative whole and retail sales of fuels (gasolines, diesel oils, light heating oil, Jet A-1) by 6.7%. OPTIMA operating expense reduction programme significantly contributed to the result of 2007. The programme implemented in 2007, triggered savings of PLN 334,766 thousand. This value represents 157.2% of the savings earned in 2006, which were at the level of PLN 212,891 thousand.

As a result of the non-fuel products and services management area having been reorganised, the year 2007 noted a record in the non-fuel products margin dynamics which achieved the level of more than 20% (y/y). A particular attention should be drawn to the fact that the increase in the margin has also followed from the increase in the sales volume due to a much bigger number of shop transactions.

In 2007 PKN ORLEN S.A. recorded a loss on other operations amounting to PLN (-) 92,410 thousand (by PLN 42,224 thousand more than in 2006). The result on other operations being lower than last year is mainly due to the revenues from the provisions reversal having been lower than in the prior year (by PLN 64,012 thousand).

1.1.3 Financing activity

In 2007, the profit on financing activity amounted to PLN 1,164,275 thousand and was by PLN 563,052 thousand higher than that realised in the prior year. In 2007 the financing revenues amounted to PLN 1,543,086 thousand and increased, as compared to 2006, by PLN 651,183 thousand. This increase is due to, among others, a dividend received in the amount of PLN 708,701 thousand (PLN 579,619 thousand in 2006), including: Polkomel S.A. - PLN 264,220 thousand and Basell ORLEN Polyolefins Sp. z o.o. - PLN 102,836 thousand, and a positive effect of positive exchange differences overcoming the negative ones in the amount of PLN 669,169 thousand (PLN 150,373 thousand in 2006). Concurrently, in 2007 PKN ORLEN S.A. recorded an increase in finance expenses by PLN 88,131 thousand as compared to 2006. An increase of finance expenses as compared to the prior year has followed mainly from the interest costs being higher by PLN 189,053 thousand. In 2007 PKN ORLEN S.A. recorded a positive result on the valuation of derivative financial instruments in the amount of PLN 49,342 thousand while in 2006 it was PLN (-) 79,232 thousand.

1.1.4 Gross result, income tax and net result

In 2007, PKN ORLEN S.A. generated gross profit of PLN 3,257,469 thousand (increase by 25.2% as compared to that generated in 2006). Concurrently, the income tax expense has increased by 23.7%. The effective tax rate did not change and in 2007 it was 15%. The effective tax rate, which is lower than the statutory one is basically due to the received dividends having been excluded from the tax base.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
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In 2007, PKN ORLEN S.A. generated net profit of PLN 2,759,859 thousand, which is higher by 25.5% than the profit realized in the prior year.

1.2 Balance sheet

1.2.1 Total assets

As at 31 December 2007 the PKN ORLEN S.A. total assets amounted to PLN 31,969,707 thousand and increased by PLN 4,498,706 thousand (by 16.4%) as compared to 31 December 2006. On the assets side, the position of non-current assets is material and in total they make for 62.4% of the total assets (69.2% as at the end of 2006). On the liabilities side, the position of equity is dominant and it represents 55.8% of the total of equity and liabilities (54.6% as at 31 December 2006). The comparison of individual balance sheet items as at the end of 2007 and 2006 shows:

- the increase in non-current assets by 5.1% up to PLN 19,958,199 thousand as a result of the rise in property plant and equipment (by 5.9%) and in the shares held in related entities (by 4.3%);
- the increase in current assets by PLN 3,537,061 thousand, i.e. by 41.7% to PLN 12,011,508 thousand. This is due to an increase in trade receivables by PLN 1,270,787 thousand, mainly due to the increase in product prices. Additionally, a rise in current assets followed from the increase in inventories by PLN 2,237,750 thousand which was in turn due to larger quantities of crude oil reserves (mainly mandatory reserves), larger quantities of finished products and the effect of increase in the unit prices of crude oil and finished products;
- the increase in equity by PLN 2,823,996 thousand to PLN 17,833,582 thousand mainly due to the increase in net result generated by PKN ORLEN S.A. in 2007. In 2007 no dividend was paid for the prior year;
- the increase in long-term liabilities by PLN 3,039,215 thousand to PLN 7,289,067 thousand due to a level of borrowings being higher by PLN 3,004,570 thousand;
- the drop in short-term liabilities by PLN 1,364,505 thousand to PLN 6,847,058 thousand mainly due to the drop in loan liabilities by PLN 2,699,580 thousand which was balanced by the increased trade and other liabilities and accrued expenses by PLN 1,331,591 thousand.

1.2.2 Net financial indebtedness

As at the end of 2007, the level of long-term and short-term loans and borrowings and debt securities issued amounted to PLN 6,940,462 thousand and was higher by PLN 304,990 thousand in comparison to the level recorded as at the end of 2006. The net financial indebtedness as at the end of 2007 (calculated as financial indebtedness less cash equivalents less short-term securities) increased by PLN 301,811 thousand to the level of PLN 6,574,522 thousand in comparison to the figures recorded as at the end of 2006. The net financial indebtedness ratio increased due to an increase in short-term and long-term loans and borrowings and a decrease in cash was recorded in 2007. The increase in net financial indebtedness was balanced by a drop in the ratio of net financial indebtedness of PKN ORLEN S.A. equity (average balance of loans, borrowings and debt securities minus average cash minus average short-term securities to average balance of equity), which, as at the end of 2007, was recorded at the level of 39.1% while at the end of 2006 at the level of 26.7%.

1.3 Cash flow statement

1.3.1 Operating activity

In 2007 the net cash flows from operating activity amounted to PLN 847,144 thousand and dropped by PLN 1,012,608 thousand as compared to the year 2006. The drop in the net cash flows from operations in the analysed period were mainly due to the cash having been frozen in inventories (the increase in inventories by PLN 2,237,750 thousand, while in 2006 the inventories increased by PLN 494,673 thousand). The increase in inventories in 2007 was mainly connected with the regulatory changes relating to mandatory reserves, what resulted in necessity to build higher volumes of mandatory reserves. Negative tendencies in respect of operating activities reflecting in the dynamics of changes in inventories were balanced by a material increase in the net profit (in 2007 PKN ORLEN S.A. generated profit by PLN 559,983 thousand higher than that generated in 2006), an increase in liabilities and accrued expenses up to PLN 1,182,854 thousand (i.e. the increase by 30.3% as compared to 2006) and the reduced falling dynamics in respect of the provisions (the year 2007 noted a drop in provisions of PLN 45,367 thousand while in the respective period of the prior year this drop was noted at the level of PLN 86,123 thousand).

As at the end of 2007 the net working capital (current assets minus short-term liabilities) amounted to PLN 5,164,450 thousand while at the end of 2006 the net working capital was recorded at the level of PLN 262,884 thousand. This increase stems from the repayment of liabilities under short-term loans and borrowings and from the increased inventories within current assets.

1.3.2 Investing activity

In 2007 the net cash flows from the investing activity amounted to PLN (-) 1,423,667 thousand while in 2006 it was PLN (-) 6,945,423 thousand. Such a material difference follows mainly from the acquisition of the Mazeikiu Capital ("Mazeikiu Group") Group for PLN 6,759,700 thousand, which was realised in 2006. The year 2007 witnessed only a transaction of squeezing out minority shares from the Mazeikiu Group in the amount of PLN 482,003 thousand. A drop in the acquisition expenses in 2007 was associated with the increase in expenses on acquisition of the property, plant and equipment and intangibles from the level of PLN 1,115,272 thousand in 2006 to PLN 1,609,725 thousand in 2007. In 2007, PKN ORLEN S.A. recorded an increase in proceeds from interest and dividends in the amount of PLN 712,059 thousand and therefore, exceeded the proceeds of this type generated in 2006 by PLN 108,538 thousand.

1.3.3 Financing activity

In 2007, the net cash flows from financing activity amounted to PLN 435,476 thousand as compared to the amount of PLN 5,109,647 thousand recorded in 2006. A decrease in positive cash flows from this type of activity is a consequence of the repayment of short-term and long-term loans and borrowings, which in 2007 amounted to PLN (-) 6,080,651 thousand (as compared to 2006 where this type of expenses amounted to PLN (-) 1,466,567 thousand) and lower proceeds from new loan agreements (in 2007 the proceeds from the loans and borrowings drawn were lower by PLN 913,496 thousand than the respective proceeds obtained in 2006). The cash flows from financing activity were positively affected by the issue of debt securities of the value of PLN 1,325,175 thousand, while in 2006 no proceeds were recognized from this type of activity.

The total cash flows from individual types of activities of the enterprise resulted in a drop in cash as at 31 December 2007 by PLN 141,173 to the level of PLN 166,142 thousand (as compared to the cash level as at 31 December 2006 of PLN 307,315 thousand).

1.4 Description of significant risk factors

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

Fluctuations in crude oil and refinery products prices and margins

The world prices in 2007 was characterised with a material variability. This mainly concerned the second half of 2007. At the end of 2007 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. The crude oil prices were characterized by the dynamic increases in USD prices, followed by the deterioration of USD on the financial markets, as well as the increasing speculations on the 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/tonne, diesel oil - by 5.3% to the level of 129.87 USD/tonne and Jet A-1 fuel by 3.8% to the level of 165.68 USD/tonne. The adverse tendency was recorded in respect of light heating oil – the drop of margins by 1.5% to 96.12 USD/tonne and heating oil III – the drop of margins by 1.4% to 207.09 USD/tonne. 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 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/tonne and 636.17 USD/tonne.

Fluctuations of foreign exchange rates

The fluctuations of foreign exchange rates have a significant impact on the revenues from sales. It concerns mainly relation of PLN/USD and PLN/EUR. The sales revenues and profits is highly dependent of PLN value compared to other currencies by making the prices dependent on the import parity (setting refinery and petrochemical products prices on the basis of European quotations in commodity markets). Additionally 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 PKN ORLEN S.A.. 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

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
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of Poland in the period from 1 January to 31 December). Concurrently, also the average PLN/EUR exchange rate weakened by o 3.1% down to the level of PLN/EUR 3.78. The appreciation of PLN results from the macroeconomic situation which proves the economic acceleration in Poland.

In case of strong PLN against USD and EUR, the situation is better in respect of cost of purchased raw materials and cost of debt. On the other hand, the revenues and margin realized on particular products are positively affected when PLN is weakened against USD and 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%. The level of polish economy increase is very high; polish economy's growth rate is app. 2.5 times faster than in the Western Europe countries. The economic growth mainly arises from the domestic demand, capital expenditures (including on non-current assets) which accrued by 20% due to better activities of undertakings, and dynamic growth of exports. In 2007 the exports (according to preliminary data) in 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 prior year. The improved situation on the labour market and favourable macroeconomic tendencies have materially affected the sales level in respect of the PKN ORLEN S.A's products.

Inflation

In 2007 the prices were increasing faster than during the respective period in 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 increase energy cost and a high domestic demand. PLN denominated bank loans and debt securities issued account for app. 17% of total interest bearing loans of PKN ORLEN S.A. The remaining amount is denominated in EUR.

Interest rates

In 2007 base interest rates at the money market were increased four times: in April, June, August and November (each time by 0.25 pp.). As at the end of 2007 the interest on Lombard credits attained the level of 6.50%, and the 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. The value of interest rates directly affects the debt handling costs.

Mandatory reserves

Starting from 2002, mandatory reserves are established based on the schedule in accordance with the Minister of Economy Decree (the decree 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 in prior year less export and intra-Community supplies (in addition Material Reserves Agency is obliged to establish the reserves of liquid fuels in the amount equal to consumption of fuels in 14 days on average and net import 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 Decree 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.

PKN ORLEN S.A. 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 value of mandatory reserves held by PKN ORLEN S.A. as at 31 December 2007 and 31 December 2006 amounted to PLN 4,391,455 thousand and PLN 2,443,865 thousand, respectively.

Mandatory reserves were also described in Note 9 to the unconsolidated financial statements.

Domestic fuel consumption

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 biggest and most important for PKN ORLEN S.A. polish market, high increase of fuel and other refinery and petrochemical products consumption is still observed, what is mainly derivative of strong economic growth in Poland. On the basis of preliminary data provided by Agencja Rynku Energii S.A. ("ARE") (Power Market Agency), the overall domestic consumption of fuel (gasoline, diesel oil) and light heating oil in 2007 achieved 15,117 thousand tonnes and was higher than the consumption in the 2006 by approx. 5%.

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 1st 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 maintained in 2007 for farmers 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 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.

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 inspection).

Fuel import

Poland is a country with a deficit of refinery products. It is mainly shown by the import of deasel oil and light heating oil at a lower scale – gasoline. 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%).

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, LHO was imported from Germany (69%) and Lithuania (31%).

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%).

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%.

Amendments to applicable laws

The European Union power summit, which was held in March 2007, identified new goals for member states in the area of biofuels. The fuel directive, which is being amended, provides for higher requirements for fuels concerning the contents of biocomponents in the fuels up to 10 vol.% (currently, up to 5 vol.%). Thus, the fuel companies 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 will be 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 calorific value, which represents one of the highest levels in the whole European Union. The "Long-term Programme 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 programme 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 in 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. 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 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 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.

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 (Płock, Litvinov, Kralupy, Mazeikiu). The crude oil supplies to all the directions were undisturbed and performed as scheduled except for a few days in January 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. It is worth mentioning that Mazeikiu Nafta is the owner of Butinge crude oil transshipment harbour, what impacts the high flexibility of crude oil types that may be delivered to Mazeikiu refinery.

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 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, to a counteraction to disturbances or limitations, if any, in respect of REBCO oil supplies.

New environmental requirements

Starting from 1 January 2007 a more rigorous norm for the emissions of sulphur dioxide has applied for the Heat and Power Station at 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 in 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 equal 208.5 million tonnes for the whole Poland although the limit, which was applied for amounted to 280 million tonnes per year. In 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 at 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 the years of 2006 and 2007.

Regulatory risk

In January 2007, in PKN ORLEN S.A. the Regulatory Risk Office was created to handle tasks relating to the coordination of the uniform regulatory risk management system in the whole PKN ORLEN Group ("ORLEN Group"). The operation of the Regulatory Risk Office focuses on the effective influencing the laws, both domestic and European, with the aim to minimize negative consequences of legal solutions being implemented and to maximize their favourable effects for the ORLEN Group. The operation of the Regulatory Risk Office is based on the effective cooperation with internal organisational units of ORLEN Group (in 2007 model procedures were implemented in selected companies of the ORLEN Group), public administration authorities as well as domestic and European industry organisations. The tasks of the Regulatory Risk Office in respect of the regulatory risk management process include:

- To identify and quantify the risk via, among others, ongoing monitoring of amendments in laws and to develop the Risk Map and to keep it updated;
- To report on an ongoing basis the risks resulting from legal regulations and possible scenarios of activities to be undertaken in this respect (among others through ongoing reporting the activities undertaken by the Office on the intranet website);
- To prepare, coordinate and supervise the implementation of the uniform lobbying strategy for draft acts relating to the ORLEN Group.

In 2007 the Office's tasks included the management of regulatory risk, which affects all the fields of the ORLEN Group's operations. In 2007 the Regulatory Risk Office extended the risk management process to cover more than 100 draft legal acts in the area of both Polish and European law as well as governmental strategic and programme documents.

As regards the European law the Regulatory Risk Office activities related to:

- Documents through which the tasks are to be performed specified by the European Council in the document "3x20 Objectives" (assuming a 20% reduction of greenhouse gases emissions, a 20% share of energy from renewable sources in the power balance of EU states, and a 20% power savings by 2020). In respect of crude oil sector the following steps were undertaken:
 - Preparing arguments to limit the number of right to the carbon dioxide emissions to be allocated for the years 2012-2017 through the so-called auctioning, including arguments for sensitivity of crude oil industry to non-EU competition and the work on the methods of allocating rights on the basis of benchmarking. The works are in progress;

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

- Lobbying in respect of changing the regulations in a draft amendment to the directive on fuel quality, specifically in relation to the obligation to reduce the carbon dioxide emissions by 1% annually. As a result of lobbying activities the regulations were partly made more lenient;
 - Participating in a common action of the European refinery industry and the European Council aimed at promoting economical fuel consumption (Eco-Driving);
- Standpoint of the European Council in respect of power safety improvement through an extension of up to 120 days of time span of mandatory fuel reserves. Given the position of the refinery industry, the European Council will most probably abandon its proposal to extend the time span of mandatory fuel reserves. PKN ORLEN S.A. has agreed to have part of mandatory reserves of fuels and crude oil kept by the agency but the volume of these reserves was not specified definitely.

The PKN ORLEN S.A.'s standpoint in respect of these issues which are crucial for the ORLEN Group and which result from the draft acts of the European Union, was developed in the course of process in which also the ORLEN Group companies were involved, particularly the Mazeikiu Group and the UNIPETROL Group. The lobbying activities following from the standpoints presented by PKN ORLEN S.A. were implemented via written presentations and contacts with representatives of domestic and European administrations as well as via European organisations: petroleum industry associations: EUROPIA and CONCAWE and the BusinessEurope association.

As regards domestic law, the representatives of the Regulatory Risk Office were actively involved in the legislative procedure of bills exerting impact on PKN ORLEN S.A., in particular in the following areas:

- Power safety:
 - Participation in the legislative procedure concerning the Act on Crude Oil Reserves, Petroleum Products and Natural Gas and the Rules of Conduct in the Case of the State Fuel Emergency and When Fulfilling International Obligations in the Case of Disturbances on the Petroleum Market (at the stage of both social consultations and parliamentary work), as well as secondary regulations to this act;
 - Developing, in cooperation with the Logistics Office, the interpretation of the secondary regulations to the above act enabling the reduction of mandatory reserves maintained by PKN ORLEN S.A. The proposal was approved by the Agency for Material Reserves and the Ministry of Economy;
- Emission limits:
 - Carbon dioxide emission limits, through direct contacts with representatives of the National Administrator of the Emission Rights Trading System ("KASHUE") and the Ministry of Environment. The Regulatory Risk Office together with the representatives of the Heat and Power Plant and the Environmental Protection Division developed a proposal which was further reflected in favourable legal regulations regarding the allocation of CO₂ limits;
 - Sulphur dioxide emission limits. The Regulatory Risk Office proposed to exclude the Heat and Power Plant and the Manufacturing Plant in Plock from the scope of the LCP Directive (if so, the emission limits would not be made drastically stricter). Due to the fact that the works relating to the SO₂ emission regulations are still pending, representatives of the Regulatory Risk Office are actively participating in the works of the Working Team organised at KASHUE;
- Biofuels market:
 - The Regulatory Risk Office, in cooperation with the Office for Alternative Power Sources, prepared a number of speeches and draft regulations regarding the biofuel market, including secondary regulations to the Act on Biofuels and Long-term Programme for Biofuel Promotion. As a result of these activities (including direct meetings with the Ministry of Economy and the Ministry of Agricultural and Rural Development) a few favourable solutions were implemented, particularly in respect of the calorific value ratio for esters, which allowed to reduce a volume of biocomponents introduced to trading by 13 thousand tones.

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

This issue was described in detail in Note 31 to the unconsolidated financial statements.

The risk factors and threats material for the operations of PKN ORLEN S.A. are also listed and described in Note 31 of the financial statements for 2007.

1.5 Production

In 2007 the crude oil processing volume at PKN ORLEN S.A. amounted to 13,646 thousand tonnes and was higher by 0.3% as compared to 2006. The yield from white products amounted to 74.9% and was lower by 0.18 pp. as compared to that generated in 2006. The yield from fuels was maintained at the level comparable with that of 2006 and equalled 62.8%. The lower yields at PKN ORLEN S.A. were mainly due to repair standstills.

Selected, main repair and technological standstills in 2007 in Płock:

- Diesel Oil Hydrodesulphurisation V (HON V) in a period from 20 March to 19 April 2007;
- Hydrocracking and Hydrogen Manufacturing Instalation in a period from 10 May to 21 June 2007;
- Gudron Hydrodesulphurisation (HOG) in a period from 18 June to 23 June 2007.

The key events in 2007 in the area of refinery production of PKN ORLEN S.A. include:

1. Commencement, in mid-November 2007, of the implementation of an efficiency enhancing project relating to the refinery and petrochemical complex in Płock called NCM3 (Net Cash Margin Measurement, Management, Maximization) by Solomon Associates. The project is carried out as part of OPTIMA Efficiency Improvement Programme. The basic objective is to maximize margins in respect of the Płock refinery production. The operation of NCM3 will be mainly focused on such areas as: power and utilities, operation of production installations in the area of refinery and petrochemistry, advanced controlling processes, hydrocarbon losses. The overall effect of profit improvement will be visible upon the completion of all the three stages, i.e. in 2010;
2. Commencement, in November 2007, of the construction of Hydrogen Manufacturing Plant II. The new plant is necessary to secure the needs for hydrogen of all new, assumed in the Development Programme, or existing but intensified hydrogen consuming installations. The new installation will be started up in June 2009;
3. Engineering acceptance, in December 2007, of a unit for the stabilization of diesel oil fraction from the Gudron Hydrodesulphurization Installation, the function of which is to denitrifying, desulphurization and removal of resins. The operation of this unit will make it possible to use the fraction for light heating oil Ekoterm or to ready-made diesel oil.
4. Decision made by the Management Board of PKN ORLEN S.A. in January 2007 to construct Clause II installation to recycle hydrogen sulphide gas produced during the crude oil refining process;
5. Signature, in October 2007 of an amendment to the agreement for increasing the capacity of the installation with Universal Oil Products Limited in respect of the license and base design relating to upgrading and intensification of Alclation with a production capacity of 280 thousand tonnes/year;

The key events in the petrochemical production include:

1. An agreement signed in January 2007 with the company Technip for a technical design, supply of appliances and maintenance services in relation to the construction of a new Paraxylene Installation (PX). The PX installation will be erected in the Production Plant in Płock and its production capacity will be 400 thousand tonnes PX/year. It is expected to be launched in 2010. Paraxylene is a direct raw material used for the production of terephthalic acid (PTA);
2. A contract executed in August 2007 with Mitsubishi Heavy Industries for a technical design, supply of appliances and maintenance services in relation to the construction of a terephthalic acid installation (PTA). The projected investment will strengthen the presence of PKN ORLEN S.A. in the petrochemical segment, which is characterised with a high rising potential and will improve the use of processing power in the Production Plant in Płock. The installation of the production capacity of 600 thousand tonnes PTA/year will be erected on the premises of the Zakłady Azotowe Anwil Włocławek and is to launch its operations in the 4th quarter of 2010.

1.6 Sales

In 2007, the net revenues from the sale of products, goods and materials in PKN ORLEN S.A. amounted to PLN 42,703,668 thousand and increased by 27.5% as compared to 2006. The net revenues from the sale of products equalled to PLN 24,649,037 thousand and were higher by 1.1% as compared to 2006. Similar tendencies were recognized in respect of net revenues from the sale of merchandise and raw materials, which increased by 98.2% up to the level of PLN 18,054,631 thousand, mainly due to larger quantities of crude oil resold to the UNIPETROL and Mazeikiu Groups as well as higher prices for crude oil and non-fuel merchandise.

In 2007, the overall wholesale and retail sale in PKN ORLEN S.A. amounted to 13,831 thousand tonnes and was by 6.3% higher than that realized in prior year. As regards refinery sale, an increase in the volume of sales of diesel oil by 872 thousand tonnes (by 19.4%) and gasoline by 135 thousand tonnes (4.8%) was noted. The positive tendencies in the areas of sale of gasoline and diesel oil were partly neutralised by lower sales of light heating oil, Jet A-1 fuel and other refinery products by: 332 thousand tonnes, 59 thousand tonnes and 161 thousand tonnes, respectively. The

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

overall sales of refinery products and merchandise achieved the level of 11,921 thousand tonnes and was by 6.1% higher than that realized in 2006.

In 2007, the petrochemical products sales noted a 7.2% increase to achieve the level of 1,911 thousand tonnes. The products showing the highest sales dynamics include among others: liquid gas (increase by 77 thousand tonnes), ethylene (increase by 38 thousand tonnes) and other petrochemical products (increase by 12 thousand tonnes).

1.6.1 Retail sales

In 2007, the retail sales in PKN ORLEN S.A. increased by 10% as compared to the prior year. This increase was mainly due to the growing number of owned stations which since 2005 have been recording a great dynamics in the sales volume to achieve the level of 15% in 2007.

The great sales volume dynamics was achieved due to the investment programme having been fully implemented (among others 36 new stations were incorporated to the chain and 139 stations were totally modernised) and to the existing stations having improved its efficiency. In the comparable conditions, i.e. disregarding the effects of the investment programme, the sales of products on owned stations increased by 11.8%. The positive sales dynamics has also been due to the increased sales volume at Bliska stations, which in this group and in comparable conditions recorded a 18.7% increment.

Given the dynamic development of owned and franchise stations network in 2007, the average sales volume per station has further increased. As a consequence, the average sales volume per station in both networks amounted to 2.7 million litres and increased by almost 14% as compared to the prior year. This ratio is materially higher than the average sales increase of all main competitors (in general by approximately 8 pp).

Dynamics of fuel sales at stations CODO, DOFO, DODO ¹	2007/2006 (%)
Gasoline	0.2
Diesel Oil	14.6
LPG	28.8
Total fuels	9.9

The year 2007 saw a further increase in the diesel oil and LPG shares in the overall volume of fuels sold. The increase in the sales of these fuels results from market tendencies relating to the higher consumption of diesel oil and LPG, implemented investments involving the construction of new LPG modules at the stations and improved operational efficiency leading to the PKN ORLEN S.A. position on the Polish market having been strengthened.

In 2007 also the sale of Verva fuels at Premium stations noted a very good result and, due to marketing activities, increased by more than 41% as compared to that achieved in 2006.

The margin on retail sale of fuels in 2007 increased by 5.7% as compared to the prior year. Such a favourable result is due to a high sales dynamics, which was partly balanced by a lower than in the prior year level of unit margins in all sales channels.

In 2007 the margin on the sales of non-fuel merchandise and services increased by 20% as compared to the prior year. The increase in non-fuel margin in 2007 as compared to the prior year is due to the retail strategy having been implemented which focused on the optimisation of categories of goods in respect of commercial conditions and on the selection of such assortment offer which fits the clients' needs and meets their expectations. The active sale on the stations and the results of widespread investments involving the development of coffee corners and the construction of an auto wash stand. In 2007 also a new system for managing product categories was implemented and the shops at fuel stations were arranged in a new way.

Starting from 2006 PKN ORLEN S.A. has been calculating the shares in the retail sale market on the basis of the information about sales generated by the biggest retail market participants provided by the Power Market Agency. These sales represent approximately 70% of the retail market. In 2007 the position of PKN ORLEN S.A. was

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

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

consistently becoming stronger as compared to the sales generated by other retail market players. The PKN ORLEN S.A.'s share in 2007 achieved the level of 35.2% i.e. increased by 1.7pp as compared to the respective period in 2006.

1.6.2 Wholesale

Quantity sales (thousands of tonnes)	Performance		Differences	
	2007	2006	Thousands of tonnes	%
Gasoline	1 607	1 477	129	8.7
Diesel oils	3 444	2 825	619	21.9
Light heating oil	934	1 266	-332	-26.2
Aviation fuel JET A-1	344	403	-59	-14.6
Heating oil III	964	735	229	31.2
P Fractions	314	363	-49	-13.4
Sulphur	128	124	5	3.6
Other refinery products	947	833	114	13.6
Total refinery products	8 681	8 026	656	8.2
Liquid gas	190	215	-26	-11.9
Ethylene	547	509	38	7.4
Propylene	392	387	6	1.5
Glycols	103	113	-10	-8.4
Butadiene	60	62	-2	-3.9
Benzene	113	115	-3	-2.3
Ortoxylylene	26	20	6	32.1
Toluene	120	118	2	1.7
Paraxylylene	32	30	2	7.2
Other petrochemical products	226	214	13	6.0
Total petrochemical products	1 809	1 782	27	1.5
Total sales	10 490	9 808	682	7.0

The wholesale of refinery products achieved the level of 8,681 thousand tonnes and was higher by 8.2% than that generated in 2006. Such a dynamics was generated by the sales of the following products:

- Gasoline – the dynamics of 8.7% was possible to be achieved due to the contracts of higher value having been signed with key clients and the new clients having been approached within the network client segment. Additionally, the sales were favourably affected by the dynamics in consumption recorded in 2007, which increased by 2% (according to the Power Regulatory Agency estimates);
- Diesel Oil – a material increase in the sales by 21.9% was achieved mainly due to new clients having been approached in the key, network and basic client sector and due to a competitive price offer having been presented. The sales dynamics was also positively affected by the significant increase in consumption recorded in 2007 as compared to prior year (+14%);
- Heating Oil III – high sales dynamics (31.2%) is due to stricter environmental regulations having been enacted in January 2007 which limited the use of vacuum residue as fuel in the Heat and Power Plant and to the production conditions relating to the standstills of Gudron Desulphurization Instalation and Diesel Oil Hydrodesulphurization Instalation.

Concurrently, the sales of the following products were recorded at the level lower than in the prior year:

- Light heating oil by 26.2% due to a significant decrease in the consumption of this oil 27% resulting from the excise on light heating oil announced to be made equal to the excise on diesel oil;

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

- Aviation fuel JET A-1 by 14.6% due to the limitation of supply.

As compared to the prior year the sales of petrochemical products noted a 1.5% increment mainly due to the intensified sales to the existing clients. The products which recorded the highest sales increment included among others: ethylene (by 38 thousand tonnes), propylene (by 6 thousand tonnes) and ortoxylyene (by 6 thousand tonnes).

1.7 Sales and supply markets

Under the contracts executed in a period starting from the first quarter of 2007, PKN ORLEN S.A. has supplied crude oil to all its refineries (Płock, Litvinov, Kralupy, Mazeikiu). The crude oil supplies to all the directions were realised smoothly and as scheduled, save for a few days in January when the Russia - Belarus conflict occurred. Appropriate steps were taken then and the refinery's operations were not interrupted.

The crude oil designated to the Mazeikiu refinery in 2007 originated mainly from Russia (98.3%), the rest came from Columbia (1.7%). The suppliers were the companies well established on the petroleum market, however in 2007 none of the crude oil suppliers to the Mazeikiu Group exceeded the 10% threshold of revenues from the total sales. Since July 2006 the crude oil was stopped to be transferred to Lithuania by a pipeline and the supplies of raw material to the Mazeikiu refinery were performed only by sea via the harbour in Butinge.

The crude oil for the UNIPETROL Group in 2007 came from Russia (67.2%) and Azerbaijan (25.9%). The suppliers were the companies well established on the petroleum market however in 2007 none of suppliers of crude oil to the UNIPETROL Group exceeded the 10% threshold of revenues from the total sales.

The supplies of crude oil to PKN ORLEN S.A. originated mainly from Russia (95.7%). Low-sulphur crude oil delivered by sea represented 4.2%, and the purchased Polish crude oil – 0.1%. The suppliers were the companies operating on the Russian petroleum market and the traders operating on the international petroleum market. The domestic crude oil was supplied by the company Polskie Górnictwo Naftowe i Gazownictwo S.A. The companies J&S and Petraco were the suppliers whose share in PKN ORLEN S.A.' supplies was over 10% of the overall supplies in 2007.

1.8 Debt structure of PKN ORLEN S.A.

As at the end of 2007 the net financial indebtedness of PKN ORLEN S.A. as compared to the end of 2006 has increased by PLN 446,000 thousand.

As at the end of 2006 and 2007 the value of financial liabilities broken down by their maturity and currency in which they are denominated as well as cash and cash equivalents, which in total represent the net debt was as follows:

Specification (PLN million)	Loans and debt securities		Cash and cash equivalents		Net debt	
	2007	2006	2007	2006	2007	2006
By currency:						
USD		1 252	-	-		
EUR	5 738	5 338	-	-		
PLN	1 202	45	166	307		
Total	6 940	6 635	166	307		
By maturity:						
Long-term	6 500	3 495	-	-		
Short-term	440	3 140	166	307		
Total	6 940	6 635	166	307	6 774	6 328

Despite the increase in debt volume, the liquidity as at the end of 2007 remained at the safe level. As at 31 December 2007 the following amounts were not drawn down:

- PLN 516,000 thousand under short-term agreements;
- PLN 2,543,000 thousand (i.e. EUR 710,000 thousand) under long-term agreements; and

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

- PLN 166,000 thousand in cash and cash equivalents.

Moreover, PKN ORLEN S.A. developed a programme for the issue of bonds on the Polish market of the total value of PLN 2,000,000 thousand out of which the amount of PLN 894,000 thousand is still to be drawn down. PKN ORLEN S.A. is a party to 11 loan facility agreements out of which 7 are short-term agreements and 4 long-term agreements.

PKN ORLEN S.A. is also a party to a long-term multi-currency loan facility agreement of EUR 1,000,000 thousand extended by the consortium of Polish and international banks signed in December 2005. The loan term is 5 years from the moment of signing a loan facility agreement with two options for extension by one year (respectively in December 2006 and 2007 PKN ORLEN S.A. exercised the extension options and postponed the maturity date until December 2012). The loan may be used in four currencies, i.e. EUR, USD, PLN and CZK. The funds from this loan may be allocated to fund ongoing operations of PKN ORLEN S.A.

PKN ORLEN S.A. is also a party to a revolving loan of EUR 800,000 thousand extended by a consortium of banks in November 2006. The loan term is 5 years with two options for extension by one year (in November 2007 PKN ORLEN S.A. exercised the first option for extension the maturity date by 1 year). The funds from the loan: EUR 1,000,000 thousand and EUR 800,000 thousand secured the repayment of the bridge loan of EUR 800,000 thousand in November 2007.

In 2007, PKN ORLEN S.A. signed two long-term loan facility agreements with the European Investment Bank ("EIB") of the total amount of EUR 510,000 thousand. EIB disbursed the amount of EUR 210,000 thousand for an investment involving the development of a fuel station chain and an environmental investment. The loan may be used in four currencies, namely: EUR, USD, GBP and PLN, and the maturity period is 9 years with an optional 3-year waiting period. EIB allocated the amount of EUR 300,000 thousand to fund part of the construction of the paraxylene and terephthalic acid installations. The loan may be used in four currencies, namely: EUR, USD, GBP and PLN, and the maturity period is 12 years with an optional 4-year waiting period or a one-off repayment within 8 years of the drawdown date.

Moreover, on 31 January 2008, PKN ORLEN S.A. signed a loan facility agreement with a consortium of six banks: BARCLAYS CAPITAL, THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., BNP PARIBAS, BRE BANK S.A., HSBC BANK POLSKA S.A., MERCHANT BANKING SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) for an amount of EUR 300,000 thousand. The loan term equals 3 years of the moment of signing the loan agreement with two options for extension, each by one year. The loan may be used in 3 currencies, namely: EUR, USD and PLN. PKN ORLEN S.A. may allocate the disbursed funds to finance ongoing operations.

1.8.1 Loans, sureties and guarantees

As compared to the end of 2006 the total value of contingent liabilities as at the end of 2007 dropped by PLN 637,836 thousand down to PLN 1,691,733 thousand. The total value of the guarantees and sureties issued as at 31 December 2007 was reduced by PLN 1,271,445 thousand to the level of PLN 31,501 thousand, mainly due the discharge of a guarantee for payment of PLN 1,283,452 thousand that PKN ORLEN S.A. was to provide for the purpose of the mandatory tender offer relating to minority shares (MTO) with respect to the acquisition of Mazeikiu Group. In 2007 to the benefit of third parties the guarantee deposits were issued in the amount of PLN 14,790 thousand. The changes in respect of other guarantees and sureties were insignificant.

The other contingent liabilities as at the end of 2007 achieved the level of PLN 1,660,232 thousand and increased by PLN 633,609 thousand, mainly due to the deposits to secure excise tax levied on harmonised products stored in warehouses pending the tax suspension procedure involving an amount of PLN 364,932 thousand and due to letters of credit of PLN 206,713 thousand.

For further details relating to the guarantees issued and other contingent liabilities see Note 29 of the unconsolidated financial statements.

As at 31 December 2007, PKN ORLEN S.A. did not grant any loans to the persons fulfilling management or supervisory functions and their relatives.

1.8.2 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 is not public. The banks chose a group of entities from amongst the investors they know to which they address a bond purchase proposal. The proposal may not be addressed to more than 99 entities. Under the programme, 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 the 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 programme, 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.

The funds obtained from the issue can be allocated by PKN ORLEN S.A. to any business-related purpose, both operating and investing activities. Under the programme, 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 Company intends to finance its operating activities. The issues made under the program make it possible to finance working capital at an attractive cost and to diversify the sources of PKN ORLEN S.A.'s financing.

In 2007 as part of the issue programme, PKN ORLEN S.A. issued 5-year bonds of a value of PLN 750,000 thousand and, as at 31 December 2007, short-term bonds of a value of PLN 356,000 thousand.

1.8.3 Cash management

As of February 2001 a system of fund concentration has been operating within the ORLEN Group. 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 ongoing basis to implement these systems in 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 allowed reducing banking costs, and improving the structure of banking services. Other 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 capacity of PKN ORLEN S.A. fully secure the nearest financial needs relating to capital and property investments.

1.8.4 Financial instruments

Financial results of PKN ORLEN S.A. may fluctuate due to changes in market factors, particularly, commodity quotations, exchange rates and interest rates. The risk management process is based on implemented procedures and Market Risk Management Strategy relating to the exchange and interest rates risk. The main principles of the Strategy are to secure cash flows, not to allow for speculations and to apply strictly defined parameters of the level and scope of hedging. The main instruments used to implement the strategy are forward and swap instruments. The currency risk faced by PKN ORLEN S.A. follows from the transactions on purchase of raw materials, sale of refinery and petrochemical products, investments in property, plant and equipment or capital investments, indexed to the exchange rates of currencies, or denominated in currencies other than the functional currency of PKN ORLEN S.A., loans and borrowings drawn and cash held in foreign currencies.

PKN ORLEN S.A. has systematically hedged the net operational exposure in EUR and USD. The instruments used to this hedge have been the currency forward contracts. For the instruments executed and settled in the same quarter no hedge accounting was applied. In other cases, the hedge accounting principles were applied for this group of instruments. The transactions hedging currency exposure are disclosed in the financial statements as financial assets or financial liabilities at fair value. As at 31 December 2007, a fair value of the transactions hedging currency risk, amounted to PLN 74,942 thousand, and the effective part of the hedge has been recorded in equity as hedging reserve and the ineffective part in the income statement. The cash flows from the settlement of instruments hedging net operational exposure in PLN/EUR and PLN/USD in 2007 amounted to PLN 82,792 thousand. The interest rate

risk exposure is hedged by achieving a ratio of debt based on a fixed rate to debt based on a variable rate at the level defined in the adopted hedging strategy and by achieving an acceptable Interest at Risk ratio in line with the adopted strategy. The interest rate risk is hedged through the identification of such financial cash flows, which are exposed to variability of interest rates on the basis of the ongoing risk exposure forecasts for PKN ORLEN S.A. As regards the interest rate risk exposure, in July a swap transaction was executed on the basis of a variable interest rate. This transaction was accounted for in compliance with the hedge accounting principles. As at 31 December 2007, the fair value of the swap in PKN ORLEN S.A.'s portfolio amounted to PLN 4,577 thousand. In August the transactions were executed to hedge a stable level of an interest rate for the future issue of Eurobonds. Given a postponement of the bond issue date, the maturity of transactions hedging the issue of Eurobonds in October was moved to 30 June 2008. These transactions were not accounted for in compliance with the hedge accounting principles. The transaction fair value as at 31 December 2007 amounted to PLN (-)17,850 thousand. PKN ORLEN S.A. measures derivatives to fair value with the application of financial instrument measurement models using the generally available data coming from active markets.

The strategy implementation is monitored on an ongoing basis by the Financial Risk Committee and, periodically, also by the Management and Supervisory Boards.

In January and February 2008 the transactions hedging the issue of Eurobonds were accounted for with a loss of PLN 61,906 thousand. Consequently, the result of the first quarter of 2008 will recognise a loss of PLN 44,056 thousand.

1.9 Employment

As at the end of 2007 PKN ORLEN S.A. employed 4,790 persons, which means that in comparison to the end of 2006 there were 214 employees less. The decreased employment level is mainly due to the restructuring process and natural movements in human resources.

1.10 Assessment of a feasibility of realization of planned investment

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 sets a target in the form of the level of capital expenditures to be achieved by the ORLEN Group by business segments:

- Refinery Segment: PLN 8.4 billion,
- Retail Segment: PLN 3.2 billion,
- Petrochemical Segment: PLN 5.8 billion,
- Chemical Segment: PLN 1.7 billion,
- Other Operations Segment: PLN 2.2 billion.

One of the PKN ORLEN S.A.'s strategy elements is internal strengthening of the company, mainly through:

- Increase in usage of crude oil processing capacities;
- Increasing the wholesale share market;
- Implementation of two brands strategy and significant improvement of retail sale efficiency.

As part of the inorganic improvement, an expansion of sales to new markets is planned, particularly to that of the Baltic states where an investment programme has been already implemented. Also the following projects are treated as priority: consolidation of the domestic crude oil sector, launching crude oil research and upstream activities, optimization of crude oil trading, strengthening of sea wholesale of refinery products and monitoring of potential targets to be taken over.

The implementation of the following key investments are crucial for the development of PKN ORLEN S.A.:

- Paraxylene (PX) and PTA Complex;
- HON VII Complex 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.

Despite the increase of net indebtedness level of PKN ORLEN S.A. by PLN 301,811 thousand to the level of PLN 6,574,522 thousand as compared to the end of 2006, the financial standing of a company is at secure level. It is illustrated among others by the financial leverage ratio, which at the end of 2007 amounted to 39.1%. Considering

realization of next investments in 2008 and high level of indebtedness of PKN ORLEN S.A. resulting from purchase of Mazeikiu Group, planned financial leverage at the end of 2008 should not exceed 39.9%, what is in line with the strategy. Also net indebtedness/EBITDS ratio, which at the end of 2007 amounted to 2.0, in 2008 is assessed at the level of 2.7. Such levels are commonly recognized as safe and will not limit the process of new source of financing gathering.

Despite the increased indebtedness, the liquidity as at the end of 2007 was at secure level. PKN ORLEN S.A. is a party to 11 loan facility agreements out of which 7 are short-term agreements and 4 long-term agreements. Moreover, PKN ORLEN S.A. developed a programme for the issue of bonds on the Polish market of the total value of PLN 2,000,000 thousand. From the available sourcing of financing more than PLN 4,100,000 thousand is still available for use.

1.11 Projected macroeconomic parameters

The estimates 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 further acceleration of GDP economic growth. The estimated GDP increase reached the level of 6.1%. In 2000-2006 the rate was in range 4.3% - 6.1%. Based on the market data, PKN ORLEN S.A. assesses the GDP growth rate in 2008 at the level of 5.4%. Lower GDP will be a result of growing trade deficit, which will slightly decrease a speed of economic growth. In 2009-2012 the economic growth is assessed to be sustained on a high level of 4.3%-5.5%.

Unemployment rate

Advantageous tendencies on the labour market have strengthened in 2007. The unemployment rate decreased down to 11.4% as compared to 14.8% in the prior year. The restructuring process of Polish economy draws to the end what results in increase of employment and decrease unemployment. As at the end of 2008 PKN ORLEN A.S. assesses the decrease of unemployment rate to the level of 10.5% and sustention of stable, decreasing trend of that ration in the following years.

Inflation

High domestic demand contributed to an increase of the inflation level to 2.5% in 2007 as compared to 1.0% in 2006. For 2008 PKN ORLEN S.A. assesses further increase of the consumer goods and services prices index to the level of 2.7%. On the other hand, according to the Report on inflation published by the NBP, consistent actualized inflation projection for 2008-2012, inflation in 2008 may be sustained at the level of 4.0%, assuming the constant increase of the interest rates. In 2009-2010 the consumer goods and services prices index will return to the level of app. 3.5%. Higher inflation is a result of factors being out of Monetary Policy Council control (more expensive food, fuels, electricity).

Foreign exchange rates

For 2008 PKN ORLEN S.A. assesses the preservation of average USD exchange rate at the level of 2.73 PLN/USD as compared to 2.77 PLN/USD in 2007. In case of EURO slight strengthening of PLN against EUR to 3.65 PLN/EUR from 3.78 PLN/EUR in 2007, is assessed. In 2008 there is also projected decrease of average exchange rate of CZK to 0.1320 PLN/CZK, the average for 2007 being 0.1363 PLN/CZK.

Market interest rates

For 2008 PKN ORLEN S.A. assesses the increase of base interest rates by the monetary authorities. Consequently, for 2008 an increase of WIBOR 3M was assumed to the level of 5.6%. Slightly higher than in 2007 LIBOR 3M rates – 5.4% and EURIBOR 3M - 4.5% were assumed.

Crude oil and refinery products prices and margins

Based on the market information PKN ORLEN S.A. assessed average price for crude oil in 2008 at 61.0 USD/bbl. Ural/Brent differential in 2008 was assumed at 3.4 USD/bbl. In future periods, meaning the years 2009-2012 prices for

crude oil are anticipated to be in the range 48-53 USD/bbl and differential in the range 3.0-3.3 USD/bbl.

Annual level of crack margin on gasoline was assumed at 134.0 USD/t in 2008. In 2009-2012 crack margins on gasoline are anticipated to be in the range 118.2-125.0 USD/t. Annual level of crack margin on diesel oil was assumed at 119.5 USD/t, comparable to actual margin in 2007. In the following years crack margin on diesel oil are anticipated to be in the range 110.6-117.1 USD/t. Annual level of crack margin on Jet fuel was assumed by PKN ORLEN S.A. at slightly lower level than in prior year amounting to 161.8 USD/t. In 2009-2012 crack margins on Jet fuel are anticipated to be in the range 133.6-142.1 USD/t. In relation to petrochemical products slight decrease of positive margin tendencies is anticipated. In relation to ethylene annual crack margin for 2008 is assessed at 629.0 USD/t and for propylene – 610.0 USD/t. In 2009-2012 crack margins on ethylene are anticipated to be in the range 523.0-584.0 USD/t and on propylene – 485.0-549.0 USD/t.

1.12 Announcement of financial results estimate

In the current report no. 10/2008 dated 7 February 2008, PKN ORLEN S.A. provided estimates of selected financial and operational data for the PKN ORLEN S.A. Group relating to the 4th quarter of 2007. The published estimates relating to the macroeconomic and operational data did not show any material differences as compared to the figures presented in this report.

Any changes in respect of financial data published in the abridged financial statements on 29 February 2008 which influence the financial result and equity are presented in Note no. 34 to the unconsolidated financial statements.

II. MAIN ACHIEVEMENTS IN RESEARCH AND TECHNOLOGICAL DEVELOPMENT

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 PKN ORLEN S.A. in 2007 include as follows:

- "Defining the Impact of Various Contents of Biocomponents (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 biocomponents above 5% in view of the obligation to meet the National Target Index.;
- "Study of engine gasolines quality during storage in a salt cavity in more severe 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 range." 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 range can be increased as well.

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

The key factors for the development of the PKN ORLEN S.A. in 2007 and affecting its financial results included:

Updating the strategy implemented by PKN ORLEN S.A.

On 16 November 2007, the Supervisory Board of PKN ORLEN S.A. approved the document "Strategy of the ORLEN Group for the years 2007-2012". The Strategy assumes the updating of the existing approach to the value creation process at the ORLEN Group by focusing on two areas:

- Organic improvement, i.e. improvement of efficiency, optimisation and investments in respect of the core operations;
- Inorganic improvement, based on selective implementation of options available for internal development.

The most important activity in the first area will be the improvement of efficiency in the whole value creation chain and release of controlled potential, particularly through:

- Maximization of synergy effects resulting from the effective implementation of programmes: Partnership in UNIPETROL a.s. and Value Creation in the Mazeikiu Group;
- Increase in crude oil processing capacities in order to satisfy the increasing demand in the region (the target effective processing power of the whole ORLEN Group planned for 2012 is to amount to 33,000 thousand tonnes per year);
- Increasing the wholesale share market (by 2012, the 65% Polish market share and the 75% Baltic States market share to be achieved);
- Implementation of two brands strategy and significant improvement of retail sale effectiveness (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 companies (mainly Polkomtel S.A.).

As part of the inorganic improvement, an expansion of sales to new markets is planned, particularly to that of the Baltic states where an investment programme has been already implemented. Also the following projects are treated as priority: consolidation of the domestic crude oil sector, launching crude oil research and upstream activities, optimization of crude oil trading, strengthening of sea wholesale of refinery products and monitoring of potential targets to be taken over.

The strategy assumes the achievement of the following financial objectives for the ORLEN Group 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 accrual generating segment (at the level of PLN 3,8 billion) is the refinery. This is a consequence of a big investment programme to be implemented in this segment. The second EBITDA accrual 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, consequently, will bring another PLN 0,6 billion. The chemical segment and the operations defined in the ORLEN Group as "other" will generate approximately PLN 0,1 billion.

Additionally, the strategy sets a target in the form of the level of capital expenditures to be achieved by the ORLEN Group in 2007-2012 broken down by the ORLEN Group business segments:

- 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 which will follow from the availability of new investments. If they are not identified one half of a free cash flow (in accordance with the dividend policy applicable before) will be paid to the shareholders. The above strategy will be however dependent on the need to maintain an appropriate financial situation and to protect a rank awarded by rating agencies.

Operating expense reduction programme 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 strategy for 2006-2009, which is supposed to ensure that the ambitious development goals of the Concern are implemented and the value for the shareholders is improved. According to the Programme principles, by 2009 the improvement in operating expenses efficiency of at least PLN 600 million is expected.

OPTIMA covers the Parent Company, i.e. PKN ORLEN and the Capital Group companies. In 2007 the savings obtained in the ORLEN Group on operating expenses amounted to PLN 466 million as a result of OPTIMA implementation. This represents 144% of the overall target set for 2007, i.e. PLN 324 million. The efficiency improvement programme covers the following saving areas: production, subsidiaries, logistics, procurement and support function. 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 programme in PKN ORLEN S.A.

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

- Paraxylene (PX) and PTA Complex,
- HON VII Complex with Hydrogen Installation,
- Ethylobenzene Installation,
- Modernisation and intensification of butadiene installation,
- Modernisation and intensification of HF 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 EU requirements;
- Replacement of property;
- Ecology.

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

- Construction of the installation for PX production 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/y 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/y with the infrastructure in order to increase the hydrogen production for hydrodesulphurisation processes;
- Claus II installation to secure recycling of hydrogen sulphide gas through the construction of new Claus II unit to replace the old installations;
- Increasing the storage capacity for propylene ($3 \times 2.200 \text{ m}^3$) – due to the need to increase the storage capacity for liquid propylene of the total capacity of $6,600 \text{ m}^3$, originating from the Olefins Manufacturing Plant II and Fluid Catalytic Cracking II (FKK II);
- 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;

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

- 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 make certain the supplies of electricity to the Manufacturing Plant;

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

- Construction of the Diesel Oil Hydrorefining Installation from the Gudron Hydrodesulphurisation System – 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;
- 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 Stripping, Pyrrolytic Gases Switching System, Reforming V);
- Four upgraded Warehouse Centres were delivered in Bolesławiec, Żurawica, Kraków – Olszanica, Świnoujście. As a result of upgrading, the Centres were made comply 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 Wlkp., 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 PKN ORLEN S.A. to increase the use of renewable sources of energy.

Retail sale development

In 2007 the principles of the “Development Plan for the Retail Sales in Poland for 2005-2009” were implemented consistently. The main target of this Plan is to achieve a minimum 30% share in the Polish fuel market.

The Plan is based on three key principles:

- Strengthening of the Polish market position;
- Increase in effectiveness of the operations;
- Construction of an effective organisation.

The market position of PKN ORLEN S.A. has been successively strengthening by an intensive investment programme 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 CODO² 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 having been implemented, namely FLEET Programme, involving, among others, introduction of new products for Truck Fleets: Twoja Lokalna Stacja (Your Local Stations), Złoty Szlak (Golden Route) and an offer addressed to Small Enterprises – Twój Lokalny Rabat (Your Local Discount). The activities undertaken as part of the FLEET Programme enhanced the volume by more than 49% as compared to the prior year and increased the FLEET's sale share in the total volume.

² CODO - Company Owned Dealer Operated (own companies); DOFO – Dealer Owned Franchise Operated (franchise stations); DODO – Dealer Owned Dealer Operated (patron stations)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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 tactical 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 programme a system of managing awards for the programme participants was outsourced. The goal of this programme is to improve service quality and cost saving. Strategically, the Vitay programme 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 concept. Also a concept of new interactive Vitay www site was developed.

In order to prepare the implementation of NCW in 2008, in the autumn of 2007 pilot programmes 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 order to achieve the goals specified in the strategy for 2006-2009 include:

- Continuation of the investment programme 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 programme in respect of retail sale;
- Continuation of the new shop and bistro concept implementation;
- Further development of VITAY programme involving: cost optimisation, programme attractiveness improvement, and broader application of direct marketing;
- Continuation of Retail Sale Platform project; and
- Optimisation of the segment management process.

Loyalty programmes at PKN ORLEN S.A.

FLOTA Programme is designed for institutional customers operating their own means of transportation. The programme is mostly participated by: forwarding companies, production and trading companies, banks, offices of central and local administration and foreign branch offices. In the first half of 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 the Company increased in 2007 up to 18.8% from 13.9% as at the end of 2006. The holders of fleet fuel cards can without cash buy fuel, goods and services at petrol stations owned by PKN ORLEN S.A.

At the turn of 2006 and 2007, as part of FLOTA Programme 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 1,000 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 Programme. The total volume of sales realised

through both programmes 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 Programme are kept. The developed and implemented new strategy of FLEET Programme 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 LTS (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 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. As at the end of June 2007 almost 34 thousand agreements were concluded under which the clients declared to buy approx. 31 million litres per month. This product is addressed to institutional clients, whose monthly demand for fuel amounts to at least 500 litres. Currently, the fleet cards are acknowledged by nearly 1,700 ORLEN and BLISKA petrol stations.

The VITAY programme is a loyalty programme aimed at individual customers visiting ORLEN petrol stations on a regular basis. 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. Super VITAY is a loyalty programme for the Parent Company's clients, who have been already enrolled to VITAY programme and collected 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.

Plan for the development of logistics for the years 2006-2009

The main task of the logistics in the ORLEN Group is to ensure a complete and flexible handling of the sales at minimum cost through creating the most effective group of own and outsourced logistics services to gain a competitive advantage in the area of whole and retail sales on the Polish, Czech and Lithuanian markets. The activities undertaken in the logistics segment in 2007 continued the implementation of the principles adopted in the "Plan for Logistics Development for the years 2006 – 2009", approved by the Supervisory Board of PKN ORLEN S.A. in May 2006. The implemented solutions stemmed from the following strategic objectives defined for the logistics area:

- Securing safe and continuous supplies;
- Regional integration; and
- Improvement of operational effectiveness.

The most significant tasks implemented in 2007 in the area of logistics include:

- Construction of the units for dosing biocomponents for diesel oil in 7 own warehousing centres; the same will be completed in other 4 centres in 2008. Eventually, the own warehousing infrastructure will be fully adapted to composing and distributing Bio diesel oil;
- Execution of an agreement with Rafineria Trzebinia S.A. for the provision of services of composing Ekodiesel Ultra diesel oil with a 5% content of fatty acids methyl esters (FAME) – this fuel started to be distributed from the warehouse in Trzebinia on 18 April 2007;
- Launching, as of 24 April 2007, the distribution of diesel oil with a 5% content of fatty acids methyl esters (FAME) from ORLEN PetroProfit Sp. z o.o.;
- Organisational restructuring of regional logistics structures – improvement of operational efficiency and better adaptation to the changes introduced in the wholesale area and in the process of merging shipping companies;
- Development of the concept and launching the reorganization of shipping companies from the ORLEN Group through the consolidation of the operation relating to the car transport of fuels to form one business entity (formerly there were 7 such companies). The goal of the reorganization is to enhance the efficiency of the use of available car park, to cut the costs of fuel car transport and to ensure that PKN ORLEN S.A. will have an influence on the effective operation of this market via its own company;
- Continued investment in the product pipeline from Ostrów Wlkp. to Wrocław; the line is expected to be completed in the end of 2008;
- Development of shipping organised by PKN ORLEN S.A. and achieving a 40% share in the overall railway transport in 2007;
- Development of the Strategy for Logistics for the ORLEN Group; a comprehensive plan for its implementation it to be prepared and the implementation itself are to be carried out in 2008.

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 of among others such areas as accounting and logistics. This included continuance of transferring accounting processes to Accounting Shared Service Center (ASSC) for the ORLEN Group and regional restructuring of logistics area.

According to the construction agenda of (ASSC), the process of Property, Plant and Equipment accounting and raw materials were transferred on 1 May 2007 to ORLEN Księgowość Sp. z o.o., the process of handling liabilities on 1 September 2007 as well as the accounting process relating to receivables and general ledger were transferred on 1 November 2007. All the processes were centralised in Płock, as a result of an efficient usage of the modern IT tools in such areas as scanning documents, electronic transfer of booking documents and automatic bookkeeping records. The persons employed in these sectors were transferred to ORLEN Księgowość Sp. z o.o. pursuant to article 23¹ of Labour Code. According to agreements concluded with labor unions some employees will benefit from the Voluntary Leave Program, whereas others who changed the work place in relation to being transferred will be able to execute the relocating package.

A new local logistic structure consisted of 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. The employees hired in the logistics area were able to benefit from the Voluntary Leave Program as well as from the relocating package based on the concluded agreements with labor unions.

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 activities undertaken in 2007 performed as part of recruitment policy complied with the corporate culture principles, corporate governance and social business responsibility. 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 are 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.

As part of recruitment and selection processes implemented in 2007, modern methods and tools for assessing the professional potential were used. These processes were consistent as regards methodology and characterised with great reliability and adequacy of assessments. The tools for verifying potential were selected on an each time basis taking into account the requirements for the position and characteristics of tasks and job environment. To follow new tendencies in the competence diagnosis area, PKN ORLEN S.A. intends to continue to develop the existing tools for assessing a professional potential in order to measure more precisely the candidates' predispositions to a given job and a degree of their adjustment to the position.

Thanks to the recruitment policy applied at PKN ORLEN S.A. the professional potential of external candidates as well as that of the PKN ORLEN S.A. employees could be adequately assessed which, consequently, resulted in a qualified staff supporting business goals to be achieved in individual areas of the company's operations and the highest standards to be maintained.

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

- Adaptation Programme – relating to the commencement of training sessions for new employees. The goal of the Programme 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 Programme – the purpose of this programme 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" Programme 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 local concentration. The option of local 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 will be completed in the first quarter of 2008.

Implementation of M&A strategy

In 2007, PKN ORLEN S.A. increased its capital participation in 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 Mazeikiu Nafta shares;
- standing order for the acquisition of shares filed with the Stock Exchange in Vilnius;
- mandatory squeeze out of 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 AB 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 AB 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. 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 Tribunal 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 Tribunal of Arbitration.

Changes in the IT area

In 2007 the central SAP system was modernised to ensure IT support for new business processes, automatising of excise tax settlements as well as development of and making more precise the record of business events.

In the analysed period the second stage of work was commenced to implement S@port procurement system. Once this system has been implemented the contracts executed by the PKN ORLEN S.A. Procurement Office will be managed more efficiently through reporting on procurement realisation and change of method for cost controlling and planning (already at the stage of formulating needs and placing orders). The new procurement system will make more efficient the preparation and performance of projects by increasing effectiveness of interrelating procurement processes, improving safety of procurement invoice payment and more effective management of warehouse inventories.

In 2007, the network of PKN ORLEN S.A. fuel stations was included in the corporate network due to which the costs of data transmission and service were cut (a large part of maintenance services can be provided at distance from the headquarters). A permanent connection also contributed to a better quality of client service, for instance, thanks to a faster authorisation in the case of card transactions. Moreover, such solution will enable such projects to be implemented which are dependent on a permanent access to the ORLEN network on fuel stations (Overall Margin Optimisation –OMO, Vitay).

The appointment of the Central Office for Management of Teleinformatic Projects will, in turn, ensure the coordination of activities relating to key projects and teleinformatic programmes in the ORLEN Group through the uniform project management model and will contribute to the better supervision of the implementation of individual projects.

In 2007 a contract was signed for the performance of the Retail Sales Platform ("RSP"). Once completed this project will contribute to the increase in profits from the sales through better adjustment of assortment and price offers and through making warehouse inventories match local markets needs. RSP once launched will also enable the implementation of the Distribution Sealing Project through repairing safety and control mechanisms in terms of organisation and engineering, implementation of a flexible retail sale management system to match business needs at the level of individual stations, regions or a central integrated management and control of end-to-end processes at the central level (accounting processes, sales, chain of supplies, marketing processes, network management, station management, inventory management, etc.), cut operating expense and improve system reliability.

The implementation in 2007 of a central solution for fuel retail price management within the station network procured for a decision-making process in respect of prices and a distribution of such decisions to fuel stations to be accelerated and made easier.

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

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

By 10 January 2007 the Organisational Rules and Regulations of PKN ORLEN S.A. approved by the Management Board on 24 October 2006 were in force at PKN ORLEN. As of 11 January 2007 PKN ORLEN's Management Board has adopted the new Organisational Rules and Regulations under which the duties of individual Members of the Management Board have been assigned in the following way:

- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Capital Investments;
- Vice-President of the Management Board, Cost Management;
- Vice-President of the Management Board, Upstream and Crude Trading;
- 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 areas of production, maintenance, production development, technology and property investment were assigned to the Deputy Chief Executive Officer responsible for Operational Activities.

At the meeting held on 18 January 2007 the PKN ORLEN S.A. Supervisory Board revoked Igor Chalupec from the position of the President of the Management Board and appointed Piotr Kownacki to this position, former Vice-President of the Management Board, Audit and Regulations at PKN ORLEN S.A., who had fulfilled this function from 23 October 2006.

On 30 January 2007, the Management Board of PKN ORLEN passed a resolution on the new allocation of powers between the Management Board Members, under which the unit of the Vice-President of the Management Board, Audit and Regulations was cancelled. The areas of engineering and power engineering, production and technology development, property investments, refinery production, chemical production, petrochemical production, oil production were assigned to the Deputy Executive Officer for Operational Activities.

PKN ORLEN's Supervisory Board, at the meeting held on 15 March 2007, at the request of the interested party, revoked Jan Maciejewicz from the position of Vice-President of the Management Board, Cost Management with majority of votes as of 15 March 2007 and, at the motion of the President of the Management Board, unanimously revoked Cezary Smorszczewski from the position of Vice-President of the Management Board, Capital Investments. Concurrently, at the same meeting, Krystian Pater was appointed to the position of PKN ORLEN S.A. Management Board Member.

As a consequence of the above changes, on 20 March 2007 PKN ORLEN's Management Board passed a resolution on changing the allocation of duties between the Company's Management Board Members. On the basis of this resolution the duties of PKN ORLEN's Management Board Members were assigned in the following way:

- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Upstream and Crude Trading;
- Vice-President of the Management Board, Sales;
- Member of the Management Board, Chief Financial Officer;
- Member of the Management Board, Organization and Support Function;
- Member of the Management Board, Production.

The organisational structure of PKN ORLEN has been adjusted to the new allocation of duties among the Management Board Members as of 12 April 2007.

As a consequence of the resolution passed by the Supervisory Board on the change of the function of the Member of the Management Board, Chief Financial Officer to the function of Vice-President of the Management Board, Chief Financial Officer, on 16 May 2007 PKN ORLEN S.A.'s Management Board adopted a resolution on the new assignment of duties with regard to the above change. As of this date, also the new Organisational Rules and Regulations of PKN ORLEN have entered into force.

At the meeting held on 30 July 2007, at the motion of the Management Board President, PKN ORLEN's Supervisory Board revoked Paweł Szymański from the position of Vice-President of the Management Board, Chief Financial

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

Officer. Concurrently, the Supervisory Board appointed Dariusz Formela to the position of the Member of the Management Board at PKN ORLEN S.A.. Further to the above changes the Management Board of PKN ORLEN S.A. at the meeting of 31 July 2007 re-assigned the powers amongst the Management Board Members to replace the former division supervised by the Management Board Member, Organization and Support Function with two new divisions:

- Management Board Member, Organisation and Capital Group responsible for the organisation and integration of owned assets, health and safety at work and environmental protection and the PKN ORLEN Capital Group companies (the "ORLEN Group"), including the Unipetrol Capital Group (the "Unipetrol Group"), which areas were formerly under control of the President of the Management Board, Chief Executive Officer;
- Management Board Member, Procurement and IT responsible for the areas of IT, procurement, legal department, regulatory risk, information control and security.

Given the removal of the Management Board Vice President, Chief Financial Officer individual units of his responsibility area were assigned to the Management Board Vice President, Upstream and Crude Trading who finally became responsible for crude oil trading, upstream, exploration, planning and control, finance and cost management, taxes, overall coordination of the Overall Margin Optimization Program (OMO), relations with investors as well as capital investment and divestment. The coordination of planning and control, finance management, cost management, taxes and coordination of the OMO Program and investor relations was vested in the Executive Officer, Planning & Control.

The above described changes in respect of the allocation of powers amongst PKN ORLEN S.A. Management Board Members were introduced in the Organisational By-Laws of PKN ORLEN S.A. in Annex no. 1 dated 14 August 2007.

The Supervisory Board of PKN ORLEN S.A., at the meeting held on 23 August 2007, upon motion of the President of the Management Board, appointed Waldemar Maj to the position of Vice-President of the Management Board of PKN ORLEN S.A. as of 3 September 2007. Consequently, as of 4 September 2007 PKN ORLEN S.A.'s Management Board passed a resolution changing the allocation of powers amongst the Management Board Members, under which the scope of powers of the President of the Management Board, CEO was changed, who was vested with the supervision of human resources, strategy and development, public relations, management service and audit. Additionally, a division was established supervised by the Vice President of the Management Board, CFO covering the area of accounting and controlling, finance and cost management, taxes, supply chain management and investor relations. As of that day also the scope of responsibilities of the Vice-President of the Management Board, Upstream and Crude Trading was changed who was assigned with the crude oil trading, upstream as well as capital investment and divestment.

Additionally, in 2007 the work was continued to create a modern Accounting Service Centre for PKN ORLEN S.A. and the ORLEN Group. During the year 2007 the employees of Property Accounting, Liabilities, Payroll Expense, Financial Operations Divisions as well as those of Accounts Receivable and General Ledger divisions were transferred to the company ORLEN Księgowość Sp. z o.o.

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

As at the end of 2007, Polski Koncern Naftowy 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 ORLEN Group has decreased from 140 to 127.

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 S.A.") 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 in cash. The carrying value of the purchased shares entered in the accounting books of Unipetrol as at 31 December 2006 amounted to CZK

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

5,460,000 thousand. Kaucuk is a petro-chemical 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 and Unipetrol;

- 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 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 par 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 includes without limitation lease of real property, apartments and non-residential buildings. Butadien Kralupy will be used to construct and operate a new butadiene plant in respect of which UNIPETROL a.s., Dwory S.A., Chemopetrol a.s. and Kauczuk a.s. have signed an agreement.

Concurrently, on 9 May 2007, Butadien Kralupy 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 acquired from the company Kaucuk 51% of shares in the company Butadien Kralupy at the price of CZK 76,500 thousand. Consequently, Unipetrol acquired 153 shares in Butadien Kralupy 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 in cash. The carrying value of the acquired shares as recorded in the accounting books of Kaucuk as at 9 July 2007 amounted to CZK 76.500 thousand.

The above agreements were signed in relation to the sale, by Unipetrol, of 100% of shares in Kaucuk 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, Dwory, Chemopetrol a.s. and Kaucuk. The process of selling shares in Kaucuk is being carried out in accordance with the share sale agreement signed on 30 January 2007 between Unipetrol, as the seller and Dwory, as the buyer;

- The acquisition, on 15 June 2007, from the company Svenska Standardbolag AB, seated in Falun (Sweden) of 5 thousand shares in the company Aktiebolaget Grundstenen 108770 ("Aktiebolaget Grundstenen"), seated in Falun (Sweden) for the total amount of SEK 500 thousand. 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;

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

- The disposal, on 6 July 2007, to EXATEL S.A. ("EXATEL") 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 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. ("Petromor"), 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 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 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 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 to Deza a.s. ("Deza") 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:
 - 46,950 ordinary shares in Agrobohemie, 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 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 and Deza executed an Agreement concerning the disputes pending between them. As a result of the signed Agreement Unipetrol will not be obliged to pay Deza any damages or contractual penalties, which Deza was claiming from Unipetrol; concurrently Deza will withdraw all its court actions filed against Unipetrol.

On 18 January 2008, the ownership of 47 thousand shares in Agrobohemie 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 to Deza. The shares were transferred on the basis of two agreements executed on 31 October 2007 between UNIPETROL as the seller and Deza, as the buyer;

- The acquisition, on 9 November 2007, by the company Unipetrol 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 bought shares

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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 ("Rafineria Jedlicze") to Petro-Mechanika Spółka z ograniczoną odpowiedzialnością ("Petro-Mechanika") of 16,879 shares in Raf-Remat spółka z ograniczoną odpowiedzialnością ("Raf-Remat"). 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;
- 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;
- 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 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.

V. ADDITIONAL INFORMATION

5.1 Information about material 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. seated in Guernsey 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 since 1 January 2007 and it will expire on 31 December 2011. The parties to the agreement provided for an option for extension of one 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 three long-term agreements for the supply to Dwory 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 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 during 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 quantity of not less than 57 thousand tonnes in 2007 and not less than 60 thousand tonnes in a period from 1 January 2008 to 31 December 2023. In aggregate 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 the agreement's 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 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 for extension by 2 years or more. As at the Agreement conclusion date the forecast value of supplies until 30 June 2010 amounted 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 of 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. Furthermore, on 28 December 2006 PKN ORLEN S.A. executed with ANWIM Sp. z o.o. (currently ANWIM S.A.) an agreement for the sale of gasoline and diesel oil in 2007 of the value 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. ("Shell Polska") 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. 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. ("BP Polska"). Under these agreements PKN ORLEN S.A. sells to BP Polska 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;

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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 of 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 of 21 December 2007). The purpose of the agreement for PKN ORLEN S.A. is to procure funds to cover part of costs of the construction of the installation to produce paraxylene (PX) and terephthalic acid (PTA).

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 of 21 December 2007) to fund the investment involving the development of a fuel station network and the environmental protection. 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 of 21 December 2007);

8. On 27 December 2007 PKN ORLEN S.A. executed three annual agreements with J&S Energy S.A. ("J&S Energy") 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 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 agreements concern the purchase of gasoline and diesel oil by PKN ORLEN S.A. from J&S Energy in a period from 1 January 2008 to 31 December 2008. The estimate values of these agreements amount to PLN 183,571 thousand and PLN 638,105 thousand, respectively.

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 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. ("ORLEN PetroCentrum"). Under this agreement PKN ORLEN S.A. sells to ORLEN PetroCentrum 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;

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 to approx. PLN 1,286,756 thousand.

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

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

5.2 Production

No.	Raw material	Crude oil processing (thousands of tonnes)		Change (thousand of tonnes)	Change (%)
		2007	2006	2007-2006	2007/2006
1.	REBCO	13 053	13 242	-189	-1.4
2.	Low sulphur crude oils	593	370	223	60.3
	Total	13 646	13 612	34	0.2
No.	Product	Production (thousands of tonnes)		Change (thousands of tonnes)	Change (%)
		2007	2006	2007-2006	2007/2006
1.	Total engine gasoline	2 610	2 723	-113	-4.1
2.	Total diesel oils	4 568	3 995	573	14.3
	Total fuel	7 178	6 718	460	6.8
3.	Liquid gas	190	216	-26	-12.0
4.	Aviation fuel	355	402	-47	-11.7
5.	Light heating oil	840	1 207	-367	-30.4
	Total	8 563	8 543	20	0.2
No.	Product	Production (thousands of tonnes)		Change (thousands of tonnes)	Change (%)
		2007	2006	2007-2006	2007/2006
1.	Heating oil I and III	995	764	231	30.2
2.	Solvents	11	19	-8	-42.1
3.	Farbasol	11	13	-2	-15.4
	Total	1 017	796	221	27.8
No.	Product	Production (thousands of tonnes)		Change (thousands of tonnes)	Change (%)
		2007	2006	2007-2006	2007/2006
1.	Ethylene	624	593	31	5.2
2.	Propylene	409	403	6	1.5
3.	Butadiene	59	61	-2	-3.3
4.	Benzene	113	113	0	0.0
5.	Toluen	122	117	5	4.3
6.	Ortoxylen	28	18	10	55.6
7.	Paraxylen	31	31	0	0.0
8.	Xylene	27	23	4	17.4
	Total aromas (items 4-8)	321	302	19	6.3
9.	Phenole	50	45	5	11.1
10.	Acetone	32	28	4	14.3
11.	MEG	93	99	-6	-6.1
12.	DEG, TEG	11	12	-1	-8.3
13.	Qal Liquid/ Qal Concentrate/Petrygo Q	15	16	-1	-6.3
	Total Glycols + cooling liquids (items 11-13)	119	127	-8	-6.3

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

14.	Sulphur	127	123	4	3.3
15.	Ethylene oxide	17	16	1	6.3
	Total	1 758	1 698	60	3.5

5.3 Sales

The quantitative structure of the sales of products and goods

Quantitative sales *	Performance (thousands of tonnes)		Change (thousands of tonnes)	Change (%)
	2007	2006	2007-2006	2007/2006
Gasolines	2 929	2 796	132	4.7
Diesel oils	5 361	4 498	863	19.2
Light heating oil	934	1 266	-332	-26.2
Aviation fuel JET A-1	344	403	-59	-14.6
Heating oil III	964	735	229	31.2
P Fractions	314	363	-49	-13.5
Sulphur	128	124	4	3.2
Other refinery products	947	833	114	13.7
Total refinery products	11 921	11 018	902	8.2
Liquid gas	292	227	65	28.8
Ethylene	547	509	38	7.5
Propylene	392	387	5	1.3
Glycols	103	113	-10	-8.8
Butadiene	60	62	-2	-3.2
Benzene	113	115	-2	-1.7
Ortoxylenes	26	20	6	30.0
Toluen	120	118	2	1.7
Paraxylene	32	30	2	6.7
Other petrochemical products	226	214	12	5.6
Total petrochemical products	1 911	1 795	116	6.5
Total sales	13 831	12 813	1 019	8.0
<i>Including export</i>	<i>1 201</i>	<i>1 020</i>	<i>181</i>	<i>17.7</i>

* - Whole- and retail sales. Sales to ORLEN Gaz Sp. z o.o. excluded

Structure of quantitative sales broken by main receivers of products

Main receivers	Share in domestic wholesale volumes (%)	
	2007	2006
ORLEN PetroCentrum Sp. z o.o.	11.8	10.2
BP Polska Sp. z o.o.	10.3	11.2
SHELL Polska Sp. z o.o.	8.7	7.5
BASSELL ORLEN POLYOLEFINS Sp. z o.o.	7.8	7.6
ORLEN Asphalt Sp. z o.o.	7.3	7.5
Petrolot Sp. z o.o.	3.4	3.6
ORLEN Oil Sp. z o.o.	3.1	3.7
J&S ENERGY S.A.	2.3	2.2
ORLEN Gaz Sp. z o.o.	1.9	2.3

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

ANWIM Sp. z o.o.	1.9	1.7
ANWIL S.A.	1.9	1.9
Lukoil Warsaw Sp. z o.o.	1.6	-

The share of other clients did not exceed, per unit, 1.5% of the total domestic wholesale.

5.4 Procurement

The structure of crude oil suppliers by entities delivering crude oil to the refinery in Płock in 2007.

The crude oil purchased by PKN ORLEN S.A. in 2007 was supplied to Płock mainly from Russia (95.7%). The low-sulphur crude oil supplied by sea represented 4.2%, and the purchased Polish crude oils - 0.1%. The suppliers are the companies operating on the Russian crude oil market and international crude oil traders. The domestic crude oils are supplied by the company Polskie Górnictwo Naftowe i Gazownictwo S.A. operating on the Polish natural gas upstream market.

Supplies of crude oil (percentage structure of supplies in terms of quantity)

Specification	2007	2006
Arkadia	-	0.6
Belarusneft	0.7	-
BMP	-	2.5
Gunvor	1.0	-
J&S	46.2	44.1
KD Petrotrade	18.0	14.1
Litasco	0.8	2.0
Petraco	24.6	21.1
PGNiG	0.3	0.6
STASCO	1.3	1.3
Statoil	2.1	-
Totsa	2.7	6.2
Vitol	0.7	-
Wincor	1.6	7.5
Total	100.0	100.0

Supplies of crude oil (percentage structure of supplies in terms of value)

Specification	2007	2006
Arkadia	-	0.6
Belarusneft	0.8	-
BMP	-	2.3
Gunvor	0.9	-
J&S	46.6	44.1
KD Petrotrade	18.0	14.3
Litasco	0.6	2.0
Petraco	24.2	20.8
PGNiG	0.2	0.7
STASCO	1.4	1.6
Statoil	2.5	-
Totsa	2.5	6.1

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

Vitol	0.8	-
Wincor	1.5	7.5
Total	100,0	100,0

5.5 Transactions with related entities

The transactions with affiliates a value of which, in 2007, did not exceed the PLN equivalent of EUR 500,000 in a single transaction or in a series of transactions:

No.	Party to the transaction	Sales in thousands PLN	Purchase in thousands PLN
1.	AB Mazeikiu Nafta	6 315 462	143
2.	UNIPETROL RPA s.r.o.	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.	KAUCUK a.s.	5 414	0
26.	Platinum Oil Sp. z o.o.	4 283	30 200
27.	Spolana a.s.	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

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

No.	Party to the transaction	Sales in thousands PLN	Purchase in thousands PLN
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
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

As at 31 December 2007 the ORLEN Group companies did not grant any loans to the persons fulfilling managing or supervisory functions or to 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 persons fulfilling supervisory functions in PKN ORLEN S.A. (PLN thousand)

In 2007 the persons fulfilling supervisory functions in PKN ORLEN S.A. 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 *	517 764	540 735	110 127	49 695
Individuals	-	-	-	-

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

In the period concerned there were nine members of the Supervisory Board.

c) Transactions with related entities via persons fulfilling management functions in PKN ORLEN S.A.

In 2007 the Management Board members did not execute any transactions with related entities within the meaning of IAS 24 "Information disclosed about related entities".

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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

In 2007 the key management staff members did not execute any transactions within the meaning of IAS 24 "Information disclosed about related entities".

5.6 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 in relation to the termination of employment, which have been paid, are due or, are potentially due in the period.

a) Remuneration of Management Board and Supervisory Board Members and key executive personnel in PKN ORLEN S.A. for 2007 (PLN thousand)

	<u>2007</u>
Remuneration of the Management Board Members of PKN ORLEN S.A.	27 207
including: compensation paid to the Management Board Members performing the function in 2007	20 421
remuneration due and potentially due	4 564
remuneration paid to other Management Board Members	1 956
remuneration potentially due to other Management Board Members	266
Remuneration of the Supervisory Board Members of PKN ORLEN S.A.	1 031
Remuneration of key executive personnel of PKN ORLEN S.A.	41 136

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

	remuneration	bonus for 2006	severance pays, non-competition, compensation	insurance policies*	Total
Igor Chalupec	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 Macierewicz	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 PKN ORLEN S.A.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

c) Remuneration potentially due for 2007 and due for 2008 to the Management Board Members 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 but not paid remuneration to the Management Board Members is due to the new bonus policy - Management by Objectives (MBO) which is in force from 1 January 2005

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

	Severance pays, non-competition, compensation *
Zbigniew Wróbel	1 956

* benefits paid based on amicable solution concluded

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 the 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 encourages employees to cooperation in achieving better results of the ORLEN Group.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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.

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 (PLN thousand)

Management Board Members of PKN ORLEN S.A., acting in 2007 as Supervisory Board Members of subsidiaries, jointly controlled companies or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, 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 Czapla	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

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

Total remuneration of 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. 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 the ORLEN Group in 2007.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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

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 Chalupec	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 performing the function in 2006 (PLN thousand)

	potentially due *
Igor Chalupec	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 but not paid remuneration to the Management Board Members is due to the new bonus policy - Management by Objectives (MBO) which is in force from 1 January 2005. Bonus has been calculated based on preliminary assessment of realization of goals of Members of the Management Boards of PKN ORLEN S.A. performed by the Supervisory Board of PKN ORLEN S.A.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

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 Order 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.

In 2006, the Supervisory Board Members did not perform any functions in Management or Supervisory Boards of subsidiaries, jointly controlled companies or associates of the ORLEN Group.

Remuneration of 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 Wesołowski	9

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

5.7 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 concerned 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 the Supervisory Board of PKN ORLEN S.A. appointed KPMG Audyt Sp. z o.o. as an entity authorized to audit and perform reviews of non-consolidated and consolidated financial statements of PKN ORLEN S.A. and key entities from the ORLEN Group for years 2008 to 2009.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

	for the year ended 31 December 2007	for the year ended 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
	-----	-----
	2 532	2 696
	=====	=====

* 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.

5.8 Changes in the composition of the management and supervisory authorities in PKN ORLEN S.A. during the last financial year

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 person:

Piotr Kownacki	Vice-President of the Management Board, Audit and Regulations by 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 Maj	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 by 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.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

Igor Chalupec	President of the Management Board, CEO by 18.01.2007.
Cezary Smorszczewski	Vice-President of the Management Board, Capital Investments by 15.03.2007.
Jan Maciejewicz	Vice-President of the Management Board, Cost Management by 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 Ślepowska	Chairman of the Supervisory Board from 31.05.2007.
Zbigniew Macioszek	Chairman of the Supervisory Board by 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 by 31.05.2007.
Ryszard Sowiński	Secretary of the Supervisory Board by 31.05.2007.
Konstanty Brochwicz-Donimirski	Supervisory Board Member by 31.05.2007.
Wiesław Rozłucki	Supervisory Board Member by 31.05.2007.

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

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

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A. FOR 2007
(translation of a document originally issued in Polish)

5.10 Shareholding of PKN ORLEN S.A.

Shareholding 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%
Pozostali	309 998 865	309 998 865	387 498 581	72.48%
Razem	427 709 061	427 709 061	534 636 326	100.00%

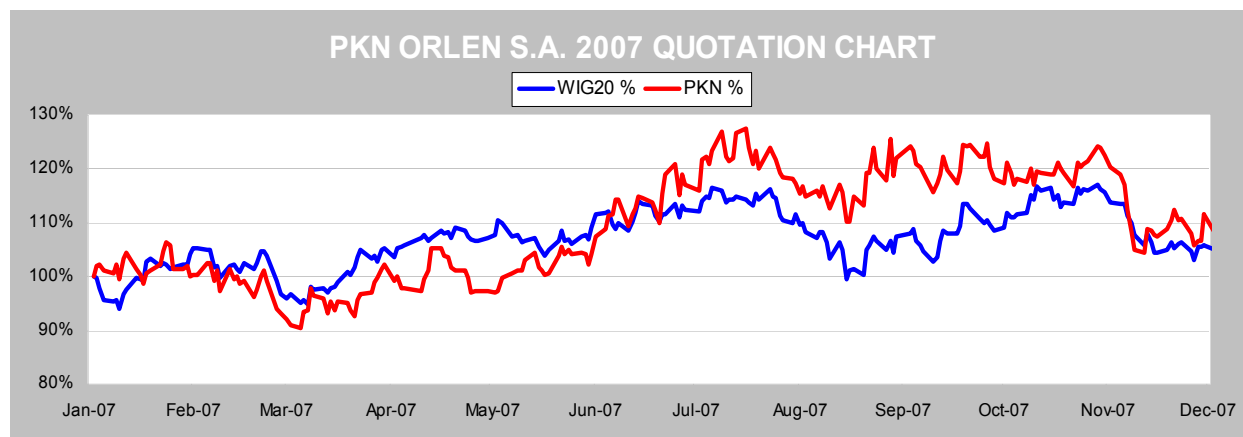
No agreements are known which in the future could provide for any changes to be introduced in the proportions of shares held by the existing shareholders.

5.11 PKN ORLEN S.A. on the capital market

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

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

In 2007, the average rate of PKN ORLEN S.A. shares was recorded at the level of 51.57 PLN per share, i.e. by 7.1% less than the value recorded in 2006. As at the end of 2007 the capitalization amounted to PLN 22.2 billion while at the end of 2006 it was PLN 20.4 billion.



**Management Board Report on Operations
of the Polski Koncern Naftowy ORLEN Spółka Akcyjna
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 May
Vice-President

.....
Dariusz Formela
Member of the Board

.....
Krystian Pater
Member of the Board

.....
Krzysztof Szwedowski
Member of the Board

Płock, 22 April 2008