ORLEN

ANNUAL REPORT
2008



10 LAT team ORLEN

ANNUAL REPORT 2008

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

10 LAT team ORLEN

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Statements of ORLEN Team members have been used in this publication

SUPERVISORY BOARD OF PKN ORLEN SA*

Maciej Mataczyński
Chairman of the Supervisory Board, Independent Member of the Supervisory Board

Marek Karabuła
Vice-Chairman of the Supervisory Board

Grzegorz Borowiec
Member of the Supervisory Board

Angelina Sarota
Member of the Supervisory Board

Jarosław Stanisław Rocławski
Member of the Supervisory Board

Grzegorz Michniewicz
Member of the Supervisory Board

Piotr Wielowieyski
Independent Member of the Supervisory Board

Janusz Zieliński
Independent Member of the Supervisory Board

Krzysztof Kołach
Independent Member of the Supervisory Board

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* Composition of the Supervisory Board as of 15 June 2009.

Dear Sir or Madam,

2008 was a very difficult and critical year for the entire economy. The financial crisis, which initially hit the financial sector, extended also to other sectors, including the fuel industry. PKN ORLEN found itself under very strong external pressure due to drastic oil price drops, sudden currency rate fluctuations and uncertainty on the capital markets.

In such harsh times, PKN ORLEN Supervisory Board, controlling the Company business, cooperated closely with its Management Board in order to protect the Company's goodwill and secure the Company against negative external factors. A number of projects were initiated and implemented, the main objective being to increase the Company's operating effectiveness and ensure its further development. Moreover, a number of regular initiatives were taken to protect the Company against the turbulences on the global and regional markets. I am extremely satisfied to conclude that all those measures have yielded measurable results.

Due to consequent implementation of the ORLEN Group strategy, its high effectiveness and efficient cost optimisation, the Company revenue increased by 25%. We reported sales growth both in the retail and wholesale sector. In 2008, the Company implemented the planned measures to increase the production and sales of fuel, in particular diesel oil, as well as goods and services in the retail sector. The Company consequently implemented the Group's long-term strategy. All those measures reflected the Company's sound investment policy aimed at strengthening PKN ORLEN's leader position in the petrochemical and refinery industry in the region.

I would like to thank all to whom PKN ORLEN owes its strong position and efficiency despite the present hard times. First of all, I would like to thank all the employees for their efforts to maintain ORLEN's leading position in this part of Europe. Also, I would like to express my gratitude to PKN ORLEN Management Board and my colleagues from the Supervisory Board.

I am aware that 2009 will be a year of extreme challenges for PKN ORLEN. We have to continue improving our effectiveness and internal restructuring, and finalise numerous pending investment plans and the planned sale of the Company's certain significant assets.

Ambitious plans may only be achieved with harmonious cooperation between the Supervisory Board, the Management Board, and the entire staff. Bearing this in mind, we move on to the next stages of PKN ORLEN's development.

Maciej Mataczyński

Maciej Mataczyński

Chairman of PKN ORLEN Supervisory Board

MANAGEMENT BOARD OF PKN ORLEN SA*

Dariusz Jacek Krawiec

President of the Management Board; CEO

Appointed as President of the Management Board, Chief Executive Officer on 18 September 2008. Since 7 June 2008 – Vice President of PKN ORLEN Management Board. Aged 41, graduate of Poznań University of Economics.

In 1992–1997 worked for Bank PEKAO SA, Ernst & Young SA and PriceWaterhouse Sp. z o.o. In 1998 – responsible for the Polish market in a British branch of the Japanese investment bank, Nomura plc London. Next, in 1998–2002, held the post of President of the Management Board and General Director in Impexmetal SA. In 2002 – appointed as President of the Management Board in Elektrim SA. In 2006–2008 - President of the Management Board in Action SA. He presided over supervisory boards of the following companies: Huta Aluminium "Konin" SA, Metalexfrance SA Paris, S and I SA Lozanna, ce-market.com SA, and participated in supervisory boards of other companies: Impexmetal SA, Elektrim SA, PTC Sp. z o.o., Elektrim Telekomunikacja Sp. z o.o., Elektrim Magadex SA, Elektrim Volt SA and PTE AIG.

Currently, Chairman of the Supervisory Board of Unipetrol a.s. and Member of the Supervisory Board of Polkomtel SA.

* Composition of the Management Board as of 15 June 2009.

Sławomir Jędrzejczyk

Vice President of the Management Board; CFO

Appointed as Vice President of PKN ORLEN Management Board on 7 June 2008. Aged 40, graduate of Łódź University of Technology. In 1997, graduated from the Association of Chartered Certified Accountants in London as Chartered Certified Accountant.

In 1992–1997 he worked for: Telebud, ASEA Brown Boveri, PriceWaterhouse Sp. z o.o. In 1997–2002, Member of the Management Board, Financial Director in Impexmetal SA. Chairman and Member of Supervisor Boards of the Group's companies in Poland, Europe, Singapore and the USA. In 2002–2003, Financial Director in ORFE SA and Member of the Management Board of Cefarm Śląski SA. In 2003–2005, Controlling Director in Telekomunikacja Polska Group. From 2005 until June 2006, President of the Management Board, General Director of TPEmiTel Sp. z o.o. owned by Telekomunikacja Polska Group.

Currently, Deputy Chairman of the Supervisory Board of Unipetrol a.s., Member of the Supervisory Board of Polkomtel SA and Member of the Management Board of AB Mažeikių Nafta.

Wojciech Kotlarek

Member of the Management Board; Sales

Appointed as Member of PKN ORLEN Management Board on 7 June 2008. Aged 47, graduate of the AGH University of Science and Technology in Kraków, Faculty of Drilling, Oil and Gas. In 1997–2002, completed post-graduate courses at the Warsaw School of Economics: "Project Management" and "Enterprise Management Strategy".

In 1988–1999 held managerial positions in Polskie Górnictwo Naftowe i Gazownictwo, Dora Sp. j.v. and Neste Polska Sp. z o.o. In 1999–2006 worked for PKN ORLEN as Director of the Regional Wholesale Office. In 2006–2008, Vice President of the Management Board, Operating Director in Petrolot Sp. z o.o.

Currently, Chairman of the Supervisory Board of ORLEN Deutschland AG, ORLEN Transport SA and IKS "Solino" SA.

Krystian Pater

Member of the Management Board; Refinery Operations

Appointed as Member of PKN ORLEN Management Board on 7 June 2008. Aged 44, a graduate of the Faculty of Chemistry at the Nicolaus Copernicus University in Toruń.

Completed the following postgraduate courses: "Engineering and Chemical Equipment" at the Warsaw University of Technology (1989), "Marketing and Management" at Paweł Włodkowic University College (1997), "Management in the Crude Oil Sector" (1998) and "Goodwill Management" (2001–2002) at the Warsaw School of Economics. From 1993, worked for Petrochemia Płock SA, and later – for PKN ORLEN, where in the period of 2005 to 2007 he held the post of Executive Director for Refinery Production. Member of PKN ORLEN Management Board since 15 March 2007.

Currently, Chairman of the Supervisory Board of Paramo a.s. and Member of the Supervisory Board of Unipetrol a.s. Management Board Member at AB Mažeikių Nafta, SITPNiG and CONCAWE. Chair of the Oil Company Association in Płock.

Marek Serafin

Member of the Management Board; Petrochemical Operations

Appointed as Member of PKN ORLEN Management Board on 7 June 2008. Aged 39, graduated from the Faculty of Civil Engineering at Poznań University of Technology. MBA graduate of the London Business School at Warsaw University of Technology.

In 1994–1998 Experienced Senior Consultant at Arthur Andersen. In 1998–1999 worked as Operating Planning Director in Lech Browary Wielkopolski SA owned by Kompania Piwowarska SA. In 1999–2001 he served as Operating Director in Huta Aluminium "Konin" SA. In 2001–2002, President of the Management Board, General Director of Huta "Zawiercie" SA. Since 2002 – General Manager at the ArcelorMittal Group and President of the Management Board of Huta Warszawa, and President of the Management Board of Silscrap Sp. z o.o.

Currently, Chairman of the Supervisory Board of ANWIL SA, Vice-President of the Management Board of Unipetrol a.s. and Member of the Supervisory Board of Basell Orlen Polyolefins Sp. z o.o.

Dear Sir or Madam, Dear Shareholders,

The passage of 2008 was marked by macroeconomic turbulence of unusual gravity, which had a substantial impact on the operations of the ORLEN Group and its financial results.

It was a year predominantly shaped by the world economic crisis, a troubled banking sector and announcements of a further deepening of the recession. Never before in the Company's entire history have we encountered a deterioration in external conditions, occurring at such lightening speed, and producing an unbridgeable impact.

Our financial results for last year thus bore the blows of this most unfavourable macroeconomic environment, the end effect being the necessity to now report negative operating and consolidated net results.

Nonetheless, despite the extremely unfavourable conditions, PKN ORLEN is able to consider the previous year a success. This is primarily owing to the fact that the Group has maintained its stable financial position, evidence of which can be found in its operating cash flow, which has increased by over 80 percent, as well as in the dynamic development of our retail segment, the return of the AB Mažeikių Nafta refinery to full production and the Group's crucial growth in terms of the most sought-after product in the market, namely diesel oil.

Last year, the ORLEN Group's seven refineries processed 28 million tonnes of crude oil. At the same time, we conducted tests on alternatives to the REBCO processing method at our Płock and Mažeikiai refineries. This has provided us with comprehensive knowledge of the technological potential for raw material diversification. The results of our research have revealed a genuine possibility of diversifying the sources of our raw material supplies. This is of particular value in circumstances when flexible processing within stable economic parameters is demanded, such as arise, for example, during a prolonged overhaul.

The past year saw excellent results in our retail segment, with our Central European petrol station chain showing a quantitative increase in sales in excess of 12%. Meanwhile, we launched 107 new petrol stations, 76 of which are franchised, and 225 petrol stations were modernised, rebranded and rebuilt. We have maintained a consistent approach to the management of product categories and fuel services and have launched the STOP Café, a new, ORLEN petrol station catering outlet.

Our customers have not failed to recognise our endeavours in guaranteeing them the highest quality service or our ongoing development of services and other offers beyond the provision of fuel. Proof of this can be found, for example, in the fact that in the prestigious consumer research carried out by the monthly magazine, Reader's Digest, the readers honoured ORLEN petrol stations with the title of Trusted Brand for the seventh consecutive year. The golden Trusted Brand statuette is awarded to the organisation which obtains the highest number of spontaneous votes. This year, ORLEN received 47 percent of the votes cast, improving on the previous year's result of 45.7 percent, and once again, we have outstripped Western fuel companies and their brands. The ORLEN chain also took second place in the MasterCard competition, Excellence In Sales and Services. The competition recognises successful endeavours to improve levels of customer satisfaction.

Both awards give us more than simply a sense of satisfaction, acting primarily as a spur to create more offers, which will, in turn, go even further towards meeting our customers' requirements.

Our wholesale results also deserve emphasis; in comparison to 2007, our fuel sales increased by 24 percent. The greatest demand dynamic was recorded in the aviation fuel division, where the volume of sales in 2008 exceeded those for the previous year by almost 54 percent.

Our focus in the chemical segment, established by ANWIL SA, was on maximising sales of fertiliser products, while increasing production line productivity in this area. Modernisation of the production lines in our PVC complex was also carried out, as was the construction of an oxygen generating unit.

In the second half of 2008, with the thought of the changes which were to be forthcoming on the world and national markets in mind, we focused on preparing a strategy for the Group which would adequately meet the situation and on putting forward proposals for what we believe to be the most appropriate operational solutions.

Our ruling objective is to reinforce the Group's core business operations by introducing a long-term process of change, with a view to increasing the efficiency of our assets by means of restructuring, optimising costs, undertaking legitimate investment, and improving interaction among segments. We believe that our refinery, petrochemical and retail segments constitute the foundations for our further development.

A further objective of the strategy is to consolidate and integrate the company in readiness for the launch of our next stage of dynamic development as the outlook improves.

The preceding year saw the positive evaluation of the Company's operations in numerous competitions and rankings, confirming us as a reliable and responsible business partner. These ratings include our second, consecutive victory in the MARQA Ranking for the Most Valued Polish Brands, first place in the List of 2000 published by the daily broadsheet, Rzeczpospolita, and our eighth Diamond, awarded to us by the Business Centre Club, to add to our Polish Business Leader Statuette.

Dear Shareholders,

As I hand this Annual Report to you, may I draw your attention to the fact that it was 10 years ago that the ORLEN Team, Poland's only professional rally team, was created under the auspices of our Company.

The undeniable success of our team is the result of their many years of striving and their exceptional efforts and determination to overcome both their own shortcomings and the reversals of fortune. ORLEN team is a superb illustration of our determination as a Company which, despite unfavourable external conditions, never swerves on the road to achieving the most ambitious of goals. It is thanks to the sense of personal responsibility for the Company's final results felt by all our employees that we are ready to operate in various circumstances, even the most unfavourable. Thus, I would like to thank each and every member of our ORLEN community for their involvement and team work during 2008 which, in turn, has readied us to achieve our intended goals together in 2009.

Let me also thank our Shareholders for their enduring trust in us, and the Members of the Supervisory Board for the enormous contribution they have made towards our achievement of our strategic objectives. I believe that our joint efforts will continue to be as auspicious as they have been so far, and that our ongoing constructive dialogue will further serve the OLREN Group and all the Stakeholders.

I am wholly convinced that the investments made in previous years and our consistency in implementing our operational plans will allow us to strengthen both PKN ORLEN's position and its significance to our Shareholders and to the economies of the countries we are operating in.

Dariusz Jacek Krawiec

President of the Management Board, PKN ORLEN SA start of rally

00 : 00 : 00

"The weather changed just before the starting flag. We have to be prepared for every variety of weather conditions. The rallies are going to be long and very tough. The very best in the world have entered, so the competition's going to be fierce, with a lot of very fast drivers. And I intend to take them on."

10 LAT Team ORLEN

ABOUT | PKN ORLEN

ABOUT PKN ORLEN

PKN ORLEN is one of the largest oil industry companies in Central and Eastern Europe. We process oil into unleaded petrol, diesel oil, heating oil, aviation fuel, plastics and petrochemical products.

We manage seven refineries in Poland, the Czech Republic and Lithuania. The Company's refinery and petrochemical complex which is located in Płock is ranked among the most modern and effective facilities of its kind in Europe. In 2008, crude oil processing in ORLEN Group totaled 28 million tonnes.

Moreover, we have the largest fuel station network in Central Europe, covering Poland, Germany, the Czech Republic and Lithuania. Our fuel stations offer top quality products and services. The ORLEN retail network is based on effective logistics infrastructure consisting of over and underground storage facilities and a network of long-distance pipelines.

As at the end of 2008, the number of ORLEN Group employees totaled 22 958[1] people, including 4,724 in PKN ORLEN, 4,647 in Unipetrol Group, 3,517 in Mažeikių Nafta Group and 108 in ORLEN Deutschland AG.

[1] In this context ORLEN Group means the Company and its consolidated subsidiaries, excluding the affiliated entities.

ABOUT PKN ORLEN

10 LAT team ORLEN

Our mission

Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality.

All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.

Our motto

Whenever you need us.

PKN ORLEN on the Capital Market

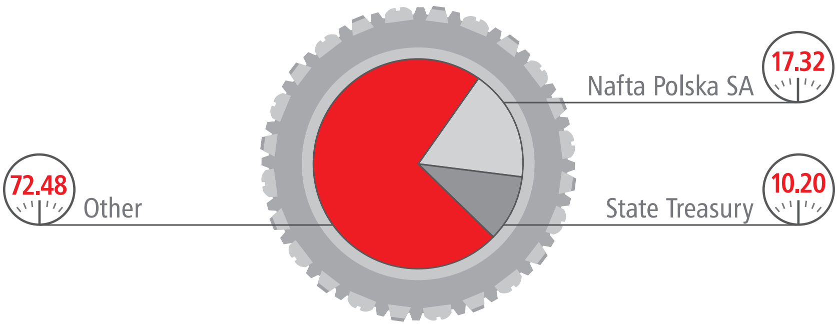
PKN ORLEN shares are listed on the Warsaw Stock Exchange and in the form of Global Depository Receipts (GDRs) on the London Stock Exchange. Trading in depository receipts also takes place in the USA on the OTC market. The Company shares are listed on the official market on the Warsaw Stock Exchange in the continuous trading system and are included among the largest company indexes WIG20 and WIG, and WIG-fuel index. The Company's capital share amounts to PLN 534,636,326.25 and is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 per share. The Bank of New York Mellon is the depository of the Company's depository receipts. The transaction unit on the London Stock Exchange is 1 GDR, which equals to two shares of the Company.

One of PKN ORLEN's subsidiaries, Unipetrol, is also present on the capital market, with its shares listed on the Prague Stock Exchange, and the OTC market (RM-SYSTÉM). The Company's capital share is divided into 181,334,764 ordinary shares with a par value of CZK 100 per share, of which 67,110,726 shares are currently traded. Also, bonds issued by Unipetrol are listed on the Prague Stock Exchange. Currently, 2,000 bonds of total par value of CZK 2,000,000,000 are traded.

Date of birth: 22 June 1967
Birthplace: Warsaw
Height: 176 cm
Weight: 82 kg
Hobbies and leisure activities: motor sports; his favourite way of spending his free time is with his wife and two children.
Greatest successes: 2007 and 2008 FIM Motocross World Champion, 450 ccm class.

PKN ORLEN's shareholder structure

as on 31 December 2008 (%)[2]



The ORLEN Brand

The ORLEN brand has become the Polish synonym of world-class products and expansive enterprise, a company observing the principles of corporate social responsibility, ethics and corporate governance, and full transparency.

Currently, the ORLEN brand covers a network of fuel stations in Poland and Lithuania, fuel products, petrochemical products and operating fluids. The image of the brand also created by the ORLEN Racing Team, which represents the company and the country in all the important race events in Poland and abroad. The ORLEN brand also involves charity activities of the ORLEN DAR SERCA Foundation, which supports in particular family children's homes.

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[2] On 20th February 2009 PKN ORLEN was informed that ING OFE held a 5.17% stake in the company.

Date of birth: 16 December 1972
Birthplace: Warsaw
Height: 183 cm
Weight: 76 kg
Hobbies and leisure activities: snowboarding, windsurfing, motor sports.
Greatest successes: FIM World Champion in the Over-450 Rally Production class in 2008; 9th place in the Dakar Rally 2003.
World Enduro Championships team event in 1993.

For the second time in a row, our corporate brand won the first place in the MARQA ranking of most valuable Polish brands, valued at PLN 2,869.1 mn. We reported an 11% increase in brand value compared to 2007.

The ORLEN brand won the title of "High Reputation Brand" in the business category, awarded in an independent ranking of brands in Poland, "PremiumBrand".

Drivers – our retail customers – position our corporate brand among the leading brands on the Polish market. This is confirmed by the results of surveys, which show that the ORLEN brand enjoys 100 percent prompted awareness and 83 percent spontaneous awareness[(2)]. Incessantly since 2002 (in 2008, for the 7th time), ORLEN brand fuel stations have won the Golden Emblem of the European Trusted Brands in a consumer survey conducted across Europe by Reader's Digest. The brand's stable position proves that customers trust our distribution network.

Another example of ORLEN brand's high position on the domestic market is the Superbrands Polska title, won for the third time in a row in the largest-scale opinion survey concerning brands in Poland. For us, this is important that the selection of respondents was approved by the Brands Council composed of the chief figures of Polish marketing.

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(2) Source: "Brand Barometer" study by GfK Polonia of December 2008.

Date of birth: 24 March1985
Birthplace: Warsaw
Height: 186 cm
Weight: 78 kg
Hobbies and leisure activities: parachuting, diving, drifting, squash, climbing.
Greatest successes: FIM World Championship runner-up in the Over-450 Rally Production class in 2008.

10 LAT team ORLEN

Our marketing activities strengthen the brand image. One of its ambassadors is enriched VERVA fuel, available at ORLEN fuel stations. VERVA is the best known brand in its category (71%[3] awareness in December 2008), ahead of V-Power or Ultimate.

In 2008, we campaigned the BLISKA economy brand, promoting the consumer tailored offer in fuel stations. As a result, the brand prompted awareness went up from 40% to 64%[4].

Corporate Governance

As a public company, we observe all the principles recommended in the "Code of Good Practice for Stock-Exchange Listed Companies". Of the nine members of the PKN ORLEN Supervisory Board, four are independent, which is in compliance with the criteria of the Code. The Company's Supervisory Board involves four committees: The Audit Committee, The Corporate Governance Committee, The Strategy and Development Committee, and The Appointment and Remuneration Committee. Each Committee includes at least one independent member of The PKN ORLEN Supervisory Board.

We take a number of measures to improve communication with our surroundings, among others using modern technologies to communicate with representatives of the Capital Market. We organise live internet transmissions from the most important corporate events. Our web-site displays information required by investors and other stakeholders of the capital market.

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(3) Source: "Brand Barometer" study by GfK Polonia of December 2008.
(4) Source: "Brand Barometer" study by GfK Polonia before the BLISKA brand campaign (November 2007) a and a year after broadcasting the commercial (December 2008).

Date of birth: 4 June 1962
Birthplace: Olsztyn
Height: 196 cm
Weight: 89 kg
Hobbies and leisure activities: motorboat and motorcycle sports.
Greatest successes: Second place in the FIA World Cup in 2008, European Champion in 1997.

10 LAT team ORLEN

Our efforts to communicate with capital market participants were recognised by the jury of the "The Best Annual Report 2007" contest organised by the Accountancy and Tax Institute (*Instytut Rachunkowości i Podatków, IRiP*) in cooperation with *Dziennik Polska Europa Świat* and *The Wall Street Journal Polska*. The PKN ORLEN annual report was a prize-winner in this contest for the third time. The report won third place in the "Enterprises" category for its transparency, accuracy and usefulness. It also received a special award from the Individual Investors Association (*Stowarzyszenie Inwestorów Indywidualnych*).

Corporate social responsibility

Corporate social responsibility is of crucial importance in company management, relations with stakeholders and activities involving environmental and social effects.

Ethical issues were discussed in our Code of Ethics adopted in 2006, which is a selection of the most important principles and values to be followed by the company in relation with its surroundings. We take due consideration of the provisions of the Code in all our internal procedures. We develop and consequently implement good practices in consecutive areas of our business. For the last few years, we have presented our good practices in a report issued by the Responsible Business Forum (*Forum Odpowiedzialnego Biznesu*).

In 2008, two examples of good practice were presented: "Creation/maintenance of jobs" and the "ORLEN. Safe Roads" programme.

Date of birth: 4 July 1968
Birthplace: Huy, Belgium
Height: 177 cm
Weight: 88 kg
Hobbies and leisure activities: motoring, car rallies.
Greatest successes: Second place in the FIA World Cup in 2008, Runner-up in the Junior World Rally Championship (JWRC) in 2004.

Under the "ORLEN. Safe Roads" programme, we undertake activities aimed at educating the society in the field of traffic safety rules, and in particular we inspire, help to implement and reward the most interesting road safety initiatives. The 2008 edition of the programme held the motto: "Parents set an example for their children".

Corporate responsibility also means supporting the local society and co-operating with NGOs and associations. In 2008, we actively participated in numerous local projects. Traditionally, we sponsored the "ORLEN Polish Open" International Wheelchair Tennis Tournament and Wisła Płock Sports Club. We financially supported the reconstruction of the Zielińscy Library of the Płock Scientific Society as well as renovation of historic buildings of the former Benedictine abbey in Płock. Also, we supported innovative ideas and initiatives towards the development of the city under the "Forum for Płock" cross-sector partnership project launched in 2002 with the city of Płock and the United Nations Development Programme (UNDP).

For many years, our charity activities have been a major element of the Company's corporate responsibility. In 2008, we supported numerous valuable projects in the field of education, health and security. Our charity activities were two-pronged: direct activities taken by the Company and via the ORLEN DAR SERCA Foundation, where we are the sole benefactor.

We actively support culture, heritage, environmental protection and professional and amateur sport initiatives. In 2008, we continued our cooperation with the prestigious culture institutions in Poland, such as the National Concert Hall or the National Museum in Warsaw. We promoted the most important automotive events and projects. Together with ORLEN Oil, we sponsored the 65th ORLEN Platinum Rally Poland, the largest and the most prestigious racing event in Poland.

For 10 years, we have sponsored ORLEN Team, the first fully professional cross-country racing team in Poland, which represents the country on international arenas and participates in the most important sporting events, like The Dakar. In the 2008 Cross-Country Championship and World Cup, our motorcyclists, Jacek Czachor and Marek Dąbrowski, won the FIM World Champion title, and Jakub Przygoński – FIM World Vice-Champion. Our car team, Krzysztof Hołowczyc and Jean-Marc Fortin, won second place in the FIA World Cup.

first stage of rally

02 : 51 : 43

"Our chances of ranking well in the Dakar are on the increase. This isn't just a matter of our will to win, our equipment, or the team's potential. Every competitor who enters, means another competitor with the absolute desire to win. And I'm one of them and I want to win!"

ORLEN GROUP STRATEGY

In November 2008, we developed the 2009-2013 ORLEN Group strategy. The impulse to prepare a new strategy were the major changes taking place in the micro and macroeconomic environment and, first of all, the need to strengthen the Company's position for our dynamic development.

We will focus our activities on our core business: refineries and the petrochemical business, fully integrated with refineries, and managing the largest retail network in the region. While focusing on our core business, we are also planning divestment in the chemical and telecommunications sector in order to release the capital involved. When improving our core business, we will not forget about our development – we plan to develop our production business and enter into a new area – the electric energy sector.

Successful measures aimed at efficiency improvement will give us a good start for our further development. The key measures will include: further improvement of our operating efficiency, asset integration, improved sector management and value chain extension.

Basic financial data

– sustainable development in safe financial parameters

The main financial goals until 2013 are as follows

EBITDA[1] ..... PLN 7.8 bn

ROACE[2] 11%

CAPEX ..... PLN 12.6 bn

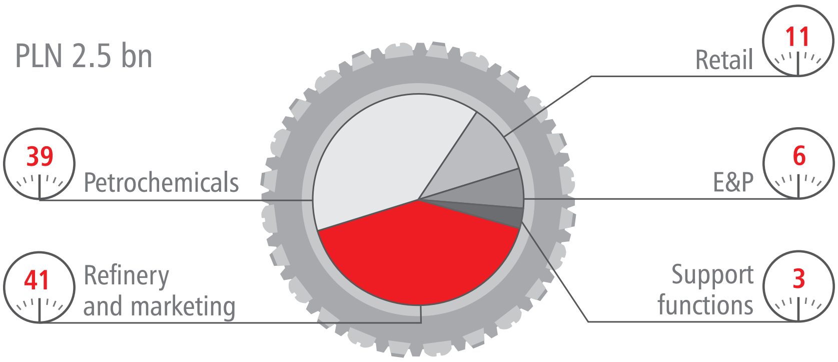
Financial leverage[3] 30%–40%

Dividend policy ..... based on FCFE[4]

PKN ORLEN's capital expenditure in 2009-2013 leveled at PLN 12.6 bn, of which: refinery - 41%, petrochemicals - 39%, retail - 11%, E&P - 6% and support functions - 3%. Investment resources until 2013 include investment projects aimed at development (58%) as well as due to stricter regulatory requirements (6%) and necessary reconstruction (36%).

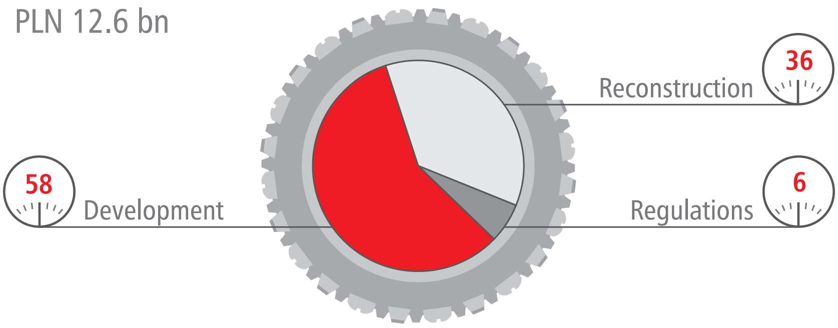
(1) EBITDA = operating profit before tax and financial expenses increased by depreciation; applies to ORLEN Group, LIFO stock valuation method.
(2) ROACE = operating profit after tax / average capital invested in a period (equity + net debt).
(3) Financial leverage = net debt / equity.
(4) FCFE – Free Cash Flow to Equity.

CAPEX – annual average (%)



CAPEX

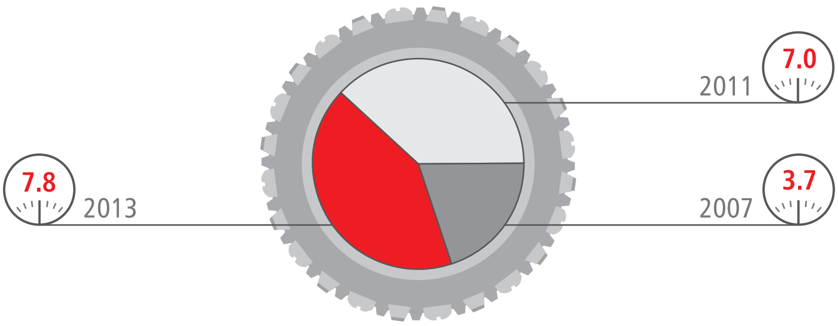
(2009–2013 value cumulated on the level of the whole ORLEN Group (%)



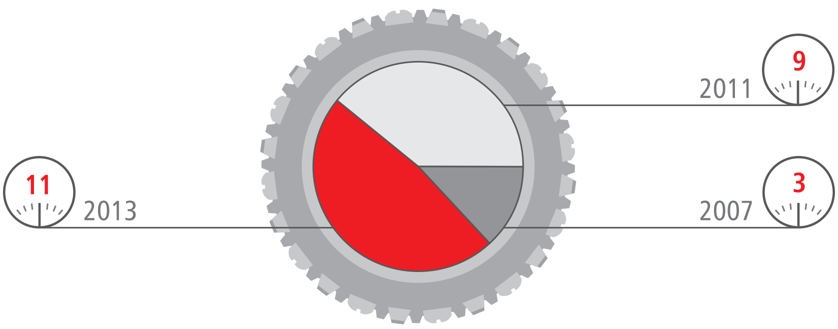
One of the basic assumptions of the Companys strategy is to achieve PLN 7.8 bn EBITDA in 2013, given stock valuation with the LIFO method. The financial goal does not take into account divestments, potential acquisitions or strategic partnerships. We will be consequently aiming at an improved return on invested capital, which is supposed to amount to 11% in 2013. The company priority is to maintain debt level within 30%-40% of the value of

equity capital. In 2009, financial leverage will temporarily increase due to the continued implementation of advanced investment projects. We expect an increased free cash flow for 2010 and consequent reduction in financial leverage over the next few years, enabling for the Company's further dynamic development.

EBITDA according to LIFO (PLN bn)



ROACE (%)



ORLEN GROUP STRATEGY

To ensure continuous generation of financial resources and to support financial leverage reduction, we base our dividend payment policy on the FCFE indicator – at least 50%. Sale of assets not related to the Company's core business will definitely increase free cash flow to shareholders.

Commentary

Financial safety upon implementation of strategic plans will be ensured by our investment project policy, which takes into account verification of plans based on the rate of return and prioritising plans depending on the market situation.

Refinery production

In the refinery sector, one of the key measures will be to increase the production of diesel oil and petrochemical charge, combined with increased oil processing. In 2013, the output of the most profitable medium distillates will go up by 6 percentage points compared to 2007, to a minimum level of 49%. Consequently, diesel oil production will go up by 44%, to 12.5 mn tonnes.

Where economically justified, service oil processing in selected ORLEN Group refineries will be considered.

In 2009–2013, we will implement an investment programme at the assumed expenditure of PLN 5.2 bn. The largest investment projects in the sector will result in an increased diesel oil production, among others at the desulphurisation unit in Płock and in AB Mažeikių Nafta.

Improved efficiency will be achieved based on Solomon's benchmarks: improved energy consumption, labour intensity and plant utilisation indices. Those measures will result in PLN 4.5 bn EBITDA in the refinery sector in 2013.

Logistics

A major element of improving our competitive advantage will be the further development of logistics. Among the most important projects in this area is the construction of a product pipeline from the Mažeikiai refinery to a sea terminal, which will enable increased export volume and lower transport costs. There will also be new product pipeline sections in Poland between Ostrów Wielkopolski and Wrocław, and between Boronowo and Trzebinia. We are also planning to thoroughly use the potential of existing and new caverns in order to satisfy our storage requirements and profit from the stored products' business cycles. We will continue to restructure our network of owned storage facilities.

Wholesale

The main objective of the wholesale sector is to maintain its leading position in its respective states. Strategic assumptions for this sector focus on increasing EBITDA by PLN 200 mn in 2013, mainly through improved trade conditions. One of the major elements of the strategy is to sell over 1/3 of the volume via the company's own retail network and to secure and actively take over import channels.

Retail

As for the fuel station network, we will continue our previous successful brand policy and increase non-fuel sales efficiency per station and per brand. The average annual capital expenditure in the retail sector will amount to PLN 300 mn, i.e. the total of PLN 1.4 bn in 2009–2013. In 2013, the retail sector impact on EBITDA is expected to be PLN 1.2 bn. The crucial element of our retail strategy will be the continued rebranding of fuel stations and the development of franchise networks. Until 2013, we expect improved retail sales volume share on all home markets by 4 percentage points.

Petrochemicals

PKN ORLEN's progress in the petrochemical sector will be determined by investments in production facilities and efforts to further enhance efficiency. The situation may improve after price policy changes and changes in indicators and output structure upon application of Solomon and PTA[5] benchmarks. One of the most important investment projects will be the PX/PTA installation, which will ensure an increase in EBITDA to PLN 2.7 bn in 2013. This strategy provides for PLN 4.9 bn of capital expenditure for petrochemical purposes until 2013. Upon analysis of the situation, it seems that there is a need for divestments, too. Due to limited synergy with the core business, we decided to release capital engaged in the PVC and artificial fertiliser plants.

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(5) PTAI – Phillip Townsend Associates, Inc.

Exploration and production

In order to ensure the best possible solutions in terms of raw material policy, we will establish long-term oil supply contracts, some of them offering substantial discounts, and short-term purchases will focus on temporarily undervalued brands. One of our chief objectives will be to ensure at least two supply directions for each refinery. This will ensure safety and optimum structure of supplies.

E&P projects will mainly focus on the already identified sources in states with stable position sand acceptable risk levels. We plan to regularly analyse the situation in the sector and profit from investment opportunities, and, where possible, make strategic partnerships. We plan to achieve PLN 182 mn EBITDA in the sector in 2013.

Energy

One of the new elements of our strategy is the energy power sector. In order to ensure safety in the sector, we will implement organic growth, mainly through investing in co-generation and increased media production to respective plants. We are also planning non-organic growth within the existing technologies, assuming potential cooperation with business partners.

second stage of rally

05 : 30 : 22

"Riding the dunes demands the most extraordinary concentration and won't let you get away with even the smallest mistakes. In terms of specifics, when it comes to a route which runs more or less entirely through a roadless wilderness, obstructed by sand dunes, drivers prefer starting later and following their rivals' tracks."

10 LAT team ORLEN

UPSTREAM | SEGMENT

UPSTREAM SEGMENT

According to the PKN ORLEN Group strategy communicated in November, we are planning to continue the development of recovery activities to ensure access to our own raw material resources, which will result in the development of crude oil trading activities, increase in goodwill and a stronger competitive position. By searching for our own oil and gas fields, we will be implementing the national energy security policy.

A dedicated exploration and production organisation established within PKN ORLEN is capable to competently evaluate E&P projects, both in terms of their technological potential and the purposefulness of planned acquisitions. Ongoing monitoring of the global E&P project market enables full recognition of acquisition possibilities. The existing, constantly developing database of such projects enables their adequate selection and matching with the Company's needs and possibilities.

The main 2008 projects in the upstream sector concerned:

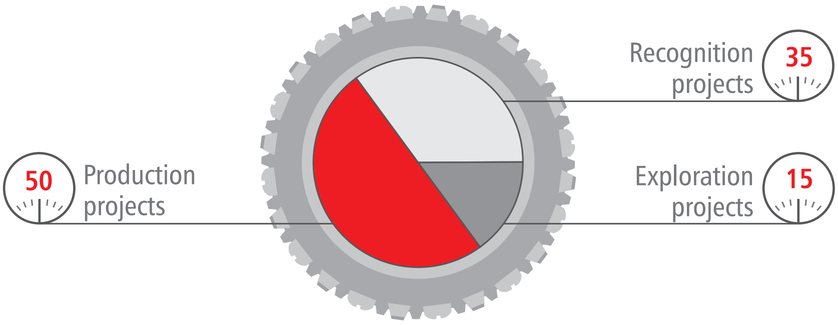
- Commencement of an E&P project on the Baltic shelf within the Latvian Economic Zone;
- Execution of an E&P project in the Lubelskie basin region;
- Studies and analyses of 79 E&P projects/assets in various geographic locations, of which 6 were forwarded for detailed due diligence analysis;
- Full analyses of selected projects for E&P asset purchase or corporate acquisition outside Poland;
- Cooperation with partners with assets located on the territory of Poland.

Two important projects are in progress and will be continued over the next years: the E&P project in the Lubelskie basin and the E&P project in the Baltic Sea.

In April 2008, under the Baltic Sea project, we purchased, via a dedicated ORLEN International Exploration and Production Co. BV company, shares in a company authorised to conduct E&P activities within the Latvian Baltic shelf. In 2009, we are planning to expand PKN ORLEN presence within the Baltic shelf and continue exploration activities with re-interpretation of historic data, and acquire additional 2D/3D seismic data.

We assume that by achieving strategic assumptions in the field of oil and gas exploration and production, we will be able to stabilise more efficiently the Company's margin levels. A portfolio of upstream assets sustainable in terms of project progress, geographic location and type of raw material, will secure stable growth at an acceptable risk level. These tasks will be implemented in close cooperation with upstream companies. Cooperation with experienced partners enables us to participate in hydrocarton management and recovery projects and to have direct access to information on potential upstream projects in regions covered by our partners. Another objective of such cooperation is upstream risk optimisation through mutual support in the selection, evaluation and implementation of projects as well as access to a partner's know-how and qualified and experienced personnel. Cooperation with external partners enables PKN ORLEN to achieve sustainable growth at an optimum risk level.

Planned E&P asset portfolio structure (%)



third stage of rally

12 : 01 : 57

"Africa uncovers more and more of her natural face with every kilometre. The further south you go, the more dramatically the temperature rises. But the real hell is waiting for the teams in Libya, because that's the true desert."

REFINERY | SEGMENT

REFINERY SEGMENT

In 2008, ORLEN Group refinery sector consisted of: Płock refinery, production assets of Rafineria Trzebinia SA and Rafineria Nafty Jedlicze SA, and ORLEN Asfalt Sp. z o.o., ORLEN Eko Sp. z o.o., (Poland), refineries: Litvinov, Kralupy and Paramo a.s. (Czech Republic), and AB Mažeikių Nafta (Lithuania).

Crude oil processing

In 2008, 7 refineries of the ORLEN Group processed over 28 mn tonnes of oil, i.e. approximately 25.66% more than in 2007.

ORLEN Group – crude oil processing by state

in 2007–2008 (mn tonnes)

	2007	2008	Dynamics
Refineries in Poland	13.65	**14.53**	6.4%
Refineries in the Czech Republic[(1)]	4.13	**4.53**	9.7%
Refinery in Lithuania	4.74	**9.24**	94.94%
TOTAL	**22.52**	**28.3**	**25.66%**

[(1)] 51% Litvinov (2.8 mt/y), 51% Kralupy (1.7 mt/y).

The driving motor behind increased oil processing was the restoration of full production capacities at the Mažeikiai refinery after failure of a vacuum distillation column in October 2006. The largest volume of oil was processed at the Płock refinery (approximately 14.5 mn tonnes) and at the Mažeikiai refinery (approximately 9.2 mn tonnes). Production in all ORLEN Group refineries was based to a large extent on Russian REBCO oil, whose share in total oil processing amounted to 89%. Other types of processed oil included: Ekofisk, Forties, Gulfaks, Oseberg, Statfjord and Azeri Light. Polish Dębno and Zielonogórska oil represented approximately 2% of oil processed in the Group's refineries located in Poland.

Poland

In January 2008, the Płock refinery started manufacturing diesel oil with 5% ester content, under the National Index Target for biofuels.

Additionally, PKN ORLEN volumes were influenced by the startup, in February 2008, of a diesel fraction hydrofining unit at the Heavy Vacuum Residue Hydrodesulphurisation plant, which enabled us to increase finished diesel production alternatively with Ekoterm Plus heating oil production.

Production volume of selected refinery products

in 2007–2008 (Płock, thousand tonnes)

	2007	2008	Dynamics
Crude oil processing	13,646	**14,218**	4.2%
Total petrol	2,610	**2,800**	7.3%
Total diesel oil	4,568	**5,078**	11.2%
Ekoterm Plus light heating oil	840	**840**	0.0%
Aviation fuel	355	**418**	17.8%
Propane-butane fraction	190	**221**	16.3%
Total fuels	8,563	**9,358**	9.3%
Fuel output (%)	62.75	**65.82**	4.9 pp
White product output (%)	77.94	**77.98**	0.05 pp

Investments

We continued construction of the Diesel Hydrodesulphurisation Unit (HON) VII, of annual production capacity at 2.2 mn tonnes. Upon startup of the new unit, the two oldest HON units will be wound down.

Meanwhile, we constructed the Hydrogen Plant II to supply hydrogen to all the new, extended and modernised production plants which require hydrogen for conversion, desulphurisation or modification of chemical compound chain structures. The startup of the unit, of 5 tonnes/hour capacity, is planned for 2009.

Since March 2008, we have performed construction works at the Reforming Plant V, at the following units: chloride and olefin removal from reformate and reformate separation into BT fractions. Those units will supply good quality products to the new Paraxylene Unit constructed in Płock, in the Petrochemical Sector.

2008 was a year of numerous comparative studies developed by Solomon Associates under production efficiency improvement project NCM3 (Net Cash Margin Measurement, Management, Maximization), whose goal is to ensure PKN ORLEN a stable and competitive position in the European market.

Production volume of selected refinery products

in 2007–2008 (Trzebinia, thousand tonnes)

	2007	2008	Dynamics
Oil processing	148.0	**238.7**	61.2%
Total production	208.3	**353.7**	69.7%
Fuel plending DPT.	153.5	**242.2**	57.8%
Fuel components	45.5	**73.8**	62.1%
Diesel	7.3	**8.1**	11.1%
Heating oil	82.8	**103.9**	25.6%
Other products	17.2	**55.1**	219.6%
Gas from oil processing	677.0	**1.2**	85.0%
Biofuel production plant	54.9	**111.5**	103.1%
Rape oil methyl esters	47.7	**93.3**	95.7%
Glycerine	6.0	**12.0**	99.5%
Other	1.2	**6.1**	428.0%

Increased oil processing in Rafineria Trzebinia SA was mainly due to extended cooperation with a supplier of raw material recovered from Polish resources - PGNiG Warszawa, which resulted in higher domestic oil volume for processing at Rafineria Trzebinia SA. Production plans were also affected by increased petrol demand for pyrolysis processes from PKN ORLEN.

As a result of oil processing at the Trzebinia refinery, we obtain among others products used in further refinery processes in the ORLEN Group, petrol fractions, diesel fractions, and heating oil with sulphur content <1%, highly valued on the market, used in industrial furnaces, central heating boilers and technical furnaces, and, in the case of heavy heating oil, also as fuel for marine low-speed piston engines and marine steam boilers, and to start-up industrial boilers.

Investments

In 2008, we completed the Biodiesel plant capacity optimisation project, aimed at eliminating bottlenecks reported throughout the 4 years of the plant's operation. As a result, standstill periods required to clean certain devices will be shorter.

Production volume of selected refinery products

in 2007–2008 (Jedlicze, thousand tonnes)

	2007	2008	Dynamics
Crude oil processing	121.9	**80.0**	–34.4%
Used oil processing	31.6	**33.3**	5.4%
Other raw material processing	57.9	**71.0**	22.6%
Base lubricating oil	10.4	**12.8**	23.1%
Other heating oil	68.8	**59.4**	–13.6%
Light heating oil	96.9	**82.9**	–14.4%
Solvents	3.2	**10.4**	225.0%
Total production	202.8	**185.6**	–8.5%
DRW utilisation rate	90.4%	**59.3%**	–34.4%

Nearly half of the oil processed at Rafineria Nafty Jedlicze SA came from domestic oil fields. The 42 thousand tonne drop in oil processing volume compared to 2007 was due to technological factors and disrupted rail supplies of low-paraffin oil from Ukraine, and the sudden drop in oil price listings in the second half of 2008.

Production in Rafineria Nafty Jedlicze SA is based on four main groups of products, namely: heating oil, base oil, solvents and special petrol. The largest group of products manufactured in Rafineria Nafty Jedlicze SA constitutes heating oil used for heat production, including heavy heating oil used in the production of bituminous mass.

The second largest group of products are base oils obtained from regeneration of used oil. The chief recipients of base oil are domestic and foreign lubricating oil and lubricant manufacturers.

Another significant group of products are top quality solvents recognised as "environmentally friendly" by both domestic and foreign customers, due to their low content of aromatic hydrocarbon and sulphur. The main solvent recipients are manufacturers of paint, varnish, specialist solvents and adhesives.

Other products are applied in the following industries: chemical, metal, automotive and mining.

Investments

Investment projects at the Jedlicze refinery focused mainly on preparations to the construction of a plant to process crude oil recovered from 26 local fields and to use it for the production of raw material for solvents and blending of heating oil.

Czech Republic

Production volume of selected refinery products in Unipetrol[(2)]
in 2007-2008 (thousand tonnes)

	2007	2008	Dynamics
Crude oil processing	4,136	**4,533**	9.6%
Total petrol	769	**821**	6.7%
Total diesel oil	1,592	**1,910**	19.9%
Light heating oil	42.3	**82**	93.8%
Aviation fuel	74	**91**	22.9%
Liquefied gas	124	**151**	21.7%
Total fuels	2,601.3	**3,055**	17.44%
Fuel output (%)	62.9	**67.4**	7.2 p.p.
Refinery utilisation index (%)	75.2	**81.7**	8.64 p.p.

(2) 51% Litvinov (2.8 mt/y), 51% Kralupy (1.7 mt/y).

In 2008, ORLEN Group refineries (Litvinov and Kralupy) processed in excess of 4.5 mn tonnes of oil, which is 9.6% more than in the previous year. Higher volume of processed raw material was due to full and uninterrupted functioning of the Litvinov plant. Continuous very high demand for aviation fuel in the Czech Republic was visibly reflected in its supplies. Despite a nearly 23% increase in production volumes in ORLEN Group Czech refineries, more than 50% of aviation fuel available on the market was imported. We managed to compensate for reduced vehicle fuel consumption in 2008 with increased exports, which went up by nearly 38% compared to 2007. Our main customers were Slovakian, Polish, Austrian and German companies.

10 LAT team ORLEN

Lithuania

Production volumes of selected refinery products

in 2007–2008 (Mažeikiai, thousand tonnes)

	2007	2008	Dynamics
Crude oil processing	4,741	**9,241**	94.9%
Other charge	1,075	**338**	–68.6%
Total charge	5,816	**9,579**	64.7%
Total petrol	1,672	**2,827**	69.0%
Diesel	1,869	**3,197**	71.0%
Light heating oil	9	**7**	–22.2%
JET fuel	151	**483**	219.9%
LPG	285	**396**	38.9%
Total fuel	3,987	**6,910**	73.3%
Fuel output (%)	68.6	**72.0**	4.9 p.p.
White product output (%)	68.6	**72.0**	4.9 p.p.
Refinery utilisation index (%)	53.4	**90.4**	69.3 p.p.

The overall increase in fuel production was mainly due to the restoration of full production capacities in the Mažeikiai refinery upon startup and inclusion into the refinery production chain of a vacuum distillation column in January 2008. This enabled the refinery to regain its production capacity and significantly increase white product output. Thanks to exceptionally good margins for aviation fuel, we significantly increased JET fuel production volume.

Investments

The most important investment project implemented in 2008 at the Lithuanian refinery was to restore processing and production capacities to their state from before the 2006 fire. At the same time, we continued construction of the hydrogen plant and replacement of reactors at two diesel hydrodesulphurisation units (HON). The first HON unit was modernised, and its reactor replaced in December 2008. The objective of the hydrogen plant is to ensure sufficient amounts of hydrogen for the second modernised HON unit to be started up in March 2009. The total estimated cost of the modernisation of the two HON units approximately is USD 100 mn.

Bitumens

Poland

ORLEN Asfalt production volumes

in 2007–2008 (thousand tonnes)

	2007	2008	Change
Road bitumen	676,547	692,363	2.34%
Industrial bitumen	30,735	17,066	–44.47%
Specifics	446	375	–15.92%
TOTAL	**707,728**	**709,803**	**0.29%**

In 2008, domestic bitumen sales went up by 9%; export sales went down in quantity, but compared to 2007, export was more profitable. Unrealised export volumes enabled increased seasonal sale domestically.

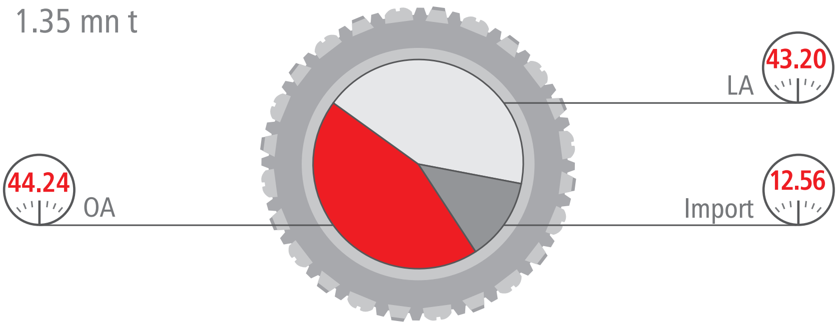
ORLEN Asfalt product sales

in 2007–2008 (tonnes)

	2007	2008	Change
Road bitumen	670,958.06	695,482.56	3.65%
incl. export	132,973.78	109,556.54	–17.61%
Industrial bitumen	30,356.15	16,906.72	–44.30%
Total bitumen	**701,314.21**	**712,389.28**	**1.57%**
incl. export	132,973.78	109,556.54	–17.61%

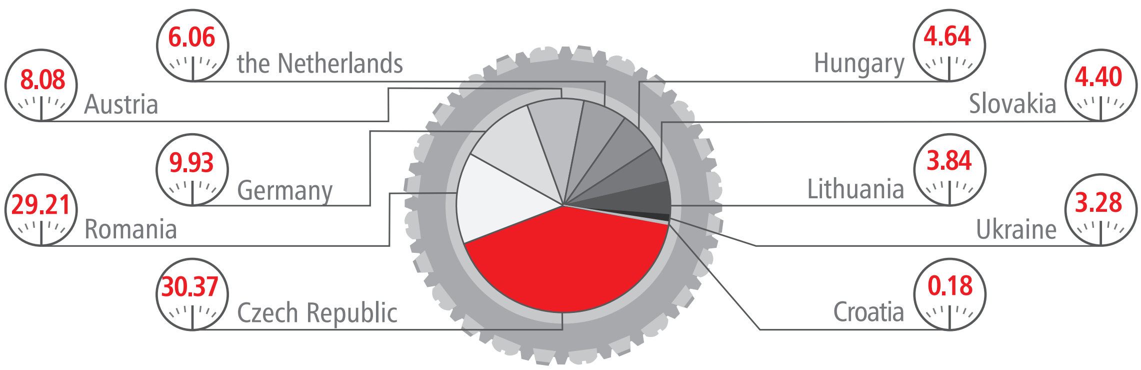
ORLEN Asfalt share in respective market sectors in 2008 was comparable to the previous year, oscillating between 37% and 52%.

Share in domestic bitumen market in 2008 (%)*



* Import volume on domestic market minus 22.6 thousand tonnes (estimated re-export + import by ORLEN Asfalt).

Geographic structure of ORLEN Asfalt Sp. z o.o. export activities in 2008 (%)



Czech Repubic

Bitumen production volumes* in Uniraf; Litvinov

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Road bitumen	112,693	114,012	1.17%

* Total production goes to Paramo a.s.

Bitumen production volumes in Paramo a.s.

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Road bitumen	74,000	79,000	6.7%
Modified bitumen	4,000	8,500	112.5%
Industrial bitumen	48,000	39,000	–18.7%
Other	1,000	500	–50%
TOTAL	**127,000**	**127,000**	**0.0%**

Bitumen sale volumes in Paramo a.s.

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Road bitumen	220.000	**203.000**	–7.7%
Modified bitumen	4.000	**8.500**	112.5%
Industrial bitumen	48.000	**39.000**	–18.7%
Other	1.000	**500**	–50%
TOTAL	**273.000**	**251.000**	**–8%**

The drop in bitumen sales in Paramo was mainly due to one of the key customers, BHG CZ, moving to PKN ORLEN's immediate portfolio. Reduced demand for industrial bitumen was due to the shift in demand in favour of modified bitumen. In 2008, over 100 thousand tonnes of products were exported, among others to Hungary, Romania, Croatia, Denmark and France.

Lithuania

Bitumen production volumes at AB Mažeikių Nafta

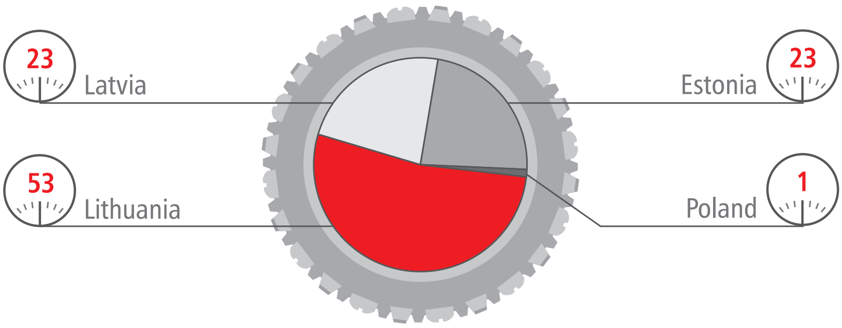
in 2007–2008 (tonnes)

	2007	2008	Dynamics
Road bitumen	94,357	140,084	48%
Roof pitches	312	9,376	2,905%

Increase in bitumen production and sales from the Lithuanian plant was possible thanks to restoration of full production capacities at the Mažeikiai refinery upon startup of a vacuum distillation column and connecting the column to other devices.

Total asphalt sales from AB Mažeikių Nafta in 2008 amounted to 51.2% more than in the previous year. Nearly 70 thousand tonnes of products were exported to foreign markets, in particular Latvia and Estonia.

Structure of bitumen sales in AB Mažeikių Nafta in 2008 (%)



fourth stage of rally

18 : 27 : 50

"That stage of the rally left the tracks behind. The whole time, we were driving driving the dunes. Uphill and downhill, in second gear almost non-stop. It was strenuous and tiring, to say the least. We were the first off, which was really tough. I had no idea if a dune would be steep, or a more gentle slope."

10 LAT Team ORLEN

LOGISTICS

LOGISTICS

In order to ensure efficient and effective transfer of raw materials and finished products, ORLEN Group has access to an infrastructure consisting of: over and underground storage facilities, shore and offshore cargo handling facilities, a network of raw material and product pipelines, and road and rail transport.

The 2008 milestone in the logistics sector was the adoption of a logistics strategy implementation plan for the Capital Group, which translated into implementation of a number of restructuring, optimisation and strategic measures, resulting in the startup of a new organisational and functional structure as of 1 October.

In Poland, we performed a functional analysis of logistics and restructured and reorganised employment in the headquarters, and winded up regional structures. Also, we renegotiated road and rail transport contracts and signed a letter of intent with PERN "Przyjaźń" concerning construction of a product pipeline in order to optimise costs and increase security levels in southern Poland.

Logistics services at AB Mažeikių Nafta initiated a tough process of renegotiating of a long-term contract with state-owned Lithuanian Railways, aimed at significant reduction of fees and convenient transport relations.

Mandatory reserves

In 2008, we stored mandatory oil reserves at the Production Plant in Płock, in underground storages of IKS "Solino" SA and at the Mažeikiai refinery. We stored finished fuel at 23 locations in Poland and in one of the leased terminals in Lithuania.

According to Czech legislation, mandatory reserves in the Czech Republic are stored by a competent government agency.

Poland

2008 was the final year for implementing the amended Mandatory Reserves Act in terms of securing an increase in crude oil and liquid fuel reserves up to the target value corresponding to 76 times of daily net crude oil import.

Moreover, early in 2008 we had to obtain an additional increase in crude oil reserves in order to comply with the requirements of the International Energy Agency, involving a new method of calculating the amount of reserves.

In 2008, ORLEN Group stored 76-day mandatory reserves at the Production Plant in Płock, in underground storages of IKS "Solino" SA and at 23 storage facilities across Poland. 14-day reserves were covered by the Material Reserves Agency.

The Czech Republic

According to Czech legislation, mandatory fuel and crude oil reserves are stored by a dedicated government agency.

Lithuania

At the end of 2008, AB Mažeikių Nafta stored 41.5-day mandatory reserves, i.e. half of total annual reserves. The other half was covered by the State Agency Storing Mandatory Reserves, financed from government funds. Until the end of 2009, AB Mažeikių Nafta has to cover 60-day reserves, whereas the Lithuanian State Agency will reduce its reserves to 30 days.

Oil reserves were stored at the Mažeikiai refinery, whereas finished products – at two terminals leased in Lithuania.

Pipelines

In 2008, ORLEN Group in Poland, the Czech Republic and Lithuania transported raw materials and products via a network of own and leased pipelines of total length of over 2,000 km.

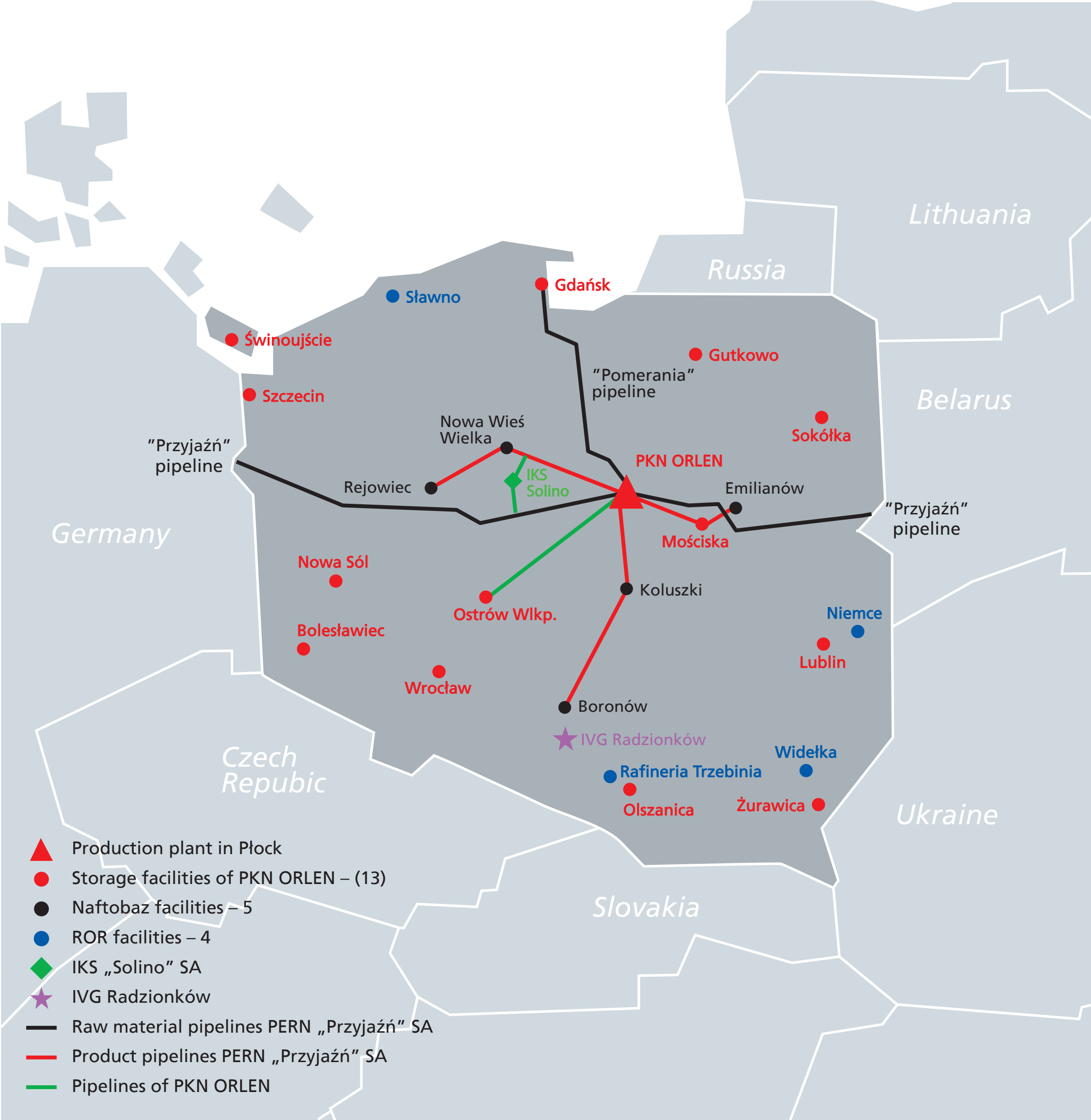
Poland

In 2008, PKN ORLEN SA used 274 km of its own pipelines and 570 km of product pipelines belonging to the national operator, PERN "Przyjaźń" SA.

We signed a letter of intent with PERN "Przyjaźń" concerning the construction of an additional pipeline section Płock-Koluszki-Boronów, of which we expect measurable benefits. With this pipeline, fuel pipeline transport will retain its cost advantage over rail transport, and we will ensure security of supplies to southern Poland.

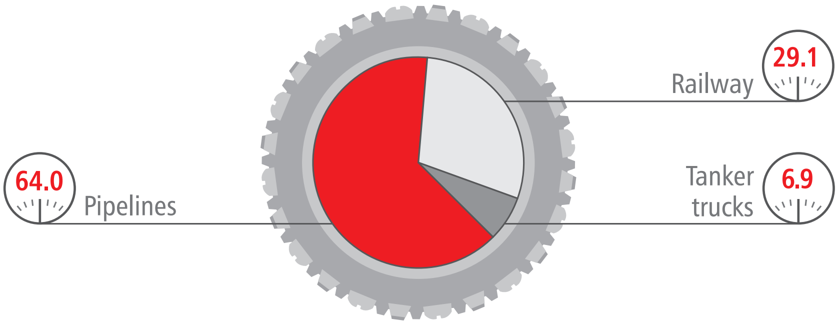
The share of fuel transported from the Płock refinery via pipelines represented 64% of total finished fuel transported.

Logistic infrastructure of PKN ORLEN



LOGISTICS

Liquid fuel dispatch structure from Płock per type of transport in 2008 r. (%)



The Czech Republic

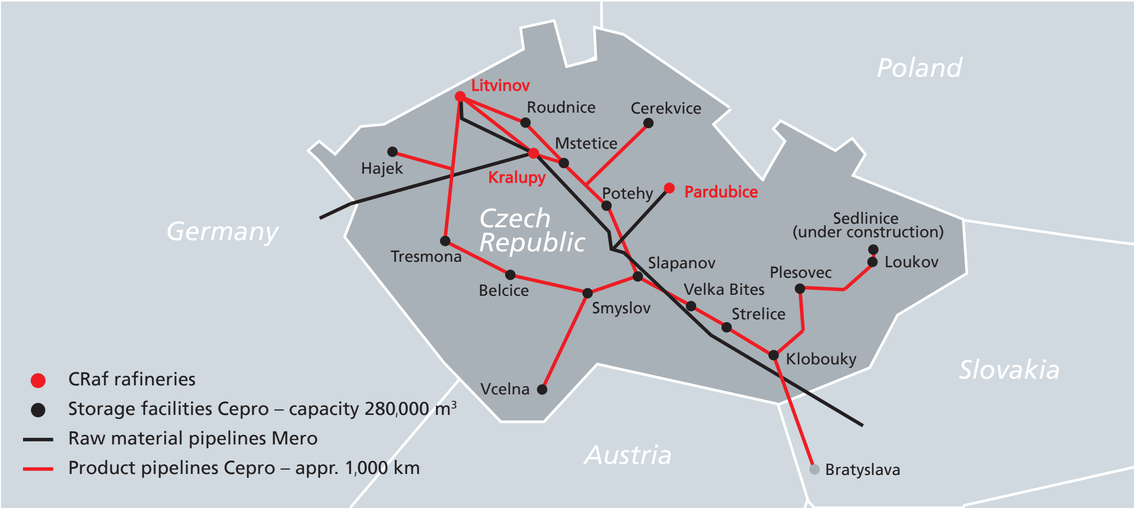
Like in previous years, in 2008 Unipetrol Group operated 1,100 km of pipelines belonging to the national operator CEPRO.

The share of pipeline transport in the structure of fuel transport in the Czech Republic in 2008 amounted to 40%, the same as in the preceding year.

Lithuania

The "Przyjaźń" pipeline, used to transport oil to the AB Mažeikių Nafta refinery until July 2006, remains closed. In 2008, AB Mažeikių Nafta operated a section of a product pipeline from Belarus to Ventspills, Latvia, to transport diesel oil from Belarusian refineries.

Fuel distribution network in the Czech Republic



Pipeline network in Lithuania

Storage facilities

ORLEN Group operated 29 storage facilities in Poland and Lithuania, including own Fuel Terminals and third party storage facilities. In the Czech Republic, we operated storages belonging to the national operator, CEPRO, and we leased 3 other storage facilities.

Poland

For the purposes of receiving, storing, dispatching and handling of fuel, ORLEN Group logistics operated the total of 25 facilities in Poland (own Fuel Terminals and third party storage facilities) in 2008.

At the end of 2008, finished product storage capacities at IKS SOLINO amounted to 1.1 mn m^3. IKS "Solino" SA was also capable of storing 3.5 mn tonnes of crude oil.

The Czech Republic

In 2008, Unipetrol Group operated a network of storage and distribution facilities of the national operator, CEPRO, and 3 storage facilities leased from third parties on the territory of the Czech Republic.

Lithuania

In Lithuania, we operated 4 storage and cargo handling terminals for the purposes of AB Mažeikių Nafta.

Rail transport

In 2008, rail transport in Poland, the Czech Republic and Lithuania amounted to 17.9 mn tonnes of product, representing an over 45% increase (by 5.6 mn tonnes) compared to the previous year.

Poland

PKN ORLEN transported via rail approximately 6.1 mn tonnes of cargo, including 4.6 mn tonnes of engine fuels. Fuel transported in 2008 via rail under a license held by PKN ORLEN amounted to 2.5 mn tonnes, which is approximately 0.38 mn tonnes more than in 2007. The share of the Company's own transport in rail transport represented 41%, i.e. 1 percentage point above the 2007 value, whereas fuel transport from Płock refinery via rail amounted to 29.1% of total finished fuel transport.

The Czech Republic

The total volume of rail transport in the Czech Republic amounted to approimately 3.3 mn tonnes, representing a 10% increase compared to 2007. Unipetrol Doprava rail company transported 1.8 mn tonnes of cargo, and approximately 1.5 mn tonnes of cargo were transported by outsourced companies.

Lithuania

The total volume of rail transport amounted to approximately 7.9 mn tonnes, of which 6 mn tonnes represented engine fuel transport. The fact that rail transport volume more than doubled compared to the previous year was due to restoring full production capacities at AB Mažeikių Nafta after a thorough overhaul.

Given the specific character of the Lithuanian market, rail transport was contracted to the national monopolist – state-owned Lithuanian Railways, with which we renegotiated cooperation conditions and rail tariffs in 2008.

Road transport

Fuel deliveries to our stations on the territory of Poland in 2008 were provided by one of PKN ORLEN Capital Group companies, ORLEN Transport SA.

In the Czech Republic, fuel was delivered to Benzina stations by Petrotrans, a Unipetrol Group company.

In Lithuania, fuel deliveries to ORLEN Lietuva stations were outsourced to one company selected in a tender procedure in 2007. JET A-1 aviation fuel was delivered to customers in Lithuania and Latvia with AB Mažeikių Nafta own means.

Maritime cargo handling

In 2008, we handled approximately 6 mn tonnes of cargo in Poland and Lithuania, which exceeds the 2007 value nearly by half.

Poland

We handled approximately 1 mn tonnes of cargo in the seaports in Gdynia and Świnoujście, mainly heavy heating oil for export (0.57 mn tonnes).

Lithuania

In 2008, the volume of AB Mažeikių Nafta cargo handled at seaports amounted to approximately 5 mn tonnes. The 3 mn increase compared to 2007 was due to the restored production capacities after reconstruction of a vacuum column in the Mažeikiai refinery.

We are interested in buying a cargo handling port in Lithuania in order to optimise the costs of AB Mažeikių Nafta product export, or in starting cooperation with other Baltic ports, using ORLEN Group's logistics infrastructure.

Investments

In 2009, in the logistics sector, we will continue implementation of the solutions and guidelines adopted in "ORLEN Capital Group Logistics Strategy", aimed at:

- executing the 3rd stage of the restructuring process by significant optimisation of employment and higher automation of processes at the Fuel Terminals, which will result in better cost efficiency in logistics;
- redefining logistics organisation and management to adjust them to changing external and internal circumstances;
- implementing the "Self-service" programme to obtain higher automation of operations at the Fuel Terminals;
- implementing the "Cavern Strategy", in particular with respect to long-term measures aimed at improving the operability and safety of the existing underground oil and fuel storages at IKS "Solino" SA, and possible construction of a new underground hydrocarbon storage.

In 2009, we are planning to start a construction project of a product pipeline to connect the Mažeikiai refinery with a selected Baltic port.

We are in the course of construction of 105 km of our own pipeline between Ostrów Wielkopolski and Wrocław.

fifth stage of rally

22 : 16 : 00

"Every country has its secrets and I'll have to learn them from scratch. Rallying demands incredible concentration from me, which is a good thing because stress causes an adrenaline rush, but, on the other hand, it also means that I pay more attention."

10 LAT team ORLEN

WHOLESALE | SEGMENT

WHOLESALE SEGMENT

In 2008, ORLEN Group offered wholesale trade in fuel and non-fuel products on the territory of Poland, the Czech Republic, Germany, Slovakia and Lithuania. The Group wholesale segment consisted of PKN ORLEN wholesale trade units, 5 Regional Market Operators, Petrolot Sp. z o.o., ORLEN Gaz Sp. z o.o. (Poland), Uniraf Slovakia (Slovakia), Unipetrol BUI (Czech Republic), AB Mažeikių Nafta (Lithuania, Ukraine, Poland, maritime sales) and UAB Mažeikių Nafta Trading House (Latvia, Estonia).

ORLEN Group – fuel

The total volume of fuel sold by ORLEN Group in 2008 exceeded the 2007 result by nearly 23% (i.e. 3.1 mn tonnes). More than half of our fuel offer constituted diesel oil, whose sales went up by approximately 24% compared to 2007. The highest demand dynamics was reported in the aviation fuel sector, whose sales in 2008 exceeded the volume of the previous year by approximately 54% percent.

ORLEN Group fuel sales on home markets

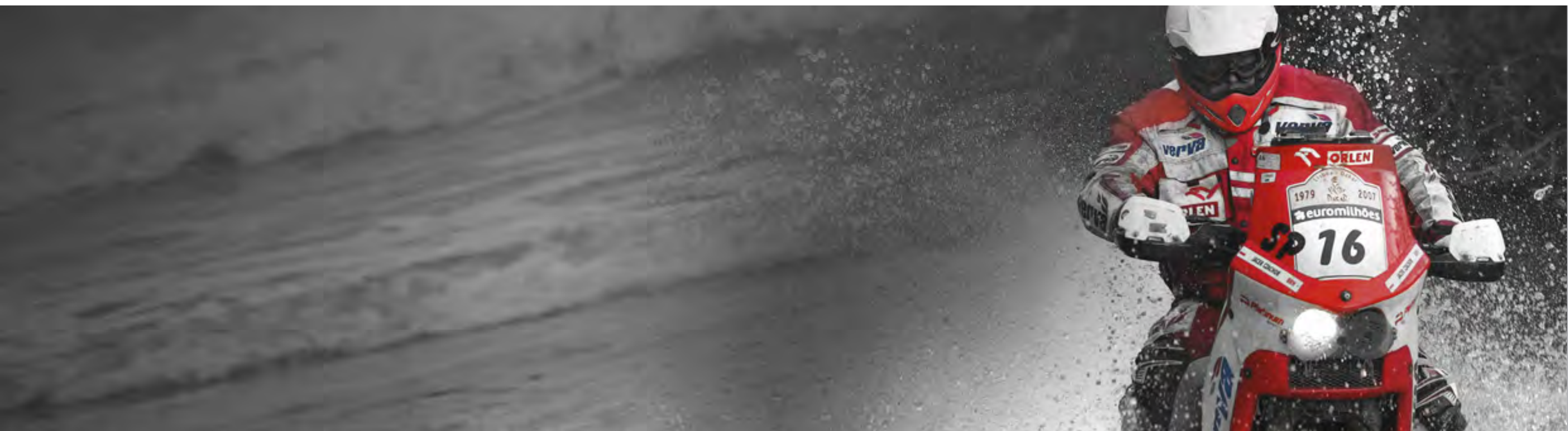
in 2007–2008 (thousand tonnes)

	2007									2008	
	Poland	Czech	Lithuania	other(1)	TOTAL	Poland	Czech	Lithuania	other(1)	TOTAL	Change
Petrol	1,550	646	1,768	209	**4,173**	1,624	545	2,801	195	**5,165**	**24%**
Diesel	3,441	1,175	1,977	320	**6,914**	3,943	1,088	3,160	370	**8,561**	**24%**
Light heating oil	943	19	9	207	**1,177**	921	25	8	286	**1,240**	**5%**
JET A-1	408	80	195	–	**683**	482	88	480	–	**1,050**	**54%**
LPG	240	86	141	–	**467**	263	98	187	–	**547**	**17%**
TOTAL FUEL	6,582	2,006	4,090	736	**13,414**	7,233	1,844	6,636	851	**16,564**	**23%**

(1) Wholesale trade in Slovakia and Germany.

The increase in fuel sale volumes was mainly due to restored full production capacities at AB Mažeikių Nafta. Upon completion of the overhaul of the Vacuum Distillation Unit, fuel sale volume from the Lithuanian refinery went up by approximately 2.5 mn tonnes compared to 2007.

The upward dynamics in refinery product sales in Poland was possible due to increased sales to network and basic customers as well as to key customers, namely to domestic and foreign corporations. Sales dynamics in 2008 much exceeded consumption dynamics. Temporary promotions at storage facilities (reduced SPOT prices for selected products) had a positive impact on sales.



The 16% drop in fuel sales reported on the Czech market was due to reduced diesel consumption in 2008. We managed to increase diesel export to Poland via PKN ORLEN by 150 thousand tonnes in the reported period.

ORLEN Group fuel, apart from home markets (Poland, the Czech Republic, Slovakia, Germany, Baltic States), was also sold to: the US, Canada, France, Spain and Ukraine.

ORLEN Group share in domestic fuel sales

in 2007–2008

		2007	2008	Dynamics
PKN ORLEN*	Poland	58.3%	**61.6%**	3.3 p.p.
Unipetrol**	The Czech Republic	29.6%	**30.9%**	1.3 p.p.
AB Mažeikių Nafta**	Lithuania	85.0%	**89.1%**	4.1 p.p.

* Share in wholesale and retail sale of petrol, diesel and light heating oil.
** Share in wholesale and retail sale of petrol, diesel and JET A-1.

Poland

Engine fuel consumption (petrol, diesel, LPG) in Poland in 2008 went up by approximately 5%[(2)] compared to the previous year. Domestic fuel consumption was mainly boosted by high economic development rate at approximately 5% GDP, which, among other things, stimulated demand for transport services. Moreover, consumption increased together with a dynamically growing number of registered cars.

Fuel consumption in Poland

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
Petrol	4,138	**4,273**	3.3%
Diesel oil	9,521	**10,475**	10.0%
Light heating oil	1,346	**1,204**	–10.5%
LPG	1,810	**1,774**	–2.0%
TOTAL	**16,815**	**17,726**	**5.4%**

Petrol consumption remained at a similar level as in the previous year, which means that the market has stabilised over the last few years. Petrol consumption was incited by negative LPG consumption dynamics – reported for the first time in its history. In 2008, the same as in previous years, we reported growing diesel consumption domestically. Apart from high GDP,

(2) Source: The Energy Market Agency; Polish LPG Association.

another reason behind increased diesel consumption was the changing car fleet structure in Poland in favour of diesel engine vehicles. In 2008, light heating oil consumption went down by approximately 11%. This was due to a major increase in oil prices and the fact that LHO was no longer attractive as heating oil.

Fuel import to Poland

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
Petrol	748.7	**665.7**	–11%
Diesel oil	2,897.4	**2,247.8**	–22%
Light heating oil	14.3	**6.5**	–55%
TOTAL	**3,660.4**	**2,920.0**	**–20%**

The total 2008 fuel import to Poland was 20% smaller than in the previous year. A vast majority of engine fuel was imported from Germany, followed by Slovakia, Hungary, the Czech Republic and Finland. As to light heating oil – 82% of imported product came from Germany and 18% - from Lithuania.

10 LAT team ORLEN

Sources of fuel imports to Poland in 2008

	Petrol	Diesel oil	Light heating oil
Germany	51.9%	44.8%	82.0%
Slovakia	33.8%	10.7%	–
Hungary	9.2%	1.7%	–
The Czech Republic	3.6%	9.5%	–
Russia	1.5%	2.3%	–
Belarus	–	7.2%	–
Lithuania	–	6.2%	18.0%
Finland	–	11.4%	–
Great Britain	–	5.0%	–
Sweden	–	1.1%	–
TOTAL	**100%**	**100%**	**100%**

The Czech Republic

In 2008, engine fuel consumption in the Czech Republic slightly exceeded the previous year's volume. Total consumption was positively impacted by a 2.2% increase in diesel consumption. However, in the second half of 2008, diesel consumption dynamics dropped to 101.4%, i.e. by 1.5 percentage points compared to the first half of the same year. The positive effect was levelled by a 3.7% drop in petrol consumption.

In 2008, we increased our share in the Czech petrol market by 1.3 percentage points, and in the diesel market – by 1.2 percentage points.

Fuel consumption in The Czech Republic

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
Petrol	2,026	**1,951**	–3.7%
Diesel oil	4,069	**4,157**	2.2%
TOTAL	**6,095**	**6,109**	**0.2%**

Total 2008 fuel import represented 30% of fuel consumption, of which petrol import represented 65%, and diesel import – only 14% of consumption.

Lithuania

Fuel consumption in Lithuania

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
Petrol	442	429	–3,0%
Diesel oil	1,121	1,126	0.5%
JET A-1	74	77	3.7%
LPG	249	252	1.0%
TOTAL	**1,886**	**1,884**	**–0.1%**

WHOLESALE SEGMENT

ORLEN Group – Non-fuel Products

Total wholesale trade in non-fuel products by ORLEN Group in 2008 amounted to 6,186 thousand tonnes, i.e. 11% more than in 2007.

ORLEN Group non-fuel sales

in 2007-2008 (thousand tonnes)

	2007				2008				
	Poland	Czech	Lithuania	**TOTAL**	Poland	Czech	Lithuania	**TOTAL**	**Change**
Heating oil III	969	165	1,126	**2,260**	961	146	1,798	**2,905**	**29%**
P fractions	300	–	–	**300**	338	–	–	**338**	**13%**
Sulphur	120	31	40	**191**	130	34	76	**240**	**26%**
Other refinery products	240	226	142	**608**	60	232	178	**470**	**–23%**
Ethylene	135	154	–	**289**	105	153	–	**258**	**–11%**
Propylene	14	33	–	**47**	6	27	–	**33**	**–32%**
Benzene	113	163	–	**276**	95	179	–	**274**	**–1%**
Glycols	102	–	–	**102**	88	–	–	**88**	**–14%**
Toluene	120	–	–	**120**	103	–	–	**103**	**–14%**
Paraxylene	32	–	–	**32**	25	–	–	**25**	**–22%**
Orthoxylene	26	–	–	**26**	21	–	–	**21**	**–19%**
Butadiene	60	–	–	**60**	55	–	–	**55**	**–7%**
C fractions	–	170	–	**170**	–	211	–	**211**	**24%**
Polyolefin	–	397	–	**397**	–	482	–	**482**	**21%**
Ammonia	–	176	–	**176**	–	195	–	**195**	**11%**
Alcohol OXO	–	54	–	**54**	–	56	–	**56**	**4%**
Industrial oil	–	29	–	**29**	–	21	–	**21**	**–27%**
Other petrochemical products	222	216	–	**438**	186	225	–	**411**	**–6%**
TOTAL	**2,453**	**1,814**	**1,308**	**5,575**	**2,173**	**1,961**	**2,052**	**6,186**	**11%**

In case of non-fuel products, the first three quarters of 2008 saw relatively high and stable demand for petrochemical products and very high price quotations of those products on European markets. Petrochemical product sales in 2008 were influenced by the scheduled standstill of Olefins II Plant and other related production units. Late into the 3rd quarter and in the 4th quarter of 2008, we reported visible crisis symptoms. The situation in the automotive and construction industries dramatically deteriorated, which devastated plastic product markets (polyethylene, polypropylene, PVC, polystyrene, polyamides, polyurethanes). In a very short period of time, petrochemical product quotations showed record price drops – even by 60%, and limitations in petrochemicals processing (due to reduced loads or temporary shut-down of installations) inevitably affected sales volumes in the 4th quarter, both in terms of quantity and value.

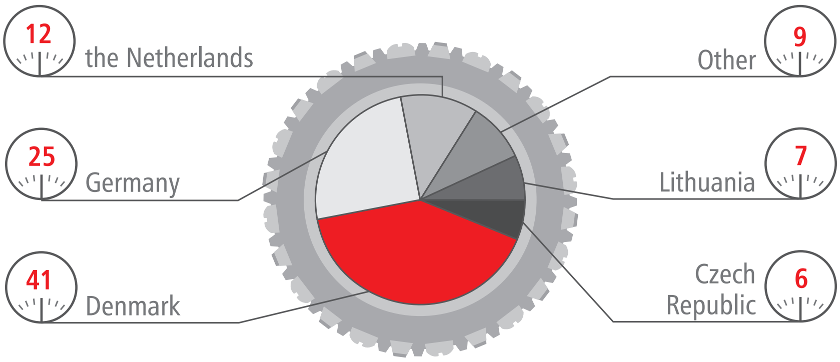
The key foreign customers for our non-fuel products were partners from Denmark, Germany and the Czech Republic.

Poland

Main import sources:

- polyolefin: Germany, the Netherlands, Hungary, Slovakia, sporadically: Middle East: Saudi Arabia, Egypt;
- other petrochemical products: Germany, Slovakia, the Czech Republic, Hungary, Belgium, Belarus, Finland.

Non-fuel product export markets in 2008 (%)



The Czech Republic

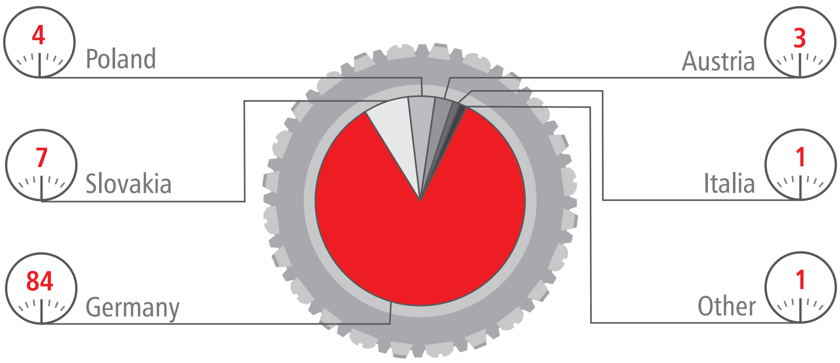
In the first half of 2008, the petrochemicals market was relatively stable. Later, SPOT prices strengthened, mainly due to record high prices for crude oil and paraffin. The situation began to change in early August, with SPOT prices dropping due to a dramatic fall in crude oil prices resulting from the global financial and economic crisis. This resulted in record crack margins relating to prices determined in quarterly monomer contracts and downward price trend for

crude oil and paraffin. However, low demand on the secondary market prevented us from profiting from the situation (e.g. activity on both ethylene and propylene spot markets in December was close to zero).

Sales structure of the key petrochemical products in 2008 (%)

	Ethylene	Propylene	Benzene	Oxo	Ammonia	Carbamide	Polyethylene	Polypropylene
Domestic sales	82	59	99,5	51	93	48	25	64
Export	18	41	0,5	49	7	52	75	36

Export markets for Unipetrol petrochemical products in 2008 (%)



WHOLESALE SEGMENT

The main recipients of the products were: Slovakia, Germany, Poland, Austria and Italy. In the Czech Republic, the volume of main non-fuel product import in 2008 amounted to nearly 721 thousand tonnes. The main import sources were: Germany, Poland, Hungary, Slovakia, Ukraine and Russia.

Lithuania

Non-fuel product share in total sales volume at the Mažeikiai refinery in 2008 amounted to approximately 22%, most of which (1.8 mn tonnes) represented heavy heating oil sales. The latter product was mainly delivered via sea to customers in the Netherlands, Denmark and Norway.

Investments

After consolidating RORs (regional market operators) company management via the ORLEN PetroCentrum, we obtained better operating control over and more effective functioning of RORs. The measures taken enabled us to optimise sales channels and finish the restructuring of RORs, thus reducing their operating expenses.

In 2008, in order to improve wholesale customer service, we extended the contact-centre system supporting cooperation with existing and new customers.

10 LAT team ORLEN

Strategy

In 2008, we implemented strategic goals aiming at:

- sales maximisation in Poland, the Czech Republic and Baltic States;
- wholesale margin optimisation at the Capital Group level;
- increased aviation fuel sales in the region.

In the non-fuel product sector, we focused on PTA pre-marketing and divestments in PVC and artificial fertiliser sectors.

According to the updated 2008-2013 strategy, we will be looking for possibilities to strengthen our commercial position in Ukraine and Belarus, and to increase our activity in the maritime sales sector.

Unipetrol is planning to improve ethylene and benzene efficiency, establish a new butadiene section and invest in products, like C9 and DCPD. An important event in 2009 will be the closure of the OXO alcohol plant.

sixth stage of rally

32 : 41 : 08

"I'm very pleased, not only with my performance, but also with the way my bike's engine has been working. It has plenty of potential, as well as the power necessary to take on the obstacles of the dunes. I reckon that if it proves possible to have the properly set up equipment, then it'll be easier to reach the goals that set myself at the beginning of the year."

10 LAT team ORLEN

OIL SEGMENT

OIL SEGMENT

In 2008, the ORLEN Group oil segment consisted of ORLEN Oil in Poland and Paramo a.s. in the Czech Republic.

The total 2008 production volume in the entire oil segment topped 536.3 thousand tonnes, an increase of approximately 9.4% compared to 2007[1]. Base oil and lubricant production amounted to approximately 282.4 thousand tonnes, i.e. over 15 thousand tonnes more than in 2007.

The output of other products, such as operating fluids, automobile cosmetics and side products (including extracts, slack waxes and plasticizers) amounted to 253.8 thousand tonnes, representing approximately 50% of the entire ORLEN Group oil segment.

The main reason behind increased production volume in 2008, compared to 2007, was positive market situation.

ORLEN Group oil segment sale volumes

in 2007-2008 (tonnes)

	2007	2008	Dynamics
Lubricants and base oils	230,356	229,642	–0.31%
Other products	186,862	208,624	11.65%
TOTAL	**417,218**	**438,266**	**5.04%**

(1) 2007 production data in the 2007 Annual Report did not include oil base consumption for lubricant production. In 2008, this item was no longer recorded, as it was assumed that total volume better reflects the production activity of the sector.

ORLEN Oil Sp. z o.o. sale volumes

in 2007 and 2008 (tonnes)

	2007	2008	Dynamics
Lubricants and base oils	150,829	**157,463**	4.40%
Other products	176,896	**198,065**	11.97%
TOTAL	**327,725**	**355,518**	**8.48%**

Paramo a.s. sale volumes

in 2007 and 2008 (tonnes)

	2007	2008	Dynamics
Lubricants, base and process oils	79,527	**72,189**	–9.23%
Other products	9,966	**10,559**	5.95%
TOTAL	**89,493**	**82,748**	**–7.54%**

Poland

Production

Increased production was due to higher market demand and very high operating availability of the oil blocks in Płock.

ORLEN Oil Sp. z o.o. production

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Lubricants, base and process oils	207,875	226,682	9.05%
Other products	192,647	226,852	17.76%
TOTAL	**400,522**	**453,535**	**13.24%**

Over the first six months of 2008, research and development works under the first stage of the Base Oils Interchange project, covering mineral engine fuel to heavy Diesel engines, were completed. As a result of the programme, in 2008, production of certified ORLEN Oil Base 150 and 400 started. The two types of oil are equivalent to the Groups' top quality base oil, as well as products of manufacturers such as Exxon or Shell. We adjusted our offer to the changing market demands and specific customer requirements, as a result of which several new products were included in ORLEN Oil offer.

Certain types of oil, besides well-tested recipes, require relevant certificates in order to proceed with their sales. Automotive certificates are of particular importance. Last year, ORLEN Oil obtained 30 approvals and certificates for its products, both automotive and industrial.

Another stage of the undertaken measures were performance tests in order to evaluate products in realistic conditions. In 2008, ORLEN Oil completed three large test projects concerning the compatibility of selected types of engine oil with PKN ORLEN Biodiesel.

Sales

ORLEN Oil Sp. z o.o. share in the Polish oil and lubricant market represents approximately 23%. The main competitors include Lotos Oil and global corporations: Exxon Mobil, BP/Castrol, Shell, Fuchs, Statoil and several others.

In 2008, ORLEN Oil Sp. z o.o. continued its strategy aimed at implementing a common price and marketing policy and ensuring quick and comprehensive service throughout the country.

In 2008, ORLEN Oil Sp. z o.o. lubricant sales in Poland went up by 2.4% compared to 2007, amounting to 77.7 thousand tonnes.

Sales dropped most significantly in the low class engine oil segment, and rose the highest in the industrial oil segment.

ORLEN Oil Sp. z o.o. lubricant export remained at the same level as in 2007. A significant increase in export concerned base oil, amounting to 67 thousand tonnes in 2008, i.e. approximately 16% more than in 2007.

Investments

The most important investment project in ORLEN Oil Sp. z o.o. was the construction of a dispatch terminal for road tankers at the Production Plant in Płock. The main objective of the project were to increased sale margins resulting from develop ment of an alternative sales channel (cargo dispatch with road tankers and reduction of less profitable sales via the sea or rail). The terminal is expected to be put to operation in 2009.

ORLEN Oil Sp. z o.o. major investment projects included oil base certification programme commenced in 2007 and continued in 2008. The project had to be extended in time due to changes in key quality categories and engine tests defining engine oil. The project gave ORLEN Oil technologies for four types of mineral oil HDDO based on own base oil, to be used with Diesel engines of quality levels confirmed by car manufacturers.

In 2008, certain investment projects started, as well, to be continued in 2009, including: modernisation of the oil building line, implementation of Enterprise Resource Planning system by SAP, modernisation of blending unit in the Production Plant in Jedlicze and modernisation of lubricating oil blending unit in the Production Plant in Trzebinia.

The Czech Republic

Production

Total oil and lubricant production in Paramo amounted to 82.7 thousand tonnes, i.e. a 7.5% drop compared to 2007.

Oil production volumes in Paramo a.s

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Oil and lubricants	44,777	**42,341**	–5.4%
Base oil	14,310	**13,405**	–6.3%
Process oil	20,440	**16,443**	–19.5%
Other products	9,966	**10,559**	5.9%
TOTAL	**89,493**	**82,748**	**–7.5%**

The largest, 19% drop was reported by the company in process oil production, whereas side product and slack waxes production went up by nearly 6%.

Development of the oil, lubricant and paraffin segment focused mainly on technological aspects of base oil production and searching for optimum solutions given the changing price environment and raw material availability, including additives and components. In the case of Paramo, raw materials for base oil, being a key component of lubricants, are broadly available, including group I, II and III base oil. The optimisation project included measures aimed

at ensuring production integrity. Analyses were prepared concerning hydrocracking oil quality and quantity trends, and possible methods to stabilise output and quality parameters were proposed. Moreover, lubricant blending processes based only on two raw materials: HCVD and SHS 130 R were designed.

In order to maintain the range of available products, adaptation of the existing HCVD was designed and discussed. In 2009, the company will continue operational testing of the processing of the modified raw material. With respect to optimisation of lubricant production in Pardubice and Kolin, product formulations were designed and verified to enable better utilisation of base oil portfolio.

In the industrial area, there was a significant interest in multifunctional types of oil which have several applications and may replace several different oils. Mogul Multi oils were added to the offer, used as lubricants for hydraulic devices, wires etc. With saws, Mogul Alfa Profi oil is used, also in BIO variant (environmentally friendly). The most recent requirements concerning oil, with respect to high efficiency and compatibility with exhaust gas catalysts, are met by innovative passenger car oils MOGUL EXTREME. Quality operating properties in other products were improved through reformulation. This concerns, among others, oil for small lawn mower engines and other devices, i.e. TSF ALFA 4T. Once accepted by engine manufacturers (MAN, VOLVO, TATRA, TEDOM), automobile oil is more competitive.

Sales

In 2008, Paramo reported a 26% share in the Czech market. Paramo base oil is used by the company to produce own lubricants and exported to mature markets, mainly to Switzerland, Germany, Poland, Hungary, Austria and the Netherlands. Paramo base oil export in 2008 amounted to 13.4 thousand tonnes. Lubricant sale volume in 2008 amounted to 42.3 thousand tonnes, including 22.1 thousand tonnes on the Czech market, and 20.2 thousand tonne – exported.

The condition of the oil segment in Paramo a.s. was affected by changing crude oil prices and fluctuations on the currency market. While oil product importers reported increased sale value in the first half of 2008, export staggered. Reduced sales of Paramo a.s. products were mainly due to the import of low-price no-brand products. The results achieved in the second half of the year were much better, thanks to lower crude oil prices. The company took the chance to make up for the loss from previous months.

Paramo a.s. marketing strategy was based on two lubricant brand segments. MOGUL lubricants have been and will remain premium products applied by reputable car manufacturers. Paramo, on the other hand, is an economy brand. It meets all the quality standards and customer requirements. Marketing measures prepared for the two segments were target group oriented and fitted within the allocated budget.

Investments

Paramo a.s. major 2008 investment projects included construction of a new cooling tower for the purposes of Solvent Dewaxing. Moreover, the company implemented an operating and service cost cutting programme.

seventh stage of rally

35 : 23 : 00

"When you're driving the dunes by night, it's as if you were driving at the bottom of a well. You're wondering whether what's coming up will be solid earth or a hole in the ground. And that's the Dakar. Towering fear and cracking that fear. That's when you find your true courage. And the only place you can experience it is the Dakar. Nowhere else."

10 LAT team ORLEN

RETAIL | SEGMENT

RETAIL SEGMENT

In 2008, ORLEN Group carried out retail sales in Poland, Germany, the Czech Republic and Lithuania. The entities managing commercial operations on the respective markets were PKN ORLEN, ORLEN Deutschland AG, Benzina a.s. and AB Ventus Nafta.

Number of ORLEN Group fuel stations in respective states

in 2007–2008

	2007	2008
Poland	1,897	**1,803**
Germany	518	**509**
The Czech Republic	326	**334**
Lithuania	34	**35**
TOTAL	**2,775**	**2,681**

We reported high fuel sales dynamics, mainly due to a substantial increase in sales in PKN ORLEN (11.7%) and ORLEN Deutschland (18.4%), as well as a major increase in non-fuel sales in Poland (29%) and the Czech Republic (15%).

At the end of 2008, ORLEN Group managed 2,681 fuel stations, which sold nearly 7.7 bn litres of fuels. Approximately one third of all facilities were Premium fuel stations know for their high standard of service and offering the richest variety of fuel, non-fuel products and food services. The Premium segment fuel stations in Poland and Lithuania were operating under the ORLEN and ORLEN Lietuva brand, and in the Czech Republic under the Benzina Plus brand.

Cheaper offers and a less expensive product range was available at stations operating under the following brands: Bliska (Poland), Star (Germany) and Benzina (the Czech Republic). Motorists using economy stations have access to fuels of verified guality and access to guaranteed products and services.

Thanks to our attractive offer in Poland, Germany and the Czech Republic, we increased our share in the retail markets for another year in a row. An exception was the Lithuanian market, where the ORLEN Group reported a slight drop.

ORLEN Group Companies share in home retail fuel markets
in 2007–2008 (%)

	2007	2008	Dynamics
PKN ORLEN / Poland[1]	27.8%	**29.5%**	1.7 p.p.
ORLEN Deutschland / Germany[2]	3.8%	**4.6%**	0.8 p.p.
BENZINA / the Czech Republic	13.1%	**13.7%**	0.6 p.p.
ORLEN Lietuva / Lithuania[3]	4.1%	**3.8%**	–0.3 p.p.

(1) Share in the retail market estimated on the basis of ARER consumption data.
(2) Total sales through all channels.
(3) Based only on the sales at own stations.

Poland

2008 was a very good year for our Polish fuel stations network. Fuel sales at PKN ORLEN's fuel sales went up by over 15% at their own stations and 30% at franchised stations in the premium and economic sector. Such good fuel sales results were of particular importance given the 2008 market situation. Oil prices were extremely high in the first half of the year, which led among others to increased prices paid by customers at fuel stations. Our consequent strategy to modernise the network, to ensure a high level of customer service and to continue the development of services and non-fuel offers proved to be right. In 2008, we created a network of over 400 cafés at premium fuel stations under the Stop Café and Stop Café Bistro (with hot snacks on offer) brands. In 2009, we plan further development of cafés especially the Stop Café Bistro format. The two cafés are a reaction to the changing habits of Polish drivers who tend to stop at fuel stations for a rest and a meal.

As on 31 December 2008, Polish PKN ORLEN retail network consisted of 1,803 stations, 1,339 of them being our own stations, 318 – franchised and 146 – under umbrella facility[4] including Petrochemia Płock and CPN brands.

[4] The Company completely gave up umbrella contracts, instead is focusing on the franchise segment. This means gradual withdrawal of Petrochemia Płock and CPN brands from the market.

Number of fuel stations in Poland per ownership structure

in 2007–2008

	2007	2008
Own stations	1,410	**1,339**
Franchised stations	245	**318**
Affiliated stations	242	**146**
TOTAL	**1,897**	**1,803**

Number of fuel stations in Poland per brand

in 2007–2008

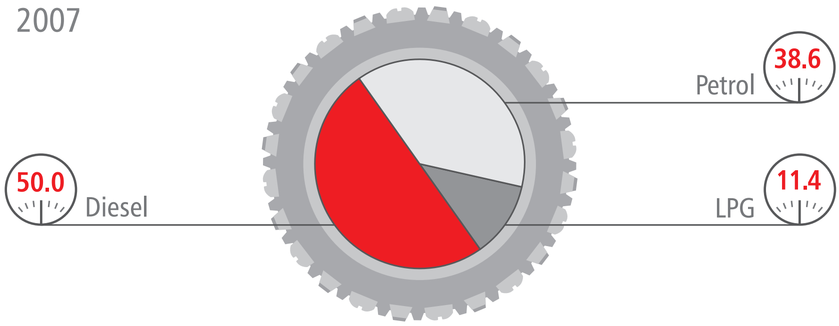
	2007	2008
ORLEN	851	**924**
BLISKA	308	**406**
Petrochemia Płock / CPN	738	**473**
TOTAL	**1,897**	**1,803**

In the 12 months of 2008, the Company sold over 5 billion litres of engine fuel through its Polish retail network. Thanks to consistent implementation of our retail network development strategy, we managed to increase our share in the Polish retail market to almost 29.5%.

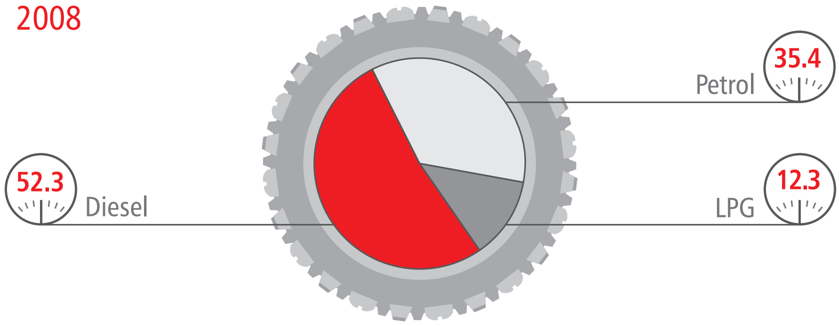
PKN ORLEN – fuel sales structure

in 2007–2008 (%)

2007



2008



In 2008, PKN ORLEN reported a slight drop in the share of Premium fuels in the Company sales. It was due to increased customer interest in more attractive fuel prices caused by rocketing oil prices over the first three quarters of the year.

In 2008, we applied a new formula of VERVA 98 additives which reduce sediments in the engine, eliminate corrosion of metal elements of the supply system and reduce toxic emissions in the atmosphere. The new Premium fuel formula was accompanied by the introduction of a new logo with a chequered pattern, commonly recognised as a race symbol. Here, we referred to our involvement in car races and F1 coverage.

In November, VERVA 98 received a European Medal awarded by the Office of the Committee for European Integration (UKIE), Business Centre Club and European Economic and Social Committee. The medal is awarded to products which meet the strictest EU standards, and the aim of the competition is to publicise examples of good quality and to promote the methods of achieving it.

Since they were launched onto the market in 2005, VERVA Premium fuels have complied with strict European requirements for "sulphur-free" fuels to contain less than 10 mg/kg sulphur, effective in the EU since January 2009.

Currently, VERVA is the best known and the most recognisable enriched fuel brand in Poland[5].

Last year was the first year of the National Index Target (NIT) implementation. Under the NIT, we introduced renewable fuel, Bioester, at our economic fuel stations. Bioester is fuel produced from vegetable oils for diesel cars. It meets all the requirements laid down in PN-EN 14214, as well as relevant regulations in Poland and in other EU Member States.

Bioester won the main award for "Chemical Products" at the 1st International Exhibition of Technologies for Chemical Industries EXPOCHEM 2008 in Katowice and the "Product of the Year" award for "biofuels" at the 15th International Petrol Station Fairs 2008 in Warsaw.

Renewable fuels are also applied by Unipetrol and AB Mažeikių Nafta companies, which belong to the PKN ORLEN Capital Group. In 2008, both companies complied with national requirements concerning biocomponent content in fuel by adding bioethanol and ETBE to petrol and esters to diesel oils.

Our 220 stations sold over 33.4 mn litres of bioester, which is nearly 4 mn litres more than estimanted.

[5] According to the "Brand Barometer" study by GfK Polonia in December 2008.

In 2009, PKN ORLEN faces even more demanding challenges, among others due to the required increase of renewable fuel share in Poland from 3.45% in 2008 to 4.6% of the energy value, and to the introduction of stricter regulations in the Czech Republic. We participate in promoting the launch of other biofuels on the Polish market, namely E85 for petrol engines in FlexiFuel vehicles and E95 for diesel engines. We are also working on the launch of next generation biofuels - synthetic diesel made from any vegetable oil or animal fat, having exceptional physicochemical parameters and being more environmentally friendly than standard biofuels.

In 2008, PKN ORLEN introduced a number of amenities for customers with fleet cards. In March last year, we activated an improved interactive portal for participants of the FLOTA programme which enables fleet management over the Internet.

Under an agreement signed with D.A.S. Towarzystwo Ubezpieczeń Ochrony Prawnej SA, holders of ORLEN fuel cards are offered legal insurance protection insurance for owners and drivers of mechanical vehicles. Legal insurance protection is a contemporary insurance product that reduces litigation costs. D.A.S. policy covers all litigation costs and offers professional legal assistance. Legal insurance protection is a novelty on the fuel card market. The decision to include such insurance in the FLOTA package was mainly related to the extension of the offer for institutions, providing them with maximum improvements and amenites under the programme and encouraging car fleet managers to use the ORLEN programme.

Moreover, PKN ORLEN concluded an agreement with MOTO-PROFIL, under which it offers the Moto-FLOTA programme for car fleets, involving service management unavailable for individual customers. Moto-FLOTA is a specialist car service management system involving over 200 independent and authorised service stations with uniform prices overhaul and repair procedures. The company employees are well experienced in the automotive industry and fleet customer service. They provide consulting, technical assistance, cost optimisation and coordination of overhaul and repair activities.

With a view to extending our offer under the FLOTA Programme, we offer our customers the possibility to collect Vitay points for purchasing Premium fuels. Previously, fleet card holders could only receive credits for promoted products available in shops and for services.

On top of this, we offer the possibility to tank up AdBlue directly from a pump at 12 of our own stations. AdBlue is a non-toxic, odourless, colourless, safe and environmentally friendly agent that reduces harmful exhaust gas particles and is used with the newest generation of diesel engines with the Selective Catalytic Reduction (SCR) technology. The majority of European truck and bus manufacturers have opted for SCR technology in their latest models, so as to minimise the emission of harmful substances and comply with the EU standards: Euro IV and Euro V.

AdBlue which is sold at ORLEN stations complies with DIN 70070 and meets relevant ISO and CEFCIC standards, which guarantees safe and faultless functioning of the SCR system.

Our extended offer and the achievements under the FLOTA Programme were noticed and appreciated both by our customers and by Polish fleet market experts, which is best proven by the "Fleet Product of the Year" title awarded to the PKN ORLEN fleet cards at the Polish National Fleet Awards 2008 Plebiscite organised by Magazyn *Flota* periodical and Fleet Management Institute Central-Eastern Europe.

Currently, fleet cards are accepted at over 1,700 ORLEN and BLISKA fuel stations, which means that fleet transactions are made throughout the country.

The Czech Republic

At the end of 2008, Benzina a.s. managed a network of 334 premium and economy fuel stations. Last year, 107 fuel stations met the highest requirements of the Benzina Plus premium brand, offering a broad variety of services and non-fuel products. Meanwhile, 227 Benzina brand stations belonged to the economy segment. 325 stations functioned under the CODO formula (Company Owned Dealer Operated), and 9 - DOFO formula (Dealer Owned Franchise Operated).

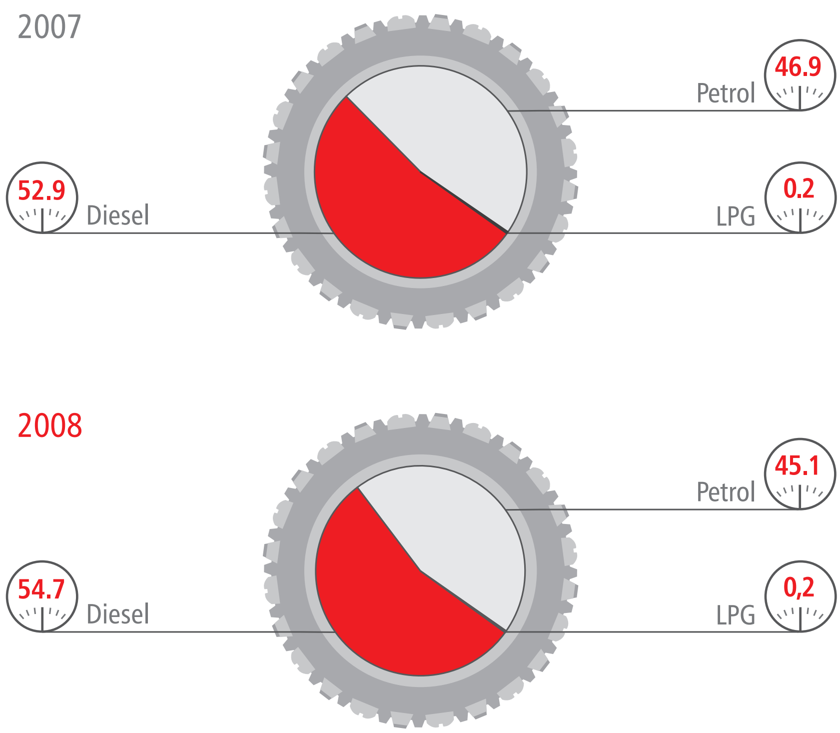
In 2008, the economy stations rebranding process was completed, and 2009 will be the final phase of the same process in the premium segment.

In 2008, demand for premium fuels continued the upward trend. Benzina a.s. launched premium VERVA 100 fuel in 2007, and in 2008, responding to increasing market demand, it offered premium VERVA Diesel.

Benzina a.s. focused its activities on raising standards in the premium segment through intensive development of its fuel and non-fuel offer. Thanks to the measures taken, revenue from non-fuel sales went up by 15%. Another thing worth mentioning are joint ventures with owners of strong market brands from the catering sector. In 2007, Benzina a.s. started cooperation with Autogrill company, and the cooperation continued in 2008 also. A major success was inevitably the initiation of cooperation with the global McDonald's network, which opened two restaurants at Benzina motorway fuel stations in Osice.

Benzina a.s. – fuel sales structure

in 2007–2008 (%)



Lithuania

By the end of 2008, ORLEN Group had a network of 35 fuel stations in Lithuania, managed by AB Ventus Nafta. Most of them – 26 – functioned under the COCO formula (Company Owned Company Operated), and the other 9 – under the DOFO formula (Dealer Owned Franchise Operated). At year end, 22 stations functioned in the premium segment under the ORLEN Lietuva brand, and 13 – under the Ventus brand.

The Group is planning to develop its retail network in Lithuania only in the premium segment, which is why it continued the rebranding of its Lithuanian stations in 2008. The decision to expand only with the ORLEN Lietuva brand was taken based on a 2007 analysis of retail fuel market players positioning in Lithuania. The results of the analysis clearly showed that the Lithuanian market lacked a broad offer of fuel and non-fuel products, combined with high-standard services and modern outlook of facilities. ORLEN Lietuva is a response to the market demand and perfectly fills in the gap. The rebranding process of the existing ORLEN Lietuva stations is to be completed in 2009.

All the ORLEN Lietuva fuel stations have shops organised in a new, customer-friendly format, and an innovative catering offer introduced by the Stop Café Bistro brand. The menu was developed based on original recipes created especially for the ORLEN network. The high non-fuel sales dynamics in 2008 proves that the new offer and the bistro were kindly welcome by customers.

In 2008, the Lithuanian retail fuel market, developing incessantly over the previous four years, reported a downward trend. The main reasons for the shrinking of the market were the overall economic slowdown, particularly visible during the second half of the previous year, and recession in the transport and construction industry, and related sectors, which translated into dropping volumes in the business sector.

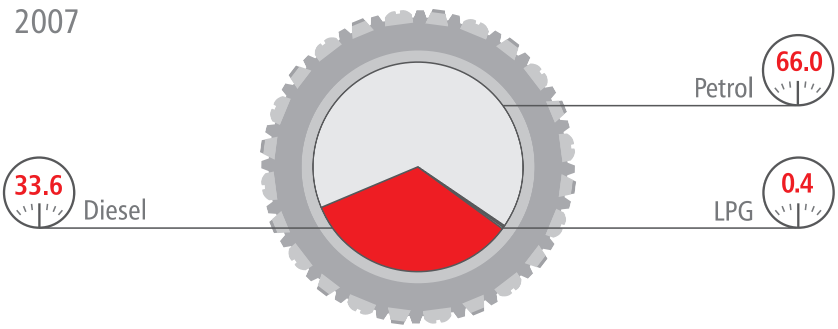
The overall downward trend was also reflected in AB Ventus Nafta sales results, whose volume dropped by 5.6% in 2008, compared to 2007.

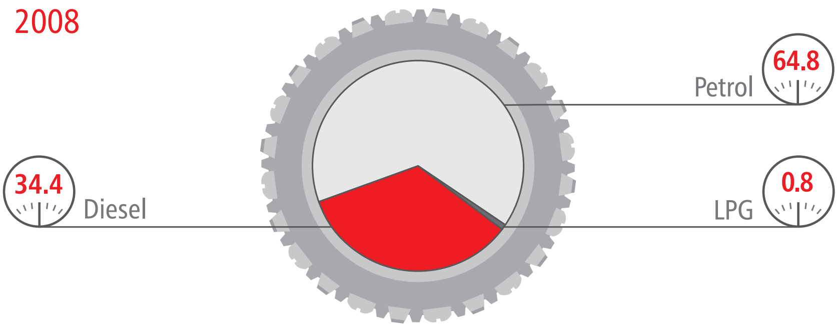
Germany

At the end of 2008, ORLEN Deutschland AG, managed a network of 509 fuel stations, including 13 under the ORLEN brand, 463 under the Star brand and 33 stations located at hypermarkets. Most of them – 400 fuel stations, were owned by the Company, and the rest were leased.

ORLEN Deutschland AG - structure of fuel sales

in 2007–2008 (%)





RETAIL SEGMENT

The German retail market reported a downturn last year. Due to a rapid increase in raw material and finished product prices, fuel prices rocketed to over 1.50 EUR per litre of unleaded 95-octane last summer, which resulted in reduced fuel consumption. Another result of the situation was an increased price awareness among consumers and more interest in the offer of economic fuel stations.

However, such a trend was only one of the factors influencing ORLEN Deutschland success last year and its record sales volume of 1.9 bn litres. Major increase in sales at Star stations was mainly due to the consequent positioning of the brand, significant capital expenditure, successful canvassing of individual facilities, launch of a new product – premium star-98 and a large-scale marketing campaign supported by sponsoring activities.

As a result of an ongoing investment programme, 43 facilities were rebranded and consequently moved form thes premium to economy sector. Over 120 of Star stations were revamped (better lighting, strong facade colours, better visible logo and new style roofing). 124 stations were equipped with modern, well visible LCD price displays, whose form and size are unique in the sector. Fuel pumps and fuel level indicators were also replaced.

In July 2008, ORLEN Deutschland AG, with its Star brand, became a sponsor of three Bundesliga clubs: HERTHA BSC, Hamburger SV and Bayer 04 Leverkusen. Such cooperation is mainly aimed at increasing recognisability of the Star brand not only on decisive regional markets, such as Berlin, Hamburg and North Rhine - Westphalia, but also on the national German market. The sponsorship agreement is initially planned until the end of 2010.

With its "quick, simple and cheap" motto, over the last five years, Star has become for drivers a synonym of high-quality fuel at attractive prices. ORLEN Deutschland 2008 results prove that focusing on the German retail network development strategy for Star brand was the right thing to do, and the economy sector still has large development potential.

eighth stage of rally
39 : 07 : 52

"The special stage ran across a hard, metalled surface with any number of technical twists and turns coming up fast, one after another. It was a stage prepared specially for quad bikes. Riding a route with those kind of specifics on a motorbike is much tougher. None the less, it went very well for me."

10 LAT Team ORLEN

PETROCHEMICAL SEGMENT

In 2008, ORLEN Group petrochemical segment consisted of selected units at the Petrochemical Production Plant in Płock and at the following companies: Basell Orlen Polyolefins Sp. z o.o. and Unipetrol RPA. We are the sole manufacturer of olefins, polyolefins and most petrochemicals in Poland and in the Czech Republic. With our high-quality products and efficient distribution network, we are one of the strongest market players in this part of Europe.

Petrochemicals

The first three quarters of 2008 saw a relatively high and stable demand for petrochemical products and very high price listings of those products on European markets. Over the last three months of 2008, we reported a major downturn in automotive and construction industries, which resulted in a severe breakdown on the domestic market for all kinds of plastic materials. In a very short period of time, petrochemical product quotations showed record price drops – as much as 60%, and limitations in petrochemicals processing (due to reduced loads or temporary shut-down of installations) inevitably affected sales volumes in the 4th quarter, both in terms of volume and value.

In Polish and Czech ORLEN Group plants, we produced nearly 1,005 thousand tonnes of ethylene, which is a 3% drop compared to 2007. Propylene production in the reported period topped 595 thousand tonnes, i.e. approximately 4% less than in the previous year. Limited production of the two main petrochemical products was mainly due to the scheduled standstill of the Olefin Plant II and related units in Płock. Moreover, in late 2008 we reported, both in Poland and in the Czech Republic, evident crisis symptoms, such as a recession on the plastic material market, which for us resulted in underutilisation of production capacities.

Poland

The most important event affecting petrochemical production in 2008, was the scheduled overhaul of basic units at the Petrochemical Production Plant in Płock and polymer units at Basell Orlen Polyolefins Sp. z o.o. as well as a significantly reduced demand for products from manufacturers of plastic materials (polyethylene, polypropylene, PVC, PET, polyamide), synthetic rubber, ethoxylate (for producing surface-active agents) and polyols, TDI (for producing polyurethanes), caprolactam, Bisphenol A, phenol resin, cooling fluids, phthalic anhydride and artificial fertilisers.

The major recipients of ethylene and propylene from the Płock plants were plastic manufacturers, in particular ANWIL SA and Basell Orlen Polyolefins Sp. z o.o. Other products, outside the domestic market, were mainly purchased in Germany, Romania, Hungary and Slovakia. Total export sales of Płock products in 2008 almost doubled compared to 2007.

The main polyolefin import sources to Poland were: Germany, the Netherlands, Hungary and Slovakia. Other petrochemical products were mainly imported from Germany, Slovakia, the Czech Republic, Hungary, Belgium, Belarus and Finland.

Production volume of selected petrochemicals in PKN ORLEN SA

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Ethylene	623,698(1)	**539,866(1)**	–13.4%
Propylene(2)	408,522(1)	**356,079(1)**	–12.8%
Butadiene	59,265	**57,398**	–3.2%
Benzene	164,236(1)	**141,004(1)**	–14.1%
Toluene	139,848(1)	**127,436(1)**	–8.9%
Paraxylene	31,061	**24,148**	–22.3%
Phenol	49,725	**43,763**	–12.0%
Acetone	31,706	**27,796**	–12.3%
Glycols	103,830	**87,464**	–15.8%
Cooling fluids	14,780	**10,072**	–31.9%
Solvents	11,215	**10,486**	–6.5%
Sulphur	127,274	**132,195**	3.9%
Ethylene oxide	16,988	**12,409**	–27.0%

(1) Total production for sale and own purposes.
(2) Total propylene production at the Production Plant in Płock.

The Czech Republic

Since the beginning of the year until the third quarter of 2008, the European petrochemical market reported high demand and satisfactory margins, with the exception of the second quarter, when the margins were low. The situation started deteriorating in early August, together with the beginning of the crisis. The consequent breakdown in demand prevented us from profiting from sudden drops in crude oil prices and record crack margins in the fourth quarter. We estimated that at the end of 2008, approximately 40% of European ethylene and propylene production capacities were switched off. Similar was the case with most of the other petrochemicals manufactured in the Czech Republic.

Production volume of selected petrochemicals in Unipetrol RPA in 2007–2008 (tonnes)

	2007	2008	Dynamics
Ethylene	408,552	**464,727**	13.7%
Propylene	208,667	**238,743**	14.4%
Benzene	163,341	**179,381**	9.8%
Carbamide	167,831	**189,598**	13.0%
Ammonia	219,464	**260,313**	18.6%
Oxo alcoholes	48,368	**55,049**	13.8%

Petrochemicals manufactured at Unipetrol RPA were mainly located on the Czech market, under long-term contracts. The main recipients of products manufactured at Czech plants were: Spolana, Synthos, Agrobohemie and Deza a.s. Despite the plummeting sales in Central Europe, recipients from countries like Germany, Poland, Slovakia and Austria held an important position among our customer portfolio.

The main import sources to the Czech Republic were Germany, Ukraine and Russia. Polypropylene was also imported in large volumes from Poland. Other petrochemical products were imported from Germany, Russia, Slovakia, Hungary and Poland.

Plastics

ORLEN Group total polyolefin production volume in 2008 was slightly below the 2007 level. In the reported period, polyethylene production in Poland and the Czech Republic remained at 644 thousand tonnes and was approximately 2.4% less than in 2007. Polypropylene production in 2008 represented over 545 thousand tonnes, i.e. approximately 3.7% less than the Group's result in 2007.

Poland

The volume of products manufactured at Basell Orlen Polyolefins was nearly 80 thousand tonnes less than in 2007. Reduced production in polyethylene and polypropylene segments was due to lower demand for plastic materials, in particular from car part and pipe manufacturers. As a result of lower demand for polymers, their prices dropped below monomer prices.

Polyolefin production volumes at Basell Orlen Polyolefins Sp. z o.o.

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
LDPE	117	**102**	–12.9%
HDPE	275	**251**	–8.9%
PP	379	**341**	–10.0%
TOTAL	**771**	**694**	–10.1%

Polyolefin sale volumes at Basell Orlen Polyolefins Sp. z o.o.

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
HDPE	265.8	**258.0**	–3%
LDPE	114.2	**106.8**	–7%
PP	381.4	**352.2**	–8%
TOTAL	**761.4**	**717**	**–6%**

Over 40% of sales from Basell Orlen Polyolefins Sp. z o.o. goes to the Polish market. The remaining volume is distributed within LyondellBasell European delivery chain. In 2008, the main foreign recipients of Płock products were customers from Germany, Belgium, the Netherlands, France, Italy and Spain.

All the Basell Orlen Polyolefins Sp. z o.o. products are portioned and packed, and dispatched from a modern logistics platform consisting of 63 silos of 400 tonnes each, located within 95,000 m^2.

The Czech Republic

The economic downturn in 2008 reduced the demand for high-density polyethylene (HDPE) in the Czech Republic and Slovakia to 114 thousand tonnes, i.e. approximately 3.7% less than in 2007. Despite adverse macroeconomic conditions, we maintained our share in the Czech market.

The global economic slowdown had a negative impact on the Czech polypropylene (PP) market. However, despite a fall in the demand for PP from 342 thousand tonnes in 2007 to 337 thousand tonnes in 2008, we managed to slightly increase our share in the Czech PP market.

Polyolefin production volumes at Unipetrol

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
HDPE	267.6	**291.9**	9.1%
PP	186.7	**205.7**	10.2%
TOTAL	**454.3**	**497.6**	**9.5%**

Additional factors that negatively influenced production on volumes at the Unipetrol plants were technological problems at Olefins and a additional standstill in October 2008.

Polyolefin sale volumes at Unipetrol

in 2007–2008 (thousand tonnes)

	2007	2008	Dynamics
HDPE	265.5	**288.5**	8.6%
PP	187.0	**196.4**	5.0%
TOTAL	**452.5**	**484.9**	**7.1%**

The first symptoms of a falling demand for polyolefin in the Czech Republic could already be observed in the second quarter of 2008. The slowdown was parcitulary visible in the foil and bottle segment, as well as in plastic for common use. Polyethylene consumption was also affected by a ban on distributing plastic bags in certain European states.

The intensifying financial crisis was also reflected in the demand from the automotive industry, which plummeted by 50%. The company was affected by technological problems with the Olefin unit, connected with lower quality of ethylene and the consequent inability to manufacture certain types of polyethylene in the second half of 2008.

The top foreign recipients of polyethylene and polypropylene from the Czech plants were German companies. Compared to 2007, HDPE export went up by over 10% and PP by nearly 6% in 2008.

Investments

In 2008, we overhauled petrochemical installations in Płock as scheduled and within budget. The most important project was the continued construction of PX (paraxylene) and PTA (terephthalic acid) units, which started in 2007.

By the end of 2008, the PX contract was executed at 71.6%, of which base, technical, delivery and construction projects progressed to 98.3% of the assumed 99.5%. The unit producing raw material for terephthalic acid production in Płock is expected to be started up in 2010. Expected annual capacity of the unit is 400 thousand tonnes.

At the end of 2008, the PTA basic project progressed to 40.5%, ahead of the contract schedule value of 38.2%. The progress of works represented 10.73% of the scheduled 9%, including 39.3% of the scheduled 23% for the construction sector. The unit, with an annual production capacity of 600 thousand tonnes of acid, is to be started up in 2010 on the premises of ZA ANWIL Włocławek.

As for the Czech plants, we continued increasing the polypropylene unit capacity. We expect that by mid 2009, the unit will have 285 thousand tonnes of annual production capacity. Moreover, we have worked on the benzene extractive distillation unit, which in the first quarter of 2009 is expected to increase its product efficiency by 20% compared to 2008.

Strategy

The 2009-2013 strategy communicated in November 2008 puts emphasis on the Company's performance in a situation of global crisis. We verified numerous investment plans and focused on improving operating and commercial efficiency, as well as on promoting the most profitable products which offer additional synergy possibilities within the refinery segment, in particular in terms of additional aromatic sources.

ninth stage of rally
42 : 13 : 06

"That stage of the rally was a really fast one for me. I was up there with the leaders the whole time and holding my place in the group. And all the time, I was observing how the riders were jostling for position."

10 LAT Team ORLEN

CHEMICAL | SEGMENT

CHEMICAL SEGMENT

In 2008, the ORLEN Group Chemical Segment consisted of ANWIL SA and its subsidiary – Spolana a.s. with its registered office in Neratovice, the Czech Republic (ANWIL Group).

It is was the second year of the operating integration of the Polish and Czech companies. Over the last 12 months, ANWIL SA became the key supplier of ammonia for Spolana a.s., thus increasing the efficiency of its own plants in Włocławek. Compared to 2007, ammonia production went up by over 10%, which was one of the factors why the Polish company increased its return on nitrogenous fertiliser sales by over 18% (increase compared to 2007).

The downturn on the caprolactam market meant reduced ammonium sulphate production in Spolana, as this particular fertiliser is manufactured in parallel with caprolactam. Spolana a.s. reported an over 49% increase in processed PVC and sodium hydroxide (7% increase compared to 2007).

Reduced demand in the construction material sectors (e.g. wire production, window and other profiles, furniture or advertisement sector), combined with the strong zloty compared to USD and EUR, negatively affecting the export competitiveness, forced ANWIL SA to reduce unprocessed PVC production by over 19% and processed PVC production by over 15%. An overall 22% drop in sodium hydroxide production was due to lower demand for chlorine developed in the same process (used in PVC production).

Nitrogenous Fertilisers

Production

Due to the good condition of agriculture and increasing prosperity among farmers, Lithuanian and German fertiliser manufacturers were increasingly interested in the Polish market. As we had expected, the developing biofuel market in European states generated an increased interest in ammonium nitrate and ammonium sulphate, these two products belonged to the group of fertilisers with the highest growth potential.

ANWIL SA produced more fertilisers than in 2007 (approximately 990 thousand tonnes in mass). Meanwhile, the total production of nitrogenous fertilisers among the remaining Polish producers in the reported period fell by 8%. The boom on the domestic and European fertiliser market over three quarters of 2008 influenced a high production level which in the chemical sector amounted to 1.163 mn tonnes of nitrogenous fertilisers (in mass).

Market share

In the 2007/2008 season, the chemical sector reported nearly a 19% share in the Polish market of nitrogenous fertilisers, as per nitrogen, given maximum utilisation of production capacities and an increase in fertiliser consumption in Poland. According to EFMA data, the share of the sector in the Czech nitrogenous fertiliser market in the 2007/2008 season amounted to approximately 7%, as per nitrogen.

Investments

A major investment project which was completed and put to operation in December 2008 was a palletisation unit. Palletisation improves logistic processes and significantly facilitates unloading of products by final recipients.

Polyvinyl Chloride (PVC)

Production

PVC production capacities in 2008 amounted to 435 thousand tonnes: 300 thousand tonnes in Włocławek and 135 tonnes in Neratowice. In regard to PVC, we implemented a common sales and distribution policy, which enabled the two Polish and Czech plants to share the production of respective PVC types. As a result, we improved utilisation of the plants and PCV distribution on the domestic and foreign markets.

Market share

The chemical sector companies reported an approximately 44% share in the Polish PVC market in 2008, which is a slight drop compared to the previous year. The share of ANWIL SA and Spolana in the Czech PVC market in the reported period amounted to approximately 15%, which is 3% more than in 2007.

Investments

The most important investment project in the PVC area was undertaken by ANWIL SA and its target was to increase the production capacities of the Włocławek plant to 340 thousand tonnes. The project will be put to operation in 2009.

Searching for new development options, we started construction of PTA plant in Włocławek. There is more information on the project in the chapter on the petrochemical segment.

Another important investment project of ANWIL SA was the construction of an oxygen generating unit which will replace the old, exploited unit and satisfy most of the Włocławek plant demands, as well as ensure nitrogen supplies to the PTA plant.

Due to the area's limited synergy with PKN ORLEN's core business, the Company Management Board decided to release capital engaged in PVC and nitrogenous fertilisers, at the same time maintaining its role as the strategic raw material supplier to the chemical industry.

Production volumes of key products in the chemical segment in ANWIL SA

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Polyvinyl chloride	300,590	**241,475**	–19.7%
PVC processing	81,109	**68,442**	–15.6%
Sodium hydroxide (as per 100% NaOH)	193,200	**149,340**	–22.7%
Ammonia	455,720	**501,750**	10.1%
Nitrogenous fertilisers (as per nitrogen)	295,569	**304,768**	3.1%

Production volumes of key products in the chemical segment in Spolana a.s.

in 2007–2008 (tonnes)

	2007	2008	Dynamics
Polyvinyl chloride	120,434	**124,033**	3.0%
Sodium hydroxide (as per 100% NaOH)	105,625	**113,135**	7.1%
PVC processing	4,827	**7,196**	49.1%
Caprolactam	47,580	**37,572**	–21.0%
Ammonium sulphate (as per nitrogen)	44,765	**36,580**	–18.3%

CHEMICAL SEGMENT

Plans for 2009

With regard to PVC, the most important markets for the chemical sector in 2009 will be the Polish and Czech markets. The sector will intensly focus its sales intensification efforts on these two markets. Unless the construction sector, which generates the most demand for PVC, breaks down completely, the chemical sector will aim at maintaining its sales on the 2008 level.

ANWIL SA assumes to maintain its share in the Polish nitrogenous fertiliser market, which in the 2007/2008 season amounted to nearly 19%, given maximum utilisation of production capacities and increased fertiliser consumption in Poland.

As with investment projects, ANWIL SA is planning to continue the execution of consecutive tasks connected with the extension of electric infrastructure (power, water and technical gas supply, and the construction of a biological sewage treatment plant) required for the purposes of the PTA unit. The 2009 budget for these tasks is estimated to be PLN 40 mn. Moreover, consecutive stages of the oxygen generating unit modernisation project will be performed in 2009.

tenth stage of rally
46 : 36 : 10

"Right after we took off, I drew level with the leaders and I was up there with them the whole time. The stage today was extremely varied. There were several fast, straight stretches and there were technical runs through the high dunes. I'm riding better with every day that passes. The overriding spirit on the team is one of trust and cooperation. My older colleagues are passing on so much knowledge to me and that'll pay off in the special stages."

10 LAT team ORLEN

ORLEN GROUP

Equity investments

We manage and supervise ORLEN Group companies which are divided into several divisions and business segments.

As at the end of 2008, PKN ORLEN had direct shareholdings in 58 commercial companies, including:

- 34 subsidiaries (a shareholding of over 50%);
- 2 co-related companies (a shareholding of 50%);
- 2 affiliated companies (shareholding of between 20% and 50%);
- 20 minority companies (shareholding below 20% and companies in liquidation or bankruptcy.

In 2008, we focused our equity investment projects on streamlining the ownership structure within the capital group, consolidation processes and non-core business divestments.

The following divestment projects were implemented in 2008:

- disposal of 75% shares in Petrotel Sp. z o.o. to an external investor;
- disposal of 13.4% shares in Spolana a.s. within the capital group, initiating compulsory acquisition of minority shareholders by ANWIL SA;
- disposal of 3.7% shares in Paramo a.s. within the capital group, initiating compulsory acquisition of minority shareholders by Unipetrol a.s.

Total proceeds from the disposal of shares in 2008 amounted to PLN 60,448,847.03, given the balance value of disposed assets at PLN 18,629,954.07.

While restructuring the capital group, we continued consolidation processes. On 2 January 2008, we completed the registration of ORLEN Transport SA, established after consolidation of the following transport companies: ORLEN Transport Płock Sp. z o.o., ORLEN Transport Nowa Sól Sp. z o.o., ORLEN Transport Kędzierzyn-Koźle Sp. z o.o., ORLEN Transport Szczecin Sp. z o.o., ORLEN Transport Słupsk Sp. z o.o. and ORLEN Transport Olsztyn Sp. z o.o. In 2008, we finalised the consolidation of four RORs (so-called Regional Market Operators), namely: ORLEN PetroCentrum Sp. z o.o., ORLEN PetroZachód Sp. z o.o., ORLEN Morena Sp. z o.o. and ORLEN PetroProfit Sp. z o.o. The consolidation did not involve additional capital, and the total balance value of our shares in the four consolidated companies was PLN 78,341,797.

Among investment projects implemented in 2008 were:

- increased capital engaged in Polkomtel SA to 24.39% of the company share capital;
- compulsory acquisition of minority shareholders in ORLEN Transport SA.

The total value of capital investments in PKN ORLEN in 2008 amounted to PLN 740,801,990.64.

Compulsory acquisition of minority shareholders was also exercised by ORLEN Group companies. In 2008, we performed:

- compulsory acquisition of minority shareholders (approximately 1.41% of shares) in AB Ventus Nafta by AB Mažeikių Nafta;

- compulsory acquisition of minority shareholders (approximately 4.3% of share capital) in Spolana a.s. by ANWIL SA;
- compulsory acquisition of minority shareholders (approximately 8.24% of shares) in Paramo a.s. by Unipetrol a.s.

Acquisition of Polkomtel SA shares from TDC

Acquisition of shares in Polkomtel SA from TDC Mobile International A/S (TDC A/S) under an agreement concerning acceptance of an offer and conditional disposal of shares in Polkomtel SA of 10 March 2006, concluded between national shareholders in Polkomtel SA, i.e. PKN ORLEN SA, KGHM Polska Miedź SA, Polskie Sieci Elektroenergetyczne SA (currently PGE Polska Grupa Energetyczna SA) and WĘGLOKOKS SA as buyers and TDC Mobile International A/S as seller, was settled on 18 December 2008.

As a result of the settlement of the transaction, PKN ORLEN acquired 980,486 ordinary registered shares in Polkomtel SA of nominal value of PLN 100 each, representing approximately 4.78% of Polkomtel SA share capital, for the total price of EUR 176,977,723 (equivalent to PLN 738,705,016 according to the mean exchange rate of the National Bank of Poland as on 18 December 2008). After settlement of the transaction, PKN ORLEN holds 24.39% share in Polkomtel SA share capital.

Direct affiliates of PKN ORLEN SA

as of 31.12.2008

Division of the President of the Management Board	Financial Division	Petrochemicals Division	Refinery Division	Sales Division
ORLEN Upstream Sp. z o.o. 100,0%	ORLEN Księgowość Sp. z o.o. (accountancy) 100,0%	Basell Orlen Polyolefins Sp. z o.o. 50,0%	AB Mažeikių Nafta 90,02%	ORLEN Gaz Sp. z o.o. 100,0%
ORLEN Intern. Exploration & Prod. Co BV 100,0%	ORLEN Powiernik Sp. z o.o. (trustee) Under liquidation 100%	ANWIL SA 84,8%	ORLEN Asfalt Sp. z o.o. 82,5%	ORLEN PetroCentrum Sp. z o.o. 100,0%
ORLEN Ochrona Sp. z o.o. (security) 100,0%	Orlen Holding Malta Limited 99,5%	ORLEN Prewencja Sp. z o.o. (prevention) 100,0%	Rafineria Nafty Jedlicze SA 75,0%	ORLEN PetroTank Sp. z o.o. 100,0%
ORLEN Medica Sp. z o.o. 100,0%	Orlen Insurance Ltd 0,000014%	ORLEN Laboratorium Sp. z o.o. (laboratory) 94,9%	Rafineria Trzebinia SA 77,2%	SHIP – SERVICE SA 60,9%
Polkomtel SA 24,4%	ORLEN Finance AB 100,0%	ORLEN Projekt SA 51,0%	ORLEN Oil Sp. z o.o. 51,7%	Chemiepetrol GmbH Under liquidation 20%
18 other companies <20,0%	Petrolot Sp. z o.o. 51,0%	Unipetrol a.s. 63,0%	ORLEN Eko Sp. z o.o. 100,0%	ORLEN Deutschland AG 100,0%
	ORLEN Administracja Sp. z o.o. (administration) 100,0%	Płocki Park Przemysłowo-Technologiczny SA 50,0%	ORLEN Automatyka Sp. z o.o. 52,4%	ORLEN Budonaft Sp. z o.o. 100,0%
			ORLEN Wir Sp. z o.o. 51,0%	ORLEN Centrum Serwisowe Sp. z o.o. (service centre) 98,6%
				IKS "Solino" SA 70,5%
				Naftoport Sp. z o.o. 18,0%
				ORLEN KolTrans Sp. z o.o. 99,9%
				ORLEN Transport SA 100,0%
				ORLEN Transport Kraków Sp. z o.o. Under bankruptcy 98,39%

eleventh stage of rally
48 : 13 : 01

"We are a strong team and we should count for something in the rally. We also have to be very tough, mentally, because this is one of the most challenging rallies of them all. Those 6-7 days in the desert is a tremendous experience."

10 LAT Team ORLEN

EMPLOYEES

Employment

At the end of 2008, ORLEN Group employed 22,958[(1)] persons, of which PKN ORLEN employed 4,724 persons, Unipetrol Group – 4,647 persons, ORLEN Deutschland AG – 108 persons, and AB Mažeikių Nafta – 3,517 persons.

In 2008, 340 employees left PKN ORLEN. Moreover, 129 persons left under the Voluntary Retirement Programme from ORLEN Księgowość Sp. z o.o. and the logistics segment.

PKN ORLEN Employment Structure

In 2008, the most numerous group of all PKN ORLEN employees (90.1% of the entire personnel) comprised of secondary and tertiary education employees. In Unipetrol Group, the most numerous group consisted of vocational and secondary education personnel (78.72%), whereas in AB Mažeikių Nafta – primary and university education personnel (55.19%).

In terms of age, the largest group among the PKN ORLEN workforce were people aged 31 to 40 (30.4%). Personnel aged 41 to 50 was the most numerous in AB Mažeikių Nafta (32.50%) and Unipetrol Group (31.81%).

(1) In this context ORLEN Group means the Company and its consolidated subsidiaries, excluding the affiliated entities.

In 2008, women represented 21.30% of the PKN ORLEN staff, whereas men – 78.70%. The majority of Unipetrol Group personnel were also men (73.49%), whereas women accounted for 26.51%. Similar was the case with AB Mažeikių Nafta: in 2008, men accounted for 69.32% of the entire personnel, and women – 30.68%.

Collective Employment Agreement

A milestone in the Company's HR management strategy was the signing of the Collective Labour Agreement (ZUZP) for PKN ORLEN's employees in November 2008. The main objective of the paper was to implement an idea of employment relationship management that would be compliant with the current legislation.

The ZUZP regulates the following issues: employing and promoting personnel, and terminating employment contracts, salaries and other employee benefits, staff assessment professional development and training, obligations of parties to an employment relationship, holiday leaves, working hours, work conditions and social benefits. Moreover, the ZUZP regulates the functioning of trade unions and the rules of social dialogue in PKN ORLEN.

Recruitment Policy in PKN ORLEN

In 2008, the chief objective of recruitment policy was to:

- ensure continuity of business processes;
- implement recruitment strategy in accordance with the corporate culture, corporate governance and corporate social responsibility;

- ensure support to restructuring processes implemented in PKN ORLEN;
- develop and implement solutions for professional development of PKN ORLEN personnel.

The tool that efficiently supported the recruitment process was the Talent Link application, which is used to notify business areas of recruitment needs, and to support the HR Recruitment and Development Department personnel at all stages of their work. With Talent Link, the personnel and candidates could check job ads, post applications online and modify their profile.

In 2008, PKN ORLEN was awarded as the Best Employer in 2007/2008 in a national ranking "Career with Employer". PKN ORLEN received two additional awards as employer: "Attractive Employer" in a national employer ranking KOMPAS and "Ideal Employer" in Universum Graduate Survey 2007.

Student training

The Student Training Programme implemented by PKN ORLEN was very popular in 2008, both among high school and university students across the country. The programme involved on-the-job training in the Company headquarters in Płock and in facilities throughout Poland. The Programme was participated by 315 students – 68 in individual training, and 247 in group training.

Apprenticeship Programme

PKN ORLEN Apprenticeship Programme is one of the methods to accurately assess the competences and professional potential of participating candidates, and helps win young, talented and qualified personnel. In 2008, 36 new apprentices were admitted to PKN ORLEN, of which 4 people were offered to work under order contracts and 2 – under employment contracts. The other people are continuing their apprenticeship.

Management by Objectives (MBO)

The main purpose of the MBO motivation system, developed for key personnel in PKN ORLEN and the Capital Group, was to support the implementation of the strategy to improve the Company goodwill. In 2008, the annual bonus system under MBO covered 533 employees, and quarterly-annual systems – a total of 171 employees.

Competence Development Programme

The Competence Development Programme (PRK) is a process of evaluating and planning professional competence. In 2008, the programme covered nearly 600 employees from all business areas in the Company. The final result of the programme were competence-oriented training programmes participated by 126 employees.

Training

The objective of the PKN ORLEN 2008 training policy was to support business areas in implementing strategic tasks and objectives by supplying the necessary expertise and practical skills. 6,760 employees participated in closed and open training programmes.

We also started a training programme: PKN ORLEN Project Management Academy, training sessions in "The role of a manager in team management" and HR System Development Programme – Stationary Training (LSO).

Social Benefits

PKN ORLEN provided the following social benefits: co-financing for holidays and events (sport and recreation, health prevention and rehabilitation, integrative events, trips, mass sport, celebrations), non-repayable aid, repayable housing loans and Christmas presents for children. We provided the total of approximately 38 thousand various benefits.

Remuneration policy in ORLEN Group

In 2008, ORLEN Group started comparing its salaries and benefits with market practice in order to assess the attractiveness of our remuneration and develop a methodology to adjust it to market requirements. In the future, the results will enable the Group to harmonise its remuneration policy, standardise solutions and develop mechanisms for vocational mobility within the Group.

twelfth stage of rally

48 : 51 : 00

"Today's stage was dominated by a sandstorm. There was a strong wind and limited visibility. When I was taking the dunes, I felt as if it was carrying me. Every second counted. In the final 50 kilometres, I managed to overtake my rival."

ENVIRONMENTAL | PROTECTION

ENVIRONMENTAL PROTECTION

"Aware of the impact of its activities on the environment, PKN ORLEN announces systematic adjustment of process planning and implementation methods to the requirements of permanent and sustainable development through an integrated approach to contamination prevention and an environmental protection process.

The Company's strategy is subordinated to this objective, which translates into existing and future development programmes and other activities carried out on the basis of the implemented Environmental Management System according to the requirements of the PN–EN ISO 14001:2005 standard. We undertake to extend the system to cover the remaining PKN ORLEN units domestically and to build an integrated Management system"[1].

Environmental protection

All activities implemented by PKN ORLEN in 2008 aimed at ensuring maximum environmental neutrality of our production, storage and distribution systems.

In 2008, capital expenditure on tasks related to environmental protection in the Production Plant in Płock amounted to over PLN 259 mn, which is an increase by approximately 112% compared to 2007.

[1] "PKN ORLEN Environmental Policy".

We reduced the total pollutant discharge by 1.3%, given the 4.16% increase in the oil processing volume over the last 12 months. It is worth mentioning that due to the application of low sulphur fuels, sulphur dioxide emission to the atmosphere decreased by 2.52%. Moreover, after provision of low emission burners in another boiler in the Combined Heat and Power Plant, the volume of nitrogen oxide fell by 8.74%.

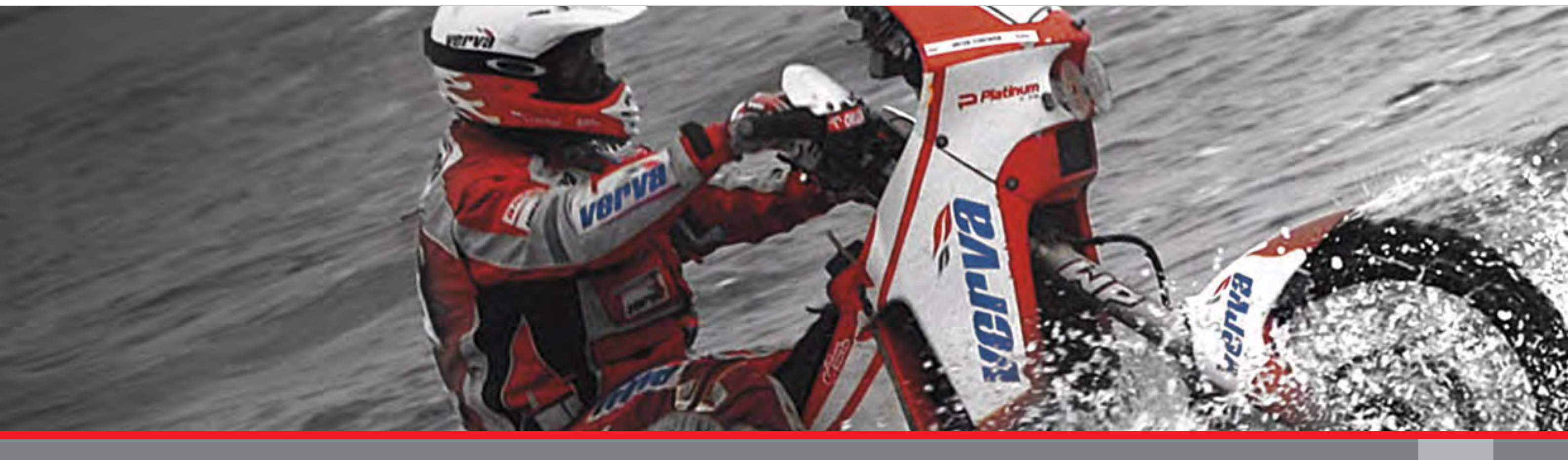
Moreover, consumption of water from the Vistula for production processes went down by 3.07%, and the amount of sewage discharged – by 2.85%.

Our pro-environmental activities (reduced emission in the Płock plant, hermetisation of fuel stations and fuel terminals) resulted in measurable financial savings of over PLN 700,000 on environmental charges.

2008 was the beginning of the second phase of the EU Greenhouse Gas Emission Trading Scheme, covering the period of 2008-2012. Currently, the scheme covers three of PKN ORLEN's production units. According to verified 2008 reports, they all remained within their respective average annual limits.

We also managed to reduce the average sulphur content in our petrol from 0.0008 weight percent in 2007 to 0.0006 weight percent in 2008, meanwhile increasing the bio-component (ETBE) content from 3.7% to 6.48%.

Moreover, we continue the implementation of environmental programmes aimed at protecting the surrounding nature. In 2008, we performed 40 tasks under one of such programmes,



"Responsible Care", more than half of which were environmental protection tasks. Since we joined the "Peregrine Falcon Restitution Programme" seven years ago, 21 falcon nestlings have hatched in our company.

Other important events in PKN ORLEN include, among others, the start-up of the high-tech waste combustion plant by ORLEN Eko Sp. z o.o. and nitrous oxide emission reduction plant in ANWIL SA.

Air Protection

According to the control measurements we carried out in 2008 in the refinery and petrochemicals complex in Płock, admissible emission limits set out in the Integrated Permit were not exceeded.

We succeeded in reducing dust emission to the air by 21%. Moreover, due to the modernisation of burners on boiler no. 3 and maintaining oxygen regimes in the Combined Heat and Power Plant, we achieved a 9% drop in nitric oxide emission.

Emission of selected pollutants in the Production Plant in Płock

in 2007–2008 (Mg)

	2007	2008	Increase	/ Decrease
Sulphur dioxide	20,973.30	**20,444.59**	–528.71	–2.52%
Nitric oxides (as per nitrogen dioxide)	7,474.71	**6,821.48**	–653.23	–8.74%
Carbon monoxide	762.38	**812.16**	49.78	6.53%
Total hydrocarbons	1,397.44[(1)]	**1,384.01**	–13.43	–0.96%
Fuel combustion dust	574.53	**453.34**	–121.19	–21.09%
Carbon dioxide	6,238,941.29	**6,158,959.11**	–79,982.18	–1.28%
Other pollutants	290.60	**270.71**	–19.89	–6.84%
Total pollutant emission	**6,270,414.25**	**6,189,145.40**	**–81,268.85**	**–1.30%**

(1) This value exceeds the value quoted in the 2007 Environmental Protection Newsletter (*Biuletyn Ochrony Środowiska*) by 835.7 Mg. The difference is due to a software error; the error was removed by the software supplier.

Environmental Protection in Investing Activities

In 2008, capital expenditure on tasks related to environmental protection in the Production Plant in Płock amounted to over PLN 259 mn, which is an increase of approximately 112%, compared to 2007 (21% of the total capital expenditure in Płock in 2008).

The most important tasks aimed at reducing the Plant impact on the respective environment components include:

- construction of HON VII unit, including infrastructure;
- construction of Claus II unit, including infrastructure;
- reconstruction of technical fillings in ventilator coolers in the cooling unit;
- reconstruction of the fuel system in the Combined Heat and Power Plant;
- soundproofing air ventilators at boilers in the Combined Heat and Power Plant;
- modernisation of electric motors at cooling water pumps at the Refinery Cooling Towers 1, 2 and 3;
- replacement of electric engines at the Petrochemicals Cooling Towers.

We adjusted our network of fuel stations to current environmental law and provided them with environmentally-friendly equipment.

We spent over PLN 31 mn on environmental protection activities at the fuel terminals in Lublin, Gutkowo, Bolesławiec and Mościska.

In 2008, PKN ORLEN Group undertook various measures to reduce its negative environmental impact. The most important of them include:

ANWIL SA

- Greenhouse gas emission reduction – introduction of catalytic nitric oxide reduction technology. Expected result – reduction of nitric oxygen emission by 3.5 mn tonnes, as per nitrogen dioxide, in the period 2008-2012.
- Reconstruction of the chlorine destruction system. Expected result – reduction by 400 Mg of the volume of chlorine discharged to the environment in 2009 – compared to 2007.
- Modernisation of the condensate treatment system at Demi II. Expected result: reduction of hydrochloric acid and soda lye consumption by 80%, and sewage discharge by 85%. In progress. Expected completion date – 1st quarter of 2009.
- Construction of sound absorbing booth for extruding press operating in the Plastics Complex. Expected result: reduction of noise exposure to normal conditions, i.e. < 85 dB.
- Purchasing a new flexographic printer and fixing it at the 3-layer foil production line. Expected result: reduction of generated waste by approximately 200 Mg/year after the start-up of the device. In progress. Expected completion date – 1st quarter of 2009.
- 6th edition of environmental education event: "A Tree for a Bottle".

Basell Orlen Polyolefins Sp. z o.o.

- Reduction of uncontrolled emission at the Polyethylene II unit compared to 2007. Aliphatic hydrocarbon emission reduced by 7%.
- Active participation of the personnel in the 15th edition of the "Clean the World"

campaign (September 2008). The target area was Brudzeński Landscape Park. BOP was one of the sponsors of the event.

- Organisation of a pro-environmental forum – 9th Poviat Earth Day, in cooperation with the Poviat authorities in Płock (April 2008). Topic of the forum: "Polyolefins help protect the climate."
- Participation in International Fairs of Plastics Processing in Katowice, promoting two pro-environmental educational games: Hostalenek and Spheripolek.

ORLEN Asfalt Sp. z o.o.

- Enclosing the flame arrester washing unit.
- Enclosing the emergency tanker truck unloading unit.
- Modernisation and hermetisation of rail tanker unloading junction at the Production unit in Trzebinia.

The above measures resulted in improved safety at work and the removal of uncontrolled emission sources at rail tank unloading.

ORLEN Eko Sp. z o.o.

- In August 2008, the Company started up a thermal waste treatment unit of 50,000 tonnes of annual capacity. The applied burning technology in a fluidized bed furnace enables neutralisation of biologically active sediments and sludge contaminated with oil derivatives. The combustion plant may also serve to neutralise dry sewage sludge from municipal wastewater treatment plants. The plant is equipped with an exhaust gas treatment system and continuous emission monitoring system covering, for example:

dust, NO_x, CO, organic substances and others. The plant meets all the current Polish and EU environmental requirements applicable to this type of activity.

ORLEN Oil Sp. z o.o.

- Adjusting the Company offer to new market requirements relating, among others, to the introduction of a new EU exhaust gas standard EURO 5.
- Implementation of the Base Oils Interchange programme with ORLEN Oil base oils, covering mineral motor oils for heavy Diesel motors, resulting in the introduction of modern technology solutions for the following oils: Platinum Ultor Plus 15W/40, Platinum Ultor 15W/40, ORLEN Oil Diesel (3) 15W/40, ORLEN Oil Diesel (2) 15W/40 and 20W/50.

Rafineria Trzebinia SA

- Preparatory stage for the task: Construction of sewage treatment plant for waste generated at the biodiesel production plant. The purpose is to provide initial treatment of sewage to a level enabling the transfer of sewage to the next treatment plant unit. The overall objective is to protect soil and water. Initial work related to this task, carried out in 2008, involved searching for technologies and a company providing treatment of waste with methanol content. Trial sewage treatment with oxygen and oxygen-free biological method was conducted. Moreover, sewage was analysed, and the possibilities of cultivating active sludge were tested.
- Protecting re-loading tracks from release of oil products to soil and groundwater. The task involved the purchase of panels to cover the tracks in the 1st quarter of 2008; assembly of panels is scheduled for 2009.

Rafineria Nafty Jedlicze SA

- Modernisation of the waste combustion plant;
  - modernisation of the exhaust gas wet desulphurisation unit;
  - continuous monitoring of hydrocarbon level;
  - modernisation of control system;
  - modernisation of hydrated lime feeding system;
  - adaptation of waste storage and segregation area;
  - modernisation of a boiler at the waste combustion unit;
  - modernisation of exhaust gas treatment unit.
- Adjusting storage tanks to current regulations – construction and assembly works to prevent oil product penetration to soil and groundwater, by means of:
  - additional steel or laminated bottoms in tanks;
  - leakage warning system;
  - system for continuous tank content level monitoring and overflow prevention;
  - tight anti-spill tray with spill monitoring.
- Construction of used oil segregation unit to increase the amount of recycled used oil and to enable full (quality) control over used oils from external sources recycled at the Used Oil Distillation unit.

Inowrocławskie Kopalnie Soli "Solino" SA

- Replacement of an agent – a controlled substance in air conditioners with the so-called "eco agent".
- Extension of the hydrant system and modernisation of the fuel unit drive control in order to increase safety at the "Góra" Salt Mine and Underground Oil and Fuel Store.

- Pipeline overhaul and purchase of a meter to measure pipeline wall thickness in order to prevent brine leakage.

AB Mažeikių Nafta

- Air pollution monitoring at four measuring points within the Plant's buffer zone. The monitoring involved analysing the following pollutants: C1-C10, benzene, toluene, xylene, carbon monoxide, hydrogen sulphide, sulphur dioxide and nitrogen dioxide.
- Installing an automatic continuous emission monitoring system for large combustion sources (to comply with Directive 2001/80/EC), to measure concentration of the following pollutants: SO_2, dust, CO and NO_X as well as to control process parameters. like: oxygen content, temperature, pressure, flow.

Unipetrol RPA

- Reduction of NO_X emission in the T700 power plant (1 furnace) – by adding carbamide.
- Using methanol in the sewage treatment process – nutrient dosed after suppression of OXO production unit.
- POX unit wastewater treatment (treating soft asphalt with gas) – removing ammonia from wastewater and using the water in the desulphurisation process in the T700 power plant.

Paramo a.s.

- White spirit production – hydrogenation (from a by-product of the desulphurisation process).
- Tank reconstruction continued – (scheduled until 2020).
- Noise protection arrangements continued.
- Preparing an application for a large grant for OPZP (to reconstruct the VR28 tank).

thirteenth stage of rally

50 : 26 : 41

*"The Dakar is the only rally
which is so fascinating.
From the word go, you do your best
to go at a really high speed
and without mistakes.
You're counting on good results
and success in the competition.
And when you've been there once,
all you dream of is going back."*

CONSOLIDATED FINANCIAL STATEMENT

To the General Meeting of Polski Koncern Naftowy ORLEN Spółka Akcyjna

We have audited the accompanying consolidated financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna Group seated in Płock, 7 Chemików Street ("PKN ORLEN SA Group", "Group"), which comprise the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 46,975,750 thousand, the consolidated income statement for the year then ended with a net loss of PLN 2,526,626 thousand, the consolidated statement of changes in equity for the year then ended with a decrease in equity of PLN 2,041,113 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 155,624 thousand and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory notes.

Management's Responsibility

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) ("the Accounting Act"), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of PKN ORLEN SA Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2008 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Emphasis of Matter

Without qualifications of the fair presentation of the audited consolidated financial statements, we draw attention to the following issues:

The Group accounted for impairment loss of property, plant and equipment in the amount of PLN 2,347,278 thousand. The Group's future financial performance, that was the basis for the impairment test, is based on number of variables and assumptions, that are, in respects of macroeconomic factors, partially out of the Group's control. As described in note 7.8 of the accompanying consolidated financial statements, the change of these variables and assumptions might influence the Group's financial position, including the results of the test for impairment of non-current assets, and consequently might lead to changes in the financial position and performance of the Group.

Additionally, as disclosed in note 7.16 of the accompanying consolidated financial statements bank loans of PLN 9,475,449 thousand were reclassified from long-term liabilities to short-term liabilities. The amount relates to liabilities resulting from bank loan agreements containing provisions specifying the required ratio of net debt to EBITDA, which was exceeded as at 31 December 2008. According to International Accounting Standard 1 a breach of provisions of bank loan agreements that may result in an entity not having an unconditional right to defer their settlement for at least twelve months results in the necessity to classify liabilities connected with such bank loan agreements as short-term.

As at the date of issuing this opinion, for bank loans of PLN 9,066,166 thousand, negotiations between PKN ORLEN SA and lenders being the parties of the agreements mentioned above in respect of terms of continuation of financing had been finalized. The consent to a temporary extension of the maximum debt ratio and to continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will result in classification of the respective bank loans as long-term in the consolidated financial statements for the second quarter 2009.

Moreover, as disclosed in detail in note 18 b of the accompanying consolidated financial statements, as a result of tax control proceedings Rafineria Trzebinia SA received tax authorities decisions determining an excise tax liability for the period May–September 2004 of approximately PLN 100 million plus interest. In its sentence dated 12 November 2008 the Woivodship Administrative Court dismissed the decisions of the Director of the Customs Office in Kraków determining excise tax liability for the period May–September 2004 at the amount of approximately PLN 100 million. On 16 January 2009 the Director of the Customs Chamber in Kraków submitted an annulment to the National Administrative Court in Warsaw against the decision for September 2004. Afer dismissal of the decisions issued by the Director of the Customs Chamber and the Head of the Customs Office in Kraków, proceedings for the period May–September 2004 are conducted in front of the Head of the Customs Office in Kraków. The final outcome of the proceedings is unknown.

According to the assessment of the Management Board of PKN ORLEN SA there is high probability that the outcome of the proceedings will be favourable for Rafineria Trzebinia SA In the accompanying consolidated financial statements for the year ended 31 December 2008 PKN ORLEN SA Group did not establish any provisions to cover potential tax liabilities resulting from the above proceedings.

Other Matters

As required under the Accounting Act we also report that the Report on the Group's operations includes, in all material respects, the information required by Art. 49 of the Accounting Act and by Minister of Finance Regulation dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259) and the information is consistent with the consolidated financial statements.

Certified Auditor No. 10268/7598
Monika Bartoszewicz

For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Management Board

27 April 2009
Warsaw, Poland

Consolidated financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group for the year ended 31 December 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union together with an independent auditor's opinion

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2008 (year)

(in accordance with § 82 section 2 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259) **(for issuers of securities whose business activity embraces manufacture, construction, trade and services)**

for the reporting year 2008 that is for the period from 01.01.2008 to 31.12.2008 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 30 April 2009
(submission date)

full name of the issuer:	POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
abbreviated name of the issuer:	PKN ORLEN
industrial sector in line with classification of Warsaw Stock Exchange:	CHEMICZNY (che)
zip code:	09-411
location:	PŁOCK
street:	CHEMIKÓW
number:	7
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www:	www.orlen.pl

KPMG AUDYT Sp. z o.o.
(entity authorized to conduct audit)

SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	2008 PLN thousand	2007 PLN thousand	2008 PLN thousand	2007 PLN thousand
Data in respect of consolidated financial statements				
I. Total sales revenues	79,535,205	63,792,983	22,517,824	18,060,922
II. Profit/(Loss) from operations	(1,603,322)	2,603,882	(453,929)	737,205
III. Profit/(Loss) before tax	(2,915,403)	3,011,065	(825,402)	852,486
IV. Net profit/(loss) attributable to equity holders of the parent	(2,505,242)	2,412,409	(709,278)	682,996
V. Net profit/(loss)	(2,526,626)	2,480,426	(715,333)	702,252
VI. Net cash provided by operating activities	3,616,760	1,965,066	1,023,969	556,345
VII. Net cash used in investing activities	(4,384,957)	(2,845,108)	(1,241,459)	(805,500)
VIII. Net cash provided by financing activities	612,573	27,039	173,430	7,655
IX. Net change in cash and cash equivalents	(155,624)	(853,003)	(44,060)	(241,500)
X. Net profit/(loss) attributable to equity holders of the parent per share (in PLN/EUR)	(5.86)	5.64	(1.66)	1.60

	as of 31.12.2008	as of 31.12.2007	as of 31.12.2008	as of 31.12.2007
XI. Non-current assets	29,280,856	26,736,337	7,017,749	6,407,904
XII. Current assets	17,694,894	19,366,488	4,240,939	4,641,570
XIII. Total assets	46,975,750	46,102,825	11,258,688	11,049,474
XIV. Long-term liabilities	4,634,178	11,091,402	1,110,674	2,658,279
XV. Short-term liabilities	21,809,925	12,438,663	5,227,189	2,981,177
XVI. Equity	20,531,647	22,572,760	4,920,824	5,410,018
XVII. Share capital	1,057,635	1,057,635	253,484	253,484
XVIII. Equity (attributable to equity holders of the parent)	17,813,091	19,935,335	4,269,267	4,777,906
XIX. Number of issued ordinary shares	427,709,061	427,709,061	427,709,061	427,709,061
XX. Book value and diluted book value attributable to equity holders of the parent per share (in PLN/EUR)	41.65	46.61	9.98	11.17

The above data for 2008 and 2007 were translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as of 31 December 2008 – 4.1724 PLN/EUR;
- specific items of income statement and statement of cash flows – by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January – 31 December 2008) – 3.5321 PLN/EUR.

CONSOLIDATED BALANCE SHEET

(all amounts in PLN thousand)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7.1	26,268,757	24,833,925
Intangible assets	7.3	557,048	530,970
Goodwill	7.4	87,633	85,858
Financial assets available for sale	7.5	62,174	62,322
Investments in associates	7.6	1,561,132	700,331
Deferred tax assets	14	485,362	233,219
Investment property	7.2	71,757	69,076
Perpetual usufruct of land		99,247	91,430
Non current loans and receivables	7.9	87,746	129,206
Total non-current assets		**29,280,856**	**26,736,337**
Current assets			
Inventory	7.10	9,089,047	10,365,409
Trade and other receivables	7.11	6,356,174	6,884,455
Income tax receivable		392,042	115,381
Short-term financial assets	7.12	257,832	167,957
Short-term prepayments	7.13	204,088	146,892
Cash and cash equivalents	7.14	1,344,224	1,498,232
Non-current assets classified as held for sale	7.15	51,487	188,162
Total current assets		**17,694,894**	**19,366,488**
Total assets		**46,975,750**	**46,102,825**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Equity			
Share capital	7.22	534,636	534,636
Share capital revaluation adjustment	7.22	522,999	522,999
Share capital		**1,057,635**	**1,057,635**
Nominal share premium	7.22	1,058,450	1,058,450
Share premium revaluation adjustment	7.22	168,803	168,803
Share premium		**1,227,253**	**1,227,253**
Hedging reserve	7.22	(99,793)	83,302
Foreign exchange differences on subsidiaries from consolidation	7.22	(76,792)	(1,327,936)
Retained earnings	7.22	15,704,788	18,895,081
Total equity attributable to equity holders of the parent		**17,813,091**	**19,935,335**
Minority interest	7.24	2,718,556	2,637,425
Total equity		**20,531,647**	**22,572,760**
Long-term liabilities			
Interest-bearing loans and borrowings	7.16	2,610,651	8,602,721
Provisions	7.17	747,287	799,266
Deferred tax liabilities	14	1,134,686	1,548,835

The accompanying notes are an integral part of these consolidated financial statements

	Note	31 December 2008	31 December 2007
Other long-term liabilities	7.18	141,554	140,580
Total long-term liabilities		**4,634,178**	**11,091,402**
Short-term liabilities			
Trade and other liabilities	7.19	8,414,147	9,181,243
Provisions	7.17	788,925	723,152
Income tax liability		35,454	39,389
Interest-bearing loans and borrowings	7.16	11,282,114	1,719,223
Deferred income	7.20	76,676	60,683
Other financial liabilities	7.21	1,212,609	714,973
Total short-term liabilities		**21,809,925**	**12,438,663**
Total liabilities and shareholder's equity		**46,975,750**	**46,102,825**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

(all amounts in PLN thousand)

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Sales revenues			
Sales of finished goods		79,884,662	60,524,829
Excise tax and other charges		(17,965,121)	(15,044,496)
Revenues from sale of finished goods, net	10	61,919,541	45,480,333
Sales of merchandise and raw materials		19,730,227	21,041,337
Excise tax and other charges		(2,114,563)	(2,728,687)
Revenues from sale of merchandise and raw materials, net		17,615,664	18,312,650
Total sales revenues		**79,535,205**	**63,792,983**
Cost of finished goods sold		(56,685,848)	(39,258,891)
Cost of merchandise and raw materials sold		(17,313,474)	(16,867,030)
Cost of finished goods, merchandise and raw materials sold	11	(73,999,322)	(56,125,921)
Gross profit on sales		**5,535,883**	**7,667,062**
Distribution expenses		(3,325,701)	(3,175,974)
General and administrative expenses		(1,462,477)	(1,637,370)
Other operating revenues	12	747,930	470,003
Other operating expenses	12	(3,098,957)	(719,839)
Profit/(Loss) from operations		**(1,603,322)**	**2,603,882**
Financial revenues	13	702,800	1,190,048
Financial expenses	13	(2,281,414)	(1,050,246)
Net financial revenues and expenses		**(1,578,614)**	**139,802**
Share in profit from investments accounted for under equity method		266,533	267,381
Profit/(Loss) before tax		**(2,915,403)**	**3,011,065**
Income tax expense	14	388,777	(530,639)
Net profit/(loss)		**(2,526,626)**	**2,480,426**
incl.			
Net profit/(loss) attributable to minority interest		(21,384)	68,017
Net profit/(loss) attributable to equity holders of the parent		(2,505,242)	2,412,409
Net profit/(loss) attributable to equity holders of the parent per share		**(5.86)**	**5.64**

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(all amounts in PLN thousand)

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Cash flows – operating activities			
Net profit/(loss)		**(2,526,626)**	**2,480,426**
Adjustments for:			
Share in profit from investments accounted for under equity method		(266,533)	(267,381)
Depreciation		2,491,383	2,431,423
Loss/(Profit) from exchange rate differences, net		731,385	(691,363)
Interests and dividends, net		533,187	456,321
(Profit) / Loss on investing activities		2,310,714	502,899
Decrease/(Increase) in receivables	7.25	986,782	(535,585)
Decrease/(Increase) in inventories	7.25	1,778,832	(3,235,358)
(Decrease)/Increase in liabilities	7.25	(1,407,417)	940,501
(Decrease) in provisions	7.25	(26,338)	(39,427)
Income tax expense		(388,777)	530,639
Income tax paid		(594,971)	(601,040)
Other adjustments		(4,861)	(6,989)
Net cash provided by operating activities		**3,616,760**	**1,965,066**
Cash flows – investing activities			
Acquisition of property, plant and equipment and intangible assets		(3,969,409)	(3,693,736)
Proceeds from the sale of property, plant and equipment and intangible assets		125,478	108,332
Proceeds from the sale of shares		199,654	783,750
Acquisition of shares		(736,860)	(57,526)
Squeeze out of minority shareholders of Mažeikių Nafta		–	(482,003)
Proceeds from the sale of short-term securities		–	245,317
Interest and dividends received		199,269	302,808
Loans granted		(2,732)	(1,928)
Repayment of loans		5,072	7,536
Dividends paid to minority shareholders		(185,858)	(31,597)
Other		(19,571)	(26,061)
Net cash used in investing activities		**(4,384,957)**	**(2,845,108)**
Cash flow – financing activities			
Proceeds from long and short-term borrowings and loans		10,962,933	9,512,798
Debt securitities issued		479,172	1,096,325
Repayment of long and short-term loans and borrowings		(8,714,481)	(9,852,372)
Repurchase of debt securities		(825,498)	(88,843)
Interest paid		(563,576)	(609,184)
Dividends paid		(692,888)	–
Payments due to finance lease liabilities		(35,682)	(37,038)
Other		2,593	5,353
Net cash provided by financing activities		**612,573**	**27,039**

The accompanying notes are an integral part of these consolidated financial statements

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Net change in cash and cash equivalents		**(155,624)**	**(853,003)**
Effect of exchange rate changes		1,616	(85)
Cash and cash equivalents, beginning of the period		**1,498,232**	**2,351,320**
Cash and cash equivalents, end of the period		**1,344,224**	**1,498,232**
incl. cash and cash equivalents not available for use		115,136	105,000

The accompanying notes are an integral part of these consolidated financial statements

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(all amounts in PLN thousand)

	Equity attributable to equity holders of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Minority interest	Total equity
1 January 2008	**2,284,888**	**83,302**	**(1,327,936)**	**18,895,081**	**19,935,335**	**2,637,425**	**22,572,760**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	–	(95,514)	(565,770)	–	(661,284)	–	(661,284)
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	–	(87,581)	–	–	(87,581)	–	(87,581)
Foreign exchange differences on consolidation	–	–	1,816,914	17,445	1,834,359	303,964	2,138,323
Net revenues/(expenses) recognized directly in equity	**–**	**(183,095)**	**1,251,144**	**17,445**	**1,085,494**	**303,964**	**1,389,458**
Net (loss)	–	–	–	(2,505,242)	(2,505,242)	(21,384)	(2,526,626)
Total revenues/(expenses) for the period	**–**	**(183,095)**	**1,251,144**	**(2,487,797)**	**(1,419,748)**	**282,580**	**(1,137,168)**
Change in minority interest's structure in equity	–	–	–	(9,608)	(9,608)	(6,056)	(15,664)
Dividends	–	–	–	(692,888)	(692,888)	(195,393)	(888,281)
31 December 2008	**2,284,888**	**(99,793)**	**(76,792)**	**15,704,788**	**17,813,091**	**2,718,556**	**20,531,647**
1 January 2007	**2,284,888**	**8,506**	**22,003**	**16,492,373**	**18,807,770**	**2,731,623**	**21,539,393**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	–	91,653	–	–	91,653	–	91,653
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	–	(16,857)	–	–	(16,857)	–	(16,857)
Foreign exchange differences on consolidation	–	–	(1,349,939)	(3,437)	(1,353,376)	(74,352)	(1,427,728)
Valuation of non-realized purchase option of Spolana a.s. shares held by minority	–	–	–	(12,062)	(12,062)	12,254	192
Net revenues/(expenses) recognized directly in equity	**–**	**74,796**	**(1,349,939)**	**(15,499)**	**(1,290,642)**	**(62,098)**	**(1,352,740)**
Net profit	–	–	–	2,412,409	2,412,409	68,017	2,480,426
Total revenues/(expenses) for the period	**–**	**74,796**	**(1,349,939)**	**2,396,910**	**1,121,767**	**5,919**	**1,127,686**
Change in minority interest's structure in equity	–	–	–	5,798	5,798	(48,414)	(42,616)
Dividends	–	–	–	–	–	(51,703)	(51,703)
31 December 2007	**2,284,888**	**83,302**	**(1,327,936)**	**18,895,081**	**19,935,335**	**2,637,425**	**22,572,760**

The accompanying notes are an integral part of these consolidated financial statements

1. Principal activity of the Group, composition of the Management Board and the Supervisory Board of the Parent

The Parent Company of Polski Koncern Naftowy ORLEN Capital Group ("Group", "Capital Group") is Polski Koncern Naftowy ORLEN SA ("Company", "PKN ORLEN", "Parent", "Issuer") seated in Płock, 7 Chemików Street.

The Company was formed through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Parent was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" SA in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

On 7 September 1999, Centrala Produktów Naftowych "CPN" Spółka Akcyjna was incorporated, thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

According to the Articles of Association dated 22 November 2006, the Parent's activity includes among others:

- Processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade of crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, sale of industrial and consumer goods;
- Research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Purchase, trade and processing of used lubricant oils and other chemical waste;
- Manufacturing, transportation and trade in heating energy and electricity;
- Overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- Operation of petrol stations, bars, restaurants and hotels;
- Capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade;
- Clearance of electronic fuel cards services;
- Crude oil exploration and extraction;
- Natural gas exploration and extraction.

Additionally the Capital Group consist of the companies located in different countries, operating mainly in refinery, petrochemical and chemical sector.

Until the second public offering, completed in July 2000, the Group was primarily controlled, directly or indirectly, by the Polish State Treasury with minority shareholding of employees and others. The State Treasury supervised the Group through its control of the Group's majority shareholder, Nafta Polska SA.

As at 10 April 2009 Nafta Polska SA owned directly 17.32% of the Company's shares, the Polish State Treasury owned 10.20%, ING OFE 5.17% and other shareholders owned 67.31% of the Company's shares.

Information on ING OFE shares comes from 20 February 2009.

The composition of the Management Board of PKN ORLEN

The following changes to the composition of the Management Board of PKN ORLEN took place in 2008:

On 28 February 2008 the Supervisory Board of PKN ORLEN adopted a resolution regarding suspension of Mr. Piotr Kownacki from the activities of the President and Member of the Management Board of PKN ORLEN for the indefinite period of time.

At the same meeting the Supervisory Board adopted a resolution, that for the period of suspension of the President Mr. Piotr Kownacki, the authority of the President of the Management Board of Company is taken over by the Vice President Mr. Wojciech Heydel.

On 29 April 2008 the Supervisory Board of PKN ORLEN SA appointed Mr. Wojciech Heydel to the President of the Management Board of PKN ORLEN SA, for 3 years joint term of office of the Management Board, effective from 7 June 2008.

On 15 May 2008 the Supervisory Board of PKN ORLEN SA appointed Mr. Dariusz Jacek Krawiec to the position of the Vice-President of the Management Board of PKN ORLEN SA, for 3 years joint term of office of the Management Board effective from the day after ongoing term of office cadency of the Management Board is expired.

On 28 May 2008 the Supervisory Board of PKN ORLEN SA appointed the following persons to the position of Members of the Management Board of PKN ORLEN SA: Mr. Sławomir Robert Jędrzejczyk, Mr. Wojciech Robert Kotlarek, Mr. Krystian Pater and Mr. Marek Serafin, for 3 years joint term of office of the Management Board, effective from the day after ongoing term of office cadency of the Management Board is expired.

On 18 September 2008 on a meeting of the Supervisory Board of PKN ORLEN SA the President of the Management Board, Mr. Wojciech Heydel, handed in his resignation from his position, motivating the decision by superior interest of the Company in terms of depletion of current cooperation formula within the Management Board.

At the same meeting the Supervisory Board appointed Mr. Dariusz Jacek Krawiec to the position of the President of the Management Board, the General Director for 3 years joint term of office, ending when Ordinary Shareholders' Meeting, approving Financial Statements for the year 2010, is held.

The composition of the Management Board as at 31 December 2008 was as follows:
- Dariusz Krawiec – President of the Management Board, General Director
- Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
- Wojciech Kotlarek – Member of the Management Board, Sales
- Krystian Pater – Member of the Management Board, Production, Refinery
- Marek Serafin – Member of the Management Board, Production, Petrochemistry

The composition of the Supervisory Board

The following changes in the composition of the Supervisory Board of PKN ORLEN SA took place in 2008:

On 7 February 2008 the Extraordinary General Shareholders' Meeting of PKN ORLEN dismissed Ms. Małgorzata Izabela Ślepowrońska from the position of Chairman of the Supervisory Board of PKN ORLEN and from the Supervisory Board of PKN ORLEN.

In addition, the Extraordinary General Shareholders' Meeting of PKN ORLEN dismissed from the Supervisory Board of PKN ORLEN the following Members: Mr. Robert Czapla, Mr. Marek Drac-Tatoń, Mr. Raimondo Eggink, Mr. Zbigniew Macioszek, Ms. Agata Janina Mikołajczyk and Mr. Krzysztof Rajczewski.

The Extraordinary General Shareholders' Meeting of PKN ORLEN appointed to the Supervisory Board of PKN ORLEN:
- Mr. Maciej Mataczyński to the position of the Chairman of the Supervisory Board of PKN ORLEN, and independent Member of Supervisory Board;
- Mr. Grzegorz Borowiec to the position of the Member of the Supervisory Board of PKN ORLEN;

- Mr. Raimondo Eggink to the position of independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Marek Karabuła to the position of Member of the Supervisory Board of PKN ORLEN;
- Mr. Krzysztof Kołach to the position of the independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Ryszard Stefański to the position of independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Piotr Jan Wielowieyski to the position of independent Member of the Supervisory Board of PKN ORLEN.

On 15 February 2008 the Supervisory Board appointed Mr. Marek Karabuła to the position of the Deputy Chairman of the Supervisory Board and Mr. Ryszard Stefański to the position of the Secretary of the Supervisory Board.

On 6 June 2008 the Ordinary General Shareholders' Meeting of PKN ORLEN SA appointed Mr. Grzegorz Michniewicz to the position of the Supervisory Board Member.

On 13 June 2008 the Extraordinary General Shareholders' Meeting of PKN ORLEN SA dismissed from the Supervisory Board the following independent Members: Mr. Raimondo Eggink and Mr. Ryszard Stefański.

At the same time, the Extraordinary General Shareholders' Meeting of PKN ORLEN SA appointed Mr. Jarosław Rocławski and Ms. Angelina Sarota to the position of the Supervisory Board Members.

The composition of the Supervisory Board as at 31 December 2008 was as follows:
- Maciej Mataczyński – Chairman of the Supervisory Board
- Marek Karabuła – Deputy Chairman of the Supervisory Board
- Angelina Sarota – Secretary of the Supervisory Board
- Grzegorz Borowiec – Member of the Supervisory Board
- Krzysztof Kołach – Member of the Supervisory Board
- Grzegorz Michniewicz – Member of the Supervisory Board
- Jarosław Rocławski – Member of the Supervisory Board
- Piotr Wielowieyski – Member of the Supervisory Board
- Janusz Zieliński – Member of the Supervisory Board

2. Statement of the Management Board

Under the Minister of Finance Regulation of 19 February 2009, on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state, the Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing financial statements and comparative data were prepared in compliance with the Group accounting principles in force and that they reflect true and fair view on financial position and financial result of the Group and that the Management Board Report on the Group's Operations presents true overview of development, achievement and business situation of the Group, including basic risks and exposures.

The Management Board of PKN ORLEN declares that the entity authorized to audit and conducting the audit of the consolidated financial statements, was selected in compliance with the law and that the entity and auditors conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations of the domestic law and professional standards.

In compliance with principles of corporate governance adopted by the Management Board of PKN ORLEN the auditor was selected by the Supervisory Board by means of resolution No 485/2005 of 21 January 2005 on the selection of an auditor. The Supervisory Board made the selection in order to ensure complete independence and objectivity of the selection itself as well as fulfilment of tasks by the auditor. On 23 August 2007 the Supervisory Board has prolonged contract with KPMG Audyt Sp. z o.o., as a qualified auditor to audit and review of unconsolidated and consolidated financial statements of PKN ORLEN and key entities belonging to PKN ORLEN Group for years 2008–2009.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

3. Principles of presentation

a) Information on principles adopted for preparation of consolidated financial statements for 2008

From 1 January 2005 the amendment of the Accounting Act obliged the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU").

As at 1 January 2005 the Group has prepared for the first time its consolidated financial statements in accordance with IFRS 1, fulfiling IFRS 1 requirements.

From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN SA of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory unconsolidated financial statements in accordance with IFRSs adopted by the European Union.

In preparation of these consolidated financial statements the Group applied International Financial Reporting Standards ("IFRS") adopted by the European Union in force as at 31 December 2008.

The presented consolidated financial statements are compliant with requirements of all IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2008 and 31 December 2007, results of its operations and cash flows for the year ended 31 December 2008 and 31 December 2007.

The consolidated financial statements have been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

Entities consolidated using full and proportionate method

These consolidated financial statements for the periods ended 31 December 2008 and 31 December 2007 include the following Group entities located mainly in Poland, Germany, Lithuania and the Czech Republic:

	Share in total voting rights 1)	
	31 December 2008 (in full %)	**31 December 2007** (in full %)
PKN ORLEN		Parent company
ORLEN Deutschland AG	100%	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o. 6)	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN Koltrans Sp. z o.o.	100%	100%
ORLEN Transport SA 2)	100%	–
ORLEN Transport Szczecin Sp. z o.o. 2)	–	100%
ORLEN Asfalt Sp. z o.o. (formerly Bitrex Sp. z o.o.)	96%	96%
ORLEN Petroprofit Sp. z o.o. Group 6)	–	100%
ORLEN Morena Sp. z o.o. 6)	–	100%
ORLEN Transport Kraków Sp. z o.o. 3)	–	98%
ORLEN Transport Płock Sp. z o.o. 2)	–	98%
ORLEN Transport Nowa Sól Sp. z o.o. 2)	–	99%
ORLEN Transport Słupsk Sp. z o.o. 2)	–	97%

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	Share in total voting rights[1]	
	31 December 2008 (in full %)	**31 December 2007** (in full %)
ORLEN Laboratorium Sp. z o.o.	95%	95%
ORLEN Transport Olsztyn Sp. z o.o.[2]	–	95%
ORLEN Oil Sp. z o.o. Group, including:	89%	89%
Orlen Oil Cesko s.r.o.	100%	100%
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	100%	100%
Platinum Oil Sp. z o.o. (formerly Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.)	100%	100%
ORLEN Petrotank Sp. z o.o.	100%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.[2]	–	94%
Petrotel Sp. z o.o.[8]	–	75%
ANWIL SA Group, including:	85%	85%
Przedsiebiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiebiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Spolana a.s.	100%	83%
Rafineria Trzebinia SA Group, including:	77%	77%
Energomedia Sp. z o.o.	100%	100%
Euronaft Trzebinia Sp. z o.o.	100%	100%
Fabryka Parafin Naftowax Sp. z o.o.	100%	100%
EkoNaft Sp. z o.o.	99%	99%
Rafineria Nafty Jedlicze SA Group, including:	75%	75%
RAF-ENERGIA Sp. z o.o.[9]	–	100%
RAF-KOLTRANS Sp. z o.o.	100%	100%
RAF-EKOLOGIA Sp. z o.o.[8]	–	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku SA	81%	81%
Inowrocławskie Kopalnie Soli "Solino" SA	71%	71%
Unipetrol a.s. Group, including:	63%	63%
UNIPETROL TRADE a.s., including:	100%	100%
CHEMAPOL (SCHWEIZ) AG	100%	100%
UNIPETROL AUSTRIA HmbH in liquidation	100%	100%
ALIACHEM VERWALTUNGS GmbH[11]	–	100%
UNIPETROL DEUTSCHLAND GmbH	100%	100%
ALIAPHARM GmbH FRANKFURT[11]	–	100%
UNIPETROL CHEMICALS IBERICA a.s.[10]	–	100%
UNIPETROL RPA s.r.o. (formerly Steen Estates s.r.o.), including:	100%	100%
UNIRAF SLOVENSKO s.r.o.	100%	100%
UNIPETROL DOPRAVA s.r.o.	100%	100%
BENZINA s.r.o., including:	100%	100%
BENZINA Trade a.s. in liquidation[10]	–	100%
PETROTRANS s.r.o.	100%	100%
PARAMO a.s.	92%	59%
CESKA RAFINERSKA a.s.[4]	51%	51%
Ship-Service SA[1]	56%	56%

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	Share in total voting rights[1]	
	31 December 2008 (in full %)	**31 December 2007** (in full %)
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o.[6]	–	100%
ORLEN Petrogaz Wrocław Sp. z o.o. in liquidation[5]	–	100%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt SA	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Basell Orlen Polyolefins Sp. z o.o. Group[4], including:	50%	50%
Basell Orlen Polyolefins Sprzedaż Sp. z o.o.	100%	100%
ORLEN Administracja Sp. z o.o.	100%	100%
ORLEN Eko Sp. z o.o.	100%	100%
Płocki Park Przemysłowo-Technologiczny SA[4]	50%	50%
ORLEN Księgowość Sp. z o.o.	100%	100%
ORLEN Prewencja Sp. z o.o.	100%	100%
ORLEN Upstream Sp. z o.o.	100%	100%
Etylobenzen Płock Sp. z o.o. in liquidation[5]	–	100%
ORLEN Holding Malta Ltd. Group, including:	100%	100%
Orlen Insurance Ltd.	100%	100%
Mažeikių Group, including:	90%/(100%)[7]	90%/(100%)[7]
UAB Mažeikių naftos sveikatos priežiūros centras	100%	100%
UAB Uotas in liquidation	100%	100%
UAB PASLAUGOS TAU	100%	–
AB Ventus-Nafta	99%	99%
UAB Mažeikių naftos prekybos namai Group, including:	100%	100%
SIA Mažeikių Nafta Tirdzniecibas nams	100%	100%
OU Mažeikių Nafta Trading House	100%	100%
Mažeikių Nafta Trading House Sp. z o.o.	100%	100%
ORLEN Finance AB (formerly Aktiebolaget Grundstenen 108770)	100%	100%
ORLEN International Exploration & Production Company BV	100%	–

1) Share in total voting rights is equal to share in equity except for share in equity of Ship Service SA Group, where it accounts for 61%.
2) ORLEN Transport SA was created as a result of merger of six subsidiaries of PKN ORLEN SA: 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.
3) Entity unconsolidated starting from I quarter 2008 due to cease of control.
4) Entity consolidated using the proportionate method.
5) Entity liquidated in III quarter 2008.
6) In III quarter 2008 the merger of ORLEN PetroCentrum Sp. z o.o., ORLEN Petroprofit Sp. z o.o., ORLEN Morena Sp. z o.o., ORLEN PetroZachód Sp. z o.o. took place.
7) (%) share used for the purpose of preparation of the consolidated financial statements of PKN ORLEN Group taking into account purchase option of Mažeikių shares in the amount of PLN 842,485 thousand increasing the Parent's share in equity.
8) Entity sold in IV quarter 2008.
9) In IV quarter 2008 the entity was incorporated to Rafineria Jedlicze SA.
10) Entity liquidated in IV quarter 2008.
11) In IV quarter 2008 the entites were incorporated to Unipetrol Deutschland GmbH.

4. Functional currency and presentation currency of financial statements and methods applied to translation of data denominated in foreign currencies

a) Functional currency and presentation currency

Functional currency of the Parent and presentation currency of the foregoing consolidated financial statements is Polish zloty.

Financial statements of foreign entities, for consolidation purposes, are translated into Polish zloty using the following procedures:
- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items of the income statement are translated at the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month in the reporting period. All resulting exchange differences are recognized as a separate component of equity.

b) Methods applied to translation of data denominated in foreign currencies

The financial data denominated in CZK was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 0.1566 PLN/CZK and for 31 December 2007 – 0.1348 PLN/CZK;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 0.1411 PLN/CZK. For the period from 1 January 2007 to 31 December 2007 the rate was 0.1361 PLN/CZK.

The financial data denominated in EUR was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 4.1724 PLN/EUR and for 31 December 2007 – 3.5820 PLN/EUR;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 3.5321 PLN/EUR. For the period from 1 January 2007 to 31 December 2007 the rate was 3.7768 PLN/EUR.

The financial data denominated in USD was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 2.9618 PLN/USD and for 31 December 2007 – 2.4350 PLN/USD;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 2.4115 PLN/USD. For the period from 1 January 2007 to 31 December 2007 the rate was 2.7484 PLN/USD.

Foreign exchange differences resulting from valuation of financial statements of foreign entities are recognized directly in equity as a separate position.

5. Applied accounting principles

Property, plant and equipment

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by the management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by the management).

Property plant and equipment are initially recognized at cost. The cost of an item of property, plant and equipment comprises its purchase price and other costs directly attributable to bringing the item of property, plant and equipment into use. The cost of an item of property, plant and equipment includes also estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.

Property, plant and equipment are stated in the financial statements prepared at the balance sheet date at the carrying amount. The carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. The Group uses straight-line method and in justified cases units of production method:

The following standard economic useful lives are used for property, plant and equipment:

Buildings and constructions	10–70 years
Machinery and equipment	3–25 years
Vehicles and other	4–17 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

Appropriateness of the applied depreciation rates is verified periodically (once a year) and respective adjustments are made to the subsequent periods of depreciation.

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives. The cost of current maintenance of property, plant and equipment is recorded in the financial result during the period when incurred.

Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance.

Except for intangible assets arising from development other internally generated intangible assets are not recognized as assets but are recorded in the income statement in the period when the related cost has been incurred.

Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured initially at cost. The intangible assets acquired in a business combination are measured initially at a fair value at the business combination date. Granted rights to renewable energy sources, are measured initially at fair value.

Intangible assets are stated in the financial statements prepared at balance sheet date at the carrying amount. The carrying amount is the amount at which the asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Intangible assets with finite useful life are amortized using straight-line method when an asset is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is verified periodically, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods.

The depreciable amount of an asset is determined after deducting its residual value.

The following standard economic useful lives are used for intangible assets:

Acquired licenses, patents, and similar intangible assets	2–15 years
Acquired computer software	2–10 years

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by impairment allowances.

Perpetual usufruct of land

The titles to perpetual usufruct of land acquired by the Group are presented in the separate position of the balance sheet.

The titles to perpetual usufruct of land obtained under an administrative decision are recognized as off balance sheet items.

Impairment of assets

If there is an external or internal indication that an asset may be impaired, it is tested for impairment. Impairment tests are carried out annually also in respect of intangible assets with an indefinite useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount by an impairment loss recognized immediately in the income statement. The recoverable amount is higher of two: its value in use and fair value less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset and its ultimate disposal.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate cash flows individually are grouped in the smallest identifiable group of assets generating cash flows that are largely independent of the cash flows from other assets (so called cash-generating units). The Group allocates to each of the cash generating units:

- goodwill acquired in a business combination, if it may be assumed that the cash-generating unit benefited from the synergies of the combination;
- corporate assets, if there is reasonable and consistent basis of such an allocation.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash generating unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash generating unit;
- then, to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The Group assesses at each balance sheet date whether the impairment loss should be partly or completely reversed. Indication that the impairment loss recognized in prior period no longer exists is the opposite of indication that the impairment loss should be recognized.

An impairment loss recognized for goodwill is not reversed.

A reversal of an impairment loss is recognized in the income statement as revenue.

Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Particularly leases are the agreements defined in the Civil Code as well as rent and tenancy agreements concluded for a definite time.

Assets used under the finance lease, that is the agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognized as assets of the lessee. Assets used under the operating lease, that is the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognized as assets of the lessor.

If the Group uses an asset based on the finance lease, the asset is recognized in the balance sheet as an item of property, pant and equipment or an intangible asset. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments that is the present value of payments over the lease term that the lessee is or can be required to make.

The present value of the minimum lease payments is recognized in the balance sheet as financial liabilities with the division into short-term part (due no more than one year after the balance sheet date) and long-term part (due more than one year after the balance sheet date). The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, if this is practicable to determine, if not, the lessee's incremental borrowing rate.

Depreciation methods for assets leased under the finance lease as well as methods of determining impairment losses in respect of assets leased under the finance lease are consistent with policies applied for the Group's owned assets.

If the Group conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognized in the balance sheet as receivables with the division into short-term part and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value and the initial direct costs to be equal to the fair value of the leased asset.

If the Group uses an asset based on the operating lease, the asset is not recognized in the balance sheet and lease payments are recognized as an expense in the income statement.

If the Group conveyed to another entity the right to use an asset under the operating lease, the asset is recognized based on the same policies as applied for the Group's owned assets, that is as an item of property, plant and equipment or an intangible asset.

Lease income from operating leases is recognized as revenue from sale.

Non-current assets classified as held for sale

Non-current assets classified as held for sale are those which comply simultaneously with the following criteria:

- the sales were declared by the appropriate level of management,
- the assets are available for an immediate sale in their present condition,
- an active program to locate a buyer has been initiated,
- the sale transaction is highly probable and can be settled within 12 months following the sales decision,
- the selling price is reasonable in relation to its current fair value,
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met.

Depreciation is discontinued for the asset when it is designated for sale.

Assets held for sale, excluding above all financial assets and investment property, are measured at the lower of the carrying amount and the fair value less costs to sell.

In case of any subsequent increase in fair value less costs to sell of an asset, the Group recognizes a gain, but not in excess of the cumulative impairment loss that has been recognized.

Investment property

An investment property is initially recognized at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as professional fees for legal services, property transfer taxes and other transaction costs. The cost of a self-constructed investment property is its cost when the construction or development is complete and ready to use, according to principles defined for property, plant and equipment.

After initial recognition an investment property is presented at fair value determined on the basis of a valuation of an independent valuer. Gains and losses resulting from changes in fair value of investment property are presented in the income statement in the period in which they arise. The Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

An investment property is presented in the financial statements prepared at the balance sheet date at fair value. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

If there is clear evidence that the fair value of the investment property is not reliably determinable on a continuing basis, the Group measures investment property using the cost model, in accordance with principles defined for property, plant and equipment.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, as at trade date.

The Group derecognizes a financial asset when, and only when:
- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

The Group removes a financial liability (or part of financial liability) from its balance sheet when, and only when it is extinguished – that is when the obligation specified in the contract:
- is discharged, or
- is cancelled, or
- expired.

Measurement of financial assets

When a financial asset or a financial liability is recognized initially, the Group measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

When an option contract is recognized initially, there may be a difference between the transaction price and the instrument value that would be determined with valuation techniques used by the Group. In such a case the Group recognizes an asset initially at the transaction price and at the end of the reporting period (month) it determines the gain or loss resulting solely from change of factors taken into account when the transaction price was set.

For the purpose of measuring a financial asset at a balance sheet date or any other date after initial recognition, the Group classifies financial assets into the following four categories:
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets.

Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial assets as financial assets at fair value through profit or loss.

A financial asset at fair value through profit or loss is a financial asset classified as held for trading if it is:
- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- a derivative (except for a derivative that is an effective hedging instrument);
- designated by the Group upon initial recognition as at fair value through profit or loss, when doing so results in more relevant information.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Loans granted and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Results of changes in the value of available-for-sale financial assets are charged directly to equity.

Fair value measurement of financial assets

The Group measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in the following way:
- for instruments quoted on an active market based on current quotations available as at the balance sheet date;
- for debt instruments unquoted on an active market based on discounted cash flows analysis;
- for forward and swap transactions based on discounted cash flows analysis.

If the fair value of investments in equity instruments (shares) that do not have a quoted market price on an active market is not reliably measurable, the Group measures them at cost, that is the acquisition price less any accumulated impairment losses.

The accompanying notes are an integral part of these consolidated financial statements

Financial assets designated as hedging transaction are measured in accordance with the principles of hedge accounting.

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss are recognized directly in the income statement.

A gain or loss on an available-for-sale financial asset are recognized directly in equity through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses that are recognized directly in the income statement. In case of debt financial instruments interests calculated using the effective interest method are recognized in the income statement.

Amortized cost measurement of financial assets

The Group measures loans and receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Group uses simplified methods in respect of measurement of financial assets at amortized cost if it does not distort information included in the financial statements. Financial assets measured at amortized cost, in relation to which the Group uses simplifications, are measured initially and after initial recognition (including the balance sheet date) at the amounts due.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is an objective indicator that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The Group uses simplified methods in respect of determining the impairment of trade receivables – particularly the impairment loss equal to the asset's carrying amount is recognized if the payment term expired at least 6 months before the balance sheet date. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in the income statement as revenues.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognized directly in equity, according to principles of financial assets measurement, is removed from equity and recognized in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

Non-current financial assets held for sale

Non-current financial assets, the carrying amount of which will be recovered principally through a sale transaction, are classified as non-current assets held for sale and presented in the separate position of the balance sheet. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable. Such a classification does not result in application of measurement principles defined in IFRS 5 designated for non-current assets held for sale. Non-current financial assets held for sale are still measured based on general principles relating to financial assets.

Measurement of financial liabilities

As at the balance sheet date or other dates after the initial recognition the Group measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments) at fair value. Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. The fair value of a financial liability is the current price of instruments quoted on an active market.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:

- using recent arm's length market transactions between knowledgeable, willing parties,
- reference to the current fair value of another instrument that is substantially the same,
- discounted cash flow analysis.

Loans and borrowings received and trade liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market.

Financial guarantee contracts, that are contracts that require the Group (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:

- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognized less, when appropriate, cumulative amortization.

Embedded derivatives

If the Group is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss (that is when a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

The Group assesses the need to separate an embedded derivative from the host contract and to present it as a derivative, when it becomes a party of a hybrid instrument for the first time. Reassessment is made only in case, when subsequent changes are introduced to the hybrid contract that substantially modify cash flows required by the contract.

A derivative is a financial instrument with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract,
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it will be settled at a future date.

Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a hedged item are accounted for in accordance with fair value of cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

If a fair value hedge is used, it is accounted for as follows:

- the gain or loss from revaluation the hedging instrument at fair value is recognized in the income statement, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognized directly in equity).

The Group discontinues prospectively fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Group's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Group revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect the income statement. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity through the statement of changes in equity, and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement. However, if the Group expects that all or a portion of a loss recognized directly in equity will not be recovered in one or more future periods, it reclassifies into the income statement the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognized directly in equity and includes them in the initial cost or other carrying amount of the asset or liability.

The Group discontinues prospectively cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised – in this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs;
- the hedge no longer meets the criteria for hedge accounting – in this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs;
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognized directly in equity are recognized in the income statement.

If the Group revokes the designation, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs or is no longer expected to occur.

Inventory

Inventories are assets:
- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Raw materials and merchandise are measured initially at acquisition cost.

As at the balance sheet date raw materials and merchandise are measured at the lower of cost and net realizable value, considering any inventory allowances. A net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Raw materials held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value.

The cost of usage of raw materials and merchandise is determined based on the weighted average cost formula, based on acquisition or purchase cost.

Finished goods and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period.

The production costs do not include:
- costs incurred as a consequence of low production or production losses,
- general and administrative expenses that are not directly attributable to bringing the inventories to the condition and location at the moment of valuation,
- storage costs of finished goods and work in progress, unless these costs are necessary in the production process,
- distribution expenses.

For finished goods, the production costs comprise related fixed and variable indirect costs for normal production levels.

As at the balance sheet date finished goods and work in progress are measured at the lower of cost and net realizable value.

The cost of usage of finished goods is determined based on the weighted average cost formula, based on production cost in the particular reporting period.

Receivables

Trade and other receivables are recognized initially at the present value of the expected proceeds and are stated in the subsequent periods at amortized cost using the effective interest method less allowances for doubtful receivables.

The Group uses simplified methods of receivables measurement, if it does not distort information included in the financial statements, particularly if the payment term of receivables is not long. Receivables, in relation to which simplified methods are used, are measured initially at the amounts due and after initial recognition (including the balance sheet date) at the amounts due less allowances for doubtful receivables.

Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

Valuation and expenditures of cash and cash equivalents in foreign currencies are based on FIFO method ("First In First Out).

Equity

Equity is stated in the accounting records by type, in accordance with legal regulations and the Company's Articles of Association.

The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.

Declared but not paid share capital is recognized as outstanding share capital contributions. The Company's own shares and outstanding share capital contributions decrease the equity.

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value of shares, and the remaining portion is presented as retained earnings.

Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized issuance costs.

Retained earnings include:
- the amounts arising from profit distribution,
- transfers from revaluation reserve (the difference between the fair value and the acquisition cost, net of deferred tax, of assets available for sale is transferred to the revaluation reserve, if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods),
- the undistributed result for prior periods,
- the current period net result,
- advance dividends paid,
- the effects of prior period errors.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently measured at amortized cost using the effective interest method. The difference between the net proceeds and the buyout amount is recognized as financial expenses or revenues over the term of the loan or borrowing.

The Group uses simplified methods of interest-bearing loans and borrowings measurement that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of the loan or borrowing is not long. Interest-bearing loans and borrowings, in relation to which simplified methods are used, are measured initially and after initial recognition (including the balance sheet date) at the amounts due.

Borrowing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in the income statement in the period to which they refer in accordance with the benchmark treatment of IAS 23.

Provisions

A provision is a liability of uncertain timing or amount.

The Group recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The provision is reversed, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The provision is used only for expenditures for which the provision was originally recognized.

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognized as financial expenses.

The provisions are created, among others, for (if recognition criteria mentioned above are met):
- environmental risk,

- restructuring,
- legal proceedings.

Provisions are not recognized for future operating losses.

Environmental provision

The Group creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed based on reports prepared by independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

Restructuring provision

The Company creates provision for costs of restructuring defined as a program that is planned and controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted. Provision for restructuring is created when the Company has a detailed formal plan for the restructuring and the restructuring process has been started or has been announced in public. A restructuring provision includes only the direct expenditures arising from the restructuring, such as costs of redundancy of employees (redundancy payments and compensations paid), termination of tenancy and lease agreements, dismantling of assets. Future costs associated with the ongoing activities of the Company after the restructuring, such as retraining of staff, marketing and gains on the expected liquidation of assets are not taken into account.

Provision for jubilee bonuses, retirement and pension benefits

Under the Group's remuneration plans its employees are entitled to jubilee bonuses as well as retirement and pension benefits.

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment benefit plans.

The retirement and pension benefits and jubilee bonuses provisions are created in order to allocate costs to relevant periods.

The present value of these liabilities is estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities.

The accumulated liabilities equal discounted future payments, considering employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

Actuarial gains and losses are recognized in the income statement.

Liabilities

Trade and other liabilities are stated at amortized cost using the effective interest method. The Group uses simplified methods of liabilities measurement, including financial liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long.

Liabilities, including financial liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition (including the balance sheet date) at the amounts due.

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed in the financial statements unless the probability of outflow of resources embodying economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognized in the balance sheet, however the respective information on the contingent asset is disclosed in the financial statements if the inflow of economic benefits is probable.

Revenues

Revenue from sale of finished goods, services, merchandise and raw materials is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from sale of finished goods, merchandise, and raw materials is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue includes received or due payments for delivered goods or merchandise decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. The amount of revenue is measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale.

Revenues and costs concerning rendering of services, whose beginning and end fall within different reporting periods, are recognized by reference to the stage of completion of the contract, when the outcome of a contract can be estimated reliably, that is when the total contract revenue and contract costs can be measured reliably, it is probable that the economic benefits will flow to the Group and the stage of contract completion can be measured reliably. When these conditions are not met, revenue is recognized only to the extent of the expenses recognized that recoverable.

Revenues from licenses, royalties and trade mark are recognized on an accrual basis in accordance with the substance of the relevant agreement. Prepayments are recognized as deferred income.

Franchise revenues are recognized in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

Revenues from dividends are recognized when the shareholders' right to receive payment is established.

Costs

The Group recognizes costs in accordance with accrual basis and prudence.

Costs of finished goods sold comprise costs of finished goods sold and costs of services sold, including services of support functions.

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as transport expenses.

General and administrative expenses include expenses relating to management and administration of the Group as a whole.

Operating segments

The Group adopted business segments as the primary reporting format i.e. as the dominant source of risks and benefits related to sale of different merchandise and finished goods.

The Group adopted geographical segments according to sales markets as a secondary reporting format.

The operations of the Group are divided into three main business segments:
- the Refining Segment that comprises crude oil processing as well as wholesale and retail trade in refinery products,
- the Petrochemical Segment that encompasses production and sales of petrochemicals,
- the Chemical Segment that comprises production and sales of artificial fertilizers and PVC.

The other operations of the Group include mainly support functions as well as transportation, maintenance and building activities.

Segment revenue is revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the Group.

Segment income/expense does not include:
- income tax expense,
- interest, including interest incurred on advances or loans from other segments,
- gains/losses on sales of investments or gains/losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other revenues/expenses arising at the level of the Group as a whole.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Particularly segment assets and liabilities do not include assets (liabilities) connected with income tax.

The segment result is determined at the level of result from operations.

The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

Sales prices used in transactions between segments are close to market prices. Segment operating expenses are allocated to a proper segment.

Other expenses which cannot be reliably allocated are included as unallocated expenses, reconciling total segment result to result from operations.

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it.

If the grant relates to a given income, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate.

If the grant concerns particular asset, its fair value is recognized as deferred income and on a systematic basis recorded in the income statement over the estimated useful life of the underlying asset.

The accompanying notes are an integral part of these consolidated financial statements

Income tax expense

Income tax expense comprises current tax expense and deferred tax expense.

Current tax is determined in accordance with the relevant tax law regulations in respect of the taxable profit.

Current tax liabilities represent the amounts payable at the balance sheet date. If the amount paid due to current income tax is greater than the amount due the excess is recognized in the balance sheet as a receivable.

Deferred tax assets are recognized for deductible temporary differences, unrealized tax losses and unrealized tax relieves.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts when determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts when determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

The Group does not recognize deferred tax assets and deferred tax liabilities for temporary differences resulting from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability is not recognized for goodwill, whose amortization is not a tax deductible cost.

The deferred tax assets and liabilities are measured at each balance sheet date using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each balance sheet date).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to equity transactions are charged to equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities in the balance sheet.

Deferred tax assets and liabilities are offset in the balance sheet, if the Group has a legally enforceable right to set off the recognized amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer (including capital tax group), except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for a given period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of ordinary shares.

The accompanying notes are an integral part of these consolidated financial statements

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

The functional currency of the Parent Company is Polish zloty.

At each balance sheet date:
- foreign currency monetary items including units of currency held by the Group as well as receivables and liabilities due in defined or definable units of currency are translated using the closing rate, i.e. spot exchange rate as at the balance sheet date,
- non-monetary items that are measured at cost in a foreign currency are translated using the exchange rate at the date of the transaction, and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the income statement in the period in which they arise, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting. Foreign exchange differences are recognized in the income statement in the net amount.

The Management Board estimates and assumptions

The preparation of financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for expert assessment of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management Board bases its estimates on opinions of independent experts. Actual results may differ from the estimated values.

The estimates and related assumptions are verified on a regular basis. Changes in accounting estimates are recognized in the period when they are made only if they refer to that period or in the present and future periods if they concern both the present and future periods.

Changes in accounting policies and prior period errors

The Group changes an accounting policy only if the change:
- is required by change in the accounting law,
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group’s financial position, financial performance or cash flows.

Changes in accounting policies are applied retrospectively. The related adjustments are presented in equity – in retained earnings. To ensure that data are comparable the Group adjusts the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The prior period errors are corrected by the equity – retained earnings. When preparing financial statements, the assumption is made that the error was corrected in the period, in which it was made. It means that the amount of the correction relating to the prior period should be included in the income statement of that period.

The accompanying notes are an integral part of these consolidated financial statements

Statement of cash flows

The statement of cash flows is prepared using indirect method.

Cash and cash equivalents presented in the statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

Interest paid on bank loans and borrowings, debt securities issued, finance leases and cash pooling are presented in cash flows from financing activities. Other interest paid are presented in cash flows from operating activities.

Interest received from finance leases, cash pooling, loans granted and short-term securities are presented in cash flows from investing activities. Other interest received are presented in cash flows from operating activities.

Cash flows from corporate income tax are presented in cash flows from operating activities.

Business combinations

Business combinations are accounted for using the purchase method. Application of this method requires:
- identification of acquirer;
- measurement of cost of the business combination;
- allocation, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The fair value of assets, liabilities and contingent liabilities, for the purpose of an allocation of a cost of business combination, is recognized in accordance with the appendix B to IFRS 3.

The excess of the cost of business combination over the net fair value of identifiable assets, liabilities and contingent liabilities is presented as goodwill.

The excess of the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized as other operating income of the period.

Goodwill

Goodwill is allocated to cash-generating units at the acquisition date.

Goodwill resulting from a business combination is stated at the acquisition date (all relevant days of acquisition if the business combination results from a series of transactions) at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities.

As at the balance sheet date goodwill is measured at cost less cumulative impairment losses recognized in the previous periods as well as decreases due to partial disposals of shares, to which goodwill was allocated. Impairment losses up to the amount of goodwill allocated to a particular cash-generating unit (or group of units) are not reversible.

Goodwill is tested for impairment before the end of the reporting period in which the business combination occurred and in the following annual reporting periods. If events or circumstances indicate that goodwill might be impaired, the goodwill is tested for impairment before the end of each reporting period, in which such circumstances occurred.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognizes immediately in the income statement any excess remaining after that reassessment.

Principles of consolidation

The consolidated financial statements of the Group include data of PKN ORLEN SA, data of its subsidiaries and jointly controlled entities (joint ventures) prepared as at the same balance sheet date as unconsolidated financial statements of PKN ORLEN SA and using uniform accounting principles in relation to similar transactions and other events in similar circumstances. Data of subsidiaries and jointly controlled entities (joint ventures) that together do not significantly impact the financial statements of the Capital Group may not be consolidated. In such a case shares are accounted for using equity method.

Subsidiaries

Subsidiaries are entities under the Group's control. It is assumed that the Group controls another entity if it holds the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Particularly, the control is evidenced when the Group holds directly or indirectly more than 50% of the voting rights in an entity that are not contractually or actually restrained and governs the financial and operating policies of the entity.

Subsidiaries (except for subsidiaries held for sale) are consolidated using the line by line method.

In the line by line method the financial statements of the Parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, income and expenses and then appropriate consolidation procedures are performed.

Investments in jointly controlled entities

Investments in jointly controlled entities are investments where the Group exercises joint control. It is assumed that the Group jointly controls another entity if the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Investments in jointly controlled entities are accounted for using the proportionate method. In the proportionate method a proportional share in a jointly controlled entity's assets, liabilities, income and expenses is presented line by line with similar items in the consolidated financial statements and appropriate consolidation procedures are performed.

Investments in associates

Investments in associates (entities over which the company has significant influence and that are neither controlled nor jointly controlled) are accounted for using the equity method, based on financial statements of associates prepared as at the same balance sheet date as unconsolidated financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances. Investments accounted for using equity method are tested for impairment.

It is assumed that the Group has significant influence over another entity, if it has ability to participate in financial and operating decisions of the entity. Particularly, the significant influence is evidenced when the Group holds directly or indirectly more than 20%, and no more than 50% of the voting rights of an entity and participation in financial and operating decisions is not contractually or actually restrained and is actually executed.

Consolidation procedures

Consolidated financial statements are prepared using the line by line method and the proportionate method.

In preparing consolidated financial statements the following consolidation procedures are followed:

- the carrying amount of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary are eliminated,
- minority interest in the profit or loss of consolidated subsidiaries for the reporting period are identified,
- minority interest in the net assets of consolidated subsidiaries are identified and presented separately from the Parent's,
- intra group balances are eliminated,
- unrealized gains or losses on intra group transactions are eliminated,
- the income and expenses relating to intra group transactions are eliminated.

Consolidated financial statements are financial statements of the Capital Group prepared as if they were financial statements of a single economic entity.

Impact of new Standards and Interpretations on the Group's financial statements

As at the date of preparation of these financial statements the following new standards, amendments and interpretations to International Financial Reporting Standards were published:

- Improvements to International Financial Reporting Standards (Part I contains 24 changes to 15 standards, which result in changes in presentation, recognition and valuation, Part II contains 11 nomenclatural and editorial changes) – effective from 1 January 2009 or in case of changes in IFRS 5 "Non-current assets held for sale and discontinued operations" – 1 July 2009;
- IFRIC 12 – "Service Concession Arrangements" – effective from 1 January 2008;
- IFRIC 13 – "Customer Loyalty Programs" – effective from 1 July 2008;
- IFRIC 15 – "Agreements for the Construction of Real Estate" – effective from 1 January 2009;
- IFRIC 16 – "Hedges of a Net investment in a Foreign Operation" – effective from 1 October 2008;
- IFRIC 17 – "Distributions of Non-Cash Assets to Owners" – effective from 1 July 2009;
- IFRIC 18 – "Transfer of Assets from Customers" – effective from 1 July 2009;
- IFRS 1 – "First-time adoption of International Financial Reporting Standards" – effective from 1 January 2009 and 1 July 2009;
- IFRS 2 – "Share-based Payment" – effective from 1 January 2009;
- IFRS 3 – "Business Combinations" – effective from 1 July 2009;
- IFRS 7 – "Financial Instruments: Disclosures" – effective from 1 January 2009;
- IFRS 8 – "Operating Segments" – effective from 1 January 2009;
- IAS 1 – "Presentation of Financial Statements" – effective from 1 January 2009;
- IAS 23 – "Borrowing Costs" – effective from 1 January 2009;
- IAS 27 – "Consolidated and Separate Financial Statements" – effective from 1 January 2009 and 1 July 2009;
- IAS 32 – "Financial Instruments: Presentation" – effective from 1 January 2009;
- IAS 39 – "Financial Instruments: Recognition and Measurement" – effective from 1 July 2008 and 1 July 2009.

As at the date of preparation of consolidated financial statements all the above-mentioned standards and interpretations, except for IFRIC 12, IFRIC 13, IFRS 2, IFRS 8, IAS 1, IAS 23 and IAS 32 are pending for the European Union approval.

The Group assessed the effects of implementation of these interpretations and amendments to standards. As a result of implementation of amendments to IAS 23 starting from 1 January 2009 borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset will be capitalized as part of the cost of that asset and depreciated during the economic useful life of an asset. It will cause the decrease of financial expenses whereas depreciation expenses will rise.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

During the first quarter of 2009 the estimated borrowing costs capitalized on property, plant and equipment amounted to PLN 23 million.

According to the preliminary assessment other changes in standards mentioned above will not significantly influence the Group's financial statements.

6. Differences between data disclosed in the financial statements and previously prepared and issued financial statements

a) Change of comparable data regarding goodwill

	Data disclosed in the consolidated financial statements for 2007	Goodwill adjustment	Data disclosed in the consolidated financial statements for 2008
Goodwill	132,465	(46,607)	**85,858**
Retained earnings	18,941,688	(46,607)	**18,895,081**

Adjustment concerning write off of goodwill was recognized in assets of Unipetrol Group and Mažeikių Group on the acquisition date.

Significant changes implemented in comparison to data published as at 26 February 2009 in the condensed financial statements for IV quarters 2008, with the effect on total assets and a net result:

	Data disclosed in the interim condensed consolidated financial statements for the period of 3 and 12 months ended 31 December 2008	Adjustment	Data disclosed in the consolidated financial statements for 2008
Assets, including:	**49,286,111**	**(2,310,361)**	**46,975,750**
Property, plant and equipment	28,610,480	(2,341,723)	26,268,757
Deferred tax assets	433,050	52,312	485,362
Non-current loans and receivables	75,689	12,057	87,746
Inventory	9,105,039	(15,992)	9,089,047
Trade and other receivables	6,380,646	(24,472)	6,356,174
Income tax receivable	391,056	986	392,042
Short-term financial assets	246,530	11,302	257,832
Liabilities and shareholder's equity, including:	**49,286,111**	**(2,310,361)**	**46,975,750**
Retained earnings	17,553,560	(1,848,772)	15,704,788
Deferred tax liability	1,566,156	(431,470)	1,134,686
Trade and other liabilities	8,417,782	(3,635)	8,414,147
Short-term provisions	787,154	1,771	788,925
Other financial liabilities	1,208,190	4,419	1,212,609
Income statement, including:			
Gross profit on sales	5,545,106	(9,223)	5,535,883
Profit/(loss) from operations	758,480	(2,361,802)	(1,603,322)
Financial revenues and expenses, net	(1,558,213)	(20,401)	(1,578,614)
Loss before tax	(533,200)	(2,382,203)	(2,915,403)
Income tax	(99,026)	487,803	388,777
Net loss:	**(632,226)**	**(1,894,400)**	**(2,526,626)**

The accompanying notes are an integral part of these consolidated financial statements

The most significant changes implemented to the financial statements of the Group are creation and reversal of impairment allowances for property, plant and equipment and intangible assets in the amount of PLN 2,365,756 thousand (Note 7.8).

Other implemented changes are a result of an update of estimated costs concerning 2008. Estimates were verified on the basis of information available as at the date of preparation of the foregoing financial statements.

Additionally, reclassification of valuation of swap transactions concerning CO_2 emission rights from trade and other receivables to financial assets was made with respective division into short and long term part.

c) Presentation change

In the period covered by the foregoing financial statements the following presentation changes were made:

- incorporation to the statement of changes in equity note "The statement of profits and losses recognized directly in equity" that was previously presented separately,
- aggregation of lines "loans granted" and "other non-current assets" into line "non-current loans and receivables",
- reclassification of creation and reversal of inventory allowances from other operating activities to costs of finished goods, merchandise and raw materials sold,
- reclassification of foreign exchange differences resulting from elimination of intragroup transactions, presented previously in costs of finished goods sold to sales of finished goods,
- discontinuation of presentation of accruals connected with employee benefits (holiday pay accrual and remuneration accrual) as well as environmental liabilities, special funds and accruals for customers' discounts as short-term liabilities classified as financial instruments.

According to the Managements Board the above mentioned changes will ensure better presentation of effects of the Group's activities.

d) Changes in classification of contingent liabilities

In the foregoing financial statements the following positions are not classified any more as contingent liabilities:

- excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure of PLN 1,442,632 thousand as at 31 December 2007.

In the current assessment of the Management Board, the presentation of the above items as contingent liabilities is not justifiable because PKN ORLEN settles excise tax payments on time and the probability of customs authorities making use of such guarantees is remote.

- letters of credit and guarantees in the value of PLN 360,847 thousand as at 31 December 2007.

In the current assessment of the Management Board the presentation of guarantees and letters of credit as contingent liabilities is not justifiable because there is remote probability of outflow of economic benefits.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

7. Selected explanatory notes

7.1. Property, plant and equipment

	31 December 2008	31 December 2007
Land	891,185	758,324
Buildings and constructions	9,200,217	8,905,383
Machinery and equipment	11,934,523	11,829,724
Vehicles and other	875,729	857,673
Construction in progress	3,367,103	2,482,821
Total	**26,268,757**	**24,833,925**

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2008	821,923	12,924,187	21,108,183	1,665,764	2,525,125	39,045,182
Acquisition	1,062	26,202	69,286	163,641	3,714,927	3,975,118
Reclassification	21,787	799,325	2,020,748	89,078	(3,008,168)	(77,230)
Decrease	(6,326)	(163,231)	(309,156)	(113,329)	(29,890)	(621,932)
Foreign exchange differences	88,705	599,770	2,420,987	130,507	209,199	3,449,168
31 December 2008	**927,151**	**14,186,253**	**25,310,048**	**1,935,661**	**3,411,193**	**45,770,306**
Accumulated depreciation and impairment allowances						
1 January 2008	63,599	4,018,804	9,278,459	808,091	42,304	14,211,257
Depreciation	–	584,060	1,603,836	207,313	–	2,395,209
Other increases	2,179	3,459	17,101	5,648	–	28,387
Impairment allowances	(33,511)	309,212	2,002,361	67,995	1,221	2,347,278
creation of allowance	6,396	380,267	2,019,213	69,190	9,428	2,484,494
reversal of allowance	(39,907)	(71,055)	(16,852)	(1,195)	(8,207)	(137,216)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	(372)	(97,336)	(263,873)	(83,481)	–	(445,062)
Foreign exchange differences	4,071	167,837	737,641	54,366	565	964,480
31 December 2008	**35,966**	**4,986,036**	**13,375,525**	**1,059,932**	**44,090**	**19,501,549**
Gross book value						
1 January 2007	837,976	12,408,079	21,625,445	1,585,247	1,131,323	37,588,070
Acquisition	13,244	80,611	128,240	188,490	3,423,019	3,833,604
Reclassification	32,305	809,957	817,987	110,080	(1,841,411)	(71,082)
Decrease	(35,079)	(154,449)	(214,454)	(168,595)	(16,029)	(588,606)
Foreign exchange differences	(26,523)	(220,011)	(1,249,035)	(49,458)	(171,777)	(1,716,804)
31 December 2007	**821,923**	**12,924,187**	**21,108,183**	**1,665,764**	**2,525,125**	**39,045,182**
Accumulated depreciation and impairment allowances						
1 January 2007	64,526	3,568,464	7,996,188	710,182	49,029	12,388,389
Depreciation	618	565,108	1,595,653	184,317	–	2,345,696

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Other increases	1	9,356	4,501	37,941	–	51,799
Impairment allowances	(636)	3,090	4,445	8,880	(6,228)	9,551
creation of allowance	558	34,124	45,612	9,255	4,496	94,045
reversal of allowance	(1,194)	(31,034)	(41,167)	(375)	(10,724)	(84,494)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	(55)	(91,177)	(168,786)	(121,536)	–	(381,554)
Foreign exchange differences	(855)	(36,037)	(153,542)	(11,693)	(497)	(202,624)
31 December 2007	**63,599**	**4,018,804**	**9,278,459**	**808,091**	**42,304**	**14,211,257**
Net book value						
1 January 2008	**758,324**	**8,905,383**	**11,829,724**	**857,673**	**2,482,821**	**24,833,925**
31 December 2008	**891,185**	**9,200,217**	**11,934,523**	**875,729**	**3,367,103**	**26,268,757**
1 January 2007	**773,450**	**8,839,615**	**13,629,257**	**875,065**	**1,082,294**	**25,199,681**
31 December 2007	**758,324**	**8,905,383**	**11,829,724**	**857,673**	**2,482,821**	**24,833,925**

Impairment allowances for property, plant and equipment as at 31 December 2008 and 31 December 2007 amounted to PLN 2,972,643 thousand and PLN 568,366 thousand, respectively, taking into account foreign exchange differences.

As at 31 December 2008 the Group reviewed economic lives of property, plant and equipment applied afore. Should the rates from the previous year be applied, depreciation expense would be higher by PLN 8,294 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2008 amounted to PLN 1,967,344 thousand and as at 31 December 2007 amounted to PLN 1,927,622 thousand.

Impairment allowances disclosed in property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded its recoverable amount. The impairment allowances are charged to other operating expenses.

Property, plant and equipment of PLN 1,120,737 thousand and PLN 1,124,988 thousand were used as a pledge for the Group's liabilities as at 31 December 2008 and 31 December 2007, respectively.

7.2. Investment property

The following changes were recognized in investment property in 2008 and 2007:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Investment property, beginning of the period	69,076	34,925
Reclassification from property, plant and equipment	2,037	33,153
Purchase	57	1,244
Sale	(215)	–
Fair value adjustment	(6,937)	189
Foreign exchange differences	8,157	(677)
Other	(418)	242
Investment property, end of the period	**71,757**	**69,076**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Investment property of the Group comprise: social-office buildings, partially designated for rent, and land.

In 2008 and 2007 the Group gained rental income from investment property in the amount of PLN 12,397 thousand and PLN 7,114 thousand, respectively.

Direct operating expenses arising from investment property, that in a given period generated rental income, accounted for PLN 3,199 thousand in 2008 and PLN 2,831 thousand in 2007.

Direct operating expenses from investment property, that in a given period did not generate rental income, accounted for PLN 371 thousand in 2008 and PLN 4,082 thousand in 2007.

Depending on the characteristics of the investment property, its fair value was assessed by an independent valuer based on comparison or revenue approach. Comparison approach was applied assuming that the value of assessed property was equal to the market price of a similar property. In revenue approach the calculation was based on discounted cash flows method, due to variability of revenues in foreseeable future. 5-year period forecasts were applied in the analysis. The discount rate reflected the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the valued objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar objects, same located and in the same technical condition and standard and designated for similar purposes.

7.3. Intangible assets

	31 December 2008	31 December 2007
Acquired computer software	42,808	31,423
Acquired patents, trade marks and licenses	484,102	471,617
Other	30,138	27,930
Total	**557,048**	**530,970**

The changes of intangible assets were as follows:

	Acquired computer software	Acquired patents, trade marks and licenses	Other	Total
Gross book value				
1 January 2008	156,108	838,262	61,101	1,055,471
Acquisition	10,413	4,421	20,915	35,749
Other increases	4,267	247	11,560	16,074
Reclassification	6,270	57,027	4,767	68,064
Decrease	(3,731)	(26,151)	(13,738)	(43,620)
Foreign exchange differences	24,663	45,491	8,817	78,971
31 December 2008	**197,990**	**919,297**	**93,422**	**1,210,709**
Accumulated depreciation and impairment allowances				
1 January 2008	124,685	366,645	33,171	524,501
Depreciation	12,227	65,619	11,180	89,026
Other increases	755	105	9,338	10,198
Impairment allowances	1,072	38	11,816	12,926
creation of allowance	1,337	1,032	11,826	14,195
reversal of allowance	(265)	(994)	(10)	(1,269)
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(2,681)	(11,510)	(6,808)	(20,999)

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	Acquired computer software	Acquired patents, trade marks and licenses	Other	Total
Foreign exchange differences	19,124	14,298	4,587	38,009
31 December 2008	**155,182**	**435,195**	**63,284**	**653,661**
Gross book value				
1 January 2007	151,709	780,230	155,006	1,086,945
Acquisition	10,352	12,802	9,006	32,160
Other increases	3,177	11,236	3,505	17,918
Reclassification	7,496	51,052	9,204	67,752
Decrease	(9,801)	(6,096)	(108,647)	(124,544)
Foreign exchange differences	(6,825)	(10,962)	(6,973)	(24,760)
31 December 2007	**156,108**	**838,262**	**61,101**	**1,055,471**
Accumulated depreciation and impairment allowances				
1 January 2007	121,422	320,082	25,658	467,162
Depreciation	13,904	50,787	19,779	84,470
Other increases	275	66	7,703	8,044
Impairment allowances	77	(29)	(22)	26
creation of allowance	77	–	63,019	63,096
reversal of allowance	–	(29)	(63,041)	(63,070)
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(6,687)	(1,781)	(19,343)	(27,811)
Foreign exchange differences	(4,306)	(2,480)	(604)	(7,390)
31 December 2007	**124,685**	**366,645**	**33,171**	**524,501**
Net book value				
1 January 2008	**31,423**	**471,617**	**27,930**	**530,970**
31 December 2008	**42,808**	**484,102**	**30,138**	**557,048**
1 January 2007	**30,287**	**460,148**	**129,348**	**619,783**
31 December 2007	**31,423**	**471,617**	**27,930**	**530,970**

Impairment allowances for intangible assets as at 31 December 2008 and 31 December 2007 amounted to PLN 15,005 thousand and PLN 1,793 thousand, respectively, taking into account foreign exchange differences.

As at 31 December 2008 the Group reviewed economic useful lives of intangible assets applied afore. Should the rates from the previous year be applied, adjustment to depreciation expense would not be material.

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2008 amounted to PLN 220,221 thousand and as at 31 December 2007 amounted to PLN 217,856 thousand.

As at 31 December 2008 and 31 December 2007 no intangible assets were used as a pledge for the Group's liabilities.

CO_2 emission rights

As at 31 December 2008 the Group possessed CO_2 emission rights granted free of charge, that were presented in the balance sheet in the net amount equal to zero.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

CO_2 emission rights were granted on the basis of the binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention on Climate Change, adopted by the European Union.

In accordance with applicable law in Poland, distribution of the rights granted to the country among particular installations, took place based on the Council of Ministers Regulation in the form of National Allocation Plan.

Information on emission rights granted to PKN ORLEN Capital Group	Quantity (Mg)
Emission rights as at the balance sheet date	**52,310,047**
Emission rights acquired by the Group for the 5-year accounting period	64,799,525
Verified quantity of emission rights used in 2008	(12,228,931)
Emission rights acquired on a free market in the current period in order to cover shortages	12,537
Sale of CO_2 emission rights	(280,527)
Shortage of emission rights used in 2008, covered by emission rights granted for 2009	7,442

On 14 November 2008 when the emission rights were granted market value of 1 CO_2 emission right amounted to EUR 17.50, and on 31 December 2008 market value of 1 CO_2 emission right amounted to EUR 15.90.

Perpetual usufruct of land

The titles to perpetual usufruct of land obtained under an administrative decision were recognized as off balance sheet items in the amount of PLN 993,711 thousand as at 31 December 2008 and of PLN 1,011,178 thousand as at 31 December 2007. These rights were revalued to fair value as at 1 January 2004.

Concessions

As at 31 December 2008 and 31 December 2007 the Company possessed concessions for public services due to which annual concession fees recognized in the income statement in a given period are paid.

The Group companies as the owners of particular concessions granted by proper bodies of the public administration possess concessions for the following activities:

- manufacturing of liquid fuels;
- trade in liquid fuels;
- storage of liquid fuels;
- trade in gas fuels;
- distribution of gas fuels;
- domestic transport of fuels;
- international profit-making road transportation services;
- manufacturing of electrical energy;
- trade in electrical energy;
- transportation and distribution of electrical energy;
- manufacturing of heating energy;
- trade in heating energy;
- transportation and distribution of heating energy;
- storage of liquid hydrocarbons;
- exploitation of rock salt;
- recognition of rock salt;
- exploration and recognition of crude oil and natural gas.

Concessions for trade of liquid and gas fuels, manufacturing and storage of liquid fuels, distribution of gas fuels, manufacturing, trade, transportation and distribution of heating energy, manufacturing, trade, transportation and distribution of electrical energy are granted in most cases for the period of 10 years. Concessions for domestic fuel transportation and international profit-making road transportation services are granted for the period of 5 to 45 years. Concessions for storage of liquid hydrocarbons (until 1 September 2029) and exploitation of rock salt (until 29 April 2033) are granted for the period of 30 years and concession for recognition of rock salt (until 3 February 2012) was granted for the period of 6 years. Concessions for exploration and recognition of crude oil and natural gas are granted for the period of 5 years (until 30 October 2012).

7.4. Goodwill

	31 December 2008	31 December 2007
Goodwill on consolidation		
ORLEN PetroTank	11,298	11,298
ORLEN PetroCentrum	5,897	–
ShipService	3,145	3,145
ORLEN PetroProfit	–	1,175
ORLEN Petrozachód	–	4,597
ORLEN Morena	–	125
Ceska Rafinerska	7,753	6,674
Other	492	–
Total goodwill on consolidation	**28,585**	**27,014**
Goodwill on business combination:		
Basell Orlen Polyolefins	51,902	51,902
ORLEN Deutschland	7,052	6,942
Other	94	–
Total goodwill on business combination	**59,048**	**58,844**
Total goodwill	**87,633**	**85,858**

The following changes in goodwill took place in 2008 and 2007:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Goodwill on consolidation, begining of the period	27,014	26,163
Increase	**6,368**	**6,849**
ORLEN Petrocentrum	5,897	–
Mažeikių Group	471	–
Etylobenzen	–	175
Ceska Rafinerska	–	6,674
Decrease	**(5,897)**	**(5,293)**
ORLEN Petrozachód	(4,597)	(5,293)
ORLEN Petroprofit	(1,175)	–
ORLEN Morena	(125)	–
Foreign exchange differences	1,100	(705)
Goodwill on consolidation, end of the period	**28,585**	**27,014**

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	for the year ended 31 December 2008	for the year ended 31 December 2007
Goodwill on business combination, begining of the period	**58,844**	**74,372**
Increase	–	756
Basell Orlen Polyolefins	–	756
Decrease	**(1,569)**	**(9,017)**
ORLEN Deutschland	(1,569)	(1,064)
Impairment of goodwill in Spolana	–	(7,953)
Foreign exchange differences	1,773	(7,267)
Goodwill on consolidation, end of the period	**59,048**	**58,844**

7.5. Non-current financial assets

Available-for-sale assets

	Seat	31.12.2008	31.12.2007	Group's share in capital/voting rights as at 31.12.2008	Group's share in capital/voting rights as at 31.12.2007	Principal activity
SK Eurochem Sp. z o.o.	Poland – Włocławek	21,490	25,203	17.37%	17.37%	production of chemicals
Naftoport Sp. z o.o.	Poland – Gdańsk	31,026	31,026	14.10%	14.10%	construction, operation and maintenance of loading station for liquid fuels
Wodkan SA	Poland – Ostrów Wielkopolski	1,142	2,011	2.84%	2.84%	water supply and savage services
Other		8,516	4,082			
Net value of available for sale assets		**62,174**	**62,322**			

Impairment allowances of available-for-sale assets as at 31 December 2008 and 31 December 2007 amounted to PLN 81,059 thousand and PLN 39,236 thousand, respectively.

Investments in associates

As at 31 December 2008 and 31 December 2007 the Group's investments in associates accounted for using equity method were as follows:

Investments in associates	Carrying amount as at 31.12.2008	Carrying amount as at 31.12.2007	Group's share in capital/voting rights as at 31.12.2008	Group's share in capital/voting rights as at 31.12.2007	Principal activity
Polkomtel SA	961,151	689,550	24.39%	19.61%	rendering mobile telecommunication services
Goodwill on acquisition of Polkomtel SA	537,920	–	–	–	
Other	62,061	10,781	–	–	
Total	**1,561,132**	**700,331**	**24.39%**	**19.61%**	

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2008 and 31 December 2007, revenues, financial expenses and profit for 2008 and 2007 in Polkomtel SA are described below:

Polkomtel SA (Selected financial data)

	31 December 2008	31 December 2007
Current assets	1,565,579	1,393,444
Non-current assets	7,348,301	7,059,929
Short-term liabilities	3,684,792	3,776,386
Long-term liabilities	1,293,456	1,170,048

	for the year ended 31 December 2008	for the year ended 31 December 2007
Total sales revenues	8,482,085	7,799,020
Profit from operations	1,889,180	1,771,713
Profit before tax	1,678,319	1,703,868
Income tax expense	(317,080)	(345,192)
Net profit	1,361,239	1,358,676

7.7. Jointly controlled entities consolidated using proportionate method

PKN ORLEN holds 50% share in a joint-venture entity – Basell ORLEN Polyolefins Sp. z o.o., involved in production, distribution and sale of polyolefines and in Płocki Park Przemysłowo-Technologiczny SA, involved in advisory, business management services, holding management services and planning, purchasing and sales of real estates on its own account.

As at 31 December 2008 and for the year ended 31 December 2008, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	31 December 2008
Current assets	489,856
Non-current assets	780,708
Short-term liabilities	799,154
Long-term liabilities	1,526

	for the year ended 31 December 2008
Total sales revenues	1,384,139
Cost of finished goods, merchandise and raw materials sold	(1,337,059)
Gross profit on sales	**47,080**
Distribution expenses	(67,473)
General and administrative expenses	(12,254)
Operating revenues and expenses, net	(556)
Loss from operations	**(33,204)**
Financial revenues/expenses, net	(90,088)
Loss before tax	(123,291)
Income tax expense	(12,928)
Net loss	(110,363)

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

As at 31 December 2008 and for the year ended 31 December 2008 roku, the Group's share in assets and liabilities, revenues and expenses of Płocki Park Przemysłowo-Technologicznego SA was as follows:

	31 December 2008
Current assets	22,198
Non-current assets	27,441
Short-term liabilities	17,424
Long-term liabilities	6

	for the year ended 31 December 2008
Total sales revenues	1,018
Cost of finished goods, merchandise and raw materials sold	(698)
Gross profit on sales	**320**
General and administrative expenses	(2,126)
Operating revenues and expenses, net	1,083
Financial revenues/expenses, net	1,330
Profit before tax	607
Income tax expense	114
Net profit	493

7.8. Impairment of non-current assets

Macroeconomic slow down in 2008 caused by global economic and financial crisis and low market capitalization, which maintained below carrying amount of the Parent's net assets for several months, were main indicators for conducting an impairment test according to the requirements of IAS 36. For this purpose, non-current assets of the Group were divided into CGU (Cash Generating Units). CGU are defined as smallest identifiable groups of assets generating cash inflows, that are largely independent from cash inflows from other assets. Because of specific activities of particular groups of assets, their fair values could not be reliably estimated. Carrying amounts of assets belonging to particular CGUs were compared with their respective values in use, which were determined as present values of the future cash flows, discounted using pre-tax weighted average cost of capital, which comprise especially risk specific to the country, in which each CGU is located as well as risk of its functional currency.

The Group's future financial performance is based on number of variables and assumptions, that are in respect of macroeconomic factors such as foreign exchange rates, commodity prices, interest rates, partially out of the Group's control. The change of these variables and assumptions might influence the Group's financial position, including the results of impairment tests of non-current assets, and consequently might lead to changes in the financial position and performance of the Group.

Information about creations and reversals of allowances by categories is included in property, plant and equipment movement table (note 7.1) and intangible assets movement table (note 7.3).

Information about creations and reversals of allowances by business segments is included in note 8.

CGU Mažeikių Refinery

The most significant impairment allowance of PLN (2,177,549) thousand net, was created in reference to CGU Mažeikių Refinery presented in the refining segment (note 8). The creation and reversal of impairment allowances concerns technical equipment and machinery in the amount of PLN (1,921,240) thousand, buildings and constructions in the amount of PLN (189,556) thousand and other in the amount of PLN (66,753) thousand.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The pre-tax rate of Mažeikių Refinery is 10.80%. While USD is the functional currency of Mažeikių Refinery, the risk free rate was calculated on the basis of interest rates of US treasury bonds.

Other CGU

Total value of creations and reversals of impairment allowances concerning assets belonging to other CGUs amounts to PLN (182,655) thousand, including PLN 35,905 thousand concerning land, PLN (119,656) thousand concerning buildings and constructions, PLN (81,121) thousand concerning machinery and equipment, PLN (17,783) thousand concerning vehicles and other, and PLN 14,195 thousand concerning intangible assets. This impairment allowances concerned mainly Rafineria Trzebinia, Spolana and Rafineria Jedlicze.

7.9. Non-current loans and receivables

	31 December 2008	31 December 2007
Prepayments for property, plant and equipment	39,937	98,239
Sale of property, plant and equipment	919	1,762
Additional payments to subsidiaries' equity	–	45
Loans granted	18,009	22,934
Financial assets at fair value through profit or loss	12,057	–
Other receivables	16,824	6,226
Total	**87,746**	**129,206**

7.10. Inventory

	31 December 2008	31 December 2007
Raw materials	4,920,803	5,695,785
Work in progress	753,667	932,056
Finished goods	3,033,643	3,389,941
Merchandise	380,934	347,627
Total	**9,089,047**	**10,365,409**

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

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

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in the Republic of Lithuania are contained in Regulation no. 1901 of 5 December 2002 regarding approval of construction procedure, collection and maintenance of crude oil-derivatives and oil products and minimal amounts of crude-oil derivative products.

The above-mentioned regulation was changed on 28 December 2008 with an amendment to the Act no X-115, effective from 1 January 2009. According to this amendment, 90-day mandatory reserves should be accumulated by the end of 2009. The amendment changed also the proportion of mandatory reserves. Instead of previous 50%/50% relation between entrepreneurs and State Agency, the former should maintain mandatory reserves at the level of 60-days and the latter at the level of 30-days of the daily sale of fuels.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

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

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

The inventory allowances amounted to PLN 511,930 thousand as at 31 December 2008 and PLN 54,152 thousand as at 31 December 2007.

As at 31 December 2008 and 31 December 2007 inventories of PLN 180,558 thousand and PLN 223,550 thousand, respectively, were used as a pledge for the Group's bank loan liabilities.

7.11. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	4,706,398	5,227,759
Excise tax and fuel charge receivables	189,690	185,353
Taxation, duty and social security receivables	617,365	546,961
Receivables due to sale of property, plant and equipment	14,353	828
Prepayments for property, plant and equipment	487,637	434,073
Receivables due to insurance compensations of Mažeikių Group	207,326	284,895
Prepayments for deliveries	2,848	–
Other receivables	130,557	204,586
Total trade and other receivables, net	6,356,174	6,884,455
Receivables allowances	564,262	562,558
Total trade and other receivables, gross	**6,920,436**	**7,447,013**

As at 31 December 2008 and at 31 December 2007 trade and other receivables denominated in foreign currencies amounted to PLN 3,368,401 thousand and PLN 1,079,961 thousand, respectively.

Trade receivables result primarily from the sales of finished goods and sales of merchandise.

7.12. Short-term financial assets

	31 December 2008	31 December 2007
Financial instruments at fair value through profit and loss	123,698	85,208
Derivatives recognized in financial assetsdesignated as hegding instruments – hedge accounting	132,550	82,335
Available for sale	178	368
Loans and receivables	1,406	46
Total	**257,832**	**167,957**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

7.13. Short-term prepayments

	31 December 2008	31 December 2007
Operating lease payments	22,237	18,663
Property insurance	123,205	75,154
Research work	6,330	6,723
Payments due to perpetual usufruct of land	3,135	649
Accrued income	4,036	2,976
Settlement of long-term contracts	1,676	1,946
Commissions and financial fees	5,591	7,826
Other	37,878	32,955
Total	**204,088**	**146,892**

7.14. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand and in bank	1,228,664	1,444,788
Other cash (incl. cash in transit)	31,288	39,142
Other monetary assets	84,272	14,302
Total	**1,344,224**	**1,498,232**
incl. cash and cash equivalents not available for use	115,136	105,000

7.15. Non-current assets classified as held for sale

In PKN ORLEN Capital Group the following assets were classified as held for sale:

	31 December 2008	31 December 2007
Shares in Agrobohemie a.s. and Synthesia a.s.	–	159,469
Shares in Celio	12,267	10,559
Shares in Konsorcjum Olejów Przepracowanych	84	–
Other non-current assets	39,136	18,134
Total	**51,487**	**188,162**

Shares in AGROBOHEMIE a.s. and Synthesia a.s. held by UNIPETROL Group (respectively 50% and 38.79% in their share capital) were classified as held for sale as at 31 December 2007. As at 31 December 2007 their carrying amount was PLN 159,469 thousand (CZK 1,183,000 thousand) after impairment allowance, which amounted to PLN 333,084 thousand (CZK 2,470,951 thousand), and was equal to selling price. The shares in Agrobohemie a.s. and Synthesia a.s. were sold on 18 January 2008.

The share of UNIPETROL Group in CELIO a.s., constituting 51.06% stake in the company's share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and not by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be finalized in 2009. The change in the value of shares results from change in exchange rates.

Other non-current assets comprise warehouse bases, buildings and constructions, land, machinery and equipment and vehicles.

7.16. Interest-bearing loans and borrowings

		31 December 2008	31 December 2007
Bank loans	(a)	11,241,698	1,336,565
Borrowings	(b)	627	1,224
Debt securitities	(c)	39,789	381,434
Total short term		**11,282,114**	**1,719,223**

		31 December 2008	31 December 2007
Bank loans	(a)	1,411,029	7,472,701
Borrowings	(b)	34,023	3,061
Debt securitities	(c)	1,165,599	1,126,959
Total long term		**2,610,651**	8,602,721

The value of interest-bearing loans, borrowings and debt securities increased as compared to the end of the prior year by PLN 3,570,821 thousand net.

The change in indebtedness level results from:

- Increase of currency bank loans translated into PLN in the amount of PLN 8,989,611 thousand.
- Increase of bank loans and borrowings denominated in PLN in the amount of PLN 1,761,553 thousand.
- Increase in the indebtedness of PKN ORLEN Group concerning debt securities issued in the amount of PLN 479,172 thousand;
- Increase in indebtedness due to foreign exchange differences and interest in the amount of PLN 1,720,866 thousand.
- Decrease of currency bank loans translated into PLN in the amount of PLN 7,105,516 thousand.
- Decrease of bank loans and borrowings denominated in PLN in the amount of PLN 1,430,629 thousand.
- Decrease of indebtedness of PKN ORLEN Group concerning debt securities redemption in the amount of PLN 825,498 thousand;
- Decrease of indebtedness of PKN ORLEN Group concerning debt securities valuation in the amount of PLN 18,738 thousand;

a) Bank loans

- bank loans by currency (translated into PLN thousand)

	31 December 2008	31 December 2007
PLN	780,277	536,896
USD	5,166,249	1,598,638
EUR	6,331,979	6,303,069
CZK	350,249	370,663
LTL	23,973	–
Total	**12,652,727**	**8,809,266**

The accompanying notes are an integral part of these consolidated financial statements

- bank loans by interest rate

	31 December 2008	31 December 2007
WIBOR	**780,277**	**536,896**
LIBOR	**5,166,249**	**1,598,638**
fixed interest rate	885,501	728,923
floating interest rate	4,280,748	869,715
EURIBOR	**6,331,979**	**6,303,069**
fixed interest rate	–	160,527
floating interest rate	6,331,979	6,142,542
PRIBOR	**350,249**	**370,663**
VLIBOR	**23,973**	**–**
floating interest rate	23,973	–
Total	**12,652,727**	**8,809,266**

ORLEN SA Group bases its financing on floating interest rate. Depending on the currency of financing these are O/N, T/N, one to six-month WIBOR, LIBOR, EURIBOR, PRIBOR and VILIBOR increased by margin. The margin reflects risk connected to financing of the Group and depends on Net Debt to EBIDTA ratio. As at 31 December 2008 the margin did not exceed 1 percentage point for majority of bank loans (92%). The margin for the remaining bank loans amounted to 1 to 2.8 percentage points.

b) Borrowings

As at 31 December 2008 and 31 December 2007 borrowings comprise loans from Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej and from Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej.

As at 31 December 2008 and 31 December 2007 bank loans and borrowings of PLN 776,495 thousand and PLN 916,500 thousand, respectively, were pledged on the Group's assets.

c) Debt securities

- debt securities by maturity date

	Long-term fixed rate bonds	Long-term floating rate bonds
Nominal value	313,200	750,000
Book value	437,665	767,723
Expiration date	12.28.2013	27.02.2012
Type of security	Unsecured	Unsecured

- debt securities by currency (translated into PLN thousand)

	31 December 2008	31 December 2007
PLN	767,723	1,112,517
CZK	437,665	395,876
Total	**1,205,388**	**1,508,393**

As at 31 December 2008 the liabilities related to debt securities issued by the Group amounted to PLN 1,205,388 thousand.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The Group utilizes loans and borrowings both in PLN and foreign currencies, subject mainly to floating interest rates.

In the foregoing financial statements bank loans of PLN 9,475,449 thousand were reclassified from long-term liabilities to short-term liabilities. The amount relates to liabilities resulting from bank loan agreements containing provisions specifying the required ratio of net debt to EBITDA, which was exceeded as at 31 December 2008.

The ratio of net debt to EBITDA was exceeded mainly as a consequence of accounting effects of valuation of inventory resulting from decrease of crude oil and refinery products prices as well as translation of foreign currency bank loans resulting from depreciation of PLN currency.

According to International Accounting Standards IAS 1 a breach of provisions of bank loan agreements that may result in an entity not having an unconditional right to defer their settlement for at least twelve months results in the necessity to classify liabilities connected with such bank loan agreements as short-term. At the same time none of bank loan agreements containing provisions specifying the required level of consolidated net debt became payable on demand.

As at the date of preparation of the foregoing consolidated financial statements for bank loan of PLN 9,066,166 thousand, negotiations between PKN ORLEN SA and lenders being the parties of the agreements mentioned above in respect of terms of continuation of financing had been finalized. The consent to a temporary extension of the maximum debt ratio and the continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will result in classification of respective bank loans as long-terms in financial statements for the second quarter 2009. For bank loans of PLN 409,283 thousand the negotiations in respect of terms of continuation of financing are in progress.

Therefore, as at the date of preparation the foregoing financial statements, PKN ORLEN had access to unused resources from the above mentioned agreements.

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

7.17. Provisions

Long-term provisions

	31 December 2008	31 December 2007
Environmental provision	341,378	369,827
Jubilee and retirement benefits provision	246,229	229,124
Business risk provision	83,400	104,189
Shield programs provision	49,266	58,021
Other	27,014	38,105
Total	**747,287**	**799,266**

Short-term provisions

	31 December 2008	31 December 2007
Environmental provision	50,331	57,782
Jubilee and retirement benefits provision	37,759	31,147
Business risk provision	555,512	455,526
Shield programs provision	40,762	69,856
Other	104,561	108,841
Total	**788,925**	**723,152**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The Group has legal obligation to clean contaminated land in the area of production plants, petrol stations and warehouse bases. In 2007 and 2008 selected independent external experts conducted an assessment of the contaminated objects and estimated future expenditures on land reclamation. The amount of the land reclamation provision was reassessed by the Management Board on the basis of analysis of the independent experts. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities, constituting basis of creating the provision.

Potential future changes in regulations and common practice regarding environmental protection may influence the value of this provision in the future periods.

The Voluntary Leave Program (VLP) was launched in PKN ORLEN to support the restructuring process conducted in the Group. VLP provides additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process. Employees, who agreed to change the workplace, within the organization structure of PKN ORLEN, are entitled to receive the relocation package comprising: relocation bonus and refund of relocation costs.

In 2008 the Group changed the assumptions for calculation of provision for jubilee, retirement and pension benefits. Changes relate mainly to the planned remuneration increase ratio. Should the prior year's assumptions be taken into account, the provision would have been lower by PLN 3,779 thousand.

The changes in provisions in particular periods were as follows:

Change in long-term provision

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	369,827	229,124	104,189	58,021	38,105	799,266
Provision made during the period	5,434	35,651	556	–	3,068	44,709
Provision used during the period	(488)	(11,394)	–	–	(791)	(12,673)
Provision reversed during the period	(43,928)	(12,376)	(32,221)	(8,755)	(19,297)	(116,577)
Foreign exchange differences	10,533	5,224	10,876	–	5,929	32,562
31 December 2008	**341,378**	**246,229**	**83,400**	**49,266**	**27,014**	**747,287**
1 January 2007	345,957	190,264	120,385	99,428	58,158	814,192
Provision made during the period	33,213	72,389	10,660	–	8,104	124,366
Provision used during the period	(653)	(3,696)	–	–	(535)	(4,884)
Provision reversed during the period	(6,136)	(24,525)	(19,968)	(41,407)	(25,891)	(117,927)
Foreign exchange differences	(2,554)	(5,308)	(6,888)	–	(1,731)	(16,481)
31 December 2007	**369,827**	**229,124**	**104,189**	**58,021**	**38,105**	**799,266**

Change in short-term provision

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	57,782	31,147	455,526	69,856	108,841	723,152
Provision made during the period	23,061	29,020	163,754	14,537	62,593	292,965
Provision used during the period	(30,185)	(20,214)	(60,295)	(43,410)	(25,713)	(179,817)
Provision reversed during the period	(1,501)	(2,163)	(6,678)	(2,742)	(50,810)	(63,894)
Foreign exchange differences	1,174	(31)	3,205	2,521	9,650	16,519

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
31 December 2008	**50,331**	**37,759**	**555,512**	**40,762**	**104,561**	**788,925**
1 January 2007	108,790	25,550	458,079	24,492	117,116	734,027
Provision made during the period	3,714	23,211	33,053	60,260	60,914	181,152
Provision used during the period	(29,668)	(14,845)	(1,288)	(8,696)	(33,069)	(87,566)
Provision reversed during the period	(24,183)	(1,145)	(32,123)	(6,200)	(34,270)	(97,921)
Foreign exchange differences	(871)	(1,624)	(2,195)	–	(1,850)	(6,540)
31 December 2007	**57,782**	**31,147**	**455,526**	**69,856**	**108,841**	**723,152**

7.18. Other long-term liabilities

	31 December 2008	31 December 2007
Finance lease liabilities	70,413	69,842
Unsettled donations received	40,820	44,164
Waranties granted	5,348	10,784
Hedge liabilities	–	983
Other	24,973	14,807
Total	**141,554**	**140,580**

7.19. Trade and other liabilities

	31 December 2008	31 December 2007
Trade liabilities	4,464,176	5,527,911
Excise tax and fuel charge liabilities	1,356,514	866,135
Value added tax liability	703,443	449,862
Other taxation, duty and social security liabilities	323,240	535,652
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	174,776	345,292
Liabilities due to acquisition of property, plant and equipment	741,447	803,498
Liabilities due to uninvoiced services	38,269	128,578
Accrual for customers' discounts	77,690	73,369
Dividend liabilities	1,085	1,449
Liabilities due to prepayments for delieveries	65,842	25,838
Payroll liabilities	180,814	156,565
Holiday pay accrual	53,179	43,908
Loyalty Program VITAY	36,980	35,309
Special funds	16,444	17,430
Environmental liabilities	9,249	9,507
Finance lease liabilities	63,827	33,914
Other liabilities	107,172	127,026
Total	**8,414,147**	**9,181,243**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for VITAY gifts.

From June 2006 fuel prize is available for customers in a form of a discount of fuel price which is not a current expense of VITAY program but decreases fuel sales.

The provision is created with regard to the unrealized amount of points. It is recognized in the period when the points were granted to customers. Because of changes regarding the substance of gifts, separate provisions are created for fuel and non-fuel gifts.

The provision is estimated based on proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

Trade and other liabilities denominated in foreign currencies amounted to PLN 5,062,909 thousand as at 31 December 2008 and PLN 7,439,386 thousand as at 31 December 2007.

The carrying amount of short-term trade liabilities is equal to their fair value by virtue of their short-term characteristics.

7.20. Deferred income

	31 December 2008	31 December 2007
Subventions from National Enviroment Protection Fund and European Regional Development Fund	59,200	46,339
Other	17,476	14,344
Total	**76,676**	**60,683**

7.21. Other financial liabilities

	31 December 2008	31 December 2007
Liabilities due to put option of minority share of Mažeikių Group	842,485	692,636
Short-term financial liabilities due to derivatives designated as hedgning instruments	91,357	19,522
Financial liabilities at fair value through profit and loss	278,704	2,815
Other	63	–
Total	**1,212,609**	**714,973**

7.22. Selected data in respect of shareholder's equity (attributable to equity holders of the Parent)

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN SA as at 31 December 2008 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The share capital as at 31 December 2008 and 31 December 2007 consisted of the following series of shares:

Share series	Number of shares issued as at 31 December 2008	Number of shares issued as at 31 December 2007	Number of shares authorized as at 31 December 2008	Number of shares authorized as at 31 December 2007
A Series	336,000,000	336,000,000	336,000,000	336,000,000
B Series	6,971,496	6,971,496	6,971,496	6,971,496
C Series	77,205,641	77,205,641	77,205,641	77,205,641
D Series	7,531,924	7,531,924	7,531,924	7,531,924
Total	**427,709,061**	**427,709,061**	**427,709,061**	**427,709,061**

In Poland, each new issuance of shares is labeled as a new series of shares. All of the above series have the exact same rights.

The shareholder's structure as at 31 December 2008 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
Nafta Polska SA	74,076,299	74,076,299	92,595,374	17.32%
State Tresury	43,633,897	43,633,897	54,542,371	10.20%
Other	309,998,865	309,998,865	387,498,581	72.48%
Toatal	**427,709,061**	**427,709,061**	**534,636,326**	**100.00%**

As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share capital in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 522,999 thousand and presented as share capital revaluation adjustment in the balance sheet.

Share premium is the surplus of the issuance value over the nominal value of shares belonging to series B, C and D. As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share premium in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 168,803 thousand and presented as share premium revaluation adjustment in the balance sheet.

The amount of the hedging reserve results from valuation of derivatives meeting the requirements of cash flows hedge accounting.

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of ORLEN Deutschland from EUR into PLN, UNIPETROL Group from CZK into PLN and Mažeikių Group from USD into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net as net investment hedge in a foreign operation, are also recognized in this position.

7.23. Suggested cover of loss of the Parent Company for 2008 and distribution of profit for 2007 (amounts in PLN)

a) Suggested cover of loss for 2008

The Dividend Policy of PKN ORLEN SA assumes setting recommended dividend in relation to free cash flows for shareholders after realization of investment budget and optimization of capital structure ("Free Cash Flow to Equity" – FCFE).

According to the applied methodology, the Management Board considers taking into account result from operations, capital expenditures and projected changes in the level of indebtedness in the following period, dividend payment starting from the level of 50% of FCFE (set as the minimum in the Dividend Policy).

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Taking into consideration the Company's results for 2008 and high level of the Concern indebtedness, that as at 31 December 2008 exceeded financial covenants contained in the bank loan agreements, the result of FCFE calculation is negative, which means the lack of funds for dividend purposes. Therefore the Management Board proposes not to pay dividend in 2009, and to cover net loss for 2008 in the amount of PLN (1,570,947,088.55) with reserve capital.

b) According to the Resolution of the Ordinary General Shareholders' Meeting of PKN ORLEN, profit for 2007 was distributed as follows:

Dividend (PLN 1.62 for 1 share)	692,888,678,82 PLN
Reserve capital	2,062,969,988,28 PLN
Contribution to Social Fund	4,000,000,00 PLN
Total	**2,759,858,667,10 PLN**

The distribution of the profit results from the paragraph § 1 of the Resolution no 6 of the Ordinary General Shareholders' Meeting of PKN ORLEN dated 6 June 2008.

Method of calculation of book value and diluted book value per share as at 31 December 2008 and 31 December 2007:

		2008	2007
Book value (in PLN)	(A)	17,813,090,972	19,935,333,903
Number of issued ordinary shares	(B)	427,709,061	427,709,061
Book value attributable to equity holders of the parent per share (in PLN)	(A/B)	41.65	46.61
Expected number of shares	(C)	427,709,061	427,709,061
Diluted book value attributable to equity holders of the parent per share (in PLN)	(A/C)	41.65	46.61

The Company calculated book value and diluted book value per share in accordance with the IFRSs.

Retained earnings include the current period result and undistributed prior period result.

7.24. Minority interest

Minority interest represent part of the net assets of subsidiaries, that is not directly owned, or indirectly, by the shareholders of the Parent.

Minority interest by company:

	31 December 2008	31 December 2007
Unipetrol Group	2,138,492	2,030,020
ANWIL Group	327,534	326,940
Rafineria Trzebinia Group	73,804	103,196
Rafineria Nafty Jedlicze Group	32,403	46,722
Inowrocławskie Kopalnie Soli "Solino" SA	35,176	30,802
Petrolot Sp. z o.o.	36,021	29,587
ORLEN Oil Sp. z o.o.	17,876	15,064
Other	57,250	55,094
Total	**2,718,556**	**2,637,425**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

7.25. Explanatory notes to the statement of cash flows

a) Explanation of differences between changes in the balance sheet captions and changes presented in the statement of cash flows

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in non-current loans and receivables and trade and other receivables	**564,816**	**(585,247)**
Difference: Change in investment receivables resulting from:	7,944	318,536
– advances for property, plant and equipment	(4,738)	342,372
– receivables due to sale of property, plant and equipment	12,682	(23,836)
Change in the Group structure	(1,841)	(7,345)
Change in receivables transfered to non-current assets classified as held for sale	–	(32,038)
Foreign exchange differences	393,076	(218,567)
Other	22,787	(10,925)
Change in receivables in the statement cash flows	**986,782**	**(535,585)**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in inventories	**1,276,362**	**(2,966,553)**
Change in the Group structure	(6)	(2,390)
Foreign exchange differences	500,049	(262,030)
Change in inventories transfered to non-current assets classified as held for sale	–	(7,959)
Other	2,427	3,574
Change in inventories in the statement of cash flows	**1,778,832**	**(3,235,358)**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in other long-term liabilities and trade and other liabilities	**(766,122)**	**933,431**
Difference: **Change in investment liabilities resulting from:**	**62,051**	**(376,076)**
– acquisition of property, plant and equipment and intangible assets	62,051	(376,076)
Change in financial liabilities resulting from:	**(30,120)**	**–**
– dividend	364	–
– financial lease	(30,484)	–
Change in the Group structure	(9,985)	37,010
Change in liabilities transfered to the liabilities directlyrelated to non-current assets classified as held for sale	–	(2,087)
Foreign exchange differences	(593,050)	309,162
Other	(70,191)	39,061
Change in liabilities in the statement of cash flows	**(1,407,417)**	**940,501**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in provisions	**13,794**	**(25,801)**
Change in the Group structure	492	281
Change in deferred tax liabilities relating to financial instruments	(6,354)	(18,528)
Foreign exchange differences	(34,270)	–
Other	–	4,620
Change in provisions in the statement of cash flows	**(26,338)**	**(39,427)**

b) Proceeds from the sale of shares in related entities

Realized price on sale of shares amounted to PLN 214,219 thousand in 2008 and respectively PLN 761,369 thousand in 2007.

Cash and cash equivalents removed from the balance sheet due to sale of shares in related entities, as at 31 December 2008 amounted to PLN 14,738 thousand and as at 31 December 2007 amounted to PLN 161,720 thousand.

The below mentioned table presents condensed financial information, including the total value (as at the date of sale) of assets and liabilities of subsidiaries sold in 2008 and 2007, according to IAS 7:

	31 December 2008	31 December 2007
Current assets excluding cash and cash equivalents	5,104	512,492
Non-current assets	43,041	660,357
Short-term liabilities	8,616	235,197
Long-term liabilities	9,635	67,136

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

8. Segment data

Revenues, expenses and financial result by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Sales to external customers	**68,055,736**	**51,267,453**	**8,338,330**	**9,252,174**	**2,575,855**	**2,491,816**
Transactions with other segments	8,815,180	13,262,188	3,904,535	4,399,931	195,042	310,659
Settlement of hedging transactions	17,225	37,587	55,212	48,291	–	–
Total sales revenues	**76,888,141**	**64,567,228**	**12,298,077**	**13,700,396**	**2,770,897**	**2,802,475**
Total operating expenses	(76,120,236)	(62,387,153)	(12,053,583)	(12,515,191)	(2,504,646)	(2,552,417)
Other operating revenues	380,911	278,759	68,278	97,341	28,145	14,830
Other operating expenses	(2,775,564)	(363,867)	(37,813)	(214,538)	(80,806)	(19,284)
Segment result	**(1,626,748)**	**2,094,967**	**274,959**	**1,068,008**	**213,590**	**245,604**
Unallocated revenues of the Group						
Unallocated expenses of the Group						
Profit/(Loss) from operations						
Financial revenues						
Financial expenses						
Share in profit from investments accounted for under equity method	(1,025)	114	–	–	1,040	1,191
Income tax expense						
Net profit/(loss)						
Net profit/(loss)						

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Revenues, expenses and financial result by business segments – continued

	Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Sales to external customers	**492,847**	**695,662**			**79,462,768**	**63,707,105**
Transactions with other segments	1,377,813	1,365,873	(14,292,570)	(19,338,651)	–	–
Settlement of hedging transactions	–	–			72,437	85,878
Total sales revenues	**1,870,660**	**2,061,535**	**(14,292,570)**	**(19,338,651)**	**79,535,205**	**63,792,983**
Total operating expenses	(1,810,798)	(2,189,481)	14,288,665	19,336,556	(78,200,598)	(60,307,686)
Other operating revenues	150,162	39,458	(391)	(239)	627,105	430,149
Other operating expenses	(69,163)	(66,487)			(2,963,346)	(664,176)
Segment result	**140,861**	**(154,975)**	**(4,296)**	**(2,334)**	**(1,001,634)**	**3,251,270**
Unallocated revenues of the Group					120,825	39,854
Unallocated expenses of the Group					(722,513)	(687,242)
Profit/(Loss) from operations					**(1,603,322)**	**2,603,882**
Financial revenues					702,800	1,190,048
Financial expenses					(2,281,414)	(1,050,246)
Share in profit from investments accounted for under equity method	266,518	266,076			266,533	267,381
Income tax expense					(2,915,403)	3,011,065
Net profit/(loss)					388,777	(530,639)
Net profit/(loss)					**(2,526,626)**	**2,480,426**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Assets and liabilities by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Segment assets	29,064,979	30,536,170	8,086,019	7,306,146	2,515,807	2,399,195
Investments in associates	4,525	10,902	6	–	11,036	9,996
Non-current assets clasiffied as held for sale*	27,290	12,780	12,096	–	–	3,662
Unallocated non-current assets clasiffied as held for sale*						
Unallocated assets of the Group						
Total consolidated assets						
Segment liabilities	6,949,485	8,647,834	2,239,431	998,275	395,550	405,351
Liabilities directly related to non-current assets clasiffied as held for sale	–	–	–	–	–	–
Unallocated liabilities of the Group						
Total consolidated liabilities						

Assets and liabilities by business segments – continued

	Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Segment assets	4,582,768	5,125,979	(1,027,653)	(1,594,822)	43,221,920	43,772,668
Investments in associates	1,545,565	712,351	–	(32,918)	1,561,132	700,331
Non-current assets clasiffied as held for sale*	1,008	1,185			40,394	17,627
Unallocated non-current assets clasiffied as held for sale*					11,093	170,535
Unallocated assets of the Group					2,141,211	1,441,664
Total consolidated assets					**46,975,750**	**46,102,825**
Segment liabilities	788,490	738,585	(1,095,505)	(1,585,024)	9,277,451	9,205,021
Liabilities directly related to non-current assets clasiffied as held for sale	–	–	–	–	–	–
Unallocated liabilities of the Group					17,166,652	14,325,044
Total consolidated liabilities					**26,444,103**	**23,530,065**

* For more details refer to note 7.15

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Cost incurred to acquire property plant and equipment and depreciation by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cost incurred to acquire property, plant and equipment and intangible assets	2,088,810	2,680,577	1,235,821	521,864	255,563	118,357
Unallocated cost incurred to acquire property, plant and equipment and intangible assets						
Total cost incurred to acquire property, plant and equipment and intangible assets						
Segment depreciation	1,411,221	1,346,356	629,643	624,217	147,657	166,867
Depreciation of unallocated assets						
Total depreciation						
Non-cash expenses other than depreciation	3,077,237	266,730	104,872	210,235	117,557	17,797

Cost incurred to acquire property plant and equipment and depreciation by business segments – continued

	Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Cost incurred to acquire property, plant and equipment and intangible assets	311,259	311,708	–	–	3,891,453	3,632,506
Unallocated cost incurred to acquire property, plant and equipment and intangible assets			–	–	56,301	87,999
Total cost incurred to acquire property, plant and equipment and intangible assets					**3,947,754**	**3,720,505**
Segment depreciation	255,128	255,898	–	–	2,443,649	2,393,338
Depreciation of unallocated assets					47,734	38,085
Total depreciation					**2,491,383**	**2,431,423**
Non-cash expenses other than depreciation	43,634	37,702	–	–	3,343,300	532,464

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Creation and reversal of impairment allowances by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Creation of impairment allowances of non-current assets	(2,436,105)	(102,602)	(4,520)	(154,426)	(65,198)	(7,711)
Creation of impairment allowances of current assets	(537,393)	(98,948)	(82,153)	(31,226)	(47,438)	(5,224)
Unallocated value of created impairment allowances of non-current assets						
Unallocated value of created impairment allowances of current assets						
Total creation of impairment allowances of assets						
Reversal of impairment allowances of non-current assets	87,538	61,251	7,669	19,014	6,495	597
Reversal of impairment allowances of current assets	240,587	109,469	20,110	46,115	4,081	2,781
Unallocated value of reversed impairment allowances of non-current assets						
Unallocated value of reversed impairment allowances of current assets						
Total reversal of impairment allowances of assets						

Creation and reversal of impairment allowances by business segments – continued

	Other operations		Total	
	for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Creation of impairment allowances of non-current assets	(6,579)	(14,728)	(2,512,402)	(279,467)
Creation of impairment allowances of current assets	(17,273)	(7,866)	(684,257)	(143,264)
Unallocated value of created impairment allowances of non-current assets			(533)	(527)
Unallocated value of created impairment allowances of current assets			(33,625)	(2,624)
Total creation of impairment allowances of assets			**(3,230,817)**	**(425,882)**
Reversal of impairment allowances of non-current assets	34,694	7,995	136,396	88,857
Reversal of impairment allowances of current assets	10,942	4,970	275,720	163,335
Unallocated value of reversed impairment allowances of non-current assets			437	4
Unallocated value of reversed impairment allowances of current assets			33,093	10,610
Total reversal of impairment allowances of assets			**445,646**	**262,806**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:

- receivables allowances;
- inventories allowances;
- property, plant and equipment and intangible assets impairment allowances, in accordance with IAS 34 and IFRS 5;
- goodwill impairment allowances.

Creations and reversals of allowances were performed in conjunction with, occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as impairment of property, plant and equipment.

Allowances made in the refining segment concerned primarily impairment of Mažeikių Refinery, petrol stations, warehouse bases and inventories. Allowances made in the chemical segment concerned mainly impairment of assets in Spolana. Allowances for idle assets and obsolete raw materials were recognized in other operations segment.

Statement of cash flows by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Segment result	(1,627,775)	2,094,966	274,960	1,068,009	214,629	245,606
Adjustments	3,579,778	(1,721,539)	2,937,546	1,287,806	195,800	75,965
Net cash provided by operating activities	**1,952,003**	**373,427**	**3,212,506**	**2,355,815**	**410,429**	**321,571**
Cash flow – investing activities						
Cash inflows from investing activities	27,651	566,316	16,686	118,032	15,240	186,159
Cash outflows from investing activities	(2,050,803)	(3,076,067)	(1,466,433)	(386,217)	(237,933)	(115,365)
Net cash provided by – (used in) investing activities	**(2,023,152)**	**(2,509,751)**	**(1,449,747)**	**(268,185)**	**(222,693)**	**70,794**
Net cash provided by financing activities						
Net change in cash and cash equivalents	**(71,149)**	**(2,136,324)**	**1,762,759**	**2,087,630**	**187,736**	**392,365**
Effect of exchange rate changes						
Cash and cash equivalents, beginning of the period						
Cash and cash equivalents, end of the period						

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Statement of cash flows by business segments – continued

	Other operations		Unallocated		Total	
	for the year ended		for the year ended		for the year ended	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Segment result	407,380	(154,974)	(1,795,820)	(773,179)	(2,526,626)	2,480,428
Adjustments	351,562	(658,507)	(921,300)	500,913	6,143,386	(515,362)
Net cash provided by operating activities	**758,942**	**(813,481)**	**(2,717,120)**	**(272,266)**	**3,616,760**	**1,965,066**
Cash flow – investing activities						
Cash inflows from investing activities	103,530	1,087,674	376,655	(512,884)	539,762	1,445,297
Cash outflows from investing activities	(219,132)	(662,213)	(950,418)	(50,569)	(4,924,719)	(4,290,405)
Net cash provided by – (used in) investing activities	**(115,602)**	**425,461**	**(573,763)**	**(563,453)**	**(4,384,957)**	**(2,845,108)**
Net cash provided by financing activities			612,573	27,039	612,573	27,039
Net change in cash and cash equivalents	**643,340**	**(387,993)**	**(2,678,310)**	**(808,681)**	**(155,624)**	**(853,003)**
Effect of exchange rate changes					1,616	(85)
Cash and cash equivalents, beginning of the period					**1,498,232**	**2,351,320**
Cash and cash equivalents, end of the period					**1,344,224**	**1,498,232**

Geographical segments

The below table presents the Group's sales revenues by geographical segments for 2008 and 2007

	Operating revenues by geographical area	
	for the year ended 31 December 2008	for the year ended 31 December 2007
Poland, including:	35,537,431	29,893,959
– revenues from operating actvities	35,206,126	29,654,884
– other operating revenues	331,305	239,075
Germany, including:	12,744,774	11,076,532
– revenues from operating actvities	12,630,390	11,048,040
– other operating revenues	114,384	28,492
Czech Republic, including:	9,954,083	8,330,684
– revenues from operating actvities	9,817,894	8,210,301
– other operating revenues	136,189	120,383
Baltic states (Lithuania, Latvia, Estonia), including:	7,965,590	6,238,805
– revenues from operating actvities	7,920,363	6,196,606
– other operating revenues	45,227	42,199
Other countries	13,960,432	8,683,152
– Finland	1,812,680	243,226
– Switzerland	3,013,288	60,231
– Denmark	772,371	97,614
Unallocated revenues of the Group	120,825	39,854
Total operating revenues by geographical area	**80,283,135**	**64,262,986**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Geographical segments (continued)

The below table presents the Group's assets by geographical segments

	Segment's assets by geographical area		Cost incurred to acquire property, plant and equipment and intangible assets by geographical area	
	for the year ended 31 December 2008	for the year ended 31 December 2007	for the year ended 31 December 2008	for the year ended 31 December 2007
Poland	24,053,598	23,391,805	2,459,400	1,722,480
Germany	1,257,458	1,212,619	95,510	105,515
Czech Republic	9,529,245	9,567,492	678,775	726,425
Baltic states (Lithuania, Latvia, Estonia)	8,038,525	9,421,865	657,266	1,078,086
Other countries (not exceeding 5% of total book value	343,094	178,887	502	–
Investments in associates	1,561,132	700,331	–	–
Non-currrent assets classified as held for sale	51,487	188,162	–	–
Unallocated assets of the Group	2,141,211	1,441,664	56,301	87,999
Total	**46,975,750**	**46,102,825**	**3,947,754**	**3,720,505**

9. Financial instruments

a) Financial instruments by categories and classes

Financial instruments by categories

	31 December 2008	31 December 2007
Financial assets at fair value through profit or loss (held for trading)	135,755	85,208
Derivatives recognized in financial assets designated as hedging instruments – hedge accounting	135,755	85,208
Financial assets available for sale	62,352	62,690
Loans and receivables, incl.:	5,095,792	5,749,081
Non-current receivables	17,743	12,773
Loans granted	19,415	18,240
Current receivables classified as financial instruments	5,058,634	5,718,068
Cash and cash equivalents	1,344,224	1,498,232
Total assets by categories in accordance with IAS 39	**6,770,673**	**7,477,546**
Financial liabilities at fair value through profit or loss (held for trading)	91,357	19,522
Liabilities due to derivatives designated as hedging instruments – hedge accounting	278,704	3,798
Other liabilities, incl.:	20,117,783	17,625,765
Short-term liabilities classified as financial instruments	5,352,149	6,585,594
Liabilities due to loans, borrowings and debt securities issued	13,892,765	10,321,944
Other	872,869	718,227
Total liabilities by categories in accordance with IAS 39	**20,487,844**	**17,649,085**
Finance lease liabilities	134,240	103,756
Total financial liabilities	**20,622,084**	**17,752,841**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Financial instruments by classes

	31 December 2008	31 December 2007
Stocks and shares in Companies	62,352	62,690
Current receivables classified as financial instruments	5,058,634	5,718,068
Loans granted	19,415	18,240
Assets from valuation of derivatives	268,305	167,543
Cash and cash equivalents	1,344,224	1,498,232
Non-current receivables	17,743	12,773
Total financial assets	**6,770,673**	**7,477,546**
Debt securities issued	1,205,388	1,508,393
Loans and borrowings	12,687,377	8,813,551
Short-term liabilities classified as financial instruments	5,352,149	6,585,594
Liabilities from valuation of derivatives	370,061	23,320
Finance lease liabilities	134,240	103,756
Other	872,869	718,227
Total financial liabilities	**20,622,084**	**17,752,841**

b) Disclosures concerning balance sheet items

Reclassification of assets

In 2008 and 2007 the Group did not reclassify financial assets measured at cost or amortized cost to financial assets measured at fair value, as well as financial assets measured at fair value to financial assets measured at cost or amortized cost.

Derecognition of assets

In the period covered by the foregoing financial statements the Group did not transfer any financial assets resulting in the future in the risks or rewards causing liabilities or expenses.

c) Financial assets pledged as collateral for liabilities or contingent liabilities

Financial assets pledged as collateral for liabilities or contingent liabilities

	31 December 2008	31 December 2007
Cession of receivables	272,971	465,280
Cash in bank pledged as collateral	154,826	190,293

Moreover assets, eliminated in the consolidated financial statements of PKN Orlen Group and presented in unconsolidated financial statements of the companies, are pledged as collateral for liabilities of the Group.

It concerns shares in ORLEN Oil and ORLEN Asfalt pledged as a collateral for a loan of Rafineria Trzebinia in the amount of PLN 43,553 thousand as at 31 December 2008 and as at 31 December 2007.

Additionally, cession of receivables from PKN ORLEN SA regarding the rent of crude oil and fuels warehouse in the amount of PLN 3,460 thousand as at 31 December 2008 and PLN 121,824 thousand as at 31 December 2007, is used as a collateral of the investment loan of IKS Solino.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The above-mentioned collaterals concern mostly bank loans of the Group companies and may be taken over by banks in case of lack of payment of principal and interest on due dates. So far, such a situation has not occurred, and there is no risk that it will occur in the near future.

Collaterals of financial or non-financial assets held by the Group

The Group does not hold any collateral of financial or non-financial assets, for which it is permitted to sell or repledge the collateral in the absence of default by the owner of the asset subject to collateral.

d) Hedge accounting

Cash flow hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rate (EUR/PLN for sale and USD/PLN for purchases and sale). The Group hedges cash flows from investment projects against changes in exchange rates (EUR/PLN, USD/PLN, JPY/PLN).

The above-mentioned transactions are accounted for using cash flow hedge accounting. The hedging instruments used are derivatives (forwards and swaps).

Additionally, the Group hedges cash flows from interest payments connected with issuance of bonds denominated in PLN and cash flows from interest payments concerning external financing using interest rate swap (IRS).

The fair value of derivative instruments designated as hedging instruments according to cash flow hedge accounting, planned realization date and planned date of the influence on the result of the hedged cash flow:

- fair value which will be recognized in the income statement at the realization date:

Planned realization date of hedged cash flow	31 December 2008	31 December 2007
Currency operating exposure		
2008	–	74,943
2009	(242,545)	–
Interest rate exposure		
2008–2012	–	3,594
2009–2012	(29,919)	–
Total	**(272,464)**	**78,537**

- fair value which will be included in the cost of property, plant and equipment at the realization date and recognized in the income statement through depreciation charges in the following periods:

Planned realization date of hedged cash flow	31 December 2008	31 December 2007
2009 (currency investment exposure)	105,494	–
2010 and following years (currency investment exposure)	20,816	–
Total	126,310	**–**

In the period covered by the foregoing financial statements there was one case of a forecast transaction for which cash flow hedge accounting had previously been used, but which is no longer expected to occur. Transactions hedging sales of petrochemical products denominated in EUR, for which hedge accounting had previously been used, were not realized due to installation overhaul.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

In 2008 the amount of PLN 62,645 thousand was derecognized from equity and recognized:

- in the income statement in the position such as sales of finished goods – PLN 72,438 thousand, negative foreign exchange differences surplus – PLN (6,557) thousand, interest expense – PLN 48 and financial expenses from the settlement of instruments – PLN (3,131) thousand,
- in the carrying amount of property, plant and equipment – PLN (156) thousand.

As the Group owns contracts concerning both purchase and sale of currency, market changes are significantly compensated in the valuation.

Transactions for which hedge accounting is not applied

For the transactions concluded and settled in the same quarter the Group does not apply hedge accounting. The settlement result is recognized in current period result.

The fair value of transactions hedging cash flows connected with realization of investment projects against changes in exchange rates (USD/PLN, EUR/PLN), for which hedge accounting is not applicable due to separation of embedded derivatives for these contracts, amounts to PLN 111,553 thousand as at 31 December 2008. As at 31 December 2007 there was no case of unapplied hedge accounting for transactions hedging cash flows connected with realization of investment projects against changes in exchange rates.

Net investment hedge in a foreign operation

Starting from the second quarter of 2008 the Group uses net investment hedges in a foreign operation (net investment hedge). Net investment hedge hedges currency risk of the portion of net investment in a foreign operation that uses USD as its functional currency.

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Mažeikių Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN in the amount of PLN 565,770 thousand (net of deferred tax) were recognized in the balance sheet in line "Foreign exchange differences on subsidiaries from consolidation".

e) Fair value of financial instruments

Comparison of the fair value and the carrying amount of financial instruments measured at amortized cost:

	31 December 2008		31 December 2007	
Financial assets	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	19,220	19,415	14,532	18,240
Other	17,794	17,743	11,893	12,773
Total	**37,014**	**37,158**	**26,425**	**31,013**
Financial liabilities				
Liabilities due to debt securities issued	1,197,112	1,205,388	1,502,129	1,508,393
Liabilities due to loans and borrowings	12,814,463	12,687,377	8,780,287	8,813,551
Finance lease liabilities	126,823	134,240	114,862	103,756
Other	853,404	872,869	657,663	718,227
Total	**14,991,802**	**14,899,874**	**11,054,941**	**11,143,927**

The above comparison of the carrying amount and the fair value of financial instruments does not include current receivables and short-term liabilities as well as other classes of financial instruments for which the carrying amount is similar to the fair value.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Methods and assumptions applied in determining fair values of financial instruments recognized in the balance sheet at amortized cost

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as liabilities due to loans and borrowings are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates (according to quotations of 3-month interest rates available in Reuters as at the balance sheet dates) increased by margins proper for particular financial instruments.

	31 December 2008	31 December 2007
WIBOR 3M	5.880%	5.575%
EURIBOR 3M	2.892%	4.540%
LIBOR 3M	1.425%	4.755%
PRIBOR 3M	3.630%	4.160%
VILIBOR 3M	9.890%	6.650%

Methods applied in determining fair values of financial instruments recognized in the balance sheet at fair value

According to International Financial Reporting Standards the Group presents in the financial statements valuation of all derivate instruments at fair value.

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on liquid markets. In comparison to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

Derivative instruments are presented as assets, when it's value is positive and as liabilities, when it's value is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year result.

Fair value of shares quoted on active markets is determined based on market quotations.

First day profit/ loss

As at 31 December 2008 and 31 December 2007 the Group held no financial instruments, whose initial value calculated using valuation techniques would differ from the initial value recognized in books. The only financial instruments with fair values determined using valuation techniques are derivative instruments, for which the difference described above (so called first day profit/ loss) not occur.

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2008 and 31 December 2007 the Group held shares in entities, whose fair value cannot be measured reliably. There are no active markets for these entities and no comparable transactions in the same instruments. Shares were recognized in the balance sheet at purchase price less impairment allowances of PLN 61,032 thousand. As at the balance sheet date there are no binding decisions regarding method and date of the disposal of these assets.

f) Nature and extent of risks arising from financial instruments

The Group is exposed to the following financial risks:

- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk).

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Credit risk

The Group is significantly exposed to credit risk connected above all with trade receivables. Within its trading activity the Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group's receivables for sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types.

The established payment term of receivables connected with the ordinary course of sales amounts to 14–30 days.

Each non-cash customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. In addition, trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

Based on the analysis of receivables the customers were divided into two groups:
- I group – customers with good or very goods history of cooperation with the current year;
- II group – other customers.

The division of not past due receivables based on the criterion described above:

	31 December 2008	31 December 2007
Group I	3,144,952	4,475,692
Group II	966,915	786,166
Total	**4,111,867**	**5,261,858**

The ageing analysis of financial assets past due, but not impaired as at the balance sheet date:

	Current receivables as financial instruments as at 31 December 2008	Loans granted as at 31 December 2008	Current receivables as financial instruments as at 31 December 2007	Loans granted as at 31 December 2007
Up to 1 month	762,429	–	404,638	–
1–3 months	52,866	–	23,246	–
3–6 months	22,241	–	4,684	–
6–12 months	7,290	78	9,341	–
Above 1 year	101,941	78	14,301	45
Total	**946,767**	**156**	**456,210**	**45**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by the Group as low due to the fact that all transactions are concluded with banks having high credit rating. One of the significant factors for bank choice is rating on the level not lower than A.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Maximum credit risk exposure:

	31 December 2008	31 December 2007
Stocks and shares in Companies	62,352	62,690
Current receivables as financial instruments	5,058,634	5,718,068
Loans granted	19,415	18,240
Assets from valuation of classified derivatives	268,305	167,543
Cash and cash equivalents	1,344,224	1,498,232
Other	17,743	12,773
Total	**6,770,673**	**7,477,546**

Due to cooperation of the Group mainly with Polish and international banks having high credit rating, the risk connected with depositing of cash and cash equivalents is significantly limited.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of assets is included in notes describing those assets.

As at 31 December 2008 and 31 December 2007 the Group did not recognize assets obtained as collateral.

Due to changes in payment terms the Group did not recognize impairment loss of receivables as financial instruments in the amount of PLN 32,523 thousand as at 31 December 2008 and PLN 14,376 thousand as at 31 December 2007.

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between short-term liabilities and current assets.

As at 31 December 2008, current assets to short-term liabilities ratio (current ratio) amounted to 0.81 in comparison to 1.56 as at 31 December 2007. The decrease in ratio as compared to the prior year is connected with reclassification of bank loans of PLN 9,475,449 thousand from long-term liabilities to short-term liabilities due to violation of financial covenants contained in bank loan agreements as at 31 December 2008.

Current ratio before the reclassification from long-term liabilities to short-term liabilities amounted to 1.43.

Detailed information regarding loans is included in note 7.16.

As at 31 December 2008 the maximum possible indebtedness due to loans amounted to PLN 16,931,082 thousand, out of which PLN 5,770,166 thousand remained unused. As at 31 December 2007 it was PLN 11,415,274 thousand and PLN 4,309,255 thousand, respectively.

As at the balance sheet date unused credit lines exceed short-term liabilities decreased by current receivables.

In 2006 the Parent Company entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. For the Parent Company the cost of gaining cash is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within domestic and foreign Capital Group.

In order to manage liquidity the Group uses cash pooling system. As at 31 December 2008 the system comprised 25 entities belonging to the Capital Group. As a result of the cash pooling system the Group optimizes its financial expenses.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Maturity analysis for financial liabilities:

31 December 2008	up to 1 year	1–3 years	3–5 years	above 5 years	Total
Bonds issued – undiscounted value	52,262	–	750,000	397,875	**1,200,137**
Loans and borrowings received – undiscounted value	11,698,643	1,197,797	244,901	14,219	**13,155,560**
Short-term liabilities classified as financial instruments	5,352,149	–	–	–	**5,352,149**
Net payments due to derivative instruments – gross settled amounts	279,459	69,364	–	–	**348,823**
Net payments due to derivative instruments – net settled amounts	7,376	–	13,862	–	**21,238**
Other financial liabilities	842,783	24,722	2,650	2,714	**872,869**
Total	**18,232,672**	**1,291,883**	**1,011,413**	**414,808**	**20,950,776**

The amount of PLN 9,475,449 thousand presented in the line "loans and borrowings received – undiscounted value" refers to long-term liabilities reclassified to short-term liabilities due to violation of financial covenants contained in bank loan agreements as at 31 December 2008.

31 December 2007	up to 1 year	1–3 years	3–5 years	above 5 years	Total
Bonds issued – undiscounted value	389,083	62,432	807,930	242,486	**1,501,931**
Loans and borrowings received – undiscounted value	1,819,564	916,948	5,608,885	694,084	**9,039,481**
Short-term liabilities classified as financial instruments	6,585,594	–	–	–	**6,585,594**
Net payments due to derivative instruments – gross settled amounts	22,337	983	–	–	**23,320**
Net payments due to derivative instruments – net settled amounts	692,636	–	–	–	**692,636**
Other financial liabilities					
Total	**9,509,214**	**980,363**	**6,416,815**	**936,570**	**17,842,962**

Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

Market risks management in PKN ORLEN Group is performed by entities exposed to such risks to the highest extent such as: PKN ORLEN, Basell Orlen Polyolefins, ORLEN Asfalt, ANWIL as well as UNIPETRTOL and Mažeikių Refinery.

PKN ORLEN manages market risks resulting from the above mentioned factors using market risk management policy. The applied policy describes methods of management of each of the exposures by defining process of exposure measurement, hedge parameters, hedging instruments, as well as time horizon of hedging. Market risk management is realized by designated organization units under supervision of the Financial Risk Comitee, the Management Board and Supervisory Board of the Company.

Currency risk

The Group is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures and liabilities from loans, borrowings and debt securities issued denominated in foreign currencies. Currency risk exposure is hedged by forward and swap instruments.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

For USD/PLN exchange rate there is partly a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

Sensitivity analysis for currency risk

The influence of potential changes in carrying amount of assets and liabilities (as at 31 December 2008) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

2008				
Influence of financial intruments on financial result				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+15%	(575,829)	–15%	575,829
EUR/PLN	+10%	(582,187)	–10%	582,187
CZK/PLN	+10%	152,575	–10%	(152,575)
JPY/PLN	+20%	(3,771)	–20%	3,771
LTL/PLN	+10%	65,056	–10%	(65,056)
Total		**(944,156)**		**944,156**
Influence of financial intruments on hedging reserve				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+15%	(29,669)	–15%	29,669
EUR/PLN	+10%	(114,619)	–10%	114,619
JPY/PLN	+20%	75,405	–20%	(75,405)
Total		**(68,883)**		**68,883**
Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+15%	66,337	–15%	(66,337)
EUR/PLN	+10%	108,527	–10%	(108,527)
CZK/PLN	+10%	308,781	–10%	(308,781)
JPY/PLN	+20%	1	–20%	(1)
LTL/PLN	+10%	4,136	–10%	(4,136)
Total		**487,782**		**(487,782)**
Total influence of financial intruments on equity				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+15%	(539,161)	–15%	539,161
EUR/PLN	+10%	(588,279)	–10%	588,279
CZK/PLN	+10%	461,356	–10%	(461,356)
JPY/PLN	+20%	71,635	–20%	(71,635)
LTL/PLN	+10%	69,192	–10%	(69,192)
Total		**(525,257)**		**525,257**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2008:

2008				
	Sensitivity of a net investment in a foreign operations			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	987,322	–15%	(987,322)
EUR/PLN	+10%	44,703	–10%	(44,703)
CZK/PLN	+10%	604,430	–10%	(604,430)
Total		**1,636,455**		**(1,636,455)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2008.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2008:

2008				
	Total influence on equity			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	381,824	–15%	(381,824)
EUR/PLN	+10%	(652,103)	–10%	652,103
CZK/PLN	+10%	757,005	–10%	(757,005)
JPY/PLN	+20%	71,634	–20%	(71,634)
LTL/PLN	+10%	65,056	–10%	(65,056)
Total		**623,416**		**(623,416)**

The influence of potential changes in carrying amount of assets and liabilities (as at 31 December 2007) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

2007				
	Influence of financial instruments on financial result			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4.2%	(108,365)	–4.2%	108,365
EUR/PLN	+3.6%	(210,617)	–3.6%	210,617
CZK/PLN	+3.6%	(10,216)	–3.6%	10,216
Total		**(329,198)**		**329,198**
	Influence of financial intruments on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4.2%	13,079	–4.2%	(13,079)
EUR/PLN	+3.6%	44,576	–3.6%	(44,576)
Total		**57,655**		**(57,655)**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

2007				
Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+4.2%	(87,747)	–4.2%	87,747
EUR/PLN	+3.6%	(7,841)	–3.6%	7,841
CZK/PLN	+3.6%	18,051	–3.6%	(18,051)
LTL/PLN	+3.6%	(1,511)	–3.6%	1,511
Total		**(79,048)**		**79,048**
Total influence of financial intruments on equity				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+4.2%	(183,033)	–4.2%	183,033
EUR/PLN	+3.6%	(173,882)	–3.6%	173,882
CZK/PLN	+3.6%	7,835	–3.6%	(7,835)
LTL/PLN	+3.6%	(1,511)	–3.6%	1,511
Total		**(350,591)**		**350,591**

Influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2007:

2007				
Sensitivity of a net investment in a foreign operation				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+4.2%	253,629	–4.2%	(253,629)
EUR/PLN	+3.6%	12,797	–3.6%	(12,797)
CZK/PLN	+3.6%	207,323	–3.6%	(207,323)
Total		**473,749**		**(473,749)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign subsidiaries on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2007.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2007:

2007				
Total influence on equity				
	Increase of exchange rate	**Total influence**	**Decrease of exchange rate**	**Total influence**
USD/PLN	+4.2%	158,343	–4.2%	(158,343)
EUR/PLN	+3.6%	(153,244)	–3.6%	153,244
CZK/PLN	+3.6%	197,107	–3.6%	(197,107)
Total		**202,206**		**(202,206)**

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increase or decrease in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates.

For other currencies the sensitivity of financial instruments is not material from the Group's point of view.

Interest rate risk

The Group is exposed to risk of volatility of cash flows due to interest rates resulting from granted borrowings, owned bank deposits as well as liabilities from loans and borrowings based on floating interest rates. The Group owns derivative transactions hedging part of risk of cash flows due to interest rates (such as interest rate swaps IRS), for which cash flows hedge accounting is applied.

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax and hedging reserve due to significant interest rate changes:

Interest rate	Assumed variation 2008	Assumed variation 2007	Influence on financial result		Influence on hedging reserve		Influence on equity	
			31.12.2008	31.12.007	31.12.2008	31.12.007	31.12.2008	31.12.007
WIBOR	+100	+50	(16,723)	(12,353)	10,271	356	(6,452)	(17,063)
LIBOR	+25	+50	(10,700)	(68)	–	–	(10,700)	(68)
EURIBOR	+150	+25	(94,999)	(37,024)	(9,473)	(842)	(104,472)	(37,866)
PRIBOR	+100	+25	10,870	(277)	–	–	10,870	(277)
VILIBOR	+100	+75	(237)	–	–	–	(237)	–
			(111,789)	**(49,722)**	**798**	**(486)**	**(110,991)**	**(55,274)**
WIBOR	–100	–50	16,723	12,353	(10,589)	(356)	6,134	17,063
LIBOR	–25	–50	10,700	68	–	–	10,700	68
EURIBOR	–150	–25	94,999	37,024	9,990	849	104,989	37,873
PRIBOR	–100	–25	(10,870)	277	–	–	(10,870)	277
VILIBOR	–100	–75	237	–	–	–	237	–
Total			**111,789**	**49,722**	**(599)**	**493**	**111,190**	**55,281**

Variations of interest rates described above were calculated based on volatility of interest rates as at 31 December 2008 in comparison to 31 December 2007.

The above interest rates variations were calculated on the basis of interest rates variations in the period

The Group does not own financial instruments with fixed interest rates, measured at fair value in the balance sheet. The Group measures derivative instruments at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2008 and 31 December 2007. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the balance sheet items sensitive to interest rates (excluding derivative instruments) multiplied by adequate variation of interest rate. In case of derivative instruments, the influence of interest rate variations on fair value was examined at constant level of currency rates.

Risk of changes in commodity prices

The Group is exposed to changes in commodity prices due to:

- expenditures concerning purchases of crude oil for processing, which depend on the volume of processing, the level of inventory as well as the level of crude oil price on the global market and differential;
- revenues from sales of refinery and petrochemical products, which depend on the volume of sales, the level of prices on the global market.

As at 31 December 2008 and 31 December 2007 there were no financial instruments hedging the risk of changes in commodity prices.

Risk of CO_2 emission rights prices

On the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers PKN ORLEN was granted CO_2 emission rights.

For the period of 2008–2012 the Group performed verification of the number rights granted to the Group companies as well as defined methods of their systematic balancing depending on declared shortages/surpluses in the way of intercompany transactions, or depending on the situation, on the market of term and spot transactions.

As at 31 December 2008 the Group possessed financial instruments in the amount of PLN 23,359 thousand, whose valuation depends on changes in prices for $CO_{2.}$ emission rights. As at 31 December 2007 the Group did not possess instruments vulnerable to changes in prices for $CO_{2.}$ emission rights.

10. Revenues from sale, net

Revenues from sales of finished goods, net in the amount of PLN 61,919,541 thousand in 2008 and PLN 45,480,333 thousand in 2007 included revenues from sale of services in the amount of PLN 1,350,275 thousand in 2008 and PLN 1,172,322 thousand in 2007.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

11. Cost by kind

	for the year ended 31 December 2008	for the year ended 31 December 2007
Materials and energy	(52,235,467)	(36,604,832)
Cost of merchandise and materials sold	(17,313,474)	(16,867,030)
External services	(3,944,060)	(3,571,369)
Payroll, social security and other employee benefits	(1,945,989)	(1,880,771)
Depreciation	(2,491,383)	(2,431,423)
Taxes and charges	(439,153)	(348,871)
Other	(3,474,950)	(1,067,406)
Total	**(81,844,476)**	**(62,771,702)**
Change in inventory, prepayments and accruals	106,542	(1,041,221)
Cost of products and services for own use	(64,561)	(71,377)
Operating expenses	**(81,886,457)**	**(61,659,104)**
Distribution expenses	(3,325,701)	(3,175,974)
General and administrative expenses	(1,462,477)	(1,637,370)
Other operating expenses	(3,098,957)	(719,839)
Cost of finished goods, merchandise and raw materials sold	**(73,999,322)**	**(56,125,921)**

External services Include research expenditure of PLN 20,394 thousand in 2008 and PLN 17,340 thousand in 2007.

12. Other operating revenues and expenses

Other operating revenues

	for the year ended 31 December 2008	for the year ended 31 December 2007
Profit on sale of non-financial non-current assets	90,368	40,629
Reversal of provisions	125,562	118,516
Reversal of receivable impairment allowances	149,027	127,972
Reversal of impairment allowances of property, plant and equipment and intangible assets	136,833	88,861
Proceeds from perpetual usufruct of land	5,629	385
Penalties and compensations earned	142,174	6,804
Inventory count surpluses	12,458	7,303
Due to compensations conected with damage liquidation	8,026	8,476
Grants	7,004	–
Other	70,849	71,057
Total	**747,930**	**470,003**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Other operating expenses

	for the year ended 31 December 2008	for the year ended 31 December 2007
Loss on sale of non-financial non-current assets	(49,655)	(55,543)
Creation of provisions	(196,745)	(115,058)
Receivables impairment allowances	(137,455)	(107,662)
Impairment allowances of property, plant and equipment and intangible assets	(2,512,935)	(159,093)
Donations	(8,567)	(9,794)
Nonculpable shortages in current assets	(21,796)	(13,857)
Prescribed receivables	(68,500)	(43,574)
Fair value measurement of Kaucuk	–	(120,901)
Costs and losses on removal of damages	(20,369)	(17,332)
Value of the investments provided free of charge	(7,182)	(6,263)
Costs and losses on management of raw materials and merchandise	(5,379)	(4,660)
Other	(70,374)	(66,102)
Total	**(3,098,957)**	**(719,839)**

13. Net financial revenues and expenses

Financial revenues

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest received	127,630	120,531
Positive foreign exchange surplus	139,837	903,424
Dividends	6,174	9,629
Profit from sale of shares and other securities	934	3,179
Decrease in receivables impairment allowances	11,507	11,150
Settlement and valuation of financial instruments	359,083	110,534
Other	57,635	31,601
Total	**702,800**	**1,190,048**

Financial expenses

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest paid	(541,765)	(503,088)
Negative foreign exchange surplus	(1,240,529)	(63,106)
Loss on sale of shares and other securities	(1,104)	(9,416)
Investment impairment allowances	–	(333,084)
Increase in receivables impairment allowances	(14,837)	(23,042)
Settlement and valuation of financial instruments	(451,927)	(65,645)
Other	(31,252)	(52,865)
Total	**(2,281,414)**	**(1,050,246)**

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Net gains/losses due to financial instruments recognized in financial revenues and expenses by categories

	for the year ended 31 December 2008	for the year ended 31 December 2007
Financial assets and liabilities at fair value through profit or loss (held for trading)	(65,708)	35,730
Financial assets available for sale (recognized in the income statement)	31,317	(337,951)
Financial assets held to maturity	22,467	15,351
Loans (granted)	18,501	3,935
Financial liabilities measured at amortized cost	(1,339,858)	(20,923)
Current receivables	358,957	(83,599)
Short-term liabilities	(631,892)	492,578
Cash and cash equivalents	56,043	9,792
Ineffective portion recognized in the income statement during the period	(25,395)	340
Other	(3,046)	24,549
Total	**(1,578,614)**	**139,802**

Financial expenses due to impairment of financial assets by classes of financial instruments

	for the year ended 31 December 2008	for the year ended 31 December 2007
Impairment of shares in Companies	–	(338,059)
Impairment of interest on receivables (as financial instruments)	(14,837)	(12,651)
Total	**(14,837)**	**(350,710)**

14. Income tax expense

	for the year ended 31 December 2008	for the year ended 31 December 2007
Current tax	(290,650)	(705,610)
Deferred tax	679,427	174,971
Total	**388,777**	**(530,639)**

Deferred tax as at 31 December 2008 include the amount of PLN (150,941) thousand concerning changes in a tax rate used in Lithuania from 15% to 20%. In comparable data, in the same position the amount of PLN 90,041 thousand concerning changes of tax rates in the Czech Republic is included.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

The difference between income tax expense recognized in the income statement and the amount calculated based on profit before tax results from the following items:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Profit before tax	**(2,915,403)**	**3,011,065**
Corporate income tax for 2008 and 2007 by the valid tax rate (19% in Poland)	553,927	(572,103)
Difference between Polish and German (24%) tax rates	(2,667)	(6,895)
Difference between Polish and Czech (20%) tax rates	1,139	(3,126)
Difference between Polish and Lithuanian (15%) tax rates	368	28,610
Revaluation of investments available for sale	–	(80,711)
Tax loss	(19,386)	–
Business risk provision	(23,081)	–
Impairment allowances concerning receivables indispute	(11,383)	–
Impairment of goodwill	–	(1,005)
Fair value measurement of KAUCUK a.s.	–	(23,442)
Valuation of entities accounted for under the equity method	50,638	50,802
Penalties and compensations received and paid	(27,646)	(1,593)
Revaluation of deferred tax due to change of tax rates	(150,941)	90,041
Other	17,809	(11,217)
Income tax expense	**388,777**	**(530,639)**
Effective tax rate	**13%**	**18%**

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell Orlen Polyolefins Sp. z o.o Capital Group which is a tax Capital Group comprising Basell Orlen Polyolefins Sp. z o.o. and Basell Orlen Polyolefins Sprzedaż Sp. z o.o.

Regards the fact, that the Group's companies are separate taxpayers, deferred tax assets and deferred tax liabilities must be recalculated individually in particular companies. As a result, consolidated balance sheet presents deferred tax assets in the amount of PLN 485,362 thousand as at 31 December 2008 and PLN 233,219 thousand as at 31 December 2007 as well as deferred tax liabilities amounting to PLN 1,134,686 thousand as at 31 December 2008 and PLN 1,548,835 thousand as at 31 December 2007.

In 2008 there was an increase in equity as an effect of deferred tax recognized in hedging reserve in the amount of PLN 45,984 thousand. In 2007 there was a decrease in equity of PLN (17,590) thousand in this respect.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Net deferred tax liability as at 31 December 2008 and 31 December 2007 comprised the following items:

	31 December 2008	31 December 2007
Deferred tax assets:		
Land reclamation provision	68,399	75,293
Difference between carrying amount and tax base of property, plant and equipment	111,002	94,918
Receivables impairment allowances	25,780	16,285
Cost of jubilee bonuses, retirement benefits and unused holidays	64,423	54,199
Expenses for loyalty program prizes	13,726	14,299
Impairment of property, plant and equipment and intangible assets	514,211	28,644
Financial instruments	16,693	–
Valuation of impairment of non-current financial assets	5,208	1,519
Inventory impairment allowance	112,648	16,426
Cost of liquidation of property, plant, equipment and intangible assets	–	7,546
Other provisions	43,007	46,870
Unrealized negative foreign exchange differences	233,785	(7,577)
Bonds valuation	1,833	16,256
Subvension receivables	2,660	–
Other expenses concerning wages and salaries	27,902	17,182
Accrued expenses	6,656	50,771
Tax loss	220,708	–
Other	31,555	38,373
Total deferred tax assets	**1,500,196**	**471,004**
Deferred tax liabilities:		
Investment relief	82,064	167,367
Difference between carrying amount and tax base of property, plant and equipment	1,982,632	1,519,709
Difference in contribution in kind	48,197	44,639
Finance lease treated as operating for tax purposes	30,433	21,412
Valuation of financial instruments	–	29,587
Other	6,194	3,906
Total deferred tax liabilities	**2,149,520**	**1,786,620**
Deferred tax liability, net (Deferred tax liabilities – deferred tax assets)	**649,324**	**1,315,616**

As at 31 December 2008 the Group possessed unused losses in the amount of PLN 102,031 thousand, for which no deferred tax asset was recognized in the balance sheet.

15. Leases

a) The Capital Group as a lessee

Operating lease

As at 31 December 2008 and 31 December 2007 the Group did not posses non-cancellable operating lease agreements as a lessee. Operating lease agreements (tenancy, rent) regard mainly the lease of tanks, petrol stations, means of transportation and computer equipment. The lease contracts do not contain any clauses concerning conditional

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

liabilities from lease fees. In concluded lease agreements, the general conditions of operating lease are effective, there are no particular restrictions nor additional terms of contract. In the most cases there is the possibility to prolong the agreement. The lease payments, resulting mainly from tenancy and rent agreements, recognized as cost amounted to PLN 203,531 thousand in 2008 and PLN 238,388 thousand in 2007.

Finance lease

As at 31 December 2008, The Group possess the finance lease agreements as a lessee. The finance lease agreements relate mainly to buildings, machinery and equipment as well as means of transportation.

In concluded lease agreements, the general conditions of finance lease are effective, there are no particular restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning conditional liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

Future minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Up to 1 year	64,789	34,971
Between 1 and 5 years	55,515	59,888
Above 5 years	21,968	18,225
Total minimum lease payments	**142,272**	**113,084**

Present value of future minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 was as follows:

	31 December 2008	31 December 2007
Up to 1 year	52,636	29,087
Between 1 and 5 years	50,631	49,406
Above 5 years	15,418	12,874
Total present value of minimum lease payments	**118,685**	**91,367**

The difference between total amount of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.

As at 31 December 2008 and 31 December 2007 the net carrying amount for each class of assets was as follows:

	31 December 2008	31 December 2007
Intangible assets	**1,267**	**4**
Computer software	1,267	4

	31 December 2008	31 December 2007
Property, plant and equipment	**185,244**	**182,903**
Buildings, premises as well as land and water engineering objects	16,763	15,551
Machinery and equipment	55,405	54,932
Vehicles	83,896	112,218
Other property, plant and equipment	29,180	202

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

b) The Group as a lessor

Operating lease

As at 31 December 2008 and 31 December 2007 the Group did not posses non-cancellable operating lease agreements as a lessor. Operating lease agreements possessed by the Group regard the lease of machinery, equipment, buildings and land. Most of the agreements were concluded for an indefinite period.

Finance lease

As at 31 December 2008 the Group as a lessor possessed the finance lease agreements regarding the lease of distributors. The agreements were concluded for a definite period.

Gross investments in the lease due as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Up to 1 year	17	29
Between 1 and 5 years	–	17
Total gross investments in the lease	**17**	**46**

Present value of minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 was as follows:

	31 December 2008	31 December 2007
Up to 1 year	17	26
Between 1 and 5 years	–	16
Total present value of minimum lease payments	**17**	**42**

As at 31 December 2008 unearned finance income amounted to nil. As at 31 December 2007 unearned finance income amounted to PLN 4 thousand.

As at 31 December 2008 the Group companies did not recognized in the income statement contingent rents nor allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the Group.

Disclosures resulting from IFRS 7 regarding the finance lease are included in note 9 and are presented together with other financial instruments.

16. Investment expenditures incurred and planned and commitments resulting from signed investment contracts

Investment expenditures in 2008 accounted for PLN 3,962,928 thousand, including PLN 515,062 thousand of environmental protection related investments. As at 31 December 2008 future liabilities resulting from contracts signed until this date amounted to PLN 1,969,908 thousand.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

17. Related party transactions

a) Information on material transactions concluded by the Group Companies with related parties on other than market terms

During 12 months of 2008 there were no material related transactions in the Group concluded on other than market terms.

b) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

In 2008 the supervising persons of the Company and of the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	410,911	602,876	14,890	32,266
Natural persons	–	–	–	–

c) Transactions with related parties concluded through the managing persons of the Company and of the Capital Group companies

In 2008 Members of the Management Board of the Parent Company and the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	–	–	–	–
Natural persons	50	25	–	–

d) Transactions with related parties concluded through the key management personnel of the Capital Group companies

In 2008 members of the key executive personnel of the Parent Company and the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	–	–	–	–
Natural persons	42	3	–	–

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

e) Transactions of the Parent Company with related parties in the period from 1 January to 31 December 2008 and the balance of settlements as at 31 December 2008

PKN ORLEN Capital Group

	Consolidated subsidiaries[1)]	Consolidated associates[2)]	Consolidated jointly controlled entities[3)]	Non-consolidated subsidiaries[1)]	Non-consolidated associates[2)]	Total related parties
Sale	27,545,498	17,812	2,294,044	4,506	–	29,861,860
Purchases	3,223,907	124,357	21,008	85,560	–	3,454,832
Financial revenues from interest	5,027	6	23	108	–	5,164
Financial expenses from interest	10,612	–	–	–	–	10,612
Current receivables (net)	1,228,182	2,094	512,010	478	–	1,742,764
Short-term liabilities	305,394	14,421	3,001	18,429	–	341,245
Non-current receivables	14,721	–	–	–	–	14,721
Long-term liabilities	25,431	–	–	–	–	25,431

1) The Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members.
2) The Parent Company exercises significant influence on the entity's supervisory bodies via its representatives.
3) The Parent Company exercise a joint control over the entities under the deed of association.

As at 31 December 2008 current receivables allowances for consolidated subsidiaries amounted to PLN 20,936 thousand and for non-consolidated subsidiaries to PLN 195 thousand.

The above transactions with related parties include sale and purchase of refinery and petrochemical products, crude oil and purchases of repair, transportation and other services.

18. Contingent liabilities and risks

Contingent liabilities of PKN ORLEN Group in 12- month period ended 31 December 2008

	31 December 2007	Increase/ Decrease	31 December 2008
Legal cases related to real estates with undefined legal status	34,903	(34,597)	306
Anti trust proceeding of the Office for Competition and Consumer's Protection	18,500	–	18,500
Legal cases	53,338	(35,942)	17,396
Total contingent liabilities	**106,741**	**(70,539)**	**36,202**

a) Risk of losing relieves

Investment relief

In accordance with tax regulations, in force in previous years, the Parent Company reduced the taxable income for the purposes of corporate income tax by 50% of the investment relief deducted in 2003 (investment premium) in the amount of PLN 6,923 thousand.

The accompanying notes are an integral part of these consolidated financial statements

Despite the fact that the investment premiums are of contingent nature, the Parent Company does not identify a risk that its right to the deductions might be denied by the tax authorities. The Company does not also identify a risk of losing the right to premiums and premiums due to breach of conditions which in effect oblige to return the amounts deducted.

In Lithuania, investment relief is regulated by tax law and individual agreements signed between the Company and the government of Lithuania. In accordance with the law, part of profit designated for investment is taxed with 0% rate. The State Tax Inspection is authorized to collect tax related to unused tax relief, which was improperly calculated and not fully paid within the 5 years period.

As at the date of preparation of these financial statements, Mažeikių Group companies have utilized PLN 26,087 thousand of investment relieves.

Other tax relieves

In the years 2001–2005 Mažeikių Group used other tax relieves. As at the date of preparation of these financial statements the amount of tax relieves used by Mažeikių Group amounted to PLN 109,399 thousand. The expiry date of potential returns of these relieves has not passed yet, however according to assessment of the Mažeikių Group the risk of return is low.

b) Tax proceedings in Rafineria Trzebinia SA

As at the balance sheet date of 31 December 2008 the following proceedings and tax controls are pending in Rafineria Trzebinia SA:

- **Tax proceedings in respect of determination of excise tax liability for the period May–September 2004**

As a result of the Customs Office proceedings, the excise tax liability for the period May-September 2004 was set at PLN 100 million. The Management Board of the Company filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków ("Director of the CC") kept the first instance authority's decisions in force. In February 2006, as a result of the motion of Rafineria Trzebinia, the Director of the CC suspended execution of the complained decisions until the case is decided by the Woivodship Administrative Court in Kraków ("WAC").

In its sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia and dismissed the decisions of the Director of the CC. On 16 January 2009 the Director of the CC submitted an annulment to the Supreme Administrative Court in Warsaw.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and the period January–April 2004**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. Additionally, in May 2006, tax control proceedings relating to the period January–April 2004 were instituted.

On 5 December 2007 the Director of the Tax Control Office in Kraków issued a result of tax control proceedings in respect of excise tax for 2002, acknowledging settlements prepared by Rafineria Trzebinia as correct.

In July 2008 Rafineria Trzebinia received a protocol prepared by the TCO concerning audit of the Company's accounting books for the tax year 2003 determining potential additional excise tax liability in the amount of PLN 73,408 thousand and protocol from audit of the accounting books for the period January–April 2004 determining potential additional excise tax liability in the amount of PLN 126,150 thousand. The company raised reservations and additional explanations to these protocols.

On 27 November 2008 a result of the fiscal control proceedings was issued in respect of reliability of declaration of tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the adequate result was issued for the period January–April 2004.

In the issued results it was decided, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand.

Rafineria Trzebinia SA appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia SA and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia SA raised a complaint to the Woivodship Administrative Court in Krakow against the above mentioned decision of the Director of the Customs Chamber in Kraków in respect of faulty formulation of legal justification.

- Tax proceedings in respect of determination of value added tax amount for the period January–August 2005

In October 2006 the Head of the Tax Office for Małopolska ("TOM") instituted tax control proceedings in respect of determination of value added tax liability for the period January, February and April – August 2005. Additionally, in February 2007 the Head of the TOM in Kraków instituted tax control proceedings relating to March 2005.

On 12 January 2009 the Head of the TOM in Kraków issued a decision in respect of cancellation of tax proceedings regarding value added tax liability for the above mentioned period.

The amounts included in this note relate to the principal tax liabilities. As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as potential impact of the proceedings extended to other periods are not known yet.

The Management Board, based on its opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings mentioned above will be favorable for Rafineria Trzebinia SA As a result, no provision for potential liabilities has been created in these consolidated financial statements for 2008.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 431,659 thousand as at 31 December 2008. The share of PKN ORLEN in total voting rights at the General Shareholders' Meeting of Rafineria Trzebinia amounts to 77.15%.

c) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia SA

In March 2006 the Chairman of the Energy Regulatory Office officially instituted proceedings in respect of imposing a fine in connection with violating of concession terms regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of the European Union directives while on the one hand effective 1 May 2004 Poland became a member of the European Union whereas on the other hand no regulations of the Minister of Economy in respect of quality requirements for biofuels were available.

In September 2006 the Chairman of the ERO imposed a fine of PLN 1 million to Rafineria Trzebinia. The decision of the Chairman of the ERO was repealed in April 2007 by the sentence of the Court of Competition and Consumers Protection in Warsaw ("CCCP"). In November 2007 the Court of Appeals in Warsaw dismissed the appeal of the Chairman of the ERO and sentenced the reimbursement of court proceedings costs in favor of Rafineria Trzebinia. The sentence is legally binding.

In March 2008 the representative of the Chairman of the ERO submitted an annulment, which on 4 September 2008 was accepted for recognition by the Supreme Court. In its sentence dated 5 November 2008 the Supreme Court repealed the sentence of the Court of Appeals in Warsaw and revoked it to reexamination by this Court. In the assessment of the Supreme Court it is necessary to carry out evidence proceedings in respect of quality norms specific for biofuels produced in the contentious period. At the same time the Supreme Court stated that concession possessed by Rafineria Trzebinia SA entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning necessity of evidence proceedings, repealed the sentence of District Court, CCCP and revoked the case to its reexamination.

d) Power transfer fee in settlements with ENERGA-OPERATOR SA (legal successor of Zakład Energetyczny Płock SA)

As at the date of preparation of these financial statements PKN ORLEN participates in two court proceedings concerning settlement of system fee with ENERGA Operator SA The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the paragraph 36 of the above regulation, the method of settlement of system fee, constituting an element of a power transfer fee, was changed. According to the paragraph 37 of the above regulation, a different method of system fee calculation was introduced.

- Court proceedings in which PKN ORLEN acts as a defendant

The subject of the court proceedings concerns settlement of the contentious system fees for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA-Operator and PKN ORLEN which was signed without determining contentious issues concerning system fees. The case was regarded as a civil case so contentious system fees should be judged by an appropriate Court.

In 2003 ENERGA-OPERATOR SA called on PKN ORLEN to compromise agreement and then filed a lawsuit against PKN ORLEN. In 2004, the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA-OPERATOR in the amount of PLN 46,232 thousand. In its objection to the precept, PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA-Operator SA entirely as well as sentenced the reimbursement of Court proceeding costs of PLN 31 thousand in favor of PKN ORLEN. In September 2008 ENERGA-Operator SA appealed against the above sentence. PKN ORLEN responded to the appeal. In April 2009 the Court of Appeals obliged the defendant to submit additional documents. The date of the next Court seating has not been set.

The foregoing financial statements include a provision to cover potential negative outcomes connected with these proceedings.

- Court proceedings in which PKN ORLEN acts as an outside intervener

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator SA (legal successor of PGE Polska Grupa Energetyczna SA, former Polskie Sieci Elektroenergetyczne) against ENERGA-Operator SA.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA-Operator SA is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA-Operator SA appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009, the Court of Appeals declined the appeal of Energa-Operator SA against the verdict of the first instance Court that sentenced the specified amount. The verdict in this case is already legally binding, but ENERGA-Operator SA still has the possibility to submit an annulment to the Supreme Court.

Eventual court ruling will not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

e) Anti-trust proceedings

As at the date of preparation of these financial statements, the Group is a party in the following anti-trust proceedings:

- Proceedings instituted in March 2005 in connection with an allegation that PKN ORLEN concluded an agreement with Lotos SA Group, which limited competition on the domestic market of trading in universal petrol U95. In December 2007, the Chairman of OCCP penalized PKN ORLEN and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN amounted to PLN 4,500 thousand. PKN ORLEN appealed to the Court of Competition and Consumer Protection against that decision. The date of a court seating has not been set yet.
- Proceedings instituted in March 2005 in connection with an allegation that in the years 2000–2004 PKN ORLEN was using practice-limiting competition on the domestic market of trading in glycol by setting prices for "Petrygo" liquid to radiators, which were inadequate compared to increase in price of glycol. In December 2006 the Chairman of OCCP imposed a fine on PKN ORLEN in the amount of PLN 14,000 thousand. PKN ORLEN appealed against this decision. According to independent legal opinions, there is low probability that the Company is charged with a fine. However due to the status of proceedings these financial statements include the respective contingent liability. The proceedings in front of the OCCP in Warsaw are pending.
- Proceedings instituted in July 2008 in connection with an allegation that PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp. j. were using practice limiting competition on the domestic market of trading in engine liquid fuels. PKN ORLEN responded to allegations raised by the Chairman of the OCCP and filed a motion to issue a decision establishing a liability based on par. 12 of a competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine.

f) Risk connected with the disposal of a portion of assets and liabilities related to purchase of Unipetrol a.s. shares

In 2003–2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the UNIPETROL Group companies.

In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.

Agrofert Holding a.s. agreed that PKN ORLEN disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

As at the date of preparation of these financial statements the following proceedings instituted by Agrofert Holding a.s. against PKN ORLEN are in progress in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague:

- Arbitration proceedings initiated in January 2006 in which Agrofert Holding a.s. claims from PKN ORLEN the payment of a contractual penalty of EUR 77,266,500 with interest.
- Arbitration proceedings initiated in May 2006 in which Agrofert Holding a.s., similarly to the first proceedings, claims the payment of a contractual penalty of EUR 77,266,500 with interest.
- Arbitration proceedings initiated in July 2006 with a law suit in which Agrofert Holding a.s. claims the payment of a contractual penalty of CZK 409,102,494 (approximately EUR 14 million) with interest.
- Arbitration proceedings initiated in December 2006 with a law suit in which Agrofert Holding a.s. claims the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s. The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interest.

On 2 September 2008 PKN ORLEN and ConocoPhilips Central and Eastern Europe Holdings B.V. concluded an agreement. Arbitration proceedings in London were finished.

The accompanying notes are an integral part of these consolidated financial statements

The foregoing financial statements include the provision to cover the potential negative effects related to outcomes of the above mentioned arbitration proceedings.

g) Claims and court proceedings – Tankpol Sp. z o.o.

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy sp.j.) against PKN ORLEN. The claim concerns the return of 253 out of 470 shares in ORLEN PetroTank Sp. z o.o. that were transferred by Tankpol to PKN ORLEN as a security, based on the agreement dated 20 December 2002. The Court of Appeals in Warsaw pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy sp.j. As a result of an annulment submitted by Tankpol R. Mosio i Wspólnicy sp.j. the case was revoked to reexamination in front of the District Court in Warsaw. Equity attributable to one share amounts to PLN 53 thousand.

h) Claims related to the penalty imposed by the European Commission on UNIPETROL a.s.

In November 2006, the European Commission imposed fines on Shell, Dow, Eni, Unipetrol and Kaucuk for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s., its subsidiary at that time, were jointly imposed a fine of EUR 17.5 million. Unipetrol a.s. and Kaucuk a.s. paid the fine to the European Commission. At the same time, both entities appealed to the First Instance Court in Luxembourg. The court proceedings are currently in progress.

Following the above decision of the European Commission, Unipetrol a.s. received a claim for damages, which tire producers brought against all members of the ESBR cartel to the Supreme Court of England and Wales. The claimants request a compensation for damages, together with interest, relating to losses suffered because of an alleged cartel. The amount claimed is still to be assessed. Unipetrol a.s. challenged the jurisdiction of the British Courts to deal with the claim. The challenge of Unipetrol a.s. is pending.

At the same time, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings in front of a Court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred to tire producers as a result thereof. Eni’s action has been presented to Unipetrol a.s., which decided to be a party of the proceedings.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

19. Remuneration, together with profit-sharing paid and due or potentially due to the Management Board, Supervisory Board and members of key executive personnel in accordance with IAS 24

The Management Board, the Supervisory Board and the key executive personnel remuneration includes short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

a) Remuneration of the Management Board, the Supervisory Board and the key executive personnel of the Company in 2008

	2008
Remuneration of the Management Board Members of the Company	22,777
including: remuneration paid and due to the Management Board Members performing the function in 2008	21,661
remuneration paid to the Management Board Members performing the function in the previous years	1,116
Remuneration of the Supervisory Board Members of the Company	1,094
Remuneration of the key executive personnel of the Company	41,697
Remuneration of the key executive personnel of the subsidiaries belonging to the Capital Group	114,193

Remuneration paid in 2008 and due or potentially due to the Management Board Members of the Company performing the function in 2008 and in the previous years

	salaries and other benefits including paid and due bonuses	redundancy payments and compensations for non-competition clause	Total
Performing the function in 2008			
Cezary Filipowicz	1,016	420	1,436
Dariusz Formela	730	420	1,150
Wojciech Heydel	2,843	2,880	5,723
Sławomir Jędrzejczyk	1,288	–	1,288
Wojciech Kotlarek	863	–	863
Piotr Kownacki	1,842	1,440	3,282
Dariusz Krawiec	1,437	–	1,437
Waldemar Maj	964	1,080	2,044
Krystian Pater	1,775	–	1,775
Marek Serafin	1,151	–	1,151
Krzysztof Szwedowski	1,092	420	1,512
Total	**15,001**	**6,660**	**21,661**
Performing the function in the previous years			
Igor Chalupec	37	140	177
Jan Maciejewicz	127	–	127
Cezary Smorszczewski	155	220	375
Paweł Szymański	347	90	437
Total	**666**	**450**	**1,116**

Salaries and other benefits paid and due in 2008 include remuneration paid, other benefits such as insurance policies, medical care services, bonuses for 2007 paid in 2008 and estimated potentially due bonuses for 2008, which will be paid out in 2009.

Redundancy payments and compensations for non-competition clause concerning the previous Members of the Management Board were included in the costs and paid out in 2008, except for compensations for non-competition clause concerning Wojciech Heydel of PLN 960 thousand and Piotr Kownacki of PLN 600 thousand which will be included in the costs and paid out in 2009.

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

In 2005 new incentive system for key executive personnel of PKN ORLEN and the Capital Group was introduced – Management by Objectives (MBO). New incentive system concerns the Management Board and the key executive personnel. Individuals participating in MBO are rewarded for individual goals realization and solidarity goal, 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 incentive system regulation, after the end of a year to which they relate.

The value of bonus granted depends also on the solidarity objective. When planned level of solidarity objective is realized, everybody receives bonus in full calculated amount. When the solidarity objective is not realized, all employees are granted half of worked out bonus. Introduced system encourages employees to cooperation in order to achieve the best results at the level of the Concern.

Remuneration regarding non-competition clause and dissolution of the contract because of dismission from the position held

Agreements concluded between the 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 amount of six or twelve monthly basic remuneration, paid in equal monthly installments.

Furthermore, contracts include remuneration payments in case ration of dissolution of the contract because of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

Remuneration of the Management Board and Supervisory Board Members of the Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled entities or associates for the year 2008

Management Board Members of PKN ORLEN, acting in 2008 as Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where remuneration paid was transferred to ORLEN Dar Serca foundation. The Management Board Members of PKN ORLEN acted in 2008 in the Management Board of Mažeikių.

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Remuneration of the Supervisory Board Members of the Company	2008
Grzegorz Borowiec	110
Robert Czapla	13
Marek Drac-Tatoń	13
Raimondo Eggink	56
Marek Karabuła	110
Krzysztof Kołach	110
Zbigniew Macioszek	13
Maciej Mataczyński	142
Grzegorz Michniewicz	70
Agata Mikołajczyk	13
Krzysztof Rajczewski	13
Jarosław Rocławski	67
Angelina Sarota	68
Ryszard Stefański	43
Małgorzata Ślepowrońska	16
Piotr Wielowieyski	110
Janusz Zieliński	123
Total	**1,090**
Remuneration of the Supervisory Board Members in subsidiaries	
Małgorzata Ślepowrońska	4
Total remuneration of the Supervisory Board Members	**1,094**

The Chairman of the Supervisory Board of PKN ORLEN performing this function since 7 February 2008, acted simultaneously as Supervisory Board Member of Petrolot Sp. z o.o. as the representative of PLL LOT SA (second shareholder of that company) and for the period from 1 January to 7 February 2008 received the remuneration in the amount of PLN 4 thousand. Other Supervisory Board Members of PKN ORLEN did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group in 2008.

b) Remuneration of the Management Board, the Supervisory Board Members and the key executive personnel of the Company in 2007

	2007
Remuneration of the Management Board Members of the Company	27,207
including: remuneration paid and due to the Management Board Members performing the function in 2007	24,985
remuneration paid and potentially due to the Management Board Members performing the function in the previous years	2,222
Remuneration of the Supervisory Board Members of the Company	1,031
Remuneration of the key executive personnel of the Company	41,136
Remuneration of the key executive personnel of the subsidiaries belonging to the Capital Group	116,073

The accompanying notes are an integral part of these consolidated financial statements

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Remuneration paid in 2007 and due or potentially due to the Management Board Members performing the function in 2007 and the previous years

	salaries and other benefits including paid and due bonuses	redundancy payments and compensations for non-competition clause	Total
Performing the function in 2007			
Igor Chalupec	1,426	3,360	4,786
Cezary Filipowicz	1,701	–	1,701
Dariusz Formela	527	–	527
Wojciech Heydel	3,427	–	3,427
Piotr Kownacki	2,236	–	2,236
Jan Maciejewicz	1,045	1,620	2,665
Waldemar Maj	590	–	590
Krystian Pater	1,030	–	1,030
Cezary Smorszczewski	1,080	2,640	3,720
Krzysztof Szwedowski	1,698	–	1,698
Paweł Szymański	1,525	1,080	2,605
Total	**16,285**	**8,700**	**24,985**
Performing the function in the previous years			
Zbigniew Wróbel	–	1,956	1,956
Janusz Wiśniewski	266	–	266
Total	**266**	**1,956**	**2,222**

Salaries and other benefits paid and due in 2007 include remuneration paid, other benefits such as insurance policies, medical care services, bonuses for 2006, paid in 2007 and estimated potentially due bonuses for 2007 which were paid out in 2008.

Redundancy payments and compensations for non-competition clause concerning the previous Members of the Management Board were included in costs and paid out in 2007, except for due compensations for non-competition clause concerning Igor Chalupec of PLN 140 thousand, Cezary Smorszczewski of PLN 220 thousand and Paweł Szymański of PLN 90 thousand which were included in the costs and paid out in 2008.

Remuneration of the Management Board and Supervisory Board Members of the Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled entities or associates for the year 2007

Management Board Members of PKN ORLEN, acting in 2007 as Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where remuneration paid was transferred to ORLEN Dar Serca foundation. The Management Board Members of PKN ORLEN acted in 2007 in the Management Board of Mažeikių, what results from differences in a role of a Management Board in the Corporate Governance of the Lithuanian Company as compared to the Polish legislation. The role of the Management Board of Mažeikių is similar to the role of the Supervisory Board in the Polish legislation.

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

Remuneration of the Supervisory Board Members of the Company	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
Total	**1,017**
Remuneration of the Supervisory Board Members in subsidiaries	
Małgorzata Ślepowrońska	14
Total remuneration of the Supervisory Board Members	**1,031**

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

Notes to consolidated financial statement for the year 2008 (all amounts in PLN thousand)

20. Remuneration arising from the agreement with the entity authorized to audit the financial statements, due or paid for the audit and review of the financial statement

In the period covered by these financial statements the Parent's auditor is KPMG Audyt Sp. z o.o., according to the agreement concluded on 30 May 2005 for the period of 2005–2009 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of unconsolidated and consolidated financial statements starting from the second quarter of 2005.

	for the year ended 31 December 2008	for the year ended 31 December 2007
Fees payable for the audit by KPMG Audyt Sp. z.o.o.* in respect of the Parent Company, incl:	**1,904**	**1,414**
– fees payable for the audit of the annual financial statements	849	707
– fees payable for other attestation services, incl. the reviews of the financial statements	1,055	707
Fees payable for related services provided by KPMG Audyt Sp. z.o.o.. in respect of Parent Company, incl.:**	**1,130**	**1,118**
– fees payable for tax advisory services	–	94
Fees payable for the KPMG Companies in respect of subsidiaries, incl:	**8,071**	**7,800**
– fees payable for the audit of the annual financial statements	3,816	5,450
– fees payable for other attestation services, incl. the reviews of the financial statements	4,255	2,350
Fees payable for related services provided by KPMG Companies in respect of subsidiaries, incl:	**656**	**789**
– fees payable for tax advisory services	152	–
	11,761	**11,121**

* Fees payable for the audit include gross amounts payable to the entity authorized to audit financial statements for professional services connected with audit of unconsolidated and consolidated financial statements of the Parent as well as reviews of interim quarterly and half-yearly unconsolidated and consolidated financial statements.

** Fees for remuneration for the related services comprise other gross amounts payable to the entity authorized to audit financial statements. They include services connected with audit and review of the unconsolidated and consolidated financial statements, other than those covered by the line "Fees payable for the audit ".

In 2005 a procedure on soliciting additional services with the auditor and entities related with auditor was introduced in the Parent. The Audit Committee of the Supervisory Board makes decision on awarding contracts to the auditor for additional services.

21. Employment structure

Average employment by groups was as follows

	for the year ended 31 December 2008	for the year ended 31 December 2007
Blue collar workers	12,578	12,871
White collar workers	10,742	10,352
Total	**23,321**	**23,223**

Employment level as at 31 December 2008 amounted to 22,955 persons and as at 31 December 2007 to 22,927 persons.

Employment structure in entities consolidated under proportionate method was presented in 100%.

The accompanying notes are an integral part of these consolidated financial statements

22. Additional information

Polkomtel SA

As at 31 December 2008 PKN ORLEN SA held 24.39% of shares in Polkomtel SA ("Polkomtel"). Other shareholders held respectively: KGHM Polska Miedź ("KGHM") 24.39%, Polska Grupa Energetyczna ("PGE") 21.85%, Węglokoks 4.98%, Vodafone Americas Inc. ("Vodafone") 24.39% (including 4.78% held by its subsidiary Vodafone International Holdings B.V.). Polish shareholders currently hold over 75% of total shares in Polkomtel.

In March 2006 an agreement was concluded between Polish shareholders of Polkomtel and TDC Mobile International A/S (TDC) concerning sales of shares in Polkomtel held by TDC. The agreement with TDC concluded under a suspending clause regarding termination or abatement of the court pledge forbidding TDC to sell the shares. The pledge was established by the District Court in Warsaw because of the motion raised by Vodafone. Pursuant to the agreement with TDC, PKN ORLEN could acquire 980,486 shares in Polkomtel, representing approximately 4.78% of the share capital of Polkomtel, for a purchase price not exceeding EUR 214.04 per share. Execution of the agreement was blocked by Vodafone, which filed a complaint against TDC's offer to the International Court of Arbitration by the Federal Chamber of Commerce in Vienna. According to Vodafone, TDC's offer did not comply with procedure set in the shareholders' agreement, in particular in respect of method of calculation of the price offered by TDC. In March 2008, the Arbitration Court issued the partial verdict. In November 2008 final verdict dismissing all Vodafone's demands and confirming above all the validity of the agreement with TDC, was issued.

On 21 November 2008, the District Court in Warsaw issued a decision reversing its decision dated 24 February 2006, which prohibited sale of Polkomtel shares belonging to TDC. After validation of the decision on 3 December 2008, the suspending clause of the agreement with TDC was fulfilled.

On 18 December 2008, a share premium transaction of Polkomtel shares from TDC was settled. PKN ORLEN purchased 980,486 shares of Polkomtel SA, at a price of EUR 180.50 per share, i.e. for the total amount of EUR 176,977,723. According to agreement with TDC, price of EUR 214.04 per share was decreased by the difference between the sum of gross value of all dividends that were paid to shareholders in the period from signing the agreement with TDC to transaction settlement date and the interest calculated from the amount of EUR 214.04. Based on that calculation, goodwill amounting to PLN 537,920 thousand was recognized in position 'Investments in associates' in the consolidated financial statements.

According to agreement signed in March 2006 between KGHM Polska Miedź SA, PKN ORLEN SA, Polskie Sieci Elektroenergetyczne SA (currently PGE Polska Grupa Energetyczna S.A) and WĘGLOKOKS SA all sides obliged themselves to undertake actions to work out procedure to sell Polkomtel SA shares. PKN ORLEN SA plans to sell all Polkomtel SA shares.

PKN ORLEN SA informed about the above mentioned agreements in its regulatory announcements: no.17/2006 dated 10 March 2006, no.102/2008 dated 21 November 2008 and no.114/2008 dated 18 December 2008.

Claims of PKN ORLEN SA against Yukos International UK B.V.

On 3 December 2008 the Management Board of PKN ORLEN SA delivered to Yukos International UK B.V. notice regarding PKN ORLEN's SA claims against Yukos International due to inconsistency of Yukos International's statements with the actual state of AB Mažeikių Nafta as at 14 December 2006.

PKN ORLEN SA claims result from investigations of the actual state of Mažeikių Nafta made by the Company after the conclusion of the transaction, in the context of the statements made by Yukos International. According to the Escrow Account Agreement Yukos International, may within 30 days, question the claims raised by PKN ORLEN SA.

23. Significant events after balance sheet date

After the balance sheet date the following significant events that may have an impact on future financial results took place:

On 26 March 2009 the Management Board of Polski Koncern Naftowy ORLEN SA and the Government of the Republic of Lithuania signed the letter defining the conditions of execution of the put option agreement dated 9 June 2006 concerning the sale of Mažeikių shares.

According to the Letter, PKN ORLEN SA will transfer immediately 20% of the total price for the put option shares of AB Mažeikių Nafta i.e. approximately USD 56,890,075 on the escrow account. The remaining part of the outstanding amount for the put option shares of AB Mažeikių Nafta will be paid by 30 April 2009 and will be increased by interest provided in the sale option agreement calculated using USD 6M LIBOR, starting from 20 March 2009. As a result, by 30 April 2009, the transaction will be concluded and the ownership of the put option shares of AB Mažeikių Nafta will be transferred to PKN ORLEN SA., which will cause expiration of the agreement concerning sale of these shares.

The above mentioned purchase option was presented in Other financial liabilities, note 7.21.

24. Other

These consolidated financial statements were authorized by the Management Board of the Parent in Warsaw on 27 April 2009.

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KEY EVENTS OF 2008

January

- AB Mažeikių Nafta completes reconstruction of and starts up a vacuum distillation column.
- Rafineria Trzebinia SA awarded in the 9th edition of National Environmental Competition "Environmentally Friendly" for its BIO products (Bioester and ON BIO 20).

February

- PKN ORLEN wins the "Mergers & Acquisitions" category of the "Best of European Business" European competition.
- PKN ORLEN, with its Bioester, wins the 1st prize at the 1st International Exhibition of Technologies for Chemical Industries EXPOCHEM 2008, in the "Chemical Product" category.

March

- Unipetrol RPA produces four-millionth tonne of Liten polyethylene.

April

- For the third time, PKN ORLEN receives the "Superbrand Polska" title in the consumer brand category.
- ORLEN recognised as a "Trustworthy Brand" by the readers of the Reader's Digest monthly.
- For the third time, PKN ORLEN fleet cards receive the Fleet Product of the Year title in the Fleet Awards competition.

May

- Bioester manufactured by PKN ORLEN recognised as "Product of the Year" at the 15th International Petrol Station Fairs 2008, in the "Biofuels" category.
- The Company is awarded by Student Career Offices as The Best Employer in 2007/2008, in the 3rd edition of Polish "Career with Employer" ranking.

June

- ORLEN brand receives the title of High Reputation Brand in the "Business" category, according to the Independent Brand Reputation Ranking "Premium Brand".
- Eight Diamond to the Statue for the Leader of Polish Business awarded to PKN ORLEN by Business Centre Club.
- ANWIL SA receives its Seventh Diamond to the Statue for the Leader of Polish Business awarded by Business Centre Club.

July

- PKN ORLEN begins construction of the Terephthalic Acid Plant (PTA) under a larger project to reconstruct the petrochemical segment.
- ORLEN Team wins the prestigious "Equipe Revelacao" title during the dos Sertoes rally. The statue is awarded to the most distinguished racing team.

August

- PKN ORLEN and Ford Polska sign a Letter of Intent concerning cooperation in the field of promoting and launch of a new bioethanol based biofuel on the Polish market.
- The youngest motorcyclist in the ORLEN Team, Jakub Przygoński, wins Polish Cross Country and Enduro Championship.

September

- PKN ORLEN is among the leaders in a ranking developed by the Institute for Business and NGO Partnership BI-NGO.

October

- PKN ORLEN comes on top of the "2000 list" developed by Rzeczpospolita daily.
- The company is among the first 100 companies in the Plattsa ranking "Top 250 Global Energy Companies".
- PKN ORLEN corporate social responsibility report wins an online competition "2008 Social Reports".
- PKN ORLEN 2007 Annual Report is one of the winners of "The Best Annual Report 2007" competition organised by the Accountancy and Tax Institute (Instytut Rachunkowości i Podatków, IRiP) in cooperation with Dziennik Polska Europa Świat.

November

- In November, VERVA 98 receives a European Medal awarded by the Office of the Committee for European Integration (UKIE), Business Centre Club and European Economic and Social Committee.
- PKN ORLEN is one of the Polish Charity Leaders, donating the third largest amount of funds according to a ranking by Donor Forum in cooperation with the Warsaw Stock Exchange and Polish edition of Forbes.
- ORLEN Team motorcyclists win the World Champion title (Jacek Czachor and Marek

Dąbrowski) and Vice Champion title (Jakub Przygoński) in FIM rally. Krzysztof Hołowczyc and Jean-Marc Fortin come second in the FIA World Cup.

- ANWIL SA receives the title of "Pearl of the Polish Economy" awarded by the Institute of Economics at the Polish Academy of Sciences.
- ORLEN Oil Sp. z o.o. receives the title of "Outstanding Exporter 2008" and a Cup from the Association of Polish Exporters.
- Rafineria Trzebinia SA wins the "European Medal" in the Product category in the 17th edition of the European Medal for Products, for its pharmaceutical glycerine. The competition is organised by the European Economic and Social Committee, Office of the Committee for European Integration (UKIE) and Business Centre Club.

December

- ORLEN becomes the most valuable Polish brand in the MARQA 2008 ranking of Polish most valuable brands organised by Rzeczpospolita daily.
- ORLEN Gaz Sp. z o.o. receives a certificate in the 9th edition of the "Fair Play Enterprise" programme, granted by the Institute for Private Enterprise and Democracy and the National Economic Council.