



Jacek Krawiec

Prezes Zarządu, Generalny Dyrektor

Let's and gentlemen, Dear Shareholders,

For the ORLEN Group, 2012 was an eventful period, crowned with the November adoption of the ORLEN Group's development strategy for 2013-2017.

The decision to adopt the new strategy was made in the context of the clear benefits delivered by our stabilisation measures. The strategy provides for further sustainable development of the ORLEN Group, with its potential fully leveraged. The Group's value will continue to be built up thanks to such achievements as the over 40% increase in average annual operating cash flow compared with 2008-2012, and a capital expenditure plan for the next five years that provides for the spending of up to PLN 22.5bn. Our priority objective remains unchanged – to ensure financial security and keep financial leverage below 30%. We are convinced that by achieving our strategic objectives we will be able to launch a progressive dividend policy, with distributions to shareholders growing steadily until they reach 5% of the Company's market capitalisation, based on the average share price in the year preceding the pay-out.

Our plans rely on the Group's sound liquidity, which comes primarily from the delivery of business and investment objectives set out in the 2008-2012 strategy, combined with steps taken to optimise working capital and our deleveraging efforts. Downsizing of our net debt to below PLN 6.8bn has allowed us to reduce our financial leverage to a safe level of 26%. Our efforts have been viewed favourably by both Moody's and Fitch, who have upgraded our long-term rating outlook to Positive.

Even with the prevailing business environment, there is no doubt that last year the ORLEN Group further solidified its market position. Despite the slowdown in GDP growth rates and decline in fuel consumption across all our markets, compounded by the grey economy both in Poland and the Czech Republic, the ORLEN Group recorded robust sales in the region of 35 million tonnes, on a par with the previous year's result. The Group posted its highest ever revenue of PLN 120bn, and an all-time high operating profit before depreciation/amortisation and valuation of inventories and impairment losses on non-current assets (LIFO-based EBITDA) of more than PLN 5.2bn.

The favourable macroeconomic climate, including the effect of model refining margins and exchange rates, substantially improved the operating results of the refining segment. Before the effect of valuation of inventories and impairment losses on non-current assets, the segment's operating profit amounted to PLN 1.8bn.

The rise of the retail segment's operating profit to almost PLN 0.7bn before impairment losses on non-current assets is largely attributable to our pricing strategy, which is geared to stimulating demand for fuels, gradual improvement of margins on the Polish and German markets, and further expansion of our non-fuel offering.

The 2012 performance of the petrochemical segment reaffirmed the ORLEN Group's position as the region's major petrochemical company, leading the market for olefin and polyolefin producers. It was the first full year of operation of the PTA unit in Włocławek, thanks to which the sales of terephthalic acid grew by more than 40%, to almost 0.5m tonnes.

An increase was also recorded in sales volumes of fertilisers and polymers. The segment's operating profit before the effect of valuation of inventories (LIFO-based EBIT) and impairment losses on non-current assets was almost PLN 1.3bn.

With the need to diversify our revenue streams in mind, we are striving to build a multi-utility firm. This is why we continue to invest in the development of new areas of our operations – upstream activities and the power segment. By the end of 2012, we had drilled five wells on unconventional hydrocarbon plays, including two horizontal ones. We also took steps to acquire two new licences previously held by Exxon Mobil, successfully completing the process in early 2013. We have now started another round of horizontal drilling, and are preparing to undertake a hydraulic fracture stimulation. We also fulfilled all of our conventional gas exploration plans for 2012, having completed work on the appraisal well in the Polish Lowlands (Sieraków). The scale of our commitment to the upstream business is best demonstrated by the capex earmarked for that purpose in our new strategy: up to PLN 5.1bn to be spent over the next five years, during which time we plan to drill – through our ORLEN Upstream subsidiary – at least 50 exploration wells.

In 2012, we also stepped up work on our power generation projects, signing a contract with a general contractor for the CCGT plant in Włocławek and handing over the project site at the beginning of March 2013. The plant will generate electricity and heat for the needs of the Anwil Group and PKN ORLEN, with about half of its electric output being sold to third parties. The second power generation project, for construction of a similar plant in Płock, completed its concept analysis stage and feasibility study. We also secured the necessary environmental decision, and are now analysing the project's economics.

We have repeatedly stressed the importance of secure supplies of crude oil to the ORLEN Group. With that in mind, our successful agreement on the terms of business and execution of a three-year extension annex to our contract with Mercuria Energy Trading, for the supply of crude oil to the Płock refinery via the Druzhba Pipeline, must be viewed as another crucial event. The PLN 26bn contract provides for the supply of 3.6 million tonnes of REBCO crude annually. Also worthy of mention is a contract with Russia's largest crude oil producer, the Rosneft Oil Company, which was finalised in early January 2013. Interestingly, this is the first crude sales contract signed by Rosneft directly with a European refiner. Worth PLN 46bn, the contract will see the ORLEN Group supplied with ca. 6m tonnes of crude annually for the next three years.

Throughout 2012, we continued to enhance the efficiency of the ORLEN Group's management, partly by purchasing minority interests in some of its Polish companies. As a result, PKN ORLEN became the sole shareholder of Anwil, Rafineria Jedlicze, IKS Solino and PETROLOT, and having purchased the shares in PETROLOT from PLL LOT, we have become the leading wholesaler of aviation fuel. Work is now under way to devise a development strategy for those assets, with a particular focus on other European markets. In an attempt to optimise the wholesale of fuels, previously handled directly by PKN ORLEN and ORLEN PetroCentrum, 2012 saw intensive effort spent on centralising the wholesale business. As part of the changes, ORLEN PetroCentrum was transformed into ORLEN Paliwa.

The focus of our efforts in foreign markets was on improving the operating efficiency of our companies based in the Czech Republic and Lithuania. For instance, at our Czech subsidiary Unipetrol, crude oil processing was permanently halted at the Paramo refinery, while at ORLEN Lietuva we continued to implement a number of restructuring measures. We also successfully completed a maintenance shutdown of the entire refinery, an event which is undertaken at regular four-year intervals. It should be noted that, despite the 84% capacity utilisation rate caused by the shutdown, our Lithuanian subsidiary reported a healthy operating profit before depreciation and amortisation (EBITDA) of nearly USD 180m.

Last year, we sought to actively contribute to the ongoing debates about the most important social and economic issues. Key discussions featuring representatives of the ORLEN Group included those held at the European Forum of New Ideas, the European Financial Congress and the Economic Forum in Krynica. We also attended the St. Petersburg Economic Forum, where discussions centred on the role of leadership in shaping the global economy.

We should also note the steadily improving position of the ORLEN Group, as confirmed by the string of awards and distinctions conferred by expert panels in 2012. Notably, amid a volatile market environment, PKN ORLEN has continued to be included in the Warsaw Stock Exchange's elite RESPECT Index since 2009. In recognition of our exemplary reporting standards, we won "The Best Annual Report 2011" award in the Enterprise category. We also received a special award for using innovative, Internet-based communication tools in our investor relations in the "Golden Website of a Listed Company" competition. We were honoured with a TOP Employers Polska certificate, as a token of recognition of the excellent working conditions enjoyed by our staff. Our position is also evidenced by a first place in the EMEA Refining & Marketing category of the prestigious Platts 250 Global Energy Company Rankings.

In the face of the still highly precarious operating environment, we can rest assured that our position has been built on solid foundations. The efforts we have undertaken over the past four years, as well as the clear strategic vision of our development strategy, allow us to look forward with optimism and anticipate the ORLEN Group's continued development. Our hard work so far would have been impossible, however, without the efforts of all our employees, who – in making hundreds of everyday actions and shouldering additional responsibility in a time of crisis – are the driving force behind the success of the ORLEN Group. I would like to thank all our employees and the members of the Supervisory Board for our continued fruitful cooperation, which is the key to creating ORLEN value.

Dariusz Jacek Krawiec



**CEO, President of the Management Board
PKN ORLEN S.A.**