



Letter from the President of the Management Board of PKN ORLEN

Ladies and Gentlemen,

Dear Shareholders,

It is with great satisfaction that I announce the successful completion in 2010 of the first stage of the Company's strategy adopted two years earlier. Moreover, we posted the best financial results in five years. The Company's position at the beginning of the previous year was not comfortable, both due to its precarious financial standing as well as the prevailing economic environment. The results for 2010 fully confirm that the pursued strategy is effective and well chosen.

After two years of downturn, the economic conditions in the fuel industry began to stabilise, which is particularly important for downstream companies. The improved economic climate combined with measures taken to enhance our operating efficiency allowed us to close the year with excellent financial results, which surpassed market expectations.

In 2010, operating profit was PLN 3.1bn and net profit reached PLN 2.5bn. Revenue generated in 2010 grew by 23% year on year, while operating and net profit were higher by PLN 2bn and PLN 1.2bn, respectively, than the 2009 figures. The Company posted the highest ever total sales volumes of more than 34 million tonnes, with the strongest growth recorded by the retail segment. Last year, the ORLEN Group increased the volume of crude oil processed to 28 million tonnes. A particularly noteworthy fact was that in Q4 2010 the Lithuanian Mazeikiu refinery fully utilised its production capacities for the first time in a decade.

Although the economic recovery was still very fragile, we were able to significantly improve our liquidity position, as evidenced by PLN 3.2bn of free cash flows and more than EUR 1bn of available credit facilities. Thanks to our determination in pursuing the envisaged objectives, the ORLEN Group emerged from a difficult period and regained the trust of its Shareholders, financial institutions and rating agencies – Fitch and Moody's upgraded the Company's rating outlook from negative to stable, and the price of PKN ORLEN shares grew by as much as nearly 35% over the year, outperforming the WIG 20 index, which gained less than 15%.

2010 also witnessed intensive work to prepare and lay down strong foundations for the second stage of the Group's strategy whereby it is to develop into a multi-utility business. Although the process will be long and require substantial capital expenditure, all the strategic and technical objectives have been met according to plans. As part of our strategy aimed to develop the upstream operations, in 2010 we carried out tests and analyses under another phase of work on all our exploration licences on the Baltic shelf, in the province of Lublin and on the Sieraków field, where we are engaged in a joint project with PGNiG. Moreover, we executed an agreement with the Ukrainian Ministry of Environmental Protection, under which we will be able to explore for hydrocarbons in the territory of Ukraine.

We are also well advanced in the work designed to develop a power generation segment, where the first stage will consist in the construction of a gas-fired power plant in Włocławek.

In 2010, we obtained two key documents: a final environmental permit for the project and a grid connection approval. We also announced a tender to find a supplier of a steam turbine to be installed at the plant.

We continue our efforts to achieve the Group's target ownership structure. In that context, in 2010 we were mainly involved in preparations to sell our stakes in Polkomtel and Anwil. Thanks to the work carried out in 2010 related to the disposal of Polkomtel shares, we reached the most advanced stage of the transaction to date. On the other hand, due to unfavourable market conditions, we did not close the sale of Anwil shares, which we believe were undervalued by bidders. It is worth noting that – thanks to the significant strengthening of the Company's financial standing over the last two years – we can afford to put our divestment plans on hold until the market climate becomes more favourable. In response to signals from the market, we began to analyse in detail the scenario of making two separate sale offers, one for Anwil's fertiliser segment and one for its PVC production business.

In 2010, we also took steps to develop the optimum strategy for ORLEN Lietuva. A reputable advisor – global investment bank Nomura – was engaged to prepare a relevant recommendation. We expect the recommendation to be delivered in late Q1 or early Q2 2011.

As part of our strategic commitment to identify acquisition opportunities which satisfy our requirements, we expanded our German network to include 56 new service stations in Thuringia and Saxony, purchased last year from OMV Deutschland GmbH. As a result, the German network of the ORLEN Group entered new markets in those German states where it was previously absent.

In 2010, the Arbitration Court of Prague passed the long-awaited awards in the arbitration proceedings instigated against PKN ORLEN by Agrofert Holding. The Court, which considered the individual cases, dismissed three of the four claims brought by the Czech company and declared 90% of the total damages claimed to be groundless. The resolution of the dispute, which lasted for many years, contributed to the stabilisation of the Company's position in the Czech Republic, helping restore investor confidence. The price of Unipetrol shares surged by more than 41% over 2010.

The previous year saw a breakthrough in the Group's technology-related capex projects covering its key production assets.

As planned, we placed in service a hydrogen generation unit and commissioned a diesel oil hydrodesulphurisation unit (HON VII). We also completed the technical stage of the construction of strategic facilities in the petrochemical segment, i.e. a paraxylene unit in Płock and a purified terephthalic acid unit in Włocławek. The launch of the units will allow us to significantly enhance gasoline utilisation and expand our petrochemical product mix. We also launched a programme designed to develop our power generation assets. We started the first project in that area – the construction of the most technologically advanced steam boiler in Poland – one of a number of environmental projects planned to be implemented by the end of 2017.

To sum up the Company's activities in 2010, we need to mention projects run by the Company as a leader of the Polish economy. One of the key projects was the Company's first "Future Fuelled by Knowledge" conference, devoted to Poland's economic

transformation after 1989, which attracted many prominent representatives of the political, cultural and business life. The conference was a natural expression of PKN ORLEN's philosophy whereby it has committed to raise themes relevant for business and initiate public debate on key economic issues. The Company also remains engaged in important sports events and supports talent representing Poland on an international arena.

Over the last 12 months, the Company's efforts were appreciated both by experts and the public. ORLEN was awarded the title of the most valuable Polish brand in the ranking of the Rzeczpospolita daily, we were also the highest ranked Polish company in the Platts TOP250 Global Energy Companies ranking. The accuracy of our decisions was confirmed by the Best Managed Company in CEE 2010 award granted by the prestigious Euromoney magazine and the IR Magazine's award for the best investor relations. The Company was also granted the title of IT Leader for the best implementation of IT resources in the industrial sector.

At the beginning of 2010, we were confident that we were following the right path and that our plans would allow us to strengthen the Company's market position. We achieved much more than we hoped for. The ORLEN Group is regaining strength and its development plans are based on solid foundations, which justifies an optimistic outlook for the future.

However, that success would not be possible without the effort and commitment of the Company's Employees and Partners, to whom I am deeply grateful. I would also like to thank the Shareholders and Members of the Supervisory Board for their trust and support, which helped us deliver all our strategic objectives and post such excellent performance, benefiting the entire ORLEN Group.

Dariusz Jacek Krawiec
President of the Management Board, CEO
PKN ORLEN S.A.