

## **Letter from the President of the Management Board of PKN ORLEN**

***Dear Ladies and Gentlemen, Dear Shareholders,***

Last year was a difficult time in terms of the macroeconomic climate. However, despite the continued adverse conditions in the fuel sector, PKN ORLEN remained on the growth path, as best demonstrated by our financial performance. Higher operating profit and sales volumes, deleveraging, improved liquidity or the successful, and the largest on the Polish market, debt refinancing – all have laid stable foundations for the Company's operations and its further sustainable growth. The efforts taken by PKN ORLEN in the challenging market conditions were viewed positively not only by the shareholders, but also by the rating agencies, which maintained stable outlook for our rating.

The consistent implementation of the strategy adopted in 2008, helped us post a nearly PLN 3.2bn operating profit in 2011, a 15% improvement on the previous year. Net profit came in at almost PLN 1.4bn. Please note that due to the deterioration in the macroeconomic environment caused by the global crisis, in particular the growing pressures on refining margins, we recognised a PLN 1.5bn impairment loss on shares in AB ORLEN Lietuva in the 2011 finance expenses.

Efforts taken to stimulate demand on the Polish market translated into a nearly 5% increase in fuel sales volumes in the retail segment and allowed PKN ORLEN to expand its share in the Polish retail market by over 1.5 pp, to more than 33%. Also, the growth in sales volumes offset the adverse impact of low margins, pushed down by soaring crude prices in 2011.

Despite new phases of the crisis engulfing the global markets, PKN ORLEN successfully implements its strategy involving not only debt reduction and cost optimisation, but also execution of new projects which allow the Company to identify new revenue sources and contribute to the growth of the shareholder value. In 2011, PKN ORLEN continued to build its growth foundations by implementing a large-scale investment and overhaul programme at the Plock plant. In June 2011, the PX/PTA installation was launched in Plock and Wloclawek, the first unit of this kind in Poland boasting the highest efficiency in Europe, which considerably extended our value chain. After the complex came on stream and we began sales of terephthalic acid, the petrochemical segment's sales volumes rose sharply, by 32%. Combined with a higher model petrochemical margin, that allowed the Group to generate operating profit of nearly PLN 1bn, up by PLN 0.7bn on 2010.

These developments, as well as the growing crude prices and depreciation of the zloty against other currencies lifted our revenues to as much as PLN 79bn.

A crucial development for the Company, not only in 2011 but also in the last few years, was the disposal of Polkomtel shares. The transaction, which took a long time to prepare, was completed in November 2011, generating PLN 3.7bn for PKN ORLEN. These efforts were a part of our non-core assets divestment plan and the proceeds will further improve our liquidity and be applied toward financing projects designed to transform PKN ORLEN from a fuel company into a modern multi-utility company.

To that end, we continue investing in the development of our upstream and power generation segments, which lie at the core of the strategy to build a multi-utility group. In 2011, PKN ORLEN held eight licences for shale gas exploration in Poland and completed its first vertical wells, drilled in search

for shale gas in Lubartów and Wierzbica. As the first drilling results are promising, we intend to carry out horizontal drillings and fracturing operations in the months to come. Furthermore, for 2012 PKN ORLEN has scheduled drilling of at least two exploration wells in the Lublin Shale licence area and seismic surveys in the Hrubieszów licence area. PKN ORLEN is also involved in exploration for crude oil. At present, data analysis is underway to select drilling locations in all areas covered with our licences. In 2012, drillings are planned in the Latvian shelf and the Polish Lowlands (Sieraków).

In 2011, investments in the power segment, relating to the construction of a 500 MWe gas-fired power plant in Włocławek and to the technological development of the power assets in Płock were progressing according to schedule. PKN ORLEN has already obtained the environmental decision and permit to build the power unit in Włocławek. We have also executed an agreement for construction of a gas supply pipeline for the new unit. The EPC contractor for the power project is to be selected by mid-2012. Construction of the unit should commence in 2012, and its commissioning is to be expected in late 2014 or early 2015. We have also continued modernisation work on the CHP plant at our Płock facilities and we are considering construction of another power unit at the location.

Last year, the activities of PKN ORLEN won appreciation of various groups of Polish and international experts. The Company came fourth in the "Best Managed Companies in CEE" ranking published by the Euromoney magazine, and was awarded the title of "The Best Managed Company in Poland." We also took the best ever position among all Polish companies in the Top 250 Global Energy Company ranking. In 2011, our shares were for the third time included in the prestigious RESPECT Index. The quality of PKN ORLEN's communication with the capital market was appreciated by assessment bodies working as part of WarsawScan 2011. We came in first in the category of best information policy and corporate governance. In the IR Magazine competition, we were distinguished for "Best Investor Relations by a Polish Company".

PKN ORLEN representatives took part in a number of key initiatives designed to identify new opportunities and risks for the Polish and global economy and to find a way out of the crisis.

Our voice was clearly heard at the European Forum for New Ideas (panel discussion "Is the world doomed to growth?"), European Financial Congress (discussion on strategic enterprise value management) and the Economic Forum in Krynica (debate "Innovativeness. Is it the source or the consequence of development of Polish and European economy?"). Our representatives were also present at CERAWEEK – a global oil industry conference, at which, for the first time in the thirty years of history of this prestigious event, the CEO of a Polish corporation participated in a plenary session with the world's most important energy sector players. PKN ORLEN also partnered in key events in Poland, including Polish Presidency of the Council of the European Union.

Despite the challenging environment, I am confident that PKN ORLEN's position at the end of 2011 was stronger than in previous years. The Company has been developing in a sustainable manner, and has solid foundations for growth. Therefore, we pursue our plans for 2012 with optimism, although the first quarter of the year has demonstrated that this is going to be a difficult period for the refining and petrochemical industry. Not only because of concerns about the future, clearly reflected in high crude prices, volatile exchange rates, unstable demand and margin pressures, but also because of other important factors having impact on growth, such as the changing regulations regarding environmental protection or CO2 emissions.

2012 may become a landmark year in the exploration for new energy sources in Poland. Exploration for and production of unconventional gas, recently a broadly discussed topic, will have its bearing on the future of operators in the power sector. This year, PKN ORLEN will intensify work in this area. I am convinced that our involvement and the related financial effort will be offset by future production results.

Let me take this opportunity to thank all members of the Supervisory Board as well as the employees of PKN ORLEN for their commitment and hard work in 2011. I hope that 2012 will be the year of successful implementation of all our business objectives.

**Dariusz Jacek Krawiec**



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