

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

***Dear Ladies and Gentlemen,***

At the turn of 2011, we knew that it would be a difficult time for the global and, in particular, for the European economy. We were also aware of the market challenges ahead.

Instability had a particularly strong impact on the fuel sector. A nearly 40% year-on-year rise in crude prices, low refining margins, volatile URAL/Brent differential and unfavourable exchange rates of the zloty against foreign currencies – these were the key factors affecting the performance of companies in the fuel sector. I am all the more pleased to report that, despite such challenging macroeconomic conditions, PKN ORLEN delivered robust financial performance, as evidenced by the highest total sales volumes in our history, over 35.5m tonnes, and all-time high revenue of nearly PLN 107bn.

In 2011, PKN ORLEN earned PLN 2bn in net profit and PLN 2.1bn in operating profit, thanks to proceeds from divestments, revaluation of crude stocks and larger sales volumes across all segments. It should be noted that due to the deterioration of the macroeconomic environment caused by the global crisis, in particular the growing pressures on refining and petrochemical margins, we recognised a PLN 1.8bn net impairment due to loss on tangible assets, primarily at the Unipetrol and Anwil Groups.

We are particularly glad to see sales having grown in the retail and petrochemical segments, driven by, respectively, a pricing policy aimed at boosting demand and by investments in advanced technologies and production assets in recent years. The impressive 120% surge in operating profit of the petrochemical segment was attributable to the launch in the first half of 2011 of production of terephthalic acid at the PX/PTA complex in Plock and Wloclawek, which helped us offset the impact of lower petrochemical margins. In turn, the pressure to keep retail margins low had a material impact on the segment's result. Outperforming the market in retail sales in 2011 clearly demonstrates that in that challenging year we were able not only to retain regular customers but also to attract new ones, which translated into record sales volumes.

Please note the strong and improving liquidity position of PKN ORLEN, which at the outbreak of the global crisis was on the verge of defaulting on its credit agreements. Through our consistent efforts, in 2011 we were able to reduce the financial leverage to 29.3% (net debt was down by another PLN 0.3bn). Concurrently, we worked on refinancing of maturing loans. To that end, PKN ORLEN executed credit facility agreements for nearly EUR 3bn and thus secured financing of its operations for the next five years.

Bearing in mind the need to enhance corporate control and grow the PKN ORLEN Group's value, last year we continued to purchase shares in our Group companies, such as Anwil, IKS Solino, Rafineria Nafty Jedlicze, ORLEN Automatyka and ORLEN Wir.

There is no doubt that one of the key M&A transactions in this part of Europe was the disposal of shares in Polkomtel, in which PKN ORLEN held a 24% equity interest. We were the main initiator and one of the coordinators of this complex process. With PLN 3.7bn in proceeds, PKN ORLEN was also among the chief beneficiaries of the transaction. Although first declarations concerning the sale of the assets were made already in 2000, it was only last year that the transaction was successfully

completed. The proceeds will be applied toward reducing the Company's debt and financing projects designed to transform PKN ORLEN into a modern multi-utility company.

To achieve that objective, in 2011 we focused our efforts on two areas: continued investment in the power generation segment and intense work on the development of our upstream segment. We were also involved in the construction of the CCGT unit in Włocławek. Apart from the environmental permit, we also obtained the building permit and executed an agreement for construction of the gas supply pipeline for the new unit. The process of selecting the contractor is underway and we expect to complete it by mid-2012. We have also continued modernisation work on the CHP plant at our Plock facilities and we are considering construction of another power unit in the city.

The development area of key importance for PKN ORLEN's future is exploration for and production of hydrocarbons. Last year, we focused on the appraisal of unconventional gas deposits in Poland. We completed two first wells in our licence areas in the Lublin region and we are readying for new drillings. Concurrently, we continue exploration for conventional reserves in the region, as well as in the Latvian shelf, in cooperation with Kuwait Energy Company, and in the Sieraków field, as part of a project jointly implemented with PGNiG.

Among the developments of key importance for the Company's future growth, I would like to draw your attention to those securing stable crude supplies to PKN ORLEN. In 2011, we executed crude purchase agreements guaranteeing supplies for the next three years. We also took steps to diversify gas supplies by entering into gas supply contracts with companies other than PGNiG.

Our activities conducted by foreign subsidiaries were primarily aimed at optimising the operations of our refineries in the Czech Republic and Lithuania, and of the retail network in Germany. We consider it a major success that we managed to improve the performance of the German assets and the profitability of the refinery in Mažeikiai. Further, in Lithuania we completed negotiations and, in consequence, executed an agreement with Klaipėdos Nafta, the owner of a cargo terminal, to reduce costs of crude shipments by sea. We expect that in the months to come we will be able to successfully renegotiate the charges for railway transport in Lithuania, which would further improve the profitability of fuel production in Mažeikiai.

We are glad that PKN ORLEN's successes have been appreciated by experts: Fitch's analysts upheld our rating at BB+ and we came eight in the global Refining and Marketing category of the Platts Top Global Energy Company ranking. The prestigious Euromoney magazine for the fifth time named PKN ORLEN "The Best Managed Company in Poland", whereas the Rzeczpospolita daily and the Polityka weekly listed PKN ORLEN among the largest companies in Poland and the region. PKN ORLEN has been the first and so far the only Polish company to be invited to participate in the discussion attended by the world's most important energy sector players during a plenary session of the CERAWEEK 2011, an oil industry conference held in Houston, USA. Furthermore, PKN ORLEN was handed two awards in the "Eagles of Polish Business" competition as one of the largest Polish businesses in Germany. We were also distinguished for the quality of our investor relations efforts by IR Magazine, receiving "Best Investor Relations by a Polish Company 2011" title, and in the WarsawScan 2011 report for the quality of the disclosure policy and corporate governance. In 2011, our shares were for the third time included in the RESPECT Index, an index of socially responsible companies listed on the Warsaw Stock Exchange. Our brand was also recognised by customers, who awarded the Company the Consumer's Laurel in the "Service Stations – Business Customers" category.



Let me also mention two major initiatives in which we were involved in 2011. We supported the Polish Presidency of the Council of the European Union and actively participated in the events organised as part of the International Year of Chemistry, engaging in a number of activities popularising chemistry among young people. Those efforts led to the launch, simultaneously in Poland and the Czech Republic, of the "Poczuj chemię" website as part of a joint project of PKN ORLEN and Unipetrol.

Despite concerns about the economic development of Europe and the world, reflected in the soaring crude prices, faltering demand for fuels in our region and the resulting low margins, we will continue consistent implementation of our plans. We are also aware of the increasingly larger burdens imposed by the changes in the regulations relating to environmental standards and CO<sub>2</sub> emissions, which will undoubtedly affect the Group's future growth.

It should be emphasised that 2012 may become a landmark year in the exploration for new energy sources in Poland. Despite the lowering of estimates for Polish shale gas reserves by the Polish Geological Institute, shale gas exploration will be a significant factor with a bearing on the Group's future development, as we plan to step up our efforts in that area in 2012.

In such difficult and unstable conditions as were seen in recent months, we had many an occasion to see that company's success depends mainly on its people – their ability to cope with the ever changing environment, flexibility, ability to make the right decisions and, most of all, their understanding of the long-term direction and vision of the company's development.

I would like to thank members of the Supervisory Board for the support provided to the Management Board as we coped with the challenges faced in 2011 -- both those planned and those unexpected which required from us quick response and close cooperation. I would like to thank the Company's employees for their professionalism, hard work and the resulting successes of our organisation in recent years.

**Dariusz Jacek Krawiec**



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