

Q4 2008 Results of the ORLEN Group

Performance – General Overview

Financial highlights, PLNm	Q4 2008	Q3 2008	Q4 2007	y/y +/- %	q/q +/- %	2008	2007	+/- %
1	2	3	4	5 = (2-4) / 4	6 = (2-3) / 3	7	8	9 = (7-8) / 8
Revenue	16,449	23,058	16,902	-2.7	-28.7	79,535	63,793	24.7
Operating profit plus depreciation/ amortisation (EBITDA)	-1,275	1,120	730	-	-	3,249	5,035	-35.5
Operating profit/loss, including:	-1,965	512	104	-	-	758	2,604	-70.9
Refining (Production and Wholesale)	-1,778	184	224	-	-	53	1,672	-96.8
Petrochemicals	-97	104	55	-	-	274	1,068	-74.3
Chemicals	33	87	38	-13.2	-62.1	285	246	15.9
Refining (Retail)	165	247	67	146.3	-33.2	625	423	47.8
Other ¹	33	29	-46	-	-13.8	137	-155	-
Unallocated ²	-321	-139	-234	37.2	-130.9	-616	-650	-5.2
Clean EBIT, including: ³	-1,879	557	680	-	-	805	3,512	-77.1
Non-recurring events ⁴	-86	-45	-576	-85.1	91.1	-47	-908	-94.8
Refining (Production and Wholesale)	0	0	-364	-	-	0	-581	-
Petrochemicals	0	0	-212	-	-	0	-327	-
Chemicals	0	0	0	-	-	0	0	-
Refining (Retail)	0	-14	0	-	-	-14	0	-
Other ¹	0	0	0	-	-	0	0	-
Unallocated ²	-86	-31	0	-	177.4	-33	0	-
Net profit	-3,117	71	588	-	-	-632	2,480	-
Profit attributable to equity holders of the Parent	-3,047	21	634	-	-	-659	2,412	-
Clean profit attributable to equity holders of the Parent	-2,961	62	1,090	-	-	-601	3,131	-
Assets	49,286	49,607	46,103	6.9	-0.6	49,286	46,103	6.9
Equity	22,413	23,897	22,573	-0.7	-6.2	22,413	22,573	-0.7
Net debt	12,557	9,840	8,824	42.3	27.6	12,557	8,824	42.3
Net cash provided by (used in) operating activities	1,103	238	-573	-	363.4	3,609	1,965	83.7
CAPEX	1,374	1,138	1,734	-20.8	20.7	3,938	3,721	5.8
ROACE (%) ⁵	1.8	7.1	6.9	-73.9	-74.7	1.9	7.0	-73.3
Net debt to equity ratio (%) ⁶	48.4	36.6	35.7	35.5	32.3	47.2	37.3	26.3
Net debt/EBITDA ⁷	3.66	1.79	1.67	119.7	104.5	3.66	1.63	124.0
Net debt/EBITDA for the last four quarters, LIFO method ⁸	2.38	2.42	2.14	119.7	104.5	2.38	2.09	124.0
EPS	-7.29	0.17	1.37	-	-	-1.48	5.80	-
Dividend per share	0.00	1.62	0.00	-	-	1.62	0.00	-

Financial data, LIFO method (PLNm)	Q4 2008	Q3 2008	Q4 2007	y/y +/- %	q/q +/- %	2008	2007	+/- %
Operating profit/loss ⁹	748	828	-459	-	-9.7	2,601	1,437	81.0
Inventory valuation ¹⁰ with LIFO method at operating profit level, including:	2,713	316	-563	-	-758.5	1,843	-1,167	-
at PKN ORLEN S.A.	1,748	-58	-389	-	-	889	-881	-
at the Unipetrol Group	227	40	-111	-	467.5	220	-163	-
at the Mazeikiu Group	683	335	-53	-	-103.9	688	-133	-
Net profit	-897	340	137	-	-	884	1,542	-42.7

1) PKN ORLEN's companies responsible for support functions, employee-related services and maintenance.

2) Includes the PKN Corporate Centre and companies not included in the segments specified above.

3) Clean profit is the profit adjusted by the effect of non-recurring events.

4) Non-recurring events in Q4 2008 relating to business risks.

5) ROACE = operating profit for the last four quarters after tax / average capital employed (equity + net debt).

6) Financial leverage = net debt / equity (calculated for the average balance-sheet values).

7) Debt (interest bearing) net of cash as at the end of period / (EBITDA + dividend received from Polkomtel) for the last four quarters.

8) Debt (interest bearing) net of cash as at the end of period / (EBITDA + dividend received from Polkomtel) for the last four quarters, calculated using the LIFO method.

9) Until Q4 2007, under the LIFO method applied at the ORLEN Group, new inventories (new layers) were valued at unit prices recorded in Q1 of a given year, while it should be valued at acquisition cost in the current period. In Q4 2007, with a view to ensuring the best possible comparability of revenue and costs in the given period, the impact of changes in prices of new layers of inventories (from the figures relating to Q1 to current period amounts) was assessed, while since Q1 2008 onwards, new layers have been recognised at current period prices. In the case of PKN ORLEN S.A., the resulting amounts were PLN 162m for Q4 2007 and PLN 196m for the four quarters of 2007. Detailed information on the impact of inventory valuation is presented on p. 15 of this report.

10) Calculated as difference between operating profit under inventory valuation with the LIFO method and operating profit under inventory valuation with the weighted average method.

Commentary

Operating Result – Calculated Using the LIFO Method and the Weighted Average Method of Inventory Valuation

In Q4 2008, operating result of the ORLEN Group ("the ORLEN Group"), calculated using the LIFO method, was positive and amounted to PLN 748m, compared with a loss of PLN (-) 459m posted in Q4 2007.

Operating result of the ORLEN Group, calculated with the weighted average method of inventory valuation, fell by PLN 2,069m year on year, to a loss of PLN (-) 1,965m.

Operating Result at the ORLEN Group Companies

Changes in operating result of the key ORLEN Group companies, relative to Q4 2007, are as follows:

- PKN ORLEN S.A. – operating profit decreased by PLN (-) 1,635m year on year, mainly due to the impact of changing crude prices on the valuation of inventories and due to a drop in the differential;
- the Mazeikiu Group – operating result decreased by PLN (-) 210m year on year due to the impact of changing crude prices on the valuation of inventories;
- the Unipetrol Group – operating result decreased by PLN (-) 58m year on year, mainly as a result of lower margins on polyolefins and due to the impact of changing prices of petrochemical products on the valuation of inventories;
- Basell Orlen Polyolefins – operating profit dropped by PLN (-) 154m year on year, mainly as a result of lower margins on polyolefins and lower sales volumes;
- the Anwil Group – operating profit dropped by PLN (-) 8m year on year, mainly as a result of lower sales volumes;
- other companies of the ORLEN Group – operating profit decreased by PLN (-) 13m year on year.

The major driver of the year-on-year change in operating result in Q4 2008 was the sharp fall in the prices of Brent crude. Compared with Q4 2007, the negative effect of inventory valuation was higher by PLN (-) 3,276m. It affected primarily the results of PKN ORLEN S.A. (PLN (-) 2,137m) and of the Mazeikiu Group (PLN (-) 736m).

Macroeconomic Factors

The lower oil prices drove down the cost of energy used in the Group's own production processes and for sale of energy by approx. PLN 266m year on year.

The increase in sales volumes contributed approx. 246m to operating result year on year. Moreover, in Q4 2008 the impact of non-recurring events – which eroded the Q4 2007 result by PLN 506m (y-o-y) – was lower. The non-recurring events were primarily related to overhauls of the production units at the Unipetrol Group (PLN 247m) and the Mazeikiu Group (PLN 194m), as well as logistics problems connected with a failure of the PERN product pipeline.

Changes in macroeconomic factors eroded operating result by approx. PLN 89m year on year. The key items included: negative impact of the lower price differential (approx. PLN 205m year on year), negative impact of lower margins on the Group's key products (approx. PLN (-) 61m year on year) and positive impact of the depreciation of the zloty against the euro and the US dollar (approx. PLN 177m year on year).

Financial Expenses and Net Profit

Net financial expenses in Q4 2008 stood at PLN (-) 1,654m, of which PLN (-) 134m represented net interest expense and PLN (-) 1,486m represented net foreign exchange losses. The main item was a PLN 1,162m foreign exchange loss on EUR-denominated loans, mainly unrealised.

The Group uses EUR-denominated loans to finance its operations because those loans provide a natural hedge against volatility of operating results related to fluctuations in the zloty exchange rates. Significant weakening of the Polish currency in Q4 2008 (and the resulting unrealised foreign exchange losses) will be offset in the subsequent quarters with higher net revenue from operations.

In Q4 2008, the ORLEN Group reported a net loss after tax of PLN (-) 3,117m.

Financial Indebtedness

In the fourth quarter of 2008, interest-bearing debt grew by PLN 2,589m (to PLN 13,893m), of which PLN 2,078m resulted from foreign exchange losses on revaluation of foreign currency items. Losses resulting from revaluation of USD-denominated loans and translation of interest-bearing debt of consolidated foreign undertakings are recognised in equity.

With regard to loans denominated in the US dollar, the Group established a security on its investment in Mazeikiu Nafta. In accordance with the principles of hedge accounting, foreign exchange gains/ losses on revaluation of these loans are recognised in equity along with foreign exchange gains/ losses on consolidation (related to the consolidation of the financial data for the Mazeikiu Group expressed in US dollars). In Q4 2008, unrealised foreign exchange losses on revaluation of USD-denominated loans amounted to approx. PLN 414m.

In connection with a ca. PLN 586m increase in net balance of loans in Q4 2008, the total balance of debt was PLN 13,893m, of which approx. 85% are loans denominated in foreign currencies.

Loan Agreements

In these financial statements, the amount of PLN 9,066m relating to non-current liabilities under loan agreements is disclosed under current liabilities. The liabilities arise under loan agreements containing provisions specifying the required Net debt / EBITDA ratio, which as at December 31st 2008 was exceeded.

The contractually-provided level of debt was exceeded mainly because of the impact of the accounting effects related to the valuation of inventories (following the decline in prices of crude and refinery products), as well as the revaluation of loans denominated in foreign currencies due to the weakening of the zloty.

In accordance with the requirements of international accounting standards, a breach of the terms and provisions of loan agreements which may result in limiting the absolute availability of loans over the following 12 months requires that such liabilities be posted under current liabilities. At the same time, as at the date of this report, none of the loan agreements containing provisions specifying the required level of consolidated debt was declared due and payable.

As at the date of this report, PKN Orlen S.A. and the lenders who are parties to the above-mentioned agreements were in discussions on the conditions for continuing the financing. In the period covered by this report and subsequent to the balance-sheet date, PKN Orlen S.A. was not in default with repayment of principal or interest under loans or borrowings.

Impairment Test

In accordance with IAS 36 (Impairment of Assets) the Group is now conducting tests for impairment of assets, which may affect the results disclosed in the audited annual financial statements for 2008.

Details of the revenue and operating results in the individual segments are discussed further on in this report.

Commentary on Macroeconomics

Crude Oil Prices and Price Differential

In Q4 2008, the average price of Brent dropped by 37.3% year on year, to USD 55.48/bbl.

The average Ural/Brent differential was 70.0% lower than in Q4 2007, and stood at USD 0.9/bbl.

Refining Products

Q4 2008 saw rising margins (crack spreads) on diesel oil (by 19.2% year on year, to USD 204.10 per tonne), light fuel oil (by 53.5%, to USD 182.26 per tonne), and A-1 jet fuel (by 11.0%, to USD 221.53 per tonne). Concurrently, the margins on gasoline dropped by 51.3%, to USD 64.28 per tonne.

Petrochemical Products

Compared with Q4 2007, the margins on ethylene and propylene rose by, respectively, 47.9% and 33.2% year on year, to USD 1,049.19 and USD 830.93 per tonne. Concurrently, the margins on polypropylene went down by 77.3% year on year, to USD 82.4 per tonne and on polyethylene from EUR 240.2 in Q4 2007 to EUR (-) 192.8 per tonne in Q4 2008.

Exchange Rates

In Q4 2008, the average PLN/EUR exchange rate rose by 3.0% year on year, to 3.77, and the average PLN/USD exchange rate by 13.4%, to 2.86. The average LTL/EUR exchange rate remained flat in comparison with 2007 and stood at 3.48, while the LTL/USD went up by 10.3%, to 2.63. The average CZK/EUR exchange rate dropped by 5.5% year on year, to 25.34 and the average CZK/USD rate relative to Q4 2007 rose by 3.9%, to 19.25.

Fuel Consumption

According to estimates based on the data provided by Agencja Rynku Energii S.A., in Q4 2008 gasoline consumption in Poland was approx. 1,056 thousand tonnes, up by 1.0% on Q4 2007. Diesel oil consumption went up by 12.7% in Q4 2008 year on year, and amounted to 2,787 thousand tonnes. At the same time, consumption of light fuel oil dropped by 13.3%, to 360 thousand tonnes.

In Lithuania, gasoline consumption in Q4 2008 went up by 2.9% year on year, to 119 thousand tonnes, while the consumption of diesel oil dropped by 4.7%, and stood at 292 thousand tonnes.

According to estimates for the German retail market, gasoline consumption in Q4 2008 decreased by 2.6% year on year, to 5,134 thousand tonnes. Diesel oil consumption rose by 2.3% year on year, to 3,075 thousand tonnes.

Q4 2008 Results of the ORLEN Group

Commentary - Refining Segment (Production and Wholesale)

Item, PLNm	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	y/y +/-%	q/q +/-%
1	2	3	4	5	6	7=(2-6)/6	8=(2-3)/3
Revenue, including:	12,043	16,272	15,587	12,529	12,822	-6.1	-26.0
Sales to third parties	9,067	14,663	13,510	10,420	9,587	-5.4	-38.2
Intra-company sales	2,976	1,609	2,077	2,109	3,235	-8.0	85.0
Costs*	-13,891	-16,002	-14,241	-12,206	-12,572	10.5	-13.2
Other operating income*	72	59	41	44	65	10.8	22.0
Other operating expenses*	-2	-145	20	-127	-91	-97.8	-98.6
Operating profit/ loss**	-1,778	184	1,407	240	224	-	-
Operating profit/ loss under LIFO	823	501	556	-102	-321	-	64.3
EBITDA	-1,485	445	1,667	488	488	-	-
CAPEX	474	422	368	276	779	-39.2	12.3
Sales of products (thousand tonnes)	5,337	6,088	6,064	4,982	4,168	28.0	-12.3

*) Adjustment of quarterly data in relation to the previously published figures (without any effect on the operating result) – transfer of revaluation writeoffs for inventories from Other operating activity to Operating expenses of the segment.

**) Operating profit net of costs not allocated to any of the segments, incurred at the Group level.

In Q4 2008, Refining's operating result was PLN (-) 1,778m, compared with PLN 224m in Q4 2007. The main drivers contributing to the segment's operating result included:

- A PLN 1,649m year on year decline in operating result of PKN ORLEN S.A. stemming mainly from the negative impact of rapid oil price decrease on inventory valuation, which eroded operating result by approx. PLN 2,097m year on year. Concurrently, lower oil prices translated into PLN 238m savings on cost of energy used in the production processes. Higher sales volumes improved the segment's result by approx. PLN 152m. Changes in the macroeconomic factors eroded the Q4 2008 operating result by approx. PLN 14m year on year;
- A PLN 225m year on year drop in operating result of the Mazeikiu Group. The effect of oil price decrease on inventory valuation eroded operating result by approx. PLN 736 m year on year. In Q4 2008, the Mazeikiu Group's sales volumes were higher, which combined with higher fixed-cost effectiveness, had a positive bearing on operating result of approx. PLN 280m. Moreover, operating result improved by approx. PLN 194m year on year due to one-off factors, seen mostly in Q4 2007, related to a major overhaul of the vacuum distillation unit;
- A PLN 117m year on year drop in operating profit of the Unipetrol Group driven by the effect of oil price decrease on inventory valuation, which eroded operating result by approx. PLN 248 m year on year. Higher sales volumes improved the operating efficiency by approx. PLN 63m. Operating result of the Unipetrol Group improved by approx. PLN 35m year on year, as no overhauls of production installations, such as those executed in Q4 2007, took place.

Compared with Q4 2007, in Q4 2008 the segment's capex decreased by PLN 305m year on year, to PLN 474m. The main projects executed in Q4 2008 included construction of the diesel oil hydrotreating unit VII and Hydrogen Plant II at PKN ORLEN S.A. as well as construction of a Diesel Oil Hydrodesulfurisation Unit at the Mazeikiu Group.

Q4 2008 Results of the ORLEN Group

Commentary - Refining (Retail)

Item, PLNm	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	y/y +/-%	q/q +/-%
1	2	3	4	5	6	7=(2-6)/6	8=(2-3)/3
Revenue, including:	4,953	5,647	5,447	4,410	4,573	8.3	-12.3
Sales to third parties	4,942	5,636	5,435	4,400	4,555	8.5	-12.3
Intra-company sales	11	11	12	10	18	-38.9	0.0
Costs*	-4,761	-5,376	-5,339	-4,308	-4,509	5.6	-11.4
Other operating income*	40	11	20	28	38	5.3	263.6
Other operating expenses*	-67	-35	-19	-26	-35	91.4	91.4
Operating profit/ loss**	165	247	109	104	67	146.3	-33.2
EBITDA	268	332	194	180	152	76.3	-19.3
CAPEX	228	127	113	81	468	-51.3	79.5
Sales of products (thousand tonnes)	1,265	1,376	1,317	1,147	1,152	9.8	-8.1

*) Adjustment of quarterly data in relation to the previously published figures (without any effect on the operating result) – transfer of revaluation writeoffs for inventories from Other operating activity to Operating expenses of the segment.

**) Operating profit net of costs not allocated to any of the segments, incurred at the Group level. Change in the quarterly results in relation to the previously published results was caused by an adjustment relating to the transfer of a sales account in which mainly revenue on sales of non-fuel products is posted, from other activities to the retail segment.

In Q4 2008, the Retail's operating profit amounted to PLN 165m, relative to PLN 67m in Q4 2007. The segment's operating profit was driven by such factors as:

- A PLN 91m year on year rise in operating profit of PKN ORLEN S.A., driven mainly by sales volumes increase of PLN 169 thousand tonnes year on year, which added approx. PLN 59m to operating profit. Higher retail margins and increased profit on sales of non-fuel goods and services boosted operating profit by, respectively, approx. PLN 17m year-on-year and PLN 28m year-on-year;
- A PLN 9m year-on-year fall in operating profit of Benzina, to PLN 6m, following mainly from a PLN 11m drop of retail margins on fuels;
- A PLN 5m year on year increase in operating profit of ORLEN Deutschland, to PLN 6m, attributable principally to higher volumes of fuel sales (up by 54 thousand tonnes year on year) and higher sales of non-fuel goods and services, which boosted operating profit by approx. PLN 15m year on year. Additionally, higher operating costs of the service stations and costs related to managing the network decreased the company's operating result by PLN (-) 8m year on year.

In Q4 2008, capex dropped by PLN 240m year on year, to PLN 228m. In Q4 2008, 31 new service stations were opened, while 43 were upgraded, rebranded and remodelled.

Q4 2008 Results of the ORLEN Group

Commentary – Petrochemicals

Item, PLNm	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	y/y +/- %	q/q +/- %
1	2	3	5	5	6	7=(2-6)/6	8=(2-3)/3
Revenue, including:	2,661	2,923	3,428	3,286	3,425	-22.3	-9.0
Sales to third parties	1,811	1,948	2,379	2,256	2,201	-17.7	-7.0
Intra-company sales	850	975	1,049	1,030	1,224	-30.6	-12.8
Costs*	-2,765	-2,818	-3,413	-3,060	-3,385	-18.3	-1.9
Other operating income*	12	8	28	20	56	-78.6	50.0
Other operating expenses*	-5	-9	-8	-14	-41	-87.8	-44.4
Operating profit/ loss**	-97	104	35	232	55	-	-
Operating profit/ loss under LIFO	15	103	26	247	37	-59.5	-85.4
EBITDA	72	255	189	388	218	-67.0	-71.8
CAPEX	493	381	247	107	241	104.6	29.4
Sales of products (thousand tonnes)	707	622	848	779	766	-7.7	13.7

*) Adjustment of quarterly data in relation to the previously published figures (without any effect on the operating result) – transfer of revaluation writeoffs for inventories from Other operating activity to Operating expenses of the segment

**) Operating profit net of costs not allocated to any of the segments, incurred at the Group level.

In Q4 2008, the segment recorded an operating loss of PLN (-) 97m, compared with a profit of PLN 55m in Q4 2007. The loss was caused by:

- A PLN 54m drop in operating profit of PKN ORLEN S.A., to PLN 71m, caused mainly by lower sales volumes of petrochemical products, especially ethylene and propylene, which reduced the segment's operating result by approx. PLN 120m. The effect of changes in the prices of petrochemical products on the valuation of inventories reduced operating result by approx. PLN 40m. The strengthening of the foreign currencies against the zloty added about PLN 64m to operating result of the segment, and the higher margins added about PLN 117m to operating result (all changes year-on-year);
- A PLN 59m year-on-year drop in operating loss of the Unipetrol Group in Q4 2008, to PLN (-) 70m, caused mainly by macroeconomic factors (relating to margins on polyolefins), which eroded operating profit by approx. PLN 146m year on year. Additionally, the effect of changes in the prices of petrochemical products on the valuation of inventories decreased operating profit by approx. PLN 90m year on year. The effects of macroeconomic conditions were partially offset by higher operating efficiency (up by PLN 82m) relating to the increase in sales (among other factors). In Q4 2008, there were no major overhaul stoppages and therefore the Unipetrol Group's result improved by an estimated PLN 212m;
- A PLN 154m year-on-year decrease in operating result of Basell ORLEN Polyolefins Sp. z o.o., which amounted to PLN (-) 100m, mainly due to lower margins on polyolefins and lower sales volumes, which eroded operating result by approx. PLN 120m and PLN 5m, respectively, year on year.

Year on year, in Q4 2008 the segment's capex increased by PLN 252m year on year, to PLN 493m. The main projects executed in Q4 2008 included construction of a paraxylene unit and terephthalic acid unit at PKN ORLEN S.A., as well as benzene extraction and C5 fractions units at the Unipetrol Group.

Q4 2008 Results of the ORLEN Group

Commentary – Chemicals

Item, PLNm	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	y/y +/- %	q/q +/- %
1	2	3	4	5	6	7=(2-6)/6	8=(2-3)/3
Revenue, including:	567	750	717	737	631	-10.1	-24.4
Sales to third parties	488	696	659	733	475	2.7	-29.9
Intra-company sales	79	54	58	4	156	-49.4	46.3
Costs*	-535	-660	-654	-644	-585	-8.5	-18.9
Other operating income*	5	4	13	6	6	-16.7	25.0
Other operating expenses*	-4	-7	-3	-7	-14	-71.4	-42.9
Operating profit/ loss**	33	87	73	92	38	-13.2	-62.1
EBITDA	74	123	108	127	76	-2.6	-39.8
CAPEX	93	91	52	20	57	63.2	2.2
Sales of products (thousand tonnes)	327	524	393	515	379	-13.7	-37.6

*) Adjustment of quarterly data in relation to the previously published figures (without any effect on the operating result) – transfer of revaluation writeoffs for inventories from Other operating activity to Operating expenses of the segment.

**) Operating profit net of costs not allocated to any of the segments, incurred at the Group level.

Operating profit generated by the segment in Q4 2008 was PLN 33m, compared to PLN 38m in Q4 2007. The segment's profit was driven by:

- Higher margins on fertilisers, which boosted operating profit by approx. PLN 64m year on year, and lower margins on other products – they reduced operating profit by PLN 17m year on year;
- Depreciation of the zloty against the euro, which improved operating profit by approx. PLN 7m year on year;
- Lower sales volumes of PVC, granulates and fertilisers, which eroded operating profit by approx. PLN 94m year on year;
- Rationalisation of operating expenses, which increased operating result by approx. PLN 28m year on year.

In Q4 2008, the segment's capital expenditure increased year on year by PLN 36m and amounted to PLN 93m. The main projects executed in Q4 2008 included construction of an oxygen plant, increase of the efficiency of fertiliser units, and modernisation of production lines at the PVC complex of the Anwil Group.

Q4 2008 Results of the ORLEN Group

Commentary – Other Activities

Item, PLNm	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	y/y +/- %	q/q +/- %
1	2	3	4	5	6	7=(2-6)/6	8=(2-3)/3
Revenue, including:	468	419	511	473	471	-0.6	11.7
Sales to third parties	141	116	107	129	84	67.9	21.6
Intra-company sales	327	303	404	344	387	-15.5	7.9
Costs*	-485	-408	-439	-482	-521	-6.9	18.9
Other operating income*	69	47	12	22	19	263.2	46.8
Other operating expenses*	-19	-29	-10	-12	-15	26.7	-34.5
Operating profit/ loss**	33	29	74	1	-46	-	13.8
EBITDA	101	93	136	62	20	405.0	8.6
CAPEX	72	107	63	72	126	-42.9	-32.7
Sales of products (thousand tonnes)	656	443	721	733	763	-14.0	48.1

*) Adjustment of quarterly data in relation to the previously published figures (without any effect on the operating result) – transfer of revaluation writeoffs for inventories from Other operating activity to Operating expenses of the segment

**) Operating profit net of costs not allocated to any of the segments, incurred at the Group level.

In Q4 2008, Other Activities generated operating profit of PLN 33m, compared with a loss of PLN 46m posted in Q4 2007. The key factors contributing to the profit include:

- An increase of PLN 66m year on year in operating profit of PKN ORLEN S.A., to PLN 72m, owing to such factors as the sale of certificates received from the Polish Energy Regulatory Office ("URE") in connection with co-generation of electricity, of PLN 30m;
- An increase of PLN 9m year on year in operating profit of the Unipetrol Group, to PLN 0.3m.

In Q4 2008, the segment's capital expenditure went down by PLN 54m year on year, and amounted to PLN 72m. The main projects executed in Q4 2008 included: modernisation of Storage Depot in Wrocław, the Ostrów Wielkopolski–Wrocław fuel pipeline, sales platform for company-owned stations and upgrade of power substations.

Condensed Consolidated Financial Statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED INCOME STATEMENT
for 12 and 3 months ended on December 31st 2008 and on December 31st 2007

ITEM, PLNm	Q4 2008	12 months of 2008	Q4 2007	12 months of 2007	+/- %	+/- %
1	2	3	4	5	6=(2-4)/4	7=(3-5)/5
Operating activity						
Sales revenue						
Revenue on sales of products	18,295	79,885	14,578	60,525	25.5	32.0
Excise tax and other charges	-5,346	-17,965	-3,844	-15,044	39.1	19.4
Net revenue on sales of products	12,949	61,920	10,734	45,481	20.6	36.1
Revenue on sales of goods for resale and materials	3,965	19,730	6,950	21,041	-42.9	-6.2
Excise tax and other charges	-465	-2,115	-782	-2,729	-40.5	-22.5
Net revenue on sales of goods for resale and materials	3,500	17,615	6,168	18,312	-43.3	-3.8
Total sales revenue	16,449	79,535	16,902	63,793	-2.7	24.7
Cost of products sold	-13,108	-56,677	-9,523	-39,259	37.6	44.4
Cost of goods for resale and materials sold	-3,914	-17,313	-5,871	-16,867	-33.3	2.6
Cost of products, goods for resale and materials sold	-17,022	-73,990	-15,394	-56,126	10.6	31.8
Gross profit/ loss on sales	-573	5,545	1,508	7,667	-	-27.7
Selling costs	-903	-3,332	-868	-3,176	4.0	4.9
General and administrative expenses	-514	-1,473	-529	-1,637	-2.8	-10.0
Other operating income	211	682	209	470	1.0	45.1
Other operating expenses	-186	-664	-216	-720	-13.9	-7.8
Operating profit/ loss	-1,965	758	104	2,604	-	-70.9
Financial income	281	703	721	1,190	-61.0	-40.9
Financial expenses	-1,935	-2,261	-217	-1,050	791.7	115.3
Net financial income/expenses	-1,654	-1,558	504	140	-	-
Share in net profit/loss of undertakings valued with equity method	33	267	68	267	-51.5	0.0
Profit/ loss before tax	-3,586	-533	676	3,011	-	-
Corporate income tax	469	-99	-88	-531	-	-81.4
Net profit/ loss	-3,117	-632	588	2,480	-	-
including:						
Net profit/ loss attributable to minority interests	-70	27	-46	68	-52.2	-60.3
Net profit/ loss attributable to equity holders of the Parent	-3,047	-659	634	2,412	-	-

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED BALANCE SHEET
as at December 31st 2008 and December 31st 2007

ITEM, PLNm	Dec 31 2008	Dec 31 2007	+/- %
1	2	3	4=(2-3)/3
ASSETS			
Non-current assets			
Property, plant and equipment	28,610	24,834	15.2
Intangible assets	570	531	7.3
Goodwill	88	86	2.3
Assets available for sale	62	62	0.0
Shares in undertakings consolidated with equity method	1,561	700	123.0
Deferred tax asset	433	233	85.8
Investment property	72	69	4.3
Perpetual usufruct right to land	99	91	8.8
Long-term loans and own receivables	76	130	-41.5
Total non-current assets	31,571	26,736	18.1
Current assets			
Inventories	9,105	10,365	-12.2
Trade and other receivables	6,381	6,884	-7.3
Income taxes receivable	391	115	240.0
Current financial assets	247	168	47.0
Prepayments and accrued income	204	147	38.8
Cash	1,336	1,498	-10.8
Assets held for sale	51	190	-73.2
Total current assets	17,715	19,367	-8.5
Total assets	49,286	46,103	6.9
EQUITY AND LIABILITIES			
Equity			
Share capital	535	535	0.0
Share capital revaluation adjustment	523	523	0.0
Share capital	1,058	1,058	0.0
Share premium account	1,058	1,058	0.0
Share premium revaluation adjustment	169	169	0.0
Share premium account	1,227	1,227	0.0
Hedging capital	-113	83	-236.1
Currency-translation differences	-77	-1,328	-94.2
Retained profit	17,554	18,895	-7.1
Equity attributable to equity holders of the Parent	19,649	19,935	-1.4
Equity attributable to minority interests	2,764	2,638	4.8
Total equity	22,413	22,573	-0.7
Non-current liabilities			
Loans and borrowings	2,611	8,603	-69.7
Provisions	747	799	-6.5
Deferred tax liability	1,566	1,549	1.1
Other non-current liabilities	142	140	1.4
Total non-current liabilities	5,066	11,091	-54.3
Current liabilities			
Trade and other payables	8,418	9,181	-8.3
Provisions	787	723	8.9
Income tax expense	35	39	-10.3
Loans and borrowings	11,282	1,719	556.3
Deferred income	77	61	26.2
Other financial liabilities	1,208	716	68.7
Total current liabilities	21,807	12,439	75.3
Total equity and liabilities	49,286	46,103	6.9

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONDENSED CONSOLIDATED CASH-FLOW STATEMENT
for 12 and 3 months ended on December 31st 2008 and December 31st 2007

ITEM, PLNm	Q4 2008	12 months of 2008	Q4 2007	12 months of 2007	+/- %	+/- %
1	2	3	4	5	6=2/4	7=3/6
Cash flows from operating activities						
Net profit/ loss	-3,117	-632	588	2,480	-	-
Adjustments:						
Share in net profit/(loss) of undertakings valued with equity method	-34	-267	-68	-267	50.0	0.0
Depreciation and amortisation	690	2,491	626	2,431	10.2	2.5
Net foreign exchange gains/ losses	1,156	732	-453	-691	-	-
Net interest and dividends	163	533	123	456	32.5	16.9
(Profit)/loss on investing activities	-16	-55	-9	503	-77.8	-
Decrease/ (increase) in receivables	2,535	975	194	-536	1 206.7	-
Decrease/ (increase) in inventories	3,015	1,763	-1,746	-3,235	-	-
(Decrease)/ increase in liabilities and accruals	-2,887	-1,397	353	941	-	-
(Decrease)/ increase in provisions	39	-28	15	-40	160.0	30.0
Income tax on profit before tax	-468	99	88	531	-	-81.4
Income tax paid	-72	-595	-206	-601	65.0	1.0
Other adjustments	99	-10	-78	-7	-	-42.9
Net cash provided by/(used in) operating activities	1,103	3,609	-573	1,965	-	83.7
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets	-1,049	-3,969	-1,297	-3,694	19.1	-7.4
Disposal of property, plant and equipment and intangible assets	55	125	50	108	10.0	15.7
Disposal of shares	33	200	4	784	725.0	-74.5
Acquisition of shares	-733	-737	-52	-539	-1 309.6	-36.7
Disposal of short-term securities	0	0	0	245	-	-
Dividends and interest received	114	199	64	303	78.1	-34.3
Loans granted	-1	-3	1	-2	-	-50.0
Loans repaid	3	5	1	8	200.0	-37.5
Dividend paid to minority interests	-39	-186	-23	-32	-69.6	-481.3
Other	-1	-19	-9	-26	88.9	26.9
Net cash provided by/(used in) investing activities	-1,618	-4,385	-1,261	-2,845	-28.3	-54.1
Cash flows from financing activities						
Increase in long- and short-term loans and borrowings	4,010	10,963	5,491	9,513	-27.0	15.2
Issue of debt securities	5	479	346	1,096	-98.6	-56.3
Repayment of long- and short-term loans and borrowings	-3,329	-8,714	-4,829	-9,852	31.1	11.6
Redemption of debt securities	-100	-825	0	-89	-	-827.0
Interest paid	-193	-564	-197	-609	2.0	7.4
Dividend paid	0	-693	0	0	-	-
Payment of liabilities under financial lease agreements	-9	-36	-12	-37	25.0	2.7
Other	2	2	1	5	100.0	-60.0
Net cash provided by/(used in) financing activities	386	612	800	27	-51.8	2 166.7
Net (decrease) in cash	-129	-164	-1,034	-853	87.5	80.8
Foreign-exchange gains/(losses)	1	2	0	0	-	-
Cash at beginning of period	1,464	1,498	2,532	2,351	-42.2	-36.3
Cash at end of period, including restricted cash	1,336	1,336	1,498	1,498	-10.8	-10.8
	107	107	105	105	1.9	1.9

Q4 2008 Results of the ORLEN Group

Operating Data

POLSKI KONCERN NAFTOWY ORLEN S.A. PRODUCTION VOLUMES for 3 months ended on December 31st 2008 and December 31st 2007

Output (^{'000 tonnes})	Q4 2008	Q4 2007*	y-o-y change %	Q4 2008	% share	Q4 2008	% share	Q4 2008	% share
1	2	3	4=(2-3)/3	5	6=5/total for segment	7	8=7/total for segment	9	10=9/total for segment
Refining	ORLEN Group	ORLEN Group		PKN ORLEN S.A.		Unipetrol Group		Mazeikiu Group	
Crude oil throughput	7,057	5,235	34.8	3,594	-	1,110	-	2,279	-
Gasoline	1,603	1,120	43.1	707	24.1	210	18.2	686	31.9
Diesel fuel	2,628	1,764	49.0	1,322	45.1	454	39.4	850	39.6
Light fuel oil	278	305	-8.9	250	8.5	12	1.0	2	0.1
A-1 jet fuel	153	115	33.0	83	2.8	23	2.0	47	2.2
Heavy fuel oil	686	465	47.5	187	6.4	43	3.7	400	18.6
LPG	157	91	72.5	42	1.4	39	3.4	93	4.3
Bitumens	272	282	-3.5	0	0.0	63	5.5	33	1.5
Lubricants	65	63	3.2	0	0.0	18	1.6	0	0.0
Other	172	153	12.4	343	11.7	290	25.2	37	1.7
Total products	6,014	4,358	38.0	2,934	-	1,152	-	2,148	-
Petrochemicals	ORLEN Group	ORLEN Group		PKN ORLEN S.A.		Unipetrol/Chemopetrol		BOP	
Polyethylene	100	108	-7.4	0	0.0	52	9.5	48	55.8
Polypropylene	75	84	-10.7	0	0.0	36	6.6	38	44.2
Ethylene	76	56	35.7	123	36.8	83	15.1	0	0.0
Propylene	42	46	-8.7	78	23.4	47	8.6	0	0.0
Toluene	22	35	-37.1	22	6.6	0	0.0	0	0.0
Benzene	54	50	8.0	20	6.0	34	6.2	0	0.0
Paraxylene	6	8	-25.0	6	1.8	0	0.0	0	0.0
Ortoxylyene	1	8	-87.5	1	0.3	0	0.0	0	0.0
Acetone	7	9	-22.2	7	2.1	0	0.0	0	0.0
Butadiene	16	16	0.0	16	4.8	0	0.0	0	0.0
Glycol	45	57	-21.1	23	6.9	27	4.9	0	0.0
Ethylene oxide	3	5	-40.0	3	0.9	0	0.0	0	0.0
Phenol	11	13	-15.4	11	3.3	0	0.0	0	0.0
Other	293	221	32.6	24	7.2	269	49.1	0	0.0
Total products	751	716	4.9	334	-	548	-	86	-
Chemicals	ORLEN Group	ORLEN Group		PKN ORLEN S.A.		Unipetrol/Chemopetrol		Anwil Group	
PVC	76	99	-23.2	-	-	-	-	77	13.6
PVC granulate	8	16	-50.0	-	-	-	-	8	1.4
CANWIL	113	95	18.9	-	-	-	-	113	20.0
Ammonium nitrate	133	146	-8.9	-	-	-	-	133	23.5
Caprolactam	7	13	-	-	-	-	-	7	1.2
Other	464	457	1.5	-	-	250	-	227	40.2
Total products	801	826	-3.0	0	-	250	-	565	-
Total output	7,566	5,900	28.2	3,268	-	-	-	-	-

* Change of data relative to that published in the Q4 2007 report, due to consolidation of production in the IT platform.

Q4 2008 Results of the ORLEN Group

POLSKI KONCERN NAFTOWY ORLEN S.A.
SALES OF KEY PRODUCTS
for 12 and 3 months ended December 31st 2008 and December 31st 2007

Sales (‘000 tonnes)	Q4 2008	12 months of 2008	Q4 2007	12 months of 2007	y-o-y change %	y-o-y change %
1	2	3	4	5	6=2/4	7=3/5
Refining (Production and Wholesale)						
Gasoline	1,319	5,544	1,049	4,361	25.7	27.1
Diesel fuel	2,219	9,152	1,634	7,559	35.8	21.1
Light fuel oil	356	1,277	369	1,189	-3.5	7.4
Jet fuel	171	1,067	149	652	14.8	63.7
Heavy fuel oil	686	2,755	289	2,063	137.4	33.5
LPG	41	407	78	472	-47.4	-13.8
Bitumens	269	1,104	257	1,043	4.7	5.8
Lubricants	74	267	57	240	29.8	11.3
Other	202	898	286	869	-29.4	3.3
Total products	5,337	22,471	4,168	18,448	28.0	21.8
Refining (Retail)						
Gasoline	588	2,299	535	2,127	9.9	8.1
Diesel fuel	604	2,511	556	2,138	8.6	17.4
LPG	73	295	61	254	19.7	16.1
Other	0	0	0	2	-	-100.0
Total products	1,265	5,105	1,152	4,521	9.8	12.9
Refining (Production and Wholesale + Retail)	6,602	27,576	5,320	22,969	24.1	20.1
Petrochemicals						
Polyethylene	103	466	103	450	0.0	3.6
Polypropylene	75	369	85	374	-11.8	-1.3
Ethylene	67	277	65	273	3.1	1.5
Propylene	43	212	59	235	-27.1	-9.8
Toluene	20	105	34	122	-41.2	-13.9
Benzene	56	275	51	191	9.8	44.0
Paraxylene	7	25	8	32	-12.5	-21.9
Ortoxylene	2	21	7	26	-71.4	-19.2
Acetone	6	28	8	32	-25.0	-12.5
Butadiene	14	55	17	77	-17.6	-28.6
Glycol	30	200	27	105	11.1	90.5
Ethylene oxide	3	12	5	17	-40.0	-29.4
Phenol	10	43	14	50	-28.6	-14.0
Other	271	868	283	1,072	-4.2	-19.0
Total products	707	2,956	766	3,056	-7.7	-3.3
Chemicals						
PVC	57	306	69	351	-17.4	-12.8
PVC granulate	8	55	15	68	-46.7	-19.1
CANWIL	85	426	90	386	-5.6	10.4
Ammonium nitrate	89	497	135	552	-34.1	-10.0
Other	88	475	70	470	25.7	1.1
Total products	327	1,759	379	1,827	-13.7	-3.7
Petrochemicals and Chemicals	1,034	4,715	1,145	4,883	-9.7	-3.4
Other activities	656	2,553	763	3,029	-14.0	-15.7
ORLEN Group – total	8,292	34,844	7,228	30,881	14.7	12.8

Information on the Effect of Inventory Valuation with the LIFO Method

The Management Board of PKN ORLEN S.A. hereby reports on the impact of the LIFO inventory valuation on PKN ORLEN's non-consolidated profit and the ORLEN Group's consolidated profit for Q4 2008 and 12 months of 2008. Profit before tax and net profit (i.e. including the effect of taxation), as estimated by the Company for PKN ORLEN and the ORLEN Group using the LIFO method, are as follows:

Profit, PLNm	12 months ended December 31st 2008		3 months ended December 31st 2008		12 months ended December 31st 2007		3 months ended December 31st 2007	
	Inventory valuation at the weighted average production or acquisition cost	LIFO valuation	Inventory valuation at the weighted average production or acquisition cost	LIFO valuation	Inventory valuation at the weighted average production or acquisition cost	LIFO valuation	Inventory valuation at the weighted average production or acquisition cost	LIFO valuation
Non-consolidated profit before tax	-421	468	-3,064	-1,316	3,257	2,377	995	606
Non-consolidated net profit	-242	479	-2,509	-1,093	2,760	2,047	821	506
Consolidated profit before tax	-533	1,310	-3,586	-873	3,011	1,844	676	112
Consolidated net profit	-632	884	-3,117	-897	2,480	1,542	588	137

PKN ORLEN S.A. and the ORLEN Group apply the inventory valuation method based on the weighted average production or acquisition cost. This method defers the recognition of oil price increase or decrease on the prices of final products. Therefore, the reported results benefit from increases in crude oil prices and suffer when the prices decline. The application of the LIFO inventory valuation method results in the current production being valued based on the current price of crude oil purchased by the Group. Accordingly, an upward trend in oil prices decreases, and a falling trend in oil prices increases the results in accordance with LIFO method.