Consolidated Annual Report of Polski Koncern Naftowy ORLEN SPÓŁKA AKCYJNA Capital Group for the year 2010

March 2011

THE CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2010 INCLUDES:

1. **LETTER OF THE PRESIDENT OF THE BOARD**
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POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2010

(year)

(in accordance with § 82 section 2 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259)
(for issuers of securities whose business activity embraces manufacture, construction, trade and services)

for the reporting year 2010, that is for the period from 1 January 2010 to 31 December 2010 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 31 March 2011
(submission date)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
(full name of the issuer)

PKN ORLEN (abbreviated name of the issuer)

OIL&GAS (industrial sector in line with classification of Warsaw Stock Exchange)

09-411 (zip code)

PŁOCK (location)

CHEMIKÓW (street)

7 (number)

48 24 256 81 80 (telephone)

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KPMG AUDYT Sp. z o.o.
(Entity authorized to conduct audit)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the year ended 31/12/2010	for the year ended 31/12/2009	for the year ended 31/12/2010	for the year ended 31/12/2009
I. Sales revenues	83 547 432	67 927 990	20 863 908	16 963 338
II. Profit from operations	3 122 649	1 097 076	779 804	273 968
III. Profit before tax	3 070 167	1 440 652	766 698	359 767
IV.Net profit attributable to equity holders of the parent	2 371 358	1 308 521	592 188	326 771
V. Net profit	2 455 467	1 300 167	613 192	324 685
VI. Total comprehensive income attributable to equity holders of the parent	2 537 678	1 233 166	633 722	307 953
VII. Total comprehensive income	2 658 224	1 211 414	663 826	302 521
VIII. Net cash provided by operating activities	6 110 199	5 161 793	1 525 871	1 289 030
IX.Net cash (used in) investing activities	(2 920 060)	(2 526 615)	(729 213)	(630 960)
X. Net cash (used in) financing activities	(3 297 740)	(1 034 966)	(823 529)	(258 457)
XI. Net (decrease)/increase in cash and cash equivalents	(107 601)	1 600 212	(26 871)	399 613
XII. Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	5.54	3.06	1.38	0.76
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
XIII. Non-current assets	30 430 874	29 655 024	7 683 982	7 488 075
XIV. Current assets	20 718 918	19 433 046	5 231 654	4 906 963
XV. Total assets	51 149 792	49 088 070	12 915 636	12 395 038
XVI. Long-term liabilites	10 684 821	13 223 343	2 697 983	3 338 975
XVII. Short-term liabilities	16 225 018	14 157 516	4 096 916	3 574 859
XVIII. Equity	24 239 953	21 707 211	6 120 737	5 481 204
XIX. Equity attributable to equity holders of the parent	21 627 938	19 037 903	5 461 187	4 807 187
XX. Share capital	1 057 635	1 057 635	267 059	267 059
XXI. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XXII. Book value and diluted book value per share attributable to equity holders of the parent (in PLN/EUR per share)	50.57	44.51	12.77	11.24

The above data for 2010 and 2009 was translated into EUR by the following exchange rates:

- specific items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2010 – 3.9603 PLN/EUR;
- specific items of statement of comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period 1 January - 31 December 2010 – 4.0044 PLN/EUR.

CONSOLIDATED FINANCIAL STATEMENTS OF Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group for the year ended 31 December 2010

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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PKN ORLEN S.A. CAPITAL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of financial position

	Note	as at 31/12/2010	as at 31/12/2009 (restated data)
ASSETS			
Non-current assets			
Property, plant and equipment	6	27 403 013	26 998 132
Investment property	7	71 976	71 487
Intangible assets	8	1 102 709	690 376
Perpetual usufruct of land	9	96 354	96 043
Investments accounted for under equity method	10	1 501 016	1 401 586
Financial assets available for sale	11	42 783	59 633
Deferred tax assets	30.2.	163 893	290 820
Other non-current assets	12	49 130	46 947
		30 430 874	**29 655 024**
Current assets			
Inventories	14	11 294 851	10 619 859
Trade and other receivables	15	6 288 802	5 624 933
Other short-term financial assets	16	224 601	181 005
Income tax receivable		48 273	34 032
Cash and cash equivalents	17	2 820 742	2 941 039
Non-current assets classified as held for sale	18	**41 649**	**32 178**
		20 718 918	**19 433 046**
Total assets		**51 149 792**	**49 088 070**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity			
Share capital	19.1.	1 057 635	1 057 635
Share premium	19.3.	1 227 253	1 227 253
Hedging reserve	19.5.1.	63 872	14 849
Foreign exchange differences on subsidiaries from consolidation	19.5.3.	(149 492)	(266 789)
Retained earnings	19.4.	19 428 670	17 004 955
Total equity attributable to equity holders of the parent		**21 627 938**	**19 037 903**
Non-controlling interest	19.6.	**2 612 015**	**2 669 308**
Total equity		**24 239 953**	**21 707 211**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	20	9 123 987	11 610 532
Provisions	21	635 618	661 921
Deferred tax liabilities	30.2.	818 581	836 330
Deferred income	24	16 960	16 855
Other long-term liabilities	22	89 675	97 705
		10 684 821	**13 223 343**
Short-term liabilities			
Trade and other liabilities	23	13 435 998	11 494 542
Interest-bearing loans and borrowings	20	1 543 740	1 593 695
Income tax liability		23 370	24 169
Provisions	21	1 002 428	847 117
Deferred income	24	74 959	80 519
Other financial liabilities	25	144 523	117 474
		16 225 018	**14 157 516**
Total liabilities		**26 909 839**	**27 380 859**
Total equity and liabilities		**51 149 792**	**49 088 070**

PKN ORLEN S.A. CAPITAL GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of comprehensive income

	Note	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Income statement			
Sales revenues	26	83 547 432	67 927 990
Cost of sales	27	(75 566 961)	(61 843 276)
Gross profit on sales		**7 980 471**	**6 084 714**
Distribution expenses		(3 394 612)	(3 507 700)
General and administrative expenses		(1 365 195)	(1 504 707)
Other operating revenues	28.1.	771 321	1 258 334
Other operating expenses	28.2.	(869 336)	(1 233 565)
Profit from operations		**3 122 649**	**1 097 076**
Financial revenues	29.1.	446 754	1 094 275
Financial expenses	29.2.	(751 248)	(1 023 074)
Financial revenues and expenses		**(304 494)**	**71 201**
Share in profit from investments accounted for under equity method		252 012	272 375
Profit before tax		**3 070 167**	**1 440 652**
Income tax expense	30	(614 700)	(140 485)
Net profit		**2 455 467**	**1 300 167**
Items of other comprehensive income:			
Hedging instruments valuation		25 502	(4 491)
Hedging instruments settlement		35 020	146 024
Foreign exchange differences on consolidation		153 734	(203 395)
Deferred tax on other comprehensive income items		(11 499)	(26 891)
		202 757	**(88 753)**
Total net comprehensive income		**2 658 224**	**1 211 414**
Net profit attributable to:		**2 455 467**	**1 300 167**
equity holders of the parent		2 371 358	1 308 521
non-controlling interest		84 109	(8 354)
Total comprehensive income attributable to:		**2 658 224**	**1 211 414**
equity holders of the parent		2 537 678	1 233 166
non-controlling interest		120 546	(21 752)
Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN per share).		5.54	3.06

PKN ORLEN S.A. CAPITAL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of cash flows

	Note	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Cash flows - operating activities			
Net profit		**2 455 467**	**1 300 167**
Adjustments for:			
Share in profit from investments accounted for under equity method		(252 012)	(272 375)
Depreciation and amortisation	27	2 422 747	2 562 221
Foreign exchange (gain)		(36 860)	(122 715)
Interest and dividend, net		389 978	383 602
Loss/(Profit) on investing activities		206 817	(714 716)
Change in receivables	31	(799 146)	655 338
Change in inventories	31	(608 981)	(1 662 679)
Change in liabilities	31	2 282 677	2 820 956
Change in provisions	31	715 077	(2 086)
Income tax expense	30	614 700	140 485
Income tax (paid)/received		(517 882)	19 255
Other adjustments	31	(762 383)	54 340
Net cash provided by operating activities		**6 110 199**	**5 161 793**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(3 724 370)	(2 670 628)
Disposal of property, plant and equipment and intangible assets		686 025	827 802
Disposal of shares		53 339	1 354
Acquisition of shares		(115 927)	(1 019 488)
Acquisition of short-term securities and deposits		(174 955)	(56 822)
Disposal of other securities		198 711	-
Interest and dividend received		158 737	423 922
Other		(1 620)	(32 755)
Net cash (used in) investing activities		**(2 920 060)**	**(2 526 615)**
Cash flows - financing activities			
Proceeds from loans and borrowings		14 688 673	11 192 817
Repayment of loans and borrowings		(17 408 772)	(11 461 010)
Interest paid		(545 378)	(666 133)
Payment of liabilities under finance lease agreements		(24 060)	(80 384)
Dividends paid to non-controlling interest		(10 468)	(13 382)
Other		2 265	(6 874)
Net cash (used in) financing activities		**(3 297 740)**	**(1 034 966)**
Net (decrease)/increase in cash and cash equivalents		**(107 601)**	**1 600 212**
Effect of exchange rate changes		(12 696)	(3 397)
Cash and cash equivalents, beginning of the period	17	**2 941 039**	**1 344 224**
Cash and cash equivalents, end of the period	17	**2 820 742**	**2 941 039**
incl. restricted cash	17	68 289	24 459

PKN ORLEN S.A. CAPITAL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2010	2 284 888	14 849	(266 789)	17 004 955	19 037 903	2 669 308	21 707 211
Total comprehensive income	-	49 023	117 297	2 371 358	2 537 678	120 546	2 658 224
Change in non-controlling interest's structure	-	-	-	52 357	52 357	(168 284)	(115 927)
Dividends	-	-	-	-	-	(9 555)	(9 555)
31 December 2010	**2 284 888**	**63 872**	**(149 492)**	**19 428 670**	**21 627 938**	**2 612 015**	**24 239 953**
1 January 2009	2 284 888	(99 793)	(76 792)	15 704 788	17 813 091	2 718 556	20 531 647
Total comprehensive income	-	114 642	(189 997)	1 308 521	1 233 166	(21 752)	1 211 414
Change in non-controlling interest's structure	-	-	-	(8 354)	(8 354)	(16 702)	(25 056)
Dividends	-	-	-	-	-	(10 794)	(10 794)
31 December 2009	**2 284 888**	**14 849**	**(266 789)**	**17 004 955**	**19 037 903**	**2 669 308**	**21 707 211**

(all amounts in PLN thousand)

Accounting principles, notes and other explanatory information

1. General information

1.1. Principal activity of the Group, composition of the Management Board and Supervisory Board of the Parent

Polski Koncern Naftowy ORLEN S.A. seated in Płock, 7 Chemików Street ("Company", "PKN ORLEN", "Issuer") was established through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Company was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

On 7 September 1999, Centrala Produktów Naftowych ("CPN") Spółka Akcyjna was incorporated, thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spółka Akcyjna.

According to Warsaw Stock Exchange classification PKN ORLEN belongs to oil and gas sector.

The principal activity of the Polski Koncern Naftowego ORLEN S.A. Capital Group („Group", „Capital Group", „ PKN ORLEN S.A. Capital Group") includes among others:
- Processing of crude oil and manufacturing of oil derivative products and semi finished products (refinery and petrochemical);
- Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber;
- Purchase, processing and trade of used lubricant oils and other chemical waste;
- Manufacturing, transfer and trade in heating energy and electricity;
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil derivative and other fuel, sale of industrial and consumer goods;
- Research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- Operation of petrol stations, bars, restaurants and hotels as well as catering activities;
- Financial holding activities, brokerage and other financial activities;
- Natural gas and crude oil exploration and extraction;
- Services to the entire society, medical services, fire protection, education.

Concessions

Concessions granted by public authorities as at 31/12/2010	periods, for which concessions were granted (in years)
Electrical energy: manufacturing, transfer, distribution and trade	10 - 22
Heating energy: manufacturing, transfer, distribution and trade	10 - 20
Liquid and gaseous fuels: manufacturing, transmission, distribution, trade, storage and transportation	10 - 45
International profit-making road transportation services	5
Non-reservuar storage of crude oil and liquid fuels	30
Rock salt: exploitation and recognition	4 - 30
Exploration and recognition of crude oil and natural gas	5
Personal and property security services	indefinetely

As at 31 December 2010 and 31 December 2009 the Group had no liabilities related to concession services.

(all amounts in PLN thousand)

Shareholders' structure

The shareholders' structure of PKN ORLEN S.A. as at 31 December 2010 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% Share in share capital
State Treasury	117 710 196	117 710 196	147 137 745	27.52%
Aviva OFE	21 744 036	21 744 036	27 180 045	5.08%
Others	288 254 829	288 254 829	360 318 536	67.40%
	427 709 061	**427 709 061**	**534 636 326**	**100.00%**

Composition of the Management Board of the Parent

Composition of the Management Board as at 31 December 2010 was as follows:

Dariusz Krawiec – President of the Management Board, General Director
Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
Wojciech Kotlarek – Member of the Management Board, Sales
Krystian Pater – Member of the Management Board, Refinery
Marek Serafin – Member of the Management Board, Petrochemistry

On 24 March 2011 the Supervisory Board of PKN ORLEN S.A. has chosen the President of the Management Board, Vice-President of the Management Board and three Management Board Members for a new term. The new term Management Board will be as follows:

Dariusz Krawiec – President of the Management Board, General Director
Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer
Krystian Pater – Member of the Management Board, Refinery
Grażyna Piotrowska-Oliwa – Member of the Management Board, Sales
Marek Serafin – Member of the Management Board, Petrochemistry

The appointed Board of Directors will start its activity after the PKN ORLEN S.A. General Meeting, which will accept the financial statement for 2010.

Composition of the Supervisory Board of the Parent

Composition of the Supervisory Board as at 31 December 2010 was as follows:

Maciej Mataczyński – Chairman of the Supervisory Board
Marek Karabuła – Deputy Chairman of the Supervisory Board
Angelina Sarota – Secretary of the Supervisory Board
Grzegorz Borowiec – Member of the Supervisory Board
Artur Gabor – Member of the Supervisory Board (from 25 June 2010)
Krzysztof Kołach – Member of the Supervisory Board
Leszek Jerzy Pawłowicz – Member of the Supervisory Board (from 25 June 2010)
Piotr Wielowieyski – Member of the Supervisory Board
Janusz Zieliński – Member of the Supervisory Board

On 25 June 2010 Ordinary General Meeting did not appoint for the new term of office Mr. Jarosław Rocławski to the Member of the Supervisory Board.

1.2. Statement of the Management Board

1.2.1. In respect of the reliability of consolidated financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing consolidated financial statements and comparative data were prepared in compliance with the Group accounting principles in force and that they reflect true and fair view on financial position and financial result of the Group and that the Management Board Report on the Group's Operations presents true overview of development, achievement and business situation of Capital Group, including basic risks and exposures.

1.2.2. In respect of the entity authorized to conduct audit of financial statements

The Management Board of PKN ORLEN declares that the entity authorized to conduct audit and conducting the audit of the consolidated financial statements, was selected in compliance with the law and that the entity and auditors conducting the audit met the conditions to issue an independent opinion in compliance with relevant regulations.

KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of unconsolidated financial statements of PKN ORLEN S.A. and consolidated financial statements of PKN ORLEN S.A Capital Group for the year 2010.

2. Accounting policies

2.1. Principles of presentation

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and were in force as at 31 December 2010. The scope of consolidated financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (Official Journal no. 33, item 259) with further amendments.

The foregoing consolidated financial statements cover the period from 1 January to 31 December 2010 and the comparative period from 1 January to 31 December 2009.

Presented consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2010 and comparative data as at 31 December 2009, results of its operations and cash flows for the year ended 31 December 2010 and comparative data for the year ended 31 December 2009.

The consolidated financial statements have been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of these financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

The foregoing consolidated financial statements, except for consolidated cash flow statement, have been prepared using the accrual basis of accounting.

2.2. Impact of amendments and interpretations of IFRSs on consolidated financial statements of the Group

2.2.1. Binding amendments and interpretations to IFRSs

The amendments adopted from 1 January 2010 had no impact on the foregoing consolidated financial statements.

2.2.2. IFRSs and interpretations to IFRSs not yet effective

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2010 , in accordance with their effective date. In the current reporting period, the Group did not make decision to voluntary early adopt amendments and interpretations to standards.

IFRSs and interpretations to IFRSs adopted by EU

Amendments to IFRS 1 – Limited exemptions from comparative IFRS 7 disclosures for First-time Adopters

The amendment refers to limited exemptions from comparative IFRS 7 disclosures for First-time Adopters. The exemption refers to first reporting periods beginning earlier than 1 January 2010.
The amended standard was published on 1 July 2010. According to the Commission Regulation no 574/2010 all entities shall apply the amendments to IFRS 1 and IFRS 7 as from the commencement date of its first financial year starting after 30 June 2010.
The amended standard is not relevant to financial statements of the Group.

Amendments to IAS 24 Related Parties Disclosures

The amendment introduces exemptions to disclosures of related party transactions, outstanding balances, including contingent liabilities with: (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard requires specific disclosures to be provided if a reporting entity take advantage of this exemption. The revised standard also amends the definitions of a related party which resulted in new relations being included in the definition such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.
The amended standard was published on 20 July 2010. According to the Commission Regulation no 632/2010 all entities shall apply the amended standard at the latest, as from the commencement date of its first financial year starting after 31 December 2010.
The amendments to IAS 24 will have no impact on consolidated financial statements of the Group.

Amendments to IAS 32 Classification of rights issues

The amendment requires that rights, options and warrants issued to acquire a fixed number of entity's own equity instruments for a fixed amount of any currency are classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of entity's non-derivative equity instruments.
The amendments to standard were published on 24 December 2009. According to the Commission Regulation no 1293/2009 all entities shall apply the amendments at the latest, as from commencement date of its first financial year starting after 31 January 2010.
Amendments to IAS 32 are not relevant to consolidated financial statements of the Group due to the fact that the Group did not issue such instruments at any time in past.

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirements

Amended IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirement. According to the amendments, the entity is required to recognise certain prepayments as an asset, on the basis that the entity has future economic benefits, from the prepayment in the form of reduced cash outflows in future years in which minimum funding requirements payments would otherwise be required.
Amendments to interpretation were published on 20 July 2010. According to the Commission Regulation no 633/2010 all entities shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 31 December 2010.
Amendments to IFRIC are not relevant to consolidated financial statements of the Group due to the fact , that the Group does not have any defined benefit plans with minimum funding requirements.

New interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Interpretation clarifies that the equity instruments issued to a creditor of an entity to extinguish all or part of a financial liability, in form of 'debt for equity swaps' are considered paid in accordance with IAS 39.41.
The initial recognition of equity instruments issued to extinguish a financial liability is at the fair value of the equity instrument issued, unless that fair value cannot be reliably measured, in which the equity instrument shall be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of equity instruments issued should be recognised in profit or loss of the current period.
The interpretation was published on 24 July 2010. According to the Commission Regulation no 662/2010 all entities shall apply the above amendments at the latest, as from the commencement date of its first financial year starting after 30 June 2010.
Since the interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have. In the current period the Group did not issue equity instruments to cover financial liabilities. For the same reason the above interpretation will not have a significant influence on the comparative data disclosed in the consolidated annual financial statements for the year ended 31 December 2010.

Improvements to International Financial Reporting Standards in 2010

The improvements contain 11 amendments to 6 standards and 1 interpretation and are mainly focused on solving discrepancies and specifying wording. Introduced changes specified required accounting treatment in the situation when previously, free interpretation was acceptable.
The improvements were published on 19 February 2011. According to the Commission Regulation no 149/2011 all entities shall apply the above improvements at the latest as from the commencement date of its first financial year starting after 30 June 2010 or 31 December 2010.
Since the improvements can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have.

Standards and interpretations waiting for approval of EU

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment adds an exemption that an entity can apply, at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows the entity to measure all assets and liabilities held before the functional currency normalisation date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
An entity shall apply those amendments for annual periods beginning on or after 1 July 2011.
It is expected that at the date of adoption, the amendments to standard will have no impact on future consolidated financial statements.

Amendments to IFRS 7 Disclosures – Transfers of financial assets

The amendment requires disclosure of information that enables to help users of financial statements:
- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment defines “continuing involvement” for the purposes of applying the disclosure requirements.
An entity shall apply that amendment for annual periods beginning on or after 1 July 2011. When applied, it is expected that the amendment to IFRS 7 will increase the current level of disclosures in the consolidated financial statements.

New standard and amendments to IFRS 9 Financial instruments

New standard replaces guidance in IAS 39 *Financial Instruments: Recognition and Measurement* about classification and measurement of financial assets. The standard eliminates existing IAS 39 categories: held for maturity, available for sale and loans and receivables.
At the initial recognition, financial assets will be classified as: financial assets measured at amortised cost or financial assets measured at fair value.

The 2010 amendments to IFRS 9 replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* about classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. The standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, shall be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss of current period. If the requirements would create or enlarge an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss of the current period.
The amounts presented in other comprehensive income are not subsequently reclassified to profit or loss of the current period, but may be transferred within equity.
Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.
An entity shall apply IFRS 9 with amendments for annual periods beginning on or after 1 January 2013.
It is expected that the amendments to the Standard, when initially applied, will have a significant impact on future consolidated financial statements and comparative data, since they will be required to be retrospectively applied.

Amendments to IAS 12 Income taxes - Deferred tax: Recovery of Underlying Assets

Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.
An entity shall apply those amendments for annual periods beginning on or after 1 January 2012.
The impact of the initial application will be dependent on the specific assets held and their fair values at the date of the initial application. Until the date of the initial application of the Standard the Group is unable to determine the effects the application will have on future consolidated financial statements.

2.2.3. Presentation changes

– Starting from 1 January 2010 the Group recognises in the consolidated statement of financial position CO_2 emission rights granted free of charge as intangible assets and deferred income at the fair value of CO_2 emission rights at the date of their receipt.
  The Group recognises provision for estimated CO_2 emissions in the reporting period. In the consolidated result the cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge.
  In the financial statements for the previous reporting periods intangible assets were compensated, and presented net with deferred income and provision for CO_2 emissions. The change in presentation had no impact on consolidated statement of comprehensive income for the year ended 31 December 2009, nor, due to the sale of CO_2 emissions rights in 2009, on the consolidated statement of financial position as at 31 December 2009.

– In segment data relating to consolidated statement of comprehensive income for the year ended 31 December 2009 (disclosed in note 5.1 to the consolidated financial statement) a reclassification adjustments of PLN 1,304,031 thousand was made from the position of sales revenues and operating expenses of the refining segment to the position of sales revenues and operating expenses of the retail segment. The adjustment reflects sales volumes generated through DOFO (Dealer Owned Franchise Operated) channel, previously presented in the refining segment.

– Starting from the December 2010 the Group recognises government grants received related to non-current tangible and intangible assets directly as a decrease of the value of non-current tangible or intangible asset. Grant settlement is recognised in the consolidated statement of comprehensive income in operating activities as a decrease in depreciation.
  In the financial statements for previous reporting periods government grants received related to non-current tangible and intangible assets were presented as deferred income in correspondence with other operating income.
  In the statement of financial position as at 31 December 2009 the value of government grants decreased the value of non-current tangible assets, deferred income and other long term liabilities by PLN 72,305 thousand. In the statement of comprehensive income for the year ended 31 December 2009 the value of government grants decreased the depreciation costs and other operating income by PLN 5,425 thousand, with no effect on the result of the period.

According to the Management Board the above mentioned changes ensure better presentation of results of Group's operations.

(all amounts in PLN thousand)

2.2.4. Functional currency and presentation currency of financial statements and methods applied to translation of data for consolidation purposes

The functional and presentation currency of the foregoing consolidated financial statements is Polish Złoty.

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:
- particular assets, equity and liabilities – at spot exchange rate as at the end of the reporting period;
- respective items of statement of comprehensive income and statement of cash flows are translated at the average rate (arithmetic average of average exchange rates published by the National Bank of Poland ("NBP") in the reporting period).

CURRENCIES	average exchange rate for the reporting period		exchange rate at the end of the reporting period	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009
PLN/EUR	4.0044	4.3406	3.9603	4.1082
PLN/USD	3.0402	3.1236	2.9641	2.8503
PLN/CZK	0.1585	0.1639	0.1580	0.1554

Accounting policies for foreign currency transactions are disclosed in note 2.3.2

2.3. Applied accounting policies

2.3.1. Changes in accounting policies and estimates

An entity shall change an accounting policy only if the change:
- is required by an IFRS; or
- results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

In case of change in accounting policy it is assumed that the new policy had always been applied. The amount of the resulting adjustment is made to the equity. For comparability, the entity shall adjust the comparative information for the earliest prior period presented as if the new accounting policy had always been applied, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Items of consolidated financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

2.3.2. Transactions in foreign currencies

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:
- foreign currency monetary items, including units of currency held by the Group and receivables and liabilities due in a defined or definable units of currency shall be translated using the closing rate, i.e. the spot rate at the end of the reporting period;
- non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised by the Group in consolidated profit or loss in the period in which they arise, except for the monetary items which hedge the currency risk and are accounted in accordance with the cash flow hedge accounting principles.

2.3.3. Principles of consolidation

The consolidated financial statements of the Group include data of PKN ORLEN S.A., its subsidiaries and jointly controlled entities (joint ventures) prepared as at the end of the same reporting period as unconsolidated financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances. Data of subsidiaries and jointly controlled entities (joint ventures) that together do not significantly impact the financial statements of the Capital Group are not consolidated.

2.3.3.1. Investments in subsidiaries

Subsidiaries are entities under the Parent's control. It is assumed that the Parent Company controls another entity if it holds directly or undirectly – through its subsidiaries – more than 50% of the voting rights in an entity, unless in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the Parent Company owns half or less of the voting power of an entity when there is:

- power over more than half of the voting rights by virtue of an agreement with other investors,
- power to govern the financial and operating policies of the entity under a statute or an agreement,
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Subsidiaries are consolidated using the full conolidation method.

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Parent Company.

2.3.3.2. Investments in jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. The requirement ensures that no single venturer is in a position to control the activity unilaterally.

It is assumed that the party has joint control when the strategic financial and operating decisions require the unanimous consent of the parties sharing control. Investments in jointly controlled entities are accounted for using the proportionate method. The application of proportionate consolidation means that the venturer assumes its proportionate share in assets, liabilities and equity, income and expenses of the jointly controlled entity, which are added together with the like items in consolidated financial statements and then performs adequate consolidation procedures, including eliminations. Intra group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from the transactions with jointly controlled entity are proportionately eliminated.

2.3.3.3. Investment in associates

Investments in associates (entities over which the investor has significant influence and that are neither controlled nor jointly controlled) are accounted for using the equity method, based on financial statements of associates prepared as at the end of same reporting period as unconsolidated financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

It is assumed that the Investor has significant influence over another entity, if it has ability to participate in financial and operating decisions of the entity. Particularly, the significant influence is evidenced when the Group holds directly or indirectly more than 20%, and no more than 50% of the voting rights of an entity and participation in financial and operating decisions is not contractually or actually restrained and is actually executed.

2.3.3.4. Consolidation procedures

The consolidated financial statements are prepared using the line by line method and the proportionate method. When investor has significant influence over another entity, equity method is used to evaluate shares in entity.

Consolidated financial statements are the financial statements of a Group presented as those of a single economic entity.

In preparing consolidated financial statements using line by line method, an entity combines the financial statements of the Parent Company and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses and then performs adequate consolidation procedures, including eliminations. Intra-group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from intra-group transactions are eliminated. Unrealized losses are eliminated after assets, to which they relate are tested for impairment. Unrealized profits and losses are settled proportionately with non controlling interest.

In line by line method the following steps are then taken:
- the carrying amount of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary are eliminated,
- non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified,
- non-controlling interests in the net assets of consolidated subsidiaries are identified and presented separately from the parent's ownership interests in them,
- intra group balances are eliminated,
- unrealized profits or losses from intra group transactions are eliminated,
- intra group revenues and expenses are eliminated.

The application of proportionate consolidation means that the venturer assumes its proportionate share in assets, liabilities and equity, income and expenses of the jointly controlled entity, which are added together with the like items in consolidated financial statements and then performs adequate consolidation procedures, including eliminations. Intra group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from the transactions with jointly controlled entity are proportionately eliminated. Unrealized losses are eliminated after assets, to which they relate are tested for impairment.

Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor.

2.3.4. Business combinations

An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:
- identifying the acquirer;
- determining the acquisition date;
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- recognising and measuring goodwill or a gain from a bargain purchase.

Business combinations under common control (within the Group) are accounted by applying the acquisition method or uniting of interest method, choosing the method that adequately reflects the economic nature of the transaction.

The fair value of assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost is determined in accordance with principles set in attachment B to IFRS 3.

2.3.5. Operating segments

An operating segment is a component of an entity:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

The operations of the Group were divided into the following segments:
- the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the retail segment, which includes sales at petrol stations,
- the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals

and corporate functions, which are reconciling items and include activities related to management and administration and other support functions as well as remaining activities not allocated to separate segments.

Segment revenues are revenues reported in the statement of comprehensive income that are directly attributable to a segment and the relevant portion of revenues that can be allocated on a reasonable basis to a segment, including revenues from sales to external customers and revenues from transactions with other segments.

Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group's expenses that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Segment expenses do not include:
- income tax expense,
- interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature,
- losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

Segment result is calculated on the level of operating result.

Segment assets are those operating assets that are employed by that segment in operating activity and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Particularly segment assets do not include assets connected with income tax.

The revenues, result, assets of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

Sales prices used in transactions between segments are close to market prices.

2.3.6. Property, plant and equipment

Property, plant and equipment are assets that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost. The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into use. The cost of an item of property, plant and equipment includes also the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.

Property, plant and equipment are stated in the consolidated statement of financial position prepared at the end of the reporting period at the carrying amount. The carrying amount is the amount at which an asset is initially recognised (cost) after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated economic useful life, considering the residual value. Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

The depreciable amount of an asset is determined after deducting its residual value from the initial value.

The following standard economic useful lives are used for property, plant and equipment:

Buildings and constructions	10-40 years
Machinery and equipment	4-35 years
Vehicles and other	2-20 years

Appropriateness of the applied depreciation rates is verified periodically (at least once a year). The adjustments are accounted for prospectively.

The cost of significant repairs and regular maintenance programs is recognised as property, plant and equipment and depreciated in accordance with their economic useful lives. The cost of current maintenance of property, plant and equipment is recognised as an expense when it is incurred.

The Group assesses (once a year) the residual value of property, plant and equipment.

Property, plant and equipment are tested for impairment, when there are indicators or events that may imply that the carrying amount of those assets may not be recoverable.

2.3.7. Investment property

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.

After initial recognition, a Group shall measure all of its investment property at fair value, estimated based on a valuation performed by and independent expert. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises. A Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

If a Group determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Group shall measure that investment property in accordance with rules set for property, plant and equipment.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2.3.8. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group.

An intangible asset shall be recognised if, and only if:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group, and
- the cost of the asset can be measured reliably.

If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self develop an asset are recognised in profit or loss when incurred. If an asset was acquired in a business combination it is part of a goodwill as at acquisition date.

An intangible asset shall be measured initially at cost. An intangible asset that is acquired in a business combination, is recognised initially at fair value.

After initial recognition, an intangible asset shall be presented in the consolidated financial statements in its net carrying amount.

Intangible assets with finite useful life are amortised using straight-line method. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life. The amortisation period and the amortisation method shall be reviewed periodically (at least at each financial year-end). The changes are reflected in the future accounting periods (prospectively).

The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.

The following standard economic useful lives are used for intangible assets:

Concessions, licenses, patents and similar	2–15 years
Software	2–10 years

Intangible assets with an indefinite useful life shall not be amortised. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

2.3.8.1. Goodwill

Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of a) over b) below:
a) the aggregate of:
– the consideration transferred, which generally requires acquisition-date fair value;
– the amount of any non-controlling interest in the acquiree; and
– in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in point (b) exceeds the aggregate of the amounts specified in point (a). If that excess remains, after reassessment of correct identification of all acquired assets and liabilities, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date as other operating profit for the period.

The acquirer shall measure goodwill in the amount recognised at the acquisition date less any accumulated impairment allowances.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided the test is performed at the same time every year.

A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

2.3.8.2. Rights

Carbon dioxide emission rights (CO_2)

CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.

Granted emission allowances should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.

For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the consolidated statement of comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of evaluated annual emission. The surplus of grant over the estimated emission in the reporting period is recognised as other operating income.

Granted/purchased CO_2 emission allowances are amorised against the book value of provision, as its settlement. Outgoing of allowances is recognised using FIFO method (first in, first out).

Nitrous suboxide emission reduction units (N_2O)

Recognised units of emission reduction are presented gross in receivables in correspondence with deferred income (grant in scope of IAS 20) at fair value as at the last working day of a monthly period.

At the end of the following month, value of receivables recognised until then is updated to reflect the effects of measurement the unit of reduction and valuation of total value of units of reduction being the basis for accounting for receivables at fair value as at the end of the month.

As at the date of issue of the administrative decision relating to grant of emission reduction units in the following period, recognised receivable is settled through recognition of intangible assets at fair value at that day.

At each period deferred income is also updated.

Grants should be recognised on a systematic basis in the accounting periods. Due to lack of current cost related to granted emission reduction units, income is recognised in the same month as receivables by the settlement of deferred income. Grant is recognised as other operating income.

2.3.9. Perpetual usufruct of land

Perpetual usufruct of land is recognised at the acquisition cost and presented in a separate line of the consolidated statement of financial position.

As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost less any accumulated depreciation and impairment losses.

Perpetual usufruct of land received based on administrative decision are recognised only off balance sheet.

2.3.10. Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are directly charged into the consolidated profit or loss.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs are capitalized based on so called net investment expenditures which means assets in the process of construction not funded through the use of investment commitments, but using other sources of external financing.

Borrowing costs may include:
- interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement,
- finance charges in respect of finance leases recognised in accordance with IAS 17 Lease, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually born by the entity.

The commencement date for capitalization is the date when all of the following three conditions are met:
- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

Capitalising of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user are not the basis for the capitalization.

After putting the asset into use, the capitalized borrowing costs are depreciated/ amortized over the period reflecting economic useful life of the asset as part of the cost of the asset.

2.3.11. Impairment of assets

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are carried out also annually for intangible assets with the indefinite useful life and for goodwill.

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units). To the cash generating unit following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognised in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.

An impairment loss recognised for goodwill shall not be reversed.

Reversal of an impairment loss is recognised in profit or loss.

2.3.12. Inventories

Inventories are assets:

- held for sale in the ordinary course of business,
- in the process of production for such sale, or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories comprise products, semi-finished products and work in progress, merchandise and materials.

Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period.

Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

The production costs do not include:

- costs incurred as a consequence of low production or production losses,
- general and administrative expenses that are not directly attributable to bringing the inventories to the condition and location at the moment of measurement,
- storage costs of finished goods, semi-finished products and work in progress, unless these costs are necessary in the production process,
- distribution expenses.

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realisable value, after deducting any impairment losses.

Outgoings of finished goods, semi-finished products and work in progress is determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and raw materials are measured initially at acquisition cost.

As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any impairment allowances.

Impairment tests for specific items of merchandise and raw materials are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.

Raw materials held for use in the production are not written down below acquisition or production cost if the products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.

Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.

2.3.13. Receivables

Receivables, including trade receivables, are recognised initially at amortized cost using the effective interest method less impairment allowances. The Group uses simplified methods of receivables measurement, if it does not distort information included in the consolidated financial statements, particularly if the payment term of receivables is not long. Receivables, including trade receivables, in relation to which simplified methods are used, are measured initially at the amounts due and after initial recognition (including the end of the reporting period) at the amounts due less impairment allowances.

2.3.14. Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The consolidated cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO method.

2.3.15. Non-current assets held for sale

Non-current assets held for sale are those which comply simultaneously with the following criteria:
- the sales were declared by the appropriate level of management,
- the assets are available for an immediate sale in their present condition,
- an active program to locate a buyer has been initiated,
- the sale transaction is highly probable and can be settled within 12 months following the sales decision,
- the selling price is reasonable in relation to its current fair value,
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

Reclassification is reflected in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.

While a non-current asset is classified as held for sale it shall not be depreciated (or amortised).

A non-current assets held for sale (excluding among others financial assets and investment property) shall be measured at a lower of: book value or fair value less costs to sell.

A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Group shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Group ceases to classify a discontinued operation, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

2.3.16. Equity

Equity is recorded in accounting books by type, in accordance with legal regulations and the Parent Company's articles of association. Equity comprises:

2.3.16.1. Share capital

The share capital is a equity paid by shareholders and is stated at nominal value in accordance with the Parent Company's articles of association and the entry in the Commercial Register.

Declared but not paid share capital is presented as outstanding share capital contributions. The Parent Company's own shares and outstanding shares capital contributions decrease the equity.

2.3.16.2. Share premium

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

Issuance costs incurred by setting up a Parent Company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value of shares, and the remaining portion is presented in retained earnings.

2.3.16.3. Hedging reserve

Hedging reserve relates to valuation and settlement of hedging instruments that meet the criteria of cash flow hedge accounting.

2.3.16.4. Revaluation surplus

Revaluation surplus relates to a difference between the fair value and the purchase cost, after deducting deferred tax, of assets held for sale, if there is a market price available from active regulated market, or fair value may be calculated on other reliable basis.

2.3.16.5. Foreign exchange differences on subsidiaries from consolidation

Foreign exchange differences on subsidiaries from consolidation result mainly from translation of financial statements of subsidiaries into functional and presentation currency of the Group.

2.3.16.6. Other reserve capital

Additional payments to equity are initially recognised at fair value.

Non repayable additional payments to equity received or payments with non-confirmed repayment date are presented in equity. Non repayable additional payments to equity made or payments with non-confirmed repayment date are presented as investments in shares.

Repayable additional payments to equity received are presented as liabilities (short or long term). Repayable additional payments to equity made are presented as current or non-current receivables based on the repayment date.

2.3.16.7. Retained earnings

Retained earnings include:

- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/loss,
- advance dividends paid,
- the effects (profit/(loss)) of prior period errors,
- changes in accounting principles.

2.3.17. Liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method. The Group uses simplified methods of liabilities measurement, including trade liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long. Liabilities, including trade liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

2.3.17.1. Government grants

Government grants are transfers of resources to the Group by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants shall not be recognised until there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.

Government grants related to assets, shall be presented net with the related asset and is recognised in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

2.3.18. Provisions

A provision is a liability of uncertain timing or amount.

The Group recognises a provision when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognised.

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financial expenses.

The provisions are created, among others, for:
- environmental risk,
- jubilee bonuses and post-employment benefits,
- business risk,
- shield programs,
- CO_2 emission.

Provisions are not recognised for the future operating losses.

2.3.18.1. Environmental provision

The Group creates provisions for future liabilities due to reclamation of contaminated land or water or elimination of harmful substances if there is such a legal or constructive obligation. Environmental provision for reclamation is periodically reviewed based on reports prepared by independent experts. The Group conducts regular reclamation of contaminated land that decreases the provision by its utilization.

2.3.18.2. Jubilee bonuses and post employment benefits

Under the remuneration plans employees are entitled to jubilee bonuses as well as retirement and pension benefits.

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

The provisions equal to the present value of these liabilities are estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumption including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

Actuarial gains or losses are recognised in profit or loss.

2.3.18.3. Business risk

Business risk provision is created after consideration of all available information, including legal opinions. If on the basis of such information:
- it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met);
- it is more likely that no present obligation exists at the end of the reporting period, the Group discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.3.18.4. Shield programs

Shield programs provision (restructuring provision) is created when the Group started to implement the restructuring plan or announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the Group will carry out the restructuring. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

2.3.18.5. CO_2 emissions

The Group creates provision for the estimated CO_2 emission during the reporting period in operating activity costs (taxes and charges).

2.3.19. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

Accruals relate for example to:
- uninvoiced services,
- unused holidays,
- investment liabilities.

2.3.20. Revenues from sale

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Group was founded, revenues are recurring and are not of incidental character.

2.3.20.1. Revenues from sales of finished goods, merchandise, materials and services

Revenues from sales of finished goods, merchandise, materials and services are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, raw materials and services are recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods or services rendered decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognised based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognised up to the cost incurred, but not greater than the cost which are expected to be recovered by the Group.

2.3.20.2. Revenues from licenses, royalties and trade mark

Revenues from licenses, royalties and trade mark are recognised on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Group are recognised as deferred income and settled in the periods when economic benefits are realized according to the agreements.

2.3.20.3. Franchise revenues

Franchise revenues are recognised in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

2.3.21. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Group was founded, costs are recurring and are not of incidental character. Particularly costs that are connected to purchase of raw materials, their processing and distribution, that are fully under Group's control.

The Group recognises costs in accordance with matching and prudence concept.

2.3.21.1. Cost of sales

Cost of sales comprises costs of finished goods, merchandise and raw materials sold, including services of support functions.

2.3.21.2. Distribution expenses

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.

2.3.21.3. General and administrative expenses

General and administrative expenses include expenses relating to management and administration of the Group as a whole.

2.3.22. Other operating revenues and expenses

Other operating revenues refer to operating revenues, in particular relating to profit from liquidation and sale of non-financial non-current assets, surplus of assets, return of court fees, penalties earned by the Group, surplus of grants received to revenues over the value of costs, assets received free of charge, reversal of receivable impairment allowances and some provisions, compensations earned, revaluation gains and profit on sale of investment property.

Other operating costs refer to operating costs, in particular relating to loss on liquidation and sale of non-financial non-current assets, shortages of assets, court fees, contractual penalties and fines, penalties for non-compliance with environmental protection regulations, cash and tangible assets granted free of charge, impairment allowances (except those that are recognised as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, research costs, cost of recovery of receivables and liabilities, revaluation losses and loss on sale of investment property.

2.3.23. Financial revenues and expenses

Financial revenues include, in particular, profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Revenues from dividends are recognised when the shareholders' right to receive payments is established.

Financial costs include, in particular, the loss on the sale of shares and securities sold and costs associated with such sale, impairment losses relating to financial assets such as shares, securities and interest receivables, foreign exchange losses, interest on bonds and other securities issued, interest on finance lease, commissions on bank loans, borrowings, guarantees, interest costs.

2.3.24. Income tax expense

Income tax expense comprises current tax and deferred tax.

Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period.

Current tax liabilities for current and prior periods represent the amounts payable at the reporting date. If the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognised as a receivable.

Deferred tax assets are recognised for deductible temporary differences, unrealized tax losses and unrealized tax relieves.

Deferred tax liabilities are recognised for taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognised in the accounting records as assets or liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability at the end of the reporting period is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognised in the accounting records as assets or liabilities.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

If the transaction is not a business combination, and affects neither accounting profit nor taxable profit (loss), an entity would not recognise the resulting deferred tax liability or asset arising on initial recognition of an asset or liability. No deferred tax liability is recognised on goodwill, amortisation of which is not a tax deductible expense.

Deferred tax assets and liabilities shall be measured at the end of each reporting period at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each reporting date).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities.

Deferred tax assets and liabilities are offset in the consolidated statement of financial position, if the Group has a legally enforceable right to set off the recognised amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer (including capital tax group), except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

2.3.25. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for a given period which is attributable to ordinary shareholders of the Parent Company (numerator) by the weighted average number of ordinary shares outstanding during the period (denominator).

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the Parent in respect of:

- profit or loss from continuing operations attributable to the Parent Company; and
- profit or loss attributable to the Parent Company,

shall be the amounts above adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. Profit or loss attributable to ordinary equity holders of the Parent Company is increased by the after-tax amounts of dividends and interest for the period, attributable to the dilutive potential ordinary shares adjusted by all other changes of income and expense, which would result from the change of dilutive ordinary shares.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

2.3.26. Consolidated statement of cash flows

The consolidated statement of cash flows is prepared using indirect method.

Cash and cash equivalents presented in the consolidated statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

Group discloses components of cash and cash equivalents and reconciliation between amounts disclosed in the consolidated statement of cash flows and respective lines of consolidated statement of financial position.

Non-cash transactions are excluded from statement of cash flows.

Dividends received are presented in consolidated cash flows from investing activities.

Dividends paid are presented in consolidated cash flows from financing activities.

Interest received from finance leases, loans granted and short-term securities are presented in consolidated cash flows from investing activities. Other interest received are presented in consolidated cash flows from operating activities.

Interest paid and provisions on bank loans and borrowings received, debt securities issued and finance leases are presented in consolidated cash flows from financing activities. Other interest paid are presented in consolidated cash flows from operating activities.

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short are reported on a net basis in the consolidated statement of cash flows.

Cash received or paid due to term agreements i.a. futures, forward, options, swap is presented in consolidated cash flows from investing activities, unless the agreements are held by the Group for trading or cash received or paid is presented in financing activities.

If the contract is booked as hedge of a given position, cash flows from such contract are classified in the same way as the cash flows resulting from the position hedged.

Cash flows from corporate income tax are presented in cash flows from operating activities, unless it may be related to investing or financing activities.

2.3.27. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.3.27.1. Recognition and derecognition in the consolidated statement of financial position

The Group recognises a financial asset or a financial liability in its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised by the Group as at trade date.

The Group derecognises a financial asset from the consolidated statement of financial position when, and only when:
- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

The Group derecognises a financial liability (or part of financial liability) from its consolidated statement of financial position when, and only when it is extinguished - that is when the obligation specified in the contract:
- is discharged, or
- is cancelled, or
- expired.

2.3.27.2. Measurement of financial assets and liabilities

When a financial asset is recognised initially, the Group measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs comprise particularly fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges and transfer of taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Group classifies financial assets into the following four categories:
- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets.

Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial assets as financial assets at fair value through profit or loss, when doing so results in more relevant information.

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Group upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:
- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or
- a derivative (except for a derivative that is an effective hedging instrument).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Available-for-sale financial assets are those non-derivative financial assets that are designated by the Group as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

a. Fair value measurement of financial assets

The Group measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in the following way:
- for instruments quoted on an active market based on current quotations available as at the end of the reporting period,
- for debt instruments unquoted on an active market based on discounted cash flows analysis,
- for forward and swap transactions based on discounted cash flows analysis.

If the fair value of investments in equity instruments (shares) that do not have a quoted market price on an active market is not reliably measurable, the Group measures them at cost, that is the acquisition price less any accumulated impairment losses.

Financial assets designated as hedged items are measured in accordance with the principles of hedge accounting.

A gain or loss on a financial asset classified as at fair value through profit or loss are recognised through profit or loss.

A gain or loss on an available-for-sale financial asset are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses that are recognised in profit or loss. In case of debt financial instruments interest calculated using the effective interest method are recognised in profit or loss.

b. Amortized cost measurement of financial assets

The Group measures loans and other receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Group uses simplified methods in respect of measurement of financial assets at amortized cost if it does not distort information included in the statement of financial position, especially when the maturity date is not long. Financial assets measured at amortized cost, in relation to which the Group uses simplifications, are measured initially at the amounts due and after initial recognition (including the end of the reporting period) at the amounts due less any cumulated impairment losses.

c. Fair value measurement of financial liabilities

As at the end of the reporting period or other dates after the initial recognition the Group measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments) at fair value. Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. The fair value of a financial liability is the current price of instruments quoted on an active market.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:
– using recent arm's length market transactions between knowledgeable, willing parties,
– reference to the current fair value of another instrument that is substantially the same,
– discounted cash flow analysis.

d. Amortised cost measurement of financial liabilities

The Group measures other financial liabilities, at amortized cost using the effective interest rate method. The Group uses simplified methods of measurement of financial liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, especially when the maturity date is not long. Financial liabilities in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

Financial guarantee contracts, that are contracts that require the Group (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:
– the amount determined in accordance with principles relating to valuation of provisions,
– the amount initially recognised less, when appropriate, cumulative amortisation.

2.3.27.3. Transfers

The Group:
– shall not reclassify a derivative out the fair value through profit or loss category while it is held or issued;
– shall not reclassify a financial instrument out of fair value through profit or loss category if at initial recognition it has been designated by the Group as measured at fair value through profit or loss; and
– may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category in limited circumstances, and in case of loans and receivables (if at initial recognition financial assets was not classified at held for trading) if an entity has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

The Group does not reclassify financial instruments into category of fair value through profit or loss after initial recognition.

2.3.27.4. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.
If there is an objective indicator that an impairment loss on loans and other receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss as revenue.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognised in the consolidated statement of comprehensive income is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

2.3.27.5. Embedded derivatives

If the Group is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

The Group assesses the need to separate an embedded derivative from the host contract and to present it as a derivative, when it becomes a party of a hybrid instrument for the first time. Reassessment is made only in case, when subsequent changes are introduced to the hybrid contract that substantially modify cash flows required by the contract.

A derivative is a financial instrument with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract,
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

2.3.27.6. Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a hedged item are accounted for in accordance with fair value or cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Group does not apply hedge accounting in case when embedded derivative instrument is seperated from the host contract.

The Group assess effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Group assess hedge as effective, only if the actual results of the hedge are within a range of 80% -125%. For external reporting purposes, the Group uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Group uses simplified analytical methods, when a hedged item and a hedging instruments are of the same nature i.a. maturity dates, amounts, changes affecting fair value risk or cash flow changes.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

If a fair value hedge is used, it is accounted for as follows:

- the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognised in other comprehensive income).

The Group discontinues prospectively fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Group's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Group revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other consolidated comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognised in consolidated profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other consolidated comprehensive income are reclassified to consolidated profit or loss in the same period or periods during which the asset acquired or liability assumed affect consolidated profit or loss. However, if the Group expects that all or a portion of a loss recognised in other consolidated comprehensive income will not be recovered in one or more future periods, it reclassifies to consolidated profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Group removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

The Group discontinues cash flow hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognised in other consolidated comprehensive income remain separately recognised in consolidated equity until the forecast transaction occurs,
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognised in other consolidated comprehensive income remain separately recognised in consolidated equity until the forecast transaction occurs,
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognised in other consolidated comprehensive income are recognised in consolidated profit or loss.

If the Group revokes the designation, the cumulative gain or loss on the hedging instrument recognised in consolidated other comprehensive income remain separately recognised in consolidated equity until the forecast transaction occurs or is no longer expected to occur.

Net investment in a foreign operations is the amount of the reporting entity's interest in the net assets of that operations.

Hedges of a net investment in a foreign operations, including hedge of monetary item that is accounted for as a part of the net investment, shall be accounted for similarly to cash flow hedges:

- the portion of the gain or loss on the hedging instrument that is determined to be effective hedge shall be recognised in other consolidated comprehensive income; and
- the ineffective portion shall be recognised in consolidated profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in consolidated other comprehensive income shall be reclassified from equity to consolidated profit or loss as a reclassification adjustment on a disposal or partial disposal of the foreign operations.

A hedge of a foreign currency risk of a firm commitment may be accounted for as a fair value hedge or cash flow hedge.

2.3.28. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Particularly leases are the agreements defined in the Civil Code as well as rent and tenancy agreements concluded for a definite time.

Assets used under the finance lease, that is the agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessee. Assets used under the operating lease, that is the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessor.

Transfer of risks and rewards within the finance lease agreements includes i.e. the following situations:

- the lease transfer ownership of the asset to the lessee or that by the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

If the Group uses an asset based on the operating lease, the asset is not recognised in the consolidated statement of financial position and lease payments are recognised as an expense in consolidated profit or loss.

If the Group uses an asset based on the finance lease, the asset is recognised as an item of property, plant and equipment or an intangible asset. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments that is the present (discounted) value of payments over the lease term that the lessee is or can be required to make.

The present value of the minimum lease payments is recognised in the statement of financial position as financial liabilities with the division into short-term part (due no more than one year after the end of the reporting period) and long-term part (due more than one year after the end of the reporting period). The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, if this is practicable to determine, if not, the lessee’s incremental borrowing rate.

Depreciation methods for assets leased under the finance lease as well as methods of determining impairment losses in respect of assets leased under the finance lease are consistent with policies applied for the Group’s owned assets. If there is a reasonable uncertainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the sorter of the lease term or useful life.

If the Group conveyed to another entity the right to use an asset under the operating lease, the asset is recognised based on the same policies as applied for the Group’s owned assets, that is as an item of property, plant and equipment or an intangible asset.

Lease income from operating leases is recognised as revenues from sale.

If the Group conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognised in the statement of financial position as receivables with the division into short-term part and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value and the initial direct costs to be equal to the fair value of the leased asset.

2.3.29. Exploration and extraction of hydrocarbons/salt

For exploration and extraction of hydrocarbons/salt the Group applies accounting principles based on Successful Efforts Method.

The stages of exploration and excavation of hydrocarbons/salt are classified into:
– preliminary stage of assessment,
– acquisition of rights to explore and extract,
– exploration of resources,
– recognition of resources,
– resource site planning,
– exploitation of resources.

All expenditures related to the preliminary stage of assessment are recognised in consolidated profit or loss when incurred.

Cost incurred, related to acquisition of rights to explore and extract are recognised as intangible assets. General and administrative expenses that may be directly attributed to the purchase transaction of exploration/extraction rights should increase the purchase price of an asset. If direct allocation of costs to the purchase transaction of exploration/extraction rights is not possible, indirect costs are recognised in consolidated profit or loss when incurred.

Expenditures related to exploration and recognition:
- Expenditures incurred for each exploratory drilling is initially recognised as construction in progress. If the exploratory drilling is unsuccessful, the cost previously recognised as an asset is included in consolidated profit or loss. If the appraisal is successful, the cost incurred for all appraisal drillings (including unsuccessful drillings) is transferred to property, plant and equipment at the date put into use. In case of performance exploratory drillings on already extracted resource, the Group analyzes, if costs incurred enable rising new boreholes- expenditures are recognised in non – current assets at the date of put into use. If despite the expenditures, new borehols do not rise, expenditures are recognised in consolidated profit or loss when incurred.

- Other expenditures at the exploration and recognition stage is initially recognised as intangible assets under development or construction in progress, depending on the type of cost incurred. If the exploration and recognition stage ends without success, initially incurred costs, previously recognised as an asset are included in consolidated profit or loss.
- When the commercial and technical feasibility of a resource is confirmed, the Group defines cash generating unit. It is assumed that cash generating unit will be defined as hydrocarbons/salt resource.
- General and administrative expenses that can be directly attributed to the stage of exploration and recognition should be recognised as an asset and included in previously defined cash generating unit. If cost cannot be allocated, it is included in consolidated profit or loss when incurred.

Cost incurred for resource site planning are recognised as an asset and included in previously defined cost generating unit. General and administrative expenses that can be directly attributed to the resource site planning stage should be recognised as an asset and included in previously defined cost generating unit. If cost cannot be allocated, it is included in consolidated profit or loss when incurred.

Cost directly attributed to hydrocarbons/salt resource extraction is included in the consolidated profit or loss as the cost of the current period.

Depreciation of non-current assets used for exploration and extraction activity is calculated proportionally to the amount of extracted hydrocarbons/salt, using unit of production method. If the unit of production method is not possible to apply (e.g. because of lack of information regarding total amount of hydrocarbons/salt or using of assets on multiple stages of exploration or exploration) other depreciation method, that most reliably reflects the economical usage, can be applied.

The Group creates provisions for the cost of removal of drillings and supporting infrastructure. The amount of the provision for future dismantling and land reclamation is initially recognised as a provision and as a part of initial value of an asset at the date of put into use.

The amount of created provisions is verified at the end of each reporting period and adjusted to reflect the current knowledge as at that date. The increase in the provision due to the passage of time (due to discounting) is recognised as a financial expense in the consolidated profit or loss. Changes in the provision due to assessment of cost, change of discount rate, change of date of removal/ reclamation adjust the book value of a provision and book value of an asset.

The Group performs impairment tests of assets used in exploration and extraction activity, both for proved and unproved assets/resources.

The Group performs impairment tests of assets used in exploration and exploitation activity, both for proved and unproved assets/resources on the cash generating unit level, defined as hydrocarbons/salt deposit.

2.3.30. Contingent assets and contingent liabilities

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the consolidated financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

Contingent assets are not recognised in the consolidated statement of financial position, however the respective information on the contingent asset is disclosed in the additional information to financial statements if the inflow of economic benefits is probable and if practicable is estimates the influence on financial results, as according to accounting principles for valuation of provisions.

Contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the consolidated statement of financial position however the information on contingent liabilities is disclosed in the consolidated financial statements unless the probability of outflow of resources embodying to economic benefits is remote (in such situation the events are not disclosed in the consolidated financial statements).

Contingent liabilities due to business combinations are disclosed in the consolidated statement of financial position as provisions.

2.3.31. Subsequent events after reporting date

Subsequent events after reporting date are those events, favourable and unfavourable events, that occur between end of the reporting period and date of when the consolidated financial statements are authorized for issue. Two types of subsequent events can be identified:
- those, that provide evidence of conditions that existed as the end of the reporting period (adjusting events after the reporting period) and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

The Group adjusts the amounts recognised in its consolidated financial statements to reflect adjusting events after the reporting date.

The Group does not adjust the amounts recognised in its consolidated financial statements to reflect non-adjusting events after the reporting period.

3. The Management Board estimates and assumptions

The preparation of consolidated financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for expert assessment of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management Board might base its estimates on opinions of independent experts.

The estimates and related assumptions are verified on a regular basis. Changes in accounting estimates are recognised in the period when they are made only if they refer to that period or in the present and future periods if they concern both the present and future periods.

Actual results may differ from the estimated values.

Judgments, which have a significant impact on carrying amounts recognised in the consolidated financial statements were disclosed in the following notes:
- Financial instruments classification, the use of hedge accounting, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 32). The Management Board classifies the financial instruments depending on the purpose of the purchase and nature of the instrument and decides whether hedge accounting should be applied to decrease or neutralize risks. The fair value of financial instruments is measured using common practiced valuation models. Details of the applied estimates and sensitivity analysis has been presented in the above note.
- Leases classification (note 33). The Management Board classifies lease agreements as finance lease or operating lease on the basis of business nature analysis.

Estimates and assumptions, which have a significant impact on carrying amounts recognised in the consolidated financial statements were disclosed in the following notes:

- Impairment of property, plant and equipment and intangible assets (notes: 6 and 8). The Management Board assess, if there is an objective indicator for impairment of assets or cash generating units. If there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determing higher of fair value less cost to sell or value in use by applying the proper discount rate.
- Estimated economic useful lives of property, plant and equipment and intangible assets (note 6 and 8). As described in note 2.3 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year. The effect of verification performed in the current reporting year was disclosed in note 6 and 8.
- Provisions (note 21). As described in note 2.3, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in note 21.
- Contingent liabilities (note 35). As described in note 2.3, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.

4. Entities consolidated using full and proportionate method

These consolidated financial statements for the years 2010 and 2009 include the following Group entities located mainly in Poland, Germany, Lithuania and Czech Republic.

(all amounts in PLN thousand)

Name of the group/entity		Parent Company	Share in total voting rights 31/12/2010	Share in total voting rights 31/12/2009	consolidation method	operating segment
PKN ORLEN		Parent Company				multisegment
ORLEN Deutschland GmbH		PKN ORLEN	100%	100%	full	retail
ORLEN Gaz Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
ORLEN PetroCentrum Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
ORLEN Medica Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Budonaft Sp .z o.o.		PKN ORLEN	100%	100%	full	retail
ORLEN Koltrans Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
ORLEN Transport S.A.		PKN ORLEN	100%	100%	full	refining
ORLEN Asfalt Sp. z o.o. (formerly Bitrex Sp. z o.o.)	7	PKN ORLEN	100%	100%	full	refining
ORLEN Laboratorium Sp. z o.o.		PKN ORLEN	95%	95%	full	CF
Capital Group of ORLEN Oil Sp. z o.o.	7	PKN ORLEN	100%	100%	full	refining
Orlen Oil Cesko s.r.o.		ORLEN OIL	100%	100%	full	refining
Platinum Oil Sp. z o.o. (formerly Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.)		ORLEN OIL	100%	100%	full	refining
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	3	PLATINIUM OIL	-	100%	full	refining
Petro-Oil Śląskie Centrum Sprzedaży Sp. z o.o.	3	PLATINIUM OIL	-	100%	full	refining
ORLEN Petrotank Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
Capital Group of Anwil S.A.	2	PKN ORLEN	90%	85%	full	petrochemical
Przedsiebiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.		ANWIL S.A.	100%	100%	full	petrochemical
Przedsiebiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.		ANWIL S.A.	99%	99%	full	petrochemical
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.		ANWIL S.A.	56%	56%	full	petrochemical
Spolana a.s.		ANWIL S.A.	100%	100%	full	petrochemical
Capital Group of Rafineria Trzebinia S.A.	2	PKN ORLEN	86%	77%	full	refining
Energomedia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
Euronaft Trzebinia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
Fabryka Parafin Naftowax Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
EkoNaft Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	99%	99%	full	refining
Capital Group of Rafineria Nafty Jedlicze S.A.		PKN ORLEN	75%	75%	full	refining
RAF-KOLTRANS Sp. z o.o.		RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	refining
Konsorcjum Olejów Przepracowanych - Organizacja Odzysku S.A.		RAFINERIA NAFTY JEDLICZE S.A.	81%	81%	full	refining
Inowrocławskie Kopalnie Soli "Solino" S.A.		PKN ORLEN	71%	71%	full	refining
Capital Group of Unipetrol a.s.		PKN ORLEN	63%	63%	full	multisegment
UNIPETROL TRADE a.s.		UNIPETROL A.S.	100%	100%	full	petrochemical
CHEMAPOL (SCHWEIZ) AG in liquidation		UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL DEUTSCHLAND GmbH		UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL RPA s.r.o. (formerly Steen Estates s.r.o.)		UNIPETROL A.S.	100%	100%	full	refining
UNIPETROL SLOVENSKO s.r.o.		UNIPETROL RPA s.r.o.	100%	100%	full	refining
UNIPETROL DOPRAVA s.r.o.		UNIPETROL RPA s.r.o.	100%	100%	full	refining
BENZINA s.r.o.		UNIPETROL A.S.	100%	100%	full	retail
PETROTRANS s.r.o.		BENZINA s.r.o.	100%	100%	full	retail
PARAMO a.s.		UNIPETROL A.S.	100%	100%	full	refining
CESKA RAFINERSKA a.s.		UNIPETROL A.S.	51%	51%	proportionate	refining
BUTADIEN KRALUPY a.s.		UNIPETROL A.S.	51%	51%	proportionate	petrochemical
UNIPETROL SERVICES s.r.o.		UNIPETROL A.S.	100%	100%	full	CF
Ship-Service S.A.	1	PKN ORLEN	56%	56%	full	refining
ORLEN Automatyka Sp. z o.o.		PKN ORLEN	52%	52%	full	refining
Petrolot Sp. z o.o.		PKN ORLEN	51%	51%	full	refining
ORLEN Projekt S.A.		PKN ORLEN	51%	51%	full	CF
ORLEN Wir Sp. z o.o.		PKN ORLEN	51%	51%	full	refining
Capital Group of Basell ORLEN Polyolefins Sp. z o.o.		PKN ORLEN	50%	50%	proportionate	petrochemical
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.		BOP Sp.z.o.o.	100%	100%	full	petrochemical
ORLEN Administracja Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Eko Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
Płocki Park Przemysłowo-Technologiczny S.A.		PKN ORLEN	50%	50%	proportionate	CF
ORLEN Księgowość Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Prewencja Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Upstream Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
Capital Group of ORLEN Holding Malta Ltd.		PKN ORLEN	100%	100%	full	CF
Orlen Insurance Ltd.		ORLEN HOLDING MALTA	100%	100%	full	CF
Capital Group of Orlen Lietuva (formerly GK AB Możejki Nafta)		PKN ORLEN	100%	100%	full	multisegment
UAB Mažeikių naftos sveikatos priežiūros centras		ORLEN Lietuva	100%	100%	full	CF
UAB PASLAUGOS TAU		ORLEN Lietuva	100%	100%	full	refining
UAB EMAS		ORLEN Lietuva	100%	100%	full	refining
UAB Remonto mechanicos centras in liquidation	4	ORLEN Lietuva	-	100%	full	refining
AB Ventus-Nafta		ORLEN Lietuva	100%	100%	full	retail
Capital Group of UAB Mezeikiu naftos prekybos namai		ORLEN Lietuva	100%	100%	full	refining
SIA Mazeikiu Nafta Tirdzniecibas nams		UAB Mezeikiu naftos prekybos namai	100%	100%	full	refining
OU Mazeikiu Nafta Trading House		UAB Mezeikiu naftos prekybos namai	100%	100%	full	refining
Mazeikiu Nafta Trading House Sp. z o.o.		UAB Mezeikiu naftos prekybos namai	100%	100%	full	refining
ORLEN Finance AB (formerly Aktiebolaget Grundstenen 108770)		PKN ORLEN	100%	100%	full	CF
ORLEN Capital AB	5	PKN ORLEN	100%	-	full	CF
ORLEN International Exploration & Production Company BV		PKN ORLEN	100%	100%	full	CF
SIA Balin Energy	6	OIEP Co BV	50%	50%	proportionate	CF
ORLEN Ochrona Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Centrum Serwisowe Sp. z o.o.		PKN ORLEN	99%	99%	full	CF

[1] Share in total voting rights is equal to share in equity, except for share in equity of Capital Group of Ship-Service S.A., where it accounts for to 61%

[2] acquisition of shares in the entity in the IV quarter 2010

[3] companies merged into one entity - Platinium Oil Sp. z o.o. - on 01.01.2010

[4] entity liquidated in the II quarter of 2010

[5] entity founded in the IV quarter 2010

[6] entity consolidated from the IV quarter 2010

[7] (%) share in consolidated financial data; in the IV quarter of 2010 the acquisition of additional shares in RT caused the increase of indirect shares in Orlen Asfalt from 95.99% in 2009 to 97.61% in 2010 and in Orlen Oil from 88.87% in 2009 to 92.90% in 2010

*CF - Corporate functions

(all amounts in PLN thousand)

5. Operating Segments

The assignment of entities of the PKN ORLEN S.A. Capital Group to operating segments and corporate functions is presented in note 4.

Accounting principles used in reportable segments are in line with the Group accounting principles, described in note 2.3. The segment's result is the result generated by respective segments without the allocation of Corporate Functions, financial revenues and expenses as well as income tax expenses. This information is passed on to chief operating decision makers responsible for allocation of resources and evaluation of segment results.

Revenues from transactions with external parties and transactions between segments are arm's length transactions. Revenues from transactions with external parties presented to the Management Board are measured coherently to the method used in the consolidated statement of comprehensive income. The Management Board evaluates the results of segment activities based on the segment operating result.

5.1. Revenues and financial results by operating segments

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	45 478 727	27 037 040	10 952 844	78 821	-	83 547 432
Transactions with other segments	18 503 242	115 150	2 654 105	198 512	(21 471 009)	-
Total sales revenues	63 981 969	27 152 190	13 606 949	277 333	(21 471 009)	83 547 432
Total operating expenses	(61 343 255)	(26 351 006)	(13 218 690)	(884 841)	21 471 024	(80 326 768)
Other operating revenues	187 529	154 070	303 771	126 033	(82)	771 321
Other operating expenses	(344 975)	(130 796)	(205 662)	(187 985)	82	(869 336)
Segment operating profit/(loss)	**2 481 268**	**824 458**	**486 368**	**(669 460)**	**15**	**3 122 649**
Financial revenues						446 754
Financial expenses						(751 248)
Share in profit from investments accounted for under equity method	1 527	-	341	250 144	-	252 012
Profit before tax						**3 070 167**
Income tax expense						(614 700)
Net profit						**2 455 467**
Depreciation and amortisation	**1 249 921**	**320 843**	**737 170**	**114 813**		**2 422 747**
Additions to non-current assets	**778 026**	**353 723**	**1 748 482**	**130 961**		**3 011 192**

for the year ended 31 December 2009

	Refining Segment (restated data)	Retail Segment (restated data)	Petrochemical Segment (restated data)	Corporate Functions (restated data)	Adjustments (restated data)	Total (restated data)
Sales to external customers	35 265 571	23 687 734	8 877 040	97 645	-	67 927 990
Transactions with other segments	14 829 637	92 372	4 178 774	181 375	(19 282 158)	-
Total sales revenues	50 095 208	23 780 106	13 055 814	279 020	(19 282 158)	67 927 990
Total operating expenses	(49 082 990)	(22 862 444)	(13 319 009)	(873 423)	19 282 183	(66 855 683)
Other operating revenues	684 319	102 181	325 917	146 177	(260)	1 258 334
Other operating expenses	(572 432)	(139 821)	(259 073)	(262 499)	260	(1 233 565)
Segment operating profit/(loss)	**1 124 105**	**880 022**	**(196 351)**	**(710 725)**	25	**1 097 076**
Financial revenues						1 094 275
Financial expenses						(1 023 074)
Share in profit from investments accounted for under equity method	1 696	-	958	269 721	-	272 375
Profit before tax						**1 440 652**
Income tax expense						(140 485)
Net profit						**1 300 167**
Depreciation and amortisation	**1 287 543**	**354 444**	**804 812**	**115 422**		**2 562 221**
Additions to non-current assets	**991 779**	**304 196**	**2 356 255**	**124 095**		**3 776 325**

Additions to non-current assets include acquisitions and other increases, which are described in details in notes 6, 7, 8 and 9.

(all amounts in PLN thousand)

5.2. Other segment data

5.2.1. Assets by operating segments

	as at 31/12/2010	as at 31/12/2009 (restated data)
Refining Segment	26 965 016	26 430 278
Retail Segment	5 530 917	5 416 802
Petrochemical Segment	13 264 657	12 227 047
Total segment assets	**45 760 590**	**44 074 127**
Corporate Functions	5 718 371	5 476 376
Adjustments	(329 169)	(462 433)
	51 149 792	**49 088 070**

including:

	Non-current assets classified as held for sale		Invesments in shares accounted for under equity method	
	as at 31/12/2010	as at 31/12/2009 (restated data)	as at 31/12/2010	as at 31/12/2009 (restated data)
Refining Segment	31 276	4 589	4 918	13 986
Retail Segment	275	-	-	-
Petrochemical Segment	3 304	16 787	24 878	30 755
Total segment assets	**34 855**	**21 376**	**29 796**	**44 741**
Corporate Functions	6 794	10 802	1 471 220	1 356 845
	41 649	**32 178**	**1 501 016**	**1 401 586**

Operating segments include all assets except for financial assets and tax assets. Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

5.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	for the year ended 31/12/2010	for the year ended 31/12/2009	for the year ended 31/12/2010	for the year ended 31/12/2009
Refining Segment	(392 284)	(161 981)	42 787	178 691
Retail Segment	(61 523)	(79 824)	73 275	61 351
Petrochemical Segment	(183 884)	(69 511)	56 161	19 582
Impairment allowances by segment	**(637 691)**	**(311 316)**	**172 223**	**259 624**
Corporate Funciotns	(69 597)	(108 140)	66 866	110 366
	(707 288)	**(419 456)**	**239 089**	**369 990**

Impairment allowances of assets by segment include items recognised in the consolidated statement of comprehensive income i.e.:
- receivables allowances;
- inventories allowances;
- non-current impairment allowances.

Recognition and reversal of allowances were performed in relation to inventory revaluation, conjunction with occurrence or extinction of indicators in respect of overdue receivables, uncollectible receivables or receivables in court as well as impairment of property, plant and equipment and intangible assets.

In 2010 allowances recognised in the refining segment concerned primarily impairment of property, plant and equipment of Orlen Lietuva. Allowances recognised in the retail segment concerned primarily impairment of property, plant and equipment on petrol stations. In 2010 allowances in the petrochemical segment resulted primarily from impairment of property, plant and equipment in Spolana. Allowances for idle assets and obsolete raw materials were recognised in corporate functions.

(all amounts in PLN thousand)

5.2.3. Geographical information

Sales revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Poland	39 011 668	31 006 893
Germany	13 693 847	12 482 039
Czech Republic	9 494 295	8 289 715
Lithuania, Latvia and Estonia	5 430 452	5 194 438
Other countries, including:	15 917 170	10 954 905
Switzerland	5 499 430	3 131 377
Denmark	1 008 822	1 109 150
Ukraine	1 801 453	1 292 116
Finland	17 570	23 982
	83 547 432	**67 927 990**

Non-current assets

	as at 31/12/2010	as at 31/12/2009 (restated data)
Poland	16 876 331	15 476 260
Germany	763 891	749 638
Czech Republic	5 629 991	5 881 317
Lithuania, Latvia, Estonia	5 370 587	5 729 220
Other countries	33 251	19 603
	28 674 052	**27 856 038**

The above non-current assets consist of property, plant and equipment, investment properties, intangible assets and perpetual usufruct of land.

(all amounts in PLN thousand)

5.3. Revenues from sale of core products and services

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Refining Segment	**45 478 727**	**35 265 571**
Gasoline	11 592 025	9 871 097
Diesel fuel	19 456 694	15 190 182
Light heating oil	1 888 467	1 540 447
Jet A-1 fuel	1 831 153	1 458 344
Heavy heating oil	3 787 558	2 471 591
LPG	894 484	499 199
Bitumens	1 599 712	1 471 036
Engine oils	363 668	282 535
Other	4 064 966	2 481 140
Retail Segment	**27 037 040**	**23 687 734**
Gasoline	10 579 008	9 970 451
Diesel fuel	11 936 468	9 601 830
Light heating oil	733 690	625 336
LPG	1 022 864	855 355
Other	2 765 010	2 634 762
Petrochemical Segment	**10 952 844**	**8 877 040**
Polyethylene	1 866 461	1 561 136
Polypropylene	1 777 184	1 224 365
Ethylene	975 805	710 283
Propylene	738 042	520 483
Toluene	89 258	135 867
Benzene	790 846	516 891
Butadiene	342 459	128 260
Glycol	193 223	149 250
PVC	883 257	913 666
PVC Granulate	212 419	234 989
Canwil	275 499	232 028
Ammounium nitrate	429 510	479 922
Other	2 378 881	2 069 900
Corporate Functions	**78 821**	**97 645**
Total consolidated revenues	**83 547 432**	**67 927 990**

5.4. Information about major customers

In 2010 and 2009 no leading external customers were recognised in the Capital Group, for which turnover would exceeded 10% of total revenues from sale of the PKN ORLEN S.A. Capital Group.

6. Property, plant and equipment

	as at 31/12/2010	as at 31/12/2009 (restated data)
Land	895 828	893 847
Buildings and constructions	9 211 310	9 301 184
Machinery and equipment	10 843 336	11 427 677
Vehicles and other	755 271	863 386
Construction in progress	5 697 268	4 512 038
	27 403 013	**26 998 132**

(all amounts in PLN thousand)

Changes in property, plant and equipment by class:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2010	924 950	15 027 606	25 816 266	2 005 978	4 561 426	48 336 226
Acquisitions	45	30 237	40 274	26 955	2 802 713	2 900 224
Other increases	238	7 145	2 749	1 720	-	11 852
Reclassifications	6 703	569 575	808 399	122 281	(1 592 838)	(85 880)
Decreases	(2 251)	(87 141)	(337 588)	(138 347)	(11 803)	(577 130)
Foreign exchange differences	(2 039)	62 933	412 092	18 796	17 802	509 584
31 December 2010	**927 646**	**15 610 355**	**26 742 192**	**2 037 383**	**5 777 300**	**51 094 876**
Accumulated depreciation and impairment allowances						
1 January 2010	31 103	5 671 192	14 371 514	1 142 592	49 388	21 265 789
Depreciation	-	583 872	1 513 785	221 675	-	2 319 332
Other increases	737	15 991	18 007	6 113	-	40 848
Impairment allowances, net	84	127 402	75 841	(152)	31 089	234 264
recognition	407	191 032	115 638	3 070	50 028	360 175
reversal	(323)	(63 630)	(39 797)	(3 222)	(18 939)	(125 911)
Reclassifications	-	6 609	(6 347)	(941)	-	(679)
Decreases of depreciation due to liquidation and sale of property, plant and equipment and other decreases	(250)	(59 553)	(276 178)	(94 764)	-	(430 745)
Government grants - settlement	-	3 255	1 862	74	-	5 191
Foreign exchange differences	144	20 500	170 443	7 174	(445)	197 816
31 December 2010	**31 818**	**6 369 268**	**15 868 927**	**1 281 771**	**80 032**	**23 631 816**
Gross book value						
1 January 2009	927 151	14 186 253	25 310 048	1 935 661	3 411 193	45 770 306
Acquisitions	1 524	25 874	161 671	85 383	3 386 602	3 661 054
Other increases	-	10 052	19 003	15 326	-	44 381
Reclassifications	9 006	987 131	1 081 494	154 695	(2 169 356)	62 970
Decreases	(5 945)	(93 993)	(410 160)	(171 655)	(33 826)	(715 579)
Foreign exchange differences	(6 786)	(87 711)	(345 790)	(13 432)	(33 187)	(486 906)
31 December 2009 (restated data)	**924 950**	**15 027 606**	**25 816 266**	**2 005 978**	**4 561 426**	**48 336 226**
Accumulated depreciation and impairment allowances						
1 January 2009	35 966	4 986 036	13 375 525	1 059 932	44 090	19 501 549
Depreciations	-	611 562	1 634 707	214 204	-	2 460 473
Other increases	773	5 206	63 077	17 055	-	86 111
Impairment allowances, net	(2 953)	(58 767)	(22 347)	3 143	5 411	(75 513)
recognition	3 442	60 335	30 817	5 437	9 976	110 007
reversal	(6 395)	(119 102)	(53 164)	(2 294)	(4 565)	(185 520)
Reclassifications	-	225 861	(218 624)	(82)	-	7 155
Decreases of depreciation due to liquidation and sale of property, plant and equipment and other decreases	(14)	(54 854)	(314 077)	(101 471)	-	(470 416)
Government grants - settlement	-	-	-	-	-	-
Foreign exchange differences	(2 669)	(43 852)	(146 747)	(50 189)	(113)	(243 570)
31 December 2009 (restated data)	**31 103**	**5 671 192**	**14 371 514**	**1 142 592**	**49 388**	**21 265 789**
Government grants						
1 January 2010	**-**	**55 230**	**17 075**	**-**	**-**	**72 305**
31 December 2010	**-**	**29 777**	**29 929**	**341**	**-**	**60 047**
1 January 2009	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2009 (restated data)	**-**	**55 230**	**17 075**	**-**	**-**	**72 305**
Net book value						
1 January 2010	**893 847**	**9 301 184**	**11 427 677**	**863 386**	**4 512 038**	**26 998 132**
31 December 2010	**895 828**	**9 211 310**	**10 843 336**	**755 271**	**5 697 268**	**27 403 013**
1 January 2009	**891 185**	**9 200 217**	**11 934 523**	**875 729**	**3 367 103**	**26 268 757**
31 December 2009 (restated data)	**893 847**	**9 301 184**	**11 427 677**	**863 386**	**4 512 038**	**26 998 132**

Impairment allowances of property, plant and equipment as at 31 December 2010 and 31 December 2009 amounted to PLN 3,132,778 thousand and PLN 2,812,957 thousand, respectively, and referred mainly to impairment of property, plant and equipment in Orlen Lietuva Group, Rafineria Trzebinia Group and Anwil Group.

(all amounts in PLN thousand)

Recognition and reversal of allowances for property, plant and equipment are recognised in other operating activities.

The Group reviews economic useful lives of property, plant and equipment and adjustment of depreciation expense is introduced prospectively.
Should the rates from 2009 be applied, depreciation expense for 2010 would be higher by PLN 55,412 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2010 and 31 December 2009 amounted to PLN 4,283,859 thousand and 3,887,075 thousand, respectively.

As at 31 December 2010 and 31 December 2009 items of property, plant and equipment of PLN 626,054 thousand and PLN 738,049 thousand, respectively, were used as a pledge for the Group's liabilities.

The net book value of temporarily idle property, plant and equipment as at 31 December 2010 and 31 December 2009 amounted to PLN 81,634 thousand and PLN 174,954 thousand, respectively.

The net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2010 and 31 December 2009 amounted to PLN 47,074 thousand and PLN 55,272 thousand, respectively.
As at 31 December 2010 and 31 December 2009 the Group recognised impairment allowance for property, plant and equipment retired from active use of PLN 39,117 thousand and PLN 36,066 thousand, respectively.

As at 31 December 2010 and 31 December 2009 the net book value of leased non-current assets amounted to PLN 93,419 PLN and PLN 178,516 thousand, respectively. A detailed division of non-current assets by class is disclosed in note 33.1.

7. Investment property

	for the year ended 31/12/2010	for the year ended 31/12/2009
Beginning of the period	71 487	71 757
Reclassification from property, plant and equipment	15	-
Purchase	-	773
Sale	(303)	-
Fair value adjustment	(122)	(257)
Decrease due to liquidation	-	(228)
Reclassification to property, plant and equipment	-	(134)
Foreign exchange differences	899	(424)
	71 976	**71 487**

Investment property includes social buildings and office space, as well as land.

In 2010 and 2009 the Group gained rental income from investment property amounted to PLN 10,711 thousand and PLN 11,954 thousand, respectively.

Direct operating expenses arising from investment property in 2010 and 2009, that in the given period generated rental income, amounted to PLN 2,649 thousand and PLN 2,898 thousand, respectively. Direct operating expenses arising from investment property, that in a given period did not generate rental income in 2010 and 2009 amounted to PLN 380 thousand and PLN 425 thousand, respectively.

Depending on the characteristics of the investment property, its fair value was estimated based on comparison or revenue approach. Comparison approach was applied assuming, that the value of assessed property was equal to the market price of a similar property. In revenue approach the calculation was based on discounted cash flow method, due to variability of revenues in foreseeable future. 5-year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property.

(all amounts in PLN thousand)

Forecasts of discounted cash flows relating to the valued objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar objects, in the same location, technical conditions, standard and designed for similar purposes.

8. Intangible assets

	as at 31/12/2010	as at 31/12/2009 (restated data)
Software	64 019	40 950
Patents, trade marks and licenses	482 316	494 383
Goodwill	88 247	89 811
Rights	384 307	-
Intangible assets under development	26 622	32 322
Other	57 198	32 910
	1 102 709	**690 376**

(all amounts in PLN thousand)

The changes in intangible assets were as follows:

	Software	Patents, trade marks and licenses	Goodwill	Rights	Intangible assets under development	Other	Total
Gross book value							
1 January 2010	210 673	966 733	107 199	-	32 322	90 853	1 407 780
Acquisitions	8 216	9 805	-	29 069	36 326	27 536	110 952
Other increases	24 705	16 924	-	1 593 253	2 999	13 487	1 651 368
Reclassifications	11 709	43 929	-	-	1 767	1 060	58 465
Decreases	(15 809)	(28 880)	(912)	(1 210 852)	(47 744)	(9 927)	(1 314 124)
Foreign exchange differences	1 852	6 032	(744)	(8 442)	952	1 163	813
31 December 2010	**241 346**	**1 014 543**	**105 543**	**403 028**	**26 622**	**124 172**	**1 915 254**
Accumulated amortisation and impairment allowances							
1 January 2010	169 723	472 350	17 388	-	-	57 943	717 404
Amortisation	17 546	72 612	-	-	-	11 758	101 916
Other increases	4 383	104	1 746	28 410	-	-	34 643
Impairment allowances, net	26	12 424	(369)	3 184	-	(14)	15 251
recognition	23	12 471	-	3 184	-	59	15 737
reversal	3	(47)	(369)	-	-	(73)	(486)
Decreases	(16 128)	(28 062)	(886)	(12 873)	-	(3 532)	(61 481)
Government grants - settlement	-	-	-	-	-	-	-
Foreign exchange differences	1 756	2 694	(583)	-	-	819	4 686
31 December 2010	**177 306**	**532 122**	**17 296**	**18 721**	**-**	**66 974**	**812 419**
Gross book value							
1 January 2009	197 990	919 297	110 710	-	5 616	87 806	1 321 419
Acquisitions	12 554	6 266	-	-	79 532	9 884	108 236
Purchase			(40 531)	-			(40 531)
Other increases	3 600	3 874	22 639	670 793	16 931	67 517	785 354
Reclassifications	4 629	76 037	-	-	-	89	80 755
Decreases	(5 153)	(35 655)	14 151	(670 793)	(68 331)	(73 509)	(839 290)
Foreign exchange differences	(2 947)	(3 086)	230	-	(1 426)	(934)	(8 163)
31 December 2009 (restated data)	**210 673**	**966 733**	**107 199**	**-**	**32 322**	**90 853**	**1 407 780**
Accumulated amortisation and impairment allowances							
1 January 2009	155 182	435 195	23 077	-	-	63 284	676 738
Amortisation	13 415	67 965	-	-	-	13 101	94 481
Other increases	418	1 609	1 985	-	-	1 818	5 830
Impairment allowances, net	1 698	4 059	(7 380)	-	-	(7 171)	(8 794)
recognition	3 266	4 059	-	-	-	-	7 325
reversal	(1 568)	-	(7 380)	-	-	(7 171)	(16 119)
Decreases	(1 831)	(34 983)	(8)	-	-	(12 294)	(49 116)
Government grants - settlement	-	-	-	-	-	-	-
Foreign exchange differences	841	(1 495)	(286)	-	-	(795)	(1 735)
31 December 2009 (restated data)	**169 723**	**472 350**	**17 388**	**-**	**-**	**57 943**	**717 404**
Government grants							
1 January 2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2010	**21**	**105**	**-**	**-**	**-**	**-**	**126**
1 January 2009	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2009 (restated data)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net book value							
1 January 2010	**40 950**	**494 383**	**89 811**	**-**	**32 322**	**32 910**	**690 376**
31 December 2010	**64 019**	**482 316**	**88 247**	**384 307**	**26 622**	**57 198**	**1 102 709**
1 January 2009	**42 808**	**484 102**	**87 633**	**-**	**5 616**	**24 522**	**644 681**
31 December 2009 (restated data)	**40 950**	**494 383**	**89 811**	**-**	**32 322**	**32 910**	**690 376**

Impairment allowances of intangible assets as at 31 December 2010 and 31 December 2009 amounted to PLN 32,585 thousand and PLN 16,917 thousand, respectively.

Recognition and reversal of impairment allowances of intangible assets are recognised in other operating activities.

The Group reviews economic useful lives of intangible assets and adjustment of amortisation expense is introduced prospectively.
Should the rates from 2009 be applied, amortisation expense for 2010 would be higher by PLN 109 thousand.

The gross book value of fully depreciated intangible assets still in use as at 31 December 2010 and as at 31 December 2009 amounted to PLN 458,289 thousand and PLN 487,281 thousand, respectively.

(all amounts in PLN thousand)

The net book value of intangible assets with undetermined useful life as at 31 December 2010 amounted to PLN 8,502 thousand. As at 31 December 2009 no intangible assets with undetermined useful life were recognised.
The Group incurred expenses related to registration of produced or imported chemicals (described in Regulation No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals – so called REACH. Due to the fact, that the registration is indefinite and the period of production or import of particular chemicals is unknown, indefinite useful life was assumed.

Rights

CO_2 emission rights were granted on the basis of the Council of Ministers Regulation on the National Allocation Plan II resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention on Climate Change, adopted by the European Union.

Change in CO_2 emission rights granted in 2010:

	Quantity (in tonnes)	Value
Granted free of charge	14 329 783	798 702
Settled in 2009	(11 388 570)	(635 350)
Purchase/(Sale), net	2 666 124	153 048
Foreign exchange differences	-	(8 442)
As at 31 December 2010	**5 607 337**	**307 958**
Emission in 2010	11 985 369	644 703
Shortage	**(6 378 032)**	**(336 745)**
Planned coverage of shortage	6 378 032	336 745
Usage of the rights granted for the following year	4 393 636	224 444
Term repurchase of rights sold in previous years	1 984 396	112 301

As at 31 December 2010 the market value of one EUA allowance (European Union Emission Allowance) allocated to installations according to National Allocation Program (NAP) amounted to EUR 13.75.

Furthermore in 2008 one Company of the Group accomplished investment in Nitric Acid Plant reducing emission of nitrous suboxide, which in accordance to regulations in force enabled recognition of ERU 1,734,000 (Emission Reduction Unit) amounting to PLN 75,690 thousand.

As at 31 December 2010 the Group possessed origin certificates rights to energy produced in high efficiency - cogeneration sources (yellow energy rights) and origin certificates rights to energy produced from renewable energy sources (green energy rights) of PLN 139 thousand and PLN 520 thousand respectively.

Goodwill

Annual impairment test:

As at 31 December 2010 the Group reviewed the recoverable amount of goodwill in accordance with the requirements of IAS 36 and declared the lack of necessity to recognise or reverse impairment allowances. Detailed information was disclosed in note 8.

(all amounts in PLN thousand)

9. Perpetual usufruct of land

	as at 31/12/2010	as at 31/12/2009
Beginning of the period	96 043	99 247
Acquisitions	16	90
Other increases	-	6
Reclassifications	1 882	-
Depreciation	(1 499)	(1 424)
Other decreases	(77)	(1 871)
Foreign exchange differences	(11)	(5)
	96 354	**96 043**

As at 31 December 2010 and 31 December 2009 the Group recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 993,948 thousand and PLN 981,672 thousand, respectively. Perpetual usufruct of land was fair valued in prior years.

The total amount of perpetual usufruct charges, recognised as expenses in profit or loss in 2010 and 2009 amounted to PLN 41,862 thousand and PLN 40,783 thousand, respectively.

10. Investments in shares accounted for under equity method

	Carrying amount as at		Group's share in capital/voting rights as at		Principal activity
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	
Polkomtel S.A.	1 451 334	1 347 403	24,39%	24,39%	rendering mobile telecommunication services
Other	49 682	54 183			
	1 501 016	**1 401 586**	**24,39%**	**24,39%**	

Condensed financial data comprising total assets and liabilities as at 31 December 2010 and 31 December 2009, revenues, financial expenses and profit for 2010 and 2010 in Polkomtel S.A. are disclosed below.

	as at 31/12/2010	as at 31/12/2009
Non-current assets	6 596 916	7 065 775
Current assets	1 369 002	1 360 195
Long-term liabilities	1 892 622	940 432
Short-term liabilities	2 321 642	4 282 778

	for the year ended 31/12/2010	for the year ended 31/12/2009
Revenues from sale	7 672 409	7 773 120
Profit from operations	1 534 825	1 378 019
Profit before tax	1 429 302	1 230 236
Income tax expense	(279 143)	(248 489)
Net profit	1 150 159	981 747

10.1. Jointly controlled entities consolidated using proportionate method

PKN ORLEN holds 50% share in a joint-venture entity Basell ORLEN Polyolefins Sp. z o.o. (BOP), involved in production, distribution and sale of polyolefins and in Płocki Park Przemysłowo – Technologiczny S.A. (PPPT), involved in advisory, business management services, holding management services and planning, purchasing and sales of real estates on its own accounts.

(all amounts in PLN thousand)

As at 31 December 2010 and for the year ended 31 December 2010 and as at 31 December 2009 and for the year ended 31 December 2009, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	as at 31/12/2010	as at 31/12/2009
Non-current assets	650 761	713 142
Current assets	568 362	440 694
Long-term liabilities	280 290	345 027
Short-term liabilities	420 304	342 867

	for the year ended 31/12/2010	for the year ended 31/12/2009
Revenues	1 513 023	1 178 196
Cost of finished goods, merchandise and raw materials sold	(1 356 508)	(1 059 890)
Gross profit on sales	**156 515**	**118 306**
Distribution expenses	(66 367)	(69 772)
General and administrative expenses	(11 531)	(11 833)
Other operating revenues and expenses, net	(819)	288
Profit from operations	**77 799**	**36 989**
Financial revenues and expenses, net	(12 417)	(47 977)
Profit/(loss) before tax	65 381	(10 988)
Income tax expense	12 795	5 403
Net profit/(loss)	**52 587**	**(16 391)**
Cash flows from operating activities	127 045	6 117
Cash flows from investing activities	(14 245)	(19 192)
Cash flows from financing activities	(66 050)	(71 363)

As at 31 December 2010 and for the year ended 31 December 2010 and as at 31 December 2009 and for the year ended 31 December 2009 the Group's share in assets and liabilities, revenues and expenses (PPPT) was as follows:

	as at 31/12/2010	as at 31/12/2009
Non-current assets	9 736	26 001
Current assets	22 802	22 698
Long-term liabilities	-	-
Short-term liabilities	336	16 565

	for the year ended 31/12/2010	for the year ended 31/12/2009
Revenues	892	852
Cost of finished goods, merchandise and raw materials sold	(686)	(672)
Gross profit on sales	**206**	**180**
General and administrative expenses	(1 394)	(2 063)
Other operating revenues and expenses, net	245	706
(Loss) from operations	**(943)**	**(1 177)**
Financial revenues and expenses, net	951	1 082
Profit/(loss) before tax	73	(95)
Income tax expense	5	(21)
Net profit/(loss)	**68**	**(75)**
Cash flows from operating activities	50	260
Cash flows from investing activities	21	150
Cash flows from financing activities	-	-

(all amounts in PLN thousand)

11. Financial assets available for sale

	as at 31/12/2010	as at 31/12/2009
Quoted shares	**1 151**	**869**
Wodkan S.A.	1 151	869
Unquoted shares	**41 632**	**58 764**
Naftoport sp. z.o.o.	39 502	31 026
Other	2 130	27 738
	42 783	**59 633**

As at 31 December 2010 and 31 December 2009 impairment allowances of financial assets available for sale amounted to PLN 73,748 thousand and PLN 78,570 thousand, respectively.

12. Other long-term assets

	as at 31/12/2010	as at 31/12/2009
Loans granted	35 356	34 967
Other	4 983	8 978
Financial assets	**40 339**	**43 945**
Advances for construction in progress	2 760	698
Other	6 031	2 304
Non-financial assets	**8 791**	**3 002**
	49 130	**46 947**

13. Impairment of non-current assets

As at 31 December 2010 an impairment test for particular Cash Generating Units (CGUs) was carried out, where indicators for impairment as according to IAS 36 were identified. During tests, impairment of non-current assets was identified in the company belonging to Anwil Group - Spolana a.s. and Rafineria Trzebinia S.A.

Impairment allowances in Spolana a.s. amounted to PLN (85,428) thousand and concerned machinery and equipment of PLN (46,131) thousand, buildings and constructions of PLN (39,297) thousand.
Impairment allowances in Rafineria Trzebinia amounted to PLN (44,780) thousand and concerned buildings and constructions of PLN (24,462) thousand, machinery and equipment of PLN (16,589) thousand and vehicles of PLN (156) thousand. Additionally impairment allowance of PLN (3,573) thousand was recognised on intangible assets and concerned mainly acquired licenses.

The analysis were performed based on financial projections for years 2011-2013 included in the approved Midterm Plan for the years 2009-2013 adjusted by approved budgets for 2011 and concerned necessary adjustments mainly relating to capital expenditures and effectiveness activities for years 2012 and 2013. The period of CGU analysis was established on the basis on planned useful life of assets for the particular CGU.

The Group's future financial performance is based on number of variables and assumptions, that are in respect of macroeconomic factors, such as foreign exchange rates, commodity prices, interest rates, partially out of the Group's control. The change of these variables and assumptions might influence the Group's financial position, including the results of the impairment tests of non-current assets, and consequently might lead to changes in financial position and performance of the Capital Group.

Information about recognitions and reversals of allowances by category of non-current non-financial assets was disclosed in note 6 and 8.

(all amounts in PLN thousand)

14. Inventories

	as at 31/12/2010	as at 31/12/2009
Raw materials	4 854 391	5 289 699
Work in progress	1 148 723	763 586
Finished goods	4 038 525	3 544 367
Merchandise	716 079	495 514
Spare parts	537 133	526 693
Inventories, net	**11 294 851**	**10 619 859**
Impairment allowances of inventories	137 179	142 097
Inventories, gross	**11 432 030**	**10 761 956**

Change in impairment allowances of inventories

	for the year ended 31/12/2010	for the year ended 31/12/2009
Beginning of the period	142 097	511 930
Recognition	201 888	139 795
Reversal	(39 459)	(70 995)
Usage	(170 385)	(436 853)
Foreign exchange differences	3 038	(1 780)
	137 179	**142 097**

As at 31 December 2010 and as at 31 December 2009 inventories of PLN 123,642 thousand and PLN 161,460 thousand respectively, were used as a pledge for the Group's liabilities.

As part of optimisation processes, PKN ORLEN sold a part of its mandatory reserves of crude oil in March 2010 and December 2010 for the total amount of PLN 1,724,387 thousand. Simultaneously, agreements regarding the gathering and keeping of inventories with LAMBOURN Sp. z o.o. and Maury Sp. z o.o. have been signed. The companies will be providing inventories keeping services regarding the mandatory reserves of crude oil on PKN ORLEN's account. PKN ORLEN will guarantee that the inventories will be stored in its current location.

15. Trade and other receivables

	as at 31/12/2010	as at 31/12/2009
Trade receivables	5 296 717	4 491 501
Receivables due to sale of non-current non-financial assets	13 673	3 830
Receivables due to insurance compensation of Orlen Lietuva Group	12 830	12 338
Finance lease	421	287
Other	119 284	119 214
Financial assets	**5 442 925**	**4 627 170**
Excise tax and fuel charge receivables	211 205	188 878
Other taxation, duty social security receivables and other benefits	387 095	430 121
Advances for construction in progress	36 971	158 710
Prepayments for deliveries	9 374	12 607
Prepayments	180 019	207 447
Other	21 213	-
Non-financial assets	**845 877**	**997 763**
Receivables, net	**6 288 802**	**5 624 933**
Receivables impairment allowance	576 800	572 387
Receivables, gross	**6 865 602**	**6 197 320**

(all amounts in PLN thousand)

As at 31 December 2010 and as at 31 December 2009 trade and other receivables denominated in foreign currencies amounted to PLN 3,012,189 thousand and PLN 2,492,442, respectively. Detailed information about receivables from related parties is disclosed in note 37.

Change in impairment allowances of trade and other receivables

	for the year ended 31/12/2010	for the year ended 31/12/2009
Beginning of the period	572 387	564 262
Recognition	112 956	161 794
Reversal	(91 967)	(112 240)
Usage	(17 689)	(39 086)
Other	(165)	1 668
Foreign exchange differences	1 278	(4 011)
	576 800	**572 387**

Recognition and reversal of impairment allowances of trade and other receivables are presented in other operating activities as far as principle receivables are concerned and in financial activities as far as interest for delay in payment is concerned.

16. Other short-term financial assets

	as at 31/12/2010	as at 31/12/2009
Cash flow hedge instruments	**175 498**	**81 666**
foreign currency forwards (operating exposure)	34 314	46 439
foreign currency forwards (investing exposure)	728	13 812
interest rate swaps	-	21 415
commodity swaps	140 456	-
Derivatives not designated as hedge accounting	**3 002**	**41 279**
foreign currency forwards	1 662	6 511
interest rate swaps	885	563
foreign currency swap	415	18 304
other	40	15 902
Embedded derivatives	**1 026**	**1 929**
foreign currency swap	1 026	1 929
Bonds/other debt securities	**34 876**	**55 852**
Loans granted	**5 710**	**32**
Other	**4 489**	**247**
	224 601	**181 005**

17. Cash and cash equivalents

	as at 31/12/2010	as at 31/12/2009
Cash on hand and in bank	2 757 599	2 890 883
Other cash (incl. cash in transit)	63 143	35 410
Other monetary assets	-	14 746
	2 820 742	**2 941 039**
incl. restricted cash	68 289	24 459

Restricted cash refers mainly to blocked funds on bank accounts due to guarantees granted.

(all amounts in PLN thousand)

18. Non-current assets classified as held for sale

	as at 31/12/2010	as at 31/12/2009
Shares	3 388	17 041
Items of non-current assets	29 019	15 137
Items of current assets	9 242	-
	41 649	**32 178**

As at 31 December 2010 and 31 December 2009 items of non-current assets classified as held for sale comprise mainly buildings and constructions, land, machinery and equipment and vehicles.

As at 31 December 2010 and as at 31 December 2009 the impairment allowances of non-current assets classified as held for sale amounted to PLN 9,753 thousand and PLN 4,404 thousand, respectively.

19. Shareholders' equity

19.1. Share capital

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2010 amounted to PLN 534,636 thousand. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2010 and 31 December 2009 consisted of the following series of shares:

	Number of shares issued		Number of shares authorized	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
A Series	336 000 000	336 000 000	336 000 000	336 000 000
B Series	6 971 496	6 971 496	6 971 496	6 971 496
C Series	77 205 641	77 205 641	77 205 641	77 205 641
D Series	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	**427 709 061**	**427 709 061**	**427 709 061**

In Poland, each new issue of shares is labeled as a new series of shares. All of the above series have the exact same rights.

As at 31 December 1996, in accordance with IAS 29.24 and 29.25 the share capital and share premium were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand concerning revaluation of share capital and PLN 168,803 thousand concerning revaluation of share premium) and presented as share capital revaluation adjustment and share premium revaluation adjustment (note 19.3).

	as at 31/12/2010	as at 31/12/2009
Share capital	534 636	534 636
Share capital revaluation adjustment	522 999	522 999
	1 057 635	**1 057 635**

(all amounts in PLN thousand)

19.2. Capital management policy

Capital management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.

The Management Board monitors on the Group the level following ratios:
– equity debt ratio (net financial leverage) which is calculated as a ratio of average debt ratio to average equity. As at 31 December 2010 and 31 December 2009 Group financial leverage amounted to 39.4% and 54.0%, respectively;
– net debt ratio to earnings before interest, taxes, depreciation and amortisation plus dividends from Polkomtel S.A. As at 31 December 2010 and as at 31 December 2009 this ratio for the Group amounted to 1.38 and 2.52, respectively;
– dividend per ordinary shares – dividend amount depends on current finance condition of the Group. Detailed description of dividends policy is disclosed in note 19.7.

19.3. Share premium

Share premium is the surplus of the issuance value over the nominal value of shares belonging to series B, C and D.

	as at 31/12/2010	as at 31/12/2009
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
	1 227 253	**1 227 253**

19.4. Retained earnings

	as at 31/12/2010	as at 31/12/2009
Reserve capital	16 173 572	14 812 694
Other capital	883 740	883 740
Net profit for the period	2 371 358	1 308 521
	19 428 670	**17 004 955**

19.5. Other equity items

19.5.1. Hedging reserve

The amount of the hedging reserve results from valuation and settlement of derivatives meeting the requirements of cash flows hedge accounting.

19.5.2. Revaluation reserve

The difference between the fair value and the acquisition cost of assets available for sale, netted by deferred tax, is transferred to the revaluation reserve, if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods.

19.5.3. Foreign exchange differences on subsidiaries from consolidation

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net investment hedge in a foreign operation, are also recognised in this position. Detailed information in case of hedge accounting of net investment in foreign entity is presented in note 32.6.

(all amounts in PLN thousand)

19.6. Equity attributable to non-controlling interest

	as at 31/12/2010	as at 31/12/2009
Capital Group of Unipetrol	2 118 726	2 040 319
Capital Group of Anwil	233 353	337 488
Capital Group of Rafineria Trzebinia	55 272	95 999
Capital Group of Rafineria Nafty Jedlicze	34 625	33 310
Inowrocławskie Kopalnie Soli "Solino" S.A.	41 833	38 279
Petrolot Sp. z o.o.	34 240	31 948
Other equity holders/non-controlling interest	93 966	91 965
	2 612 015	**2 669 308**

19.7. Suggested distribution of the Parent Company's profit for 2010

The Dividend Policy of PKN ORLEN S.A. assumes setting recommended dividend in relation to free cash flows after realization of investment budget and optimization of capital structure („Free Cash Flow to Equity" – FCFE). According to the applied methodology, the Management Board considers dividend payment (taking into account result from operations, capital expenditures and projected changes in the level of indebtedness in the following period) starting from the level of 50% of FCFE (set as the minimum in the Dividend Policy).

Considering current debt level, working capital initiatives and planned development investments, the FCFE ratio is negative. The Management Board proposes to distribute the net profit for the year 2010 of PLN 2,357,127,065.35 to reserve capital of the Company.

19.8. Distribution of the Parent Company's profit for 2009

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 art. 7 point 3 of Company's Articles of Association, the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, has decided to distribute the net profit for 2009 of PLN 1,635,885,461.24 to the Company's reserve capital.

20. Interest-bearing loans and borrowings

	long-term		short-term		Total	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Bank loans	7 662 239	9 927 045	1 289 840	1 342 948	8 952 079	11 269 993
Borrowings	345 134	547 976	215 225	212 709	560 359	760 685
Debt securities	1 116 614	1 135 511	38 675	38 038	1 155 289	1 173 549
	9 123 987	**11 610 532**	**1 543 740**	**1 593 695**	**10 667 727**	**13 204 227**

20.1. Bank loans

- by currency (translated into PLN)

	as at 31/12/2010	as at 31/12/2009
PLN	201 491	805 206
EUR	3 777 860	5 692 169
USD	4 925 289	4 656 226
CZK	46 196	106 856
LTL	1 243	9 536
	8 952 079	**11 269 993**

(all amounts in PLN thousand)

- by interest rate

	as at 31/12/2010	as at 31/12/2009
WIBOR	201 491	805 206
LIBOR	4 925 289	4 656 226
EURIBOR	3 777 860	5 692 169
PRIBOR	46 196	106 856
VILIBOR	1 243	9 536
	8 952 079	**11 269 993**

The PKN ORLEN S.A. Capital Group bases its financing on floating interest rate. Depending on the currency of financing these are WIBOR, LIBOR, EURIBOR, PRIBOR and VILIBOR increased by margin. The margin reflects risk connected to financing of the Group and depends on net debt to EBITDA (result from operations increased by depreciation and amortisation and dividend from Polkomtel S.A.).

At the end of reporting period unused credit lines exceeded short term liabilities less current receivables and cash and cash equivalents by PLN 3,178,486 thousand.

As at 31 December 2010 and 31 December 2009 bank loans of PLN 404,090 thousand and PLN 454,942 thousand, respectively, were pledged on the Group's assets.

As at 31 December 2010 and as at 31 December 2009 there were no cases of violations of loans repayment nor breaches of covenants.

In the period covered by these consolidated financial statements, as well as after the reporting period end, there were no cases of violations of principal or interest payment nor breaches of other terms of agreements (covenants).

20.2. Borrowings

- by currency (translated into PLN)

	as at 31/12/2010	as at 31/12/2009
PLN	20 773	22 909
USD	539 586	737 776
	560 359	**760 685**

- borrowings by interest rate

	as at 31/12/2010	as at 31/12/2009
WIBOR	20 773	22 909
Fixed interest rate	539 586	737 776
	560 359	**760 685**

As at 31 December 2010 and 31 December 2009 borrowings of PLN 43,237 thousand and PLN 44,853 thousand, respectively, were pledged on the Group's assets.

During the period covered by these consolidated financial statements, as well as after the reporting period end, there were no cases of violations of borrowings repayment (principal or interest) nor breaches of other terms of agreements (covenants).

(all amounts in PLN thousand)

20.3. Debt securities

- by currency (translated into PLN)

	as at 31/12/2010	as at 31/12/2009
PLN	761 064	762 087
CZK	394 225	411 462
	1 155 289	1 173 549

- by interest rate

	Long-term fixed rate bonds		Long-term floating rate bonds	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Nominal value	316 000	310 800	750 000	750 000
Carrying amount	394 225	411 462	761 064	762 087
Expiration date	2013-12-28	2013-12-28	2012-02-27	2012-02-27

21. Provisions

	long-term		short-term		Total	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Environmental provision	329 033	335 263	36 101	37 365	365 134	372 628
Jubilee and post-employment benefits provision	242 475	229 831	33 315	31 700	275 790	261 531
Business risk provision	40 402	63 917	80 006	78 256	120 408	142 173
Shield programs provision	-	-	41 426	51 369	41 426	51 369
Provision for CO_2 emission	-	-	644 703	588 869	644 703	588 869
Other	23 708	32 910	166 877	59 558	190 585	92 468
	635 618	661 921	1 002 428	847 117	1 638 046	1 509 038

Change in provisions in 2010

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2010	**372 628**	**261 531**	**142 173**	**51 369**	**588 869**	**92 468**	**1 509 038**
Recognition	31 297	46 458	20 524	4 309	667 531	157 644	927 763
Reclassification	-	(163)	-	-	-	163	-
Usage	(17 176)	(24 402)	(3 336)	(13 456)	(586 160)	(52 361)	(696 891)
Reversal	(22 063)	(6 783)	(36 916)	(1 422)	(18 895)	(15 657)	(101 736)
Foreign exchange differences	448	(851)	(2 037)	626	(6 642)	8 328	(128)
31 December 2010	**365 134**	**275 790**	**120 408**	**41 426**	**644 703**	**190 585**	**1 638 046**

Change in provisions in 2009

	Environmental provision	Jubilee and retirements benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2009	**391 709**	**283 988**	**638 912**	**90 028**	**-**	**95 710**	**1 500 347**
Recognition	8 502	34 331	91 568	11 898	588 869	32 879	768 047
Reclassification	-	-	(710)	-	-	710	-
Usage	(17 948)	(33 015)	(558 752)	(50 775)	-	(25 717)	(685 577)
Reversal	(8 719)	(23 661)	(28 325)	(1 317)	-	(9 696)	(71 718)
Foreign exchange differences	(916)	(112)	(520)	1 535	-	(1 418)	(1 431)
31 December 2009	**372 628**	**261 531**	**142 173**	**51 369**	**588 869**	**92 468**	**1 509 038**

(all amounts in PLN thousand)

21.1. Environmental provision

The Group has legal obligation to clean contaminated land – water environment in the area of:
- plants located in Poland and Lithuania,
- petrol stations, fuel warehouses located In Poland and Germany.

The amount of the land reclamation provision was reassessed by the Management Board on the basis of analysis of the independent experts. The amount of the provision is the best estimate based on the average level of costs necessary to remove contamination by facilities.

The Government of the Czech Republic is responsible for liabilities arising from contamination of land-water environment before date of entity's privatization (so called Old Ecological Burdens). In case of new contamination that arose after date of the entity's privatization the company is responsible for those liabilities and in such situations provisions are provided in adequate amount on the basis of analysis of the independent experts.

The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

In 2010 the value of environmental provision decreased mainly due to the update of following assumptions: petrol stations cleaning unit cost, the frequency ratio, contaminated soil cleaning ratio, the quantity and volume of contaminated land and the discount rate. Should previous assumptions be used, environmental provision would be lower by PLN 8,696 thousand.

21.2. Provision for jubilee bonuses and post-employment benefits

The companies of the Group realize the program of paying out the jubilee bonuses and post – employment benefits, which include retirement and pension benefits in line with remuneration systems in force as well as other post – employment benefits. Provision for jubilee bonuses and post-employment benefits are calculated individually for each employee. The base for the calculation of provision for an employee is expected benefit, which the Group is obliged to pay in accordance with internal regulation. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depend on the number of years of service and an employee's remuneration. The present value of these obligations is estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

Change in employee benefits obligations in 2010

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2010	**147 045**	**114 486**	**261 531**
Current service cost	8 614	4 590	13 204
Interest expense	7 700	6 803	14 503
Actuarial gains	11 200	1 869	13 069
Benefits paid	(18 720)	(7 566)	(26 286)
Past service cost	241	56	297
Other	(903)	375	(528)
31 December 2010	**155 177**	**120 613**	**275 790**

Change in employee benefits obligations in 2009

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2009	**162 617**	**121 371**	**283 988**
Current service cost	8 507	5 295	13 802
Interest expense	7 959	6 883	14 842
Actuarial (losses)	(8 192)	(8 719)	(16 911)
Benefits paid	(23 007)	(11 943)	(34 950)
Past service cost	11	12	23
Other	(850)	1 587	737
31 December 2009	**147 045**	**114 486**	**261 531**

(all amounts in PLN thousand)

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2010 and 31 December 2009.

as at	Present value of the above mentioned employee benefits obligation
31/12/2010	275 790
31/12/2009	261 531
31/12/2008	283 988
31/12/2007	260 271
31/12/2006	215 814

Total expense recognised in profit or loss

	for the year ended 31/12/2010	for the year ended 31/12/2009
Current service cost	13 204	13 802
Interest expense	14 503	14 842
Actuarial gains/(losses)	13 069	(16 911)
Past service cost	297	23
Other	(528)	737
	40 545	**12 493**

In 2010 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be higher by PLN 1,755 thousand.

For updating the provision at as at 31 December 2010 the Group adopted the following actuarial assumptions:
- discount rate: 5.5%;
- expected inflation rate: 2.5%;
- remuneration increase rates: from 3.79% in 2011 up to 2.17% in 2014; 1.50% in years 2015-2020 and 2.5% in following years.

Costs of benefits are presented in the following lines of the statement of comprehensive income

	for the year ended 31/12/2010	for the year ended 31/12/2009
General and administrative expenses	29 210	9 536
Distribution expenses	6 719	41
Cost of sales	3 097	2 081
Other operating expenses	1 058	1 121
Other operating revenues	1 293	(1 044)
Change in Group structure	-	758
Foreign exchange differences	(832)	-
	40 545	**12 493**

Based on existing regulations the Group is obliged to make contributions to the national retirement and pension plans. These expenses are recognised as employee benefit costs. There are no other obligations as far as employee benefits are concerned.

(all amounts in PLN thousand)

21.3. Business risk provision

A decrease of business risk provision in 2010 results mainly from revision of status of administrative and court proceedings concerning the to perpetual usufruct of land.

21.4. Shield programs provision

Employee shield programs were launched to support the restructuring process conducted in the Group. The programs provide additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Employees, who agreed to change the workplace, are entitled to receive the relocation package comprising relocation bonus and refund of relocation costs.

In 2010 the value of shield programs provision changed as a result of an update of assumptions, which influenced the average benefit cost and different number of employees entitled to restructuring program. Should the prior year assumptions be used, the shield programs provision would be higher by PLN 11,997 thousand.

21.5. CO_2 emission provision

The Group recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision in the consolidated profit or loss is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. Detailed description is disclosed in note 2.3.8.2 and note 32.7.

21.6. Other provisions

The increase of other provisions in 2010 by PLN 98,120 thousand is mainly the result of an update of estimates regarding risks connected with proceedings led by the Office for Competition and Consumer Protection – detailed information has been disclosed in note 41.

22. Other long-term liabilities

	as at 31/12/2010	as at 31/12/2009
Derivatives not designated as hedge accounting	**3 414**	**5 555**
interest rate swaps	3 414	5 555
Investment liabilities	1 474	1 902
Financial lease	65 811	70 525
Guarantees granted	14 408	14 357
Financial liabilities	**85 107**	**92 340**
Non-financial liabilities	**4 568**	**5 365**
	89 675	**97 705**

(all amounts in PLN thousand)

23. Trade and other liabilities

	as at 31/12/2010	as at 31/12/2009
Trade liabilities	9 130 835	7 130 654
Investment liabilities	880 499	1 214 824
Dividend liabilities	5 441	5 719
Finance lease liabilities	26 095	28 951
Uninvoiced services	62 813	63 660
Other	82 195	80 101
Financial liabilities	**10 187 878**	**8 523 909**
Prepayments for deliveries	49 373	32 095
Payroll liabilities	200 023	194 710
Environmental liabilities	11 892	9 646
Special funds	19 652	19 347
Excise tax and fuel charge	1 574 267	1 561 697
Value added tax	1 018 359	791 151
Other taxation, duties, social security and other benefits	87 320	96 572
Accruals	287 234	265 415
Holiday pay accrual	48 378	48 376
Customers' discounts and rebates	78 637	64 174
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	160 219	152 865
Non-financial liabilities	**3 248 120**	**2 970 633**
	13 435 998	**11 494 542**

Trade and other liabilities denominated in foreign currencies as at 31 December 2010 and 31 December 2009 amounted to PLN 9,614,535 thousand and PLN 9,429,566 thousand, respectively.

As at 31 December 2010 and as at 31 December 2009 trade and other liabilities of PLN 86,135 thousand and PLN 68,983 thousand, respectively, were pledged on the Group's assets.

24. Deferred income

	as at 31/12/2010	as at 31/12/2009 (restated data)
Long-term accruals	**16 690**	**16 855**
Government grants	16 691	12 308
Other	269	4 547
Short-term accruals	**74 959**	**80 519**
Government grants	1 842	6 312
Unsettled points in loyalty program VITAY	61 537	64 565
Other	11 580	9 642
	91 919	**97 374**

VITAY is a loyalty program created for individual customers, operating on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for VITAY gifts. From June 2006 fuel prize is available for customers in a form of a discount of fuel price.

The deferred income is recognised with regard to the unrealized amount of points recorded on customers' accounts and adjusts sales of finished goods. The deferred income is estimated on the basis of proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

(all amounts in PLN thousand)

24.1. Government grants

As at 31 December 2010 and as at 31 December 2009 government grants received from National Environmental Protection Fund and European Regional Development Fund amounted to PLN 18,533 thousand and PLN 18,621 thousand, respectively.

25. Other financial liabilities

	as at 31/12/2010	as at 31/12/2009
Cash flow hedge instruments	**98 263**	**52 417**
foreign currency forwards (operating exposure)	3 095	6 193
foreign currency forwards (investing exposure)	-	7 371
interest rate swaps	95 168	38 853
Derivatives not designated for hedge accounting	**29 060**	**24 025**
foreign currency forwards	12 551	502
interest rate swaps	4 554	11 046
foreign currency - interest rate swap	11 955	12 476
Embedded derivatives	**1 314**	**40 826**
foreign currency swap	1 314	40 826
Other	**15 886**	**206**
	144 523	**117 474**

26. Sales revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Sales of finished goods	62 975 218	50 039 509
Sales of services	1 538 707	1 404 486
Revenues from sales of finished goods and services, net	**64 513 925**	**51 443 995**
Sales of merchandise	17 085 722	16 186 628
Sales of raw materials	1 947 785	297 367
Revenues from sales of merchandise and raw materials, net	**19 033 507**	**16 483 995**
	83 547 432	**67 927 990**

27. Operating expenses

Cost of sales

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Cost of finished goods and services sold	(57 665 333)	(46 820 284)
Cost of merchandise and raw materials sold	(17 901 628)	(15 022 992)
	(75 566 961)	**(61 843 276)**

(all amounts in PLN thousand)

Costs by kind

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Materials and energy	(54 438 067)	(43 380 026)
Cost of merchandise and raw materials sold	(17 901 628)	(15 022 992)
External services	(3 712 213)	(3 699 892)
Payroll, social security and other employee benefits	(1 991 488)	(2 003 670)
Depreciation and amortisation	(2 422 747)	(2 562 221)
Taxes and charges	(414 461)	(421 907)
Other	(1 239 838)	(1 634 767)
	(82 120 442)	**(68 725 475)**
Change in inventories	738 373	480 187
Cost of products and services for own use	185 965	156 040
Operating expenses	**(81 196 104)**	**(68 089 248)**
Distribution expenses	3 394 612	3 507 700
General and administrative expenses	1 365 195	1 504 707
Other operating expenses	869 336	1 233 565
Cost of finished goods, merchandise and raw materials sold	**(75 566 961)**	**(61 843 276)**

In 2010 and 2009 external services included research expenditures of PLN 15,985 thousand and PLN 12,047 thousand, respectively.

Employee benefits costs

	for the year ended 31/12/2010	for the year ended 31/12/2009
Payroll expenses	(1 579 573)	(1 588 453)
Future benefits expenses	(5 086)	(2 110)
Social security expenses	(319 043)	(350 374)
Other employee benefits expenses	(87 786)	(62 733)
	(1 991 488)	**(2 003 670)**

28. Other operating revenues and expenses

28.1. Other operating revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Profit on sale of non-current non-financial assets	114 798	773 714
Reversal of provisions	66 941	46 714
Reversal of receivables impairment allowances	77 342	99 140
Reversal of impairment allowances of property, plant and equipment and intangible assets	106 291	184 153
Penalties and compensations earned	127 233	58 386
Grants	110 634	1 101
Other	168 082	95 126
	771 321	**1 258 334**

As a consequence of sale of CO_2 emission rights in the year ended 31 December 2010 and 31 December 2009 the line profit from sale of non-financial non-current assets included PLN 39,552 thousand and PLN 717,177 thousand, respectively.

(all amounts in PLN thousand)

Other operating revenues due to grants received concerns mainly to revenues from reduction of nitrous suboxides emission in Anwil S.A. Detailed description is disclosed in note 2.3.

28.2. Other operating expenses

	for the year ended 31/12/2010	for the year ended 31/12/2009
Loss on sale of non-current non-financial assets	(30 585)	(50 579)
Recognition of provisions	(189 167)	(696 427)
Recognition of receivables impairment allowances	(97 693)	(152 971)
Recognition of impairment allowance for useless materials	(14 714)	(860)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(376 510)	(118 120)
Costs and losses on removal of damages and breakdowns	(53 025)	(19 055)
Other	(107 642)	(195 553)
	(869 336)	**(1 233 565)**

In 2010 the Group changed presentation of provision for estimated CO_2 emissions in the reporting period. Detailed information is disclosed in note 2.2.3.

Detailed description of impairment allowances is disclosed in notes 6, 8, 14 and 15.

29. Financial revenues and expenses

29.1. Financial revenues

	for the year ended 31/12/2010	for the year ended 31/12/2009
Interest	62 014	58 799
Foreign exchange gain	237 904	679 407
Profit from sale of shares and other securities	13 185	316
Decrease in receivables impairment allowances	14 625	13 100
Settlement and valuation of financial instruments	96 008	330 222
Reversal of investment impairment allowances	1 370	2 626
Other	21 648	9 805
	446 754	**1 094 275**

29.2. Financial expenses

	for the year ended 31/12/2010	for the year ended 31/12/2009
Interest	(386 697)	(463 148)
Foreign exchange loss	(254 421)	(183 348)
Loss on sale of shares and other securities	-	(41)
Increase in receivables impairment allowances	(15 263)	(8 823)
Settlement and valuation of financial instruments	(57 650)	(318 219)
Investment impairment allowances	(1 220)	(870)
Other	(35 997)	(48 625)
	(751 248)	**(1 023 074)**

According to IAS 23, the Group capitalizes those borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2010 and in the year ended 31 December 2009 amounted to PLN 156,727 thousand and PLN 126,367 thousand, respectively. In 2010 and in 2009 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.14% per annum and 3.52% per annum, respectively.

(all amounts in PLN thousand)

30. Income tax expense

	for the year ended 31/12/2010	for the year ended 31/12/2009
Current income tax	(503 823)	(331 702)
Deferred income tax	(110 877)	191 217
	(614 700)	**(140 485)**

30.1. The differences between income tax expense recognised in profit or loss and the amount calculated based on profit before tax

	for the year ended 31/12/2010	for the year ended 31/12/2009
Profit before tax	3 070 167	1 440 652
Corporate income tax for 2010 and 2009 by the valid tax rate (19% in Poland)	(583 332)	(273 724)
Differences between tax rates	(22 286)	(2 433)
Lithuania (15%)	(14 278)	5 168
Czech Republic (2009: 20%; 2010: 19%)	-	2 557
Germany (29%)	(8 008)	(10 158)
Valuation of entities accounted for under the equity method	47 515	51 247
Tax losses	94	6 781
Non-deductible provisions	(10 848)	(14 506)
Other	(45 843)	92 150
Income tax expense	**(614 700)**	**(140 485)**
Effective tax rate	**20%**	**10%**

The line other in 2010 includes the effect of revaluation of tax value of non-monetary assets in Orlen Lietuva due to changes in LTL/USD exchange rates of PLN (45,436) thousand, whereas in 2009 in line other the Group recognised the effect of revaluation of deferred tax of PLN 55,270 thousand resulting from the change of tax rates used in Lithuania.

30.2. Deferred tax

As at 31 December 2010 and 31 December 2009 deferred tax assets amounted to PLN 163,893 thousand and PLN 290,820 thousand, respectively, while deferred tax liabilities amounted to PLN 818,581 thousand and PLN 836,330 thousand, respectively.
Deferred tax assets are presented net with deferred tax liabilities in the financial statements of Group companies.

(all amounts in PLN thousand)

	as at 31/12/2010	as at 31/12/2009
Deferred tax assets		
Assets allowances	69 830	554 746
Provisions and accruals	304 777	298 922
Unrealized foreign exchange losses	208 993	179 294
Difference between carrying amount and tax base of property, plant and equipment	61 786	93 721
Tax loss	157 056	237 213
Financial instruments valuation	-	10 920
Other	52 293	43 890
	854 735	**1 418 706**
Deferred tax liabilities		
Investment relief	74 260	82 685
Difference between carrying amount and tax base of property, plant and equipment	1 329 877	1 787 653
Difference in contribution in kind	42 870	42 870
Finance lease trated as operating for tax purposes	9 544	13 688
Financial instruments valuation	10 075	-
Other	42 797	37 320
	1 509 423	**1 964 216**
Deferred tax liability, net	**654 688**	**545 510**

As at 31 December 2010 and as at 31 December 2009 the Group possessed unsettled tax losses amounting to PLN 11,261 thousand and PLN 133,260 thousand respectively, for which no deferred tax asset was recognised.

30.3. Change in deferred tax liabilities, net

	as at 31/12/2010	as at 31/12/2009
Beginning of the period	545 510	649 324
Deferred tax recognised in the income statement	110 877	(191 217)
Deferred tax recognised in other comprehensive income	(13 667)	65 511
Foreign exchange differences	11 968	21 892
	654 688	**545 510**

(all amounts in PLN thousand)

31. Explanatory notes to the statement of cash flows

Explanation of differences between changes in the statement of financial position captions and changes presented in the statement of cash flows

	as at 31/12/2010	as at 31/12/2009
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	**(666 052)**	**987 747**
Change in invesment receivables	(109 834)	(378 689)
advances for construction in progress	(119 677)	(368 166)
investment receivables from sale of non-current non-financial assets	9 843	(10 523)
Change in the Capital Group structure	-	3 478
Change in receivables transfered to non-current assets classified as held for sale	-	(14 969)
Change in prepayments regarding bank commisions	(22 373)	42 175
Foreign exchange differences	10 006	20 296
Other	(10 893)	(4 701)
Change in receivables in the statement of cash flows	**(799 146)**	**655 338**
Change in inventories presented in the statement of financial position	**(674 992)**	**(1 530 812)**
Foreign exchange differences	59 032	(79 066)
Reclassifications of inventories from/to property, plant and equipment and non-current assets held for sale	6 979	(53 027)
Other	-	226
Change in inventories in the statement of cash flows	**(608 981)**	**(1 662 679)**
Change in trade and other liabilities presented in the statement of financial position	**1 933 426**	**3 109 242**
Change in investment liabilities	331 095	(408 560)
Change in financial liabilities	7 848	30 130
dividend liabilities	278	(4 634)
lease liabilities	7 570	34 764
Change in the Capital Group structure	-	(7 508)
Foreign exchange differences	884	93 054
Other	9 423	4 598
Change in liabilities in the statement of cash flows	**2 282 677**	**2 820 956**
Change in provisions presented in the statement of financial position	**129 008**	**8 691**
Change in the Capital Group structure	1 837	(1 981)
Usage of prior year provision for CO_2 emission rights	588 869	-
Foreign exchange differences	(4 396)	(8 796)
Other	(241)	-
Change in provisions in the statement of cash flows	**715 077**	**(2 086)**

In cash flows from operating activities for 2010, PLN (762,383) thousand has been presented in line other, relating mainly to change in:

- deferred income relating to investing activities as a result of CO_2 emission rights granted free of charge amounting to PLN (798,702) thousand,
- receivables/liabilities relating to derivatives not designated as hedge accounting amounting to PLN 23,996 thousand.

(all amounts in PLN thousand)

32. Financial instruments

32.1. Financial instruments by category and class

Financial assets

as at 31 December 2010

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	**Note**						
Quoted shares	11	-	-	-	1 151	-	1 151
Unquoted shares	11	-	-	-	41 632	-	41 632
Bonds/other debt securities	16	-	-	34 876	-	-	34 876
Trade receivables	15	-	5 296 717	-	-	-	5 296 717
Receivables from sale of non-current non-financial assets	15	-	13 673	-	-	-	13 673
Loans granted	12,16	-	41 066	-	-	-	41 066
Embedded derivatives and hedging instruments	16	4 064	-	-	-	175 462	179 526
Cash and cash equivalents	17	-	2 820 742	-	-	-	2 820 742
Other	12,15,16	-	142 007	-	-	-	142 007
		4 064	**8 314 205**	**34 876**	**42 783**	**175 462**	**8 571 390**

as at 31 December 2009

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	**Note**						
Shares quoted	11	-	-	-	869	-	869
Shares unquoted	11	-	-	-	58 764	-	58 764
Bonds/other debt securities	16	-	-	55 852	-	-	55 852
Trade receivables	15	-	4 491 501	-	-	-	4 491 501
Receivables from sale of non-current non-financial assets	15	-	3 830	-	-	-	3 830
Loans granted	12,16	-	34 999	-	-	-	34 999
Embedded derivatives and hedging instruments	16	43 208	-	-	-	81 666	124 874
Cash and cash equivalents	17	-	2 941 039	-	-	-	2 941 039
Other	12,15,16	-	141 064	-	-	-	141 064
		43 208	**7 612 433**	**55 852**	**59 633**	**81 666**	**7 852 792**

Financial liabilities

as at 31 December 2010

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	20	-	1 155 289	-	-	1 155 289
Loans	20	-	8 952 079	-	-	8 952 079
Borrowings	20	-	560 359	-	-	560 359
Finance lease	22,23	-		-	91 906	91 906
Trade liabilities	23	-	9 130 835	-	-	9 130 835
Investment liabilities	22,23	-	881 973	-	-	881 973
Embedded derivatives and hedging instruments	22,25	33 788	-	98 263	-	132 051
Other	22,23,25	-	180 743	-	-	180 743
		33 788	**20 861 278**	**98 263**	**91 906**	**21 085 235**

as at 31 December 2009

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	20	-	1 173 549	-	-	1 173 549
Loans	20	-	11 269 993	-	-	11 269 993
Borrowings	20	-	760 685	-	-	760 685
Financial lease	22,23	-	-	-	99 476	99 476
Trade liabilities	23	-	7 130 654	-	-	7 130 654
Investment liabilities	22,23	-	1 216 726	-	-	1 216 726
Embedded derivatives and hedging instruments	22,25	70 406	-	52 417	-	122 823
Other	22,23,25	-	164 043	-	-	164 043
		70 406	**21 715 650**	**52 417**	**99 476**	**21 937 949**

(all amounts in PLN thousand)

32.2. Gains/(Losses) due to financial instruments recognised in financial revenues and expenses by category

	for the year ended 31/12/2010	for the year ended 31/12/2009
Financial assets and liabilities at fair value through profit or loss	74 265	102 418
Loans and receivables	(94 706)	(31 695)
Financial assets held to maturity	2 993	-
Financial assets available for sale	32 324	382 751
Financial liabilities measured at amortized cost	(300 056)	(285 358)
Hedging financial instruments	(13 546)	(90 451)
Assets and liabilities excluded from IAS 39	(5 768)	(6 464)
	(304 494)	**71 201**

32.3. Financial expenses due to impairment of financial assets by class of financial instruments

	for the year ended 31/12/2010	for the year ended 31/12/2009
Quoted shares	(254)	(273)
Unquoted shares	(966)	(597)
Trade receivables	(15 263)	(8 823)
	(16 483)	**(9 693)**

Impairment allowances of receivables were disclosed in the note 11 and 28.

32.4. Fair value of financial instruments

	as at 31/12/2010		as at 31/12/2009	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Quoted shares	1 151	1 151	869	869
Unquoted shares	not applicable	41 632	not applicable	58 764
Bonds and other debt securities	34 665	34 876	55 852	55 852
Trade receivables	5 296 717	5 296 717	4 491 501	4 491 501
Receivables from sale of non-current non-financial assets	13 673	13 673	3 830	3 830
Loans granted	43 403	41 066	34 887	34 999
Embedded derivatives and hedging instruments	179 526	179 526	124 874	124 874
Cash and cash equivalents	2 820 742	2 820 742	2 941 039	2 941 039
Other	137 520	142 007	140 643	141 064
	8 527 397	**8 571 390**	**7 793 495**	**7 852 792**
Financial liabilities				
Debt securities issued	1 197 053	1 155 289	1 206 947	1 173 549
Loans	8 945 948	8 952 079	11 306 383	11 269 993
Borrowings	573 885	560 359	748 576	760 685
Finance lease	79 419	91 906	91 364	99 476
Trade liabilities	9 130 835	9 130 835	7 130 654	7 130 654
Investment liabilities	881 973	881 973	1 216 726	1 216 726
Embedded derivatives and hedging instruments	132 051	132 051	122 823	122 823
Other	180 743	180 743	169 039	164 043
	21 121 907	**21 085 235**	**21 992 512**	**21 937 949**

(all amounts in PLN thousand)

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2010 and 31 December 2009 the Group held unquoted shares in entities amounting to PLN 41,632 thousand and PLN 58,764 thousand respectively, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognised as financial assets available for sale and measured at acquisition cost less impairment allowances. As at the period end there are no binding decisions relating to ways and dates of disposure of those assets.

Methods applied in determining fair values of financial instruments recognised in the consolidated statement of financial position at fair value (fair value hierarchy)

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets. As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

Derivative instruments are presented as assets, when their valuation is positive and as liabilities, when their valuation is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognised in a current year profit or loss.

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2).

Fair value hierarchy

		as at 31/12/2010		as at 31/12/2009	
	Note	Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	11	1 151	-	869	-
Embedded derivatives and hedging instruments	16	-	179 526	-	124 874
		1 151	**179 526**	869	**124 874**
Financial liabilities					
Embedded derivatives and hedging instruments	22,25	-	132 051	-	122 823
		-	**132 051**	-	**122 823**

During the reporting period and comparative period there were no reclassifications of financial instruments between Level 1 and Level 2.

Methods and assumptions applied in determining fair values of financial instruments presented in the consolidated statement of financial position at amortized cost

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as loans liabilities and other financial instruments are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates (as at 31 December 2010 and 31 December 2009 according to quotations of 1-month and 3-months interest rates, respectively) increased by margins proper for particular financial instruments.

	as at 31/12/2010	as at 31/12/2009
WIBOR	3.6600%	4.2700%
EURIBOR	0.7820%	0.7000%
LIBOR	0.2606%	0.2506%
PRIBOR	0.9900%	1.5400%
VILIBOR	1.0500%	3.9000%

(all amounts in PLN thousand)

32.5. Financial assets pledged as collateral for liabilities or contingent liabilities

	as at 31/12/2010	as at 31/12/2009
Cession of receivables	359 489	278 609
Cash in bank pledged as collateral	92 538	134 787

The above mentioned collaterals concern mostly bank loans of the Group companies and may be taken over by banks in case of lack of payment of principal and interest on due dates. So far, such a situation has not occurred, and there is no risk that it will occur in the near future.

32.6. Hedge accounting

Cash flow hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/PLN for sale and USD/PLN for purchases and sale). The Group hedges also cash flows from investment projects against changes in exchange rates (EUR/PLN, JPY/PLN). Foreign exchange forwards are used as hedging instruments.

The Group hedges its cash flows from crude oil settlements using commodity swaps.

Additionally, the Group hedges cash flows from interest payments connected with issuance of bonds in PLN as well as cash flows from interest payments concerning external financing in EUR and USD, using interest rate swaps (IRS).

In case of hedging the exposure with derivative instruments within the period of more than 12 months, application of hedge accounting is obligatory.

Hedging transactions, settlement and fair value measurement which influence the foregoing financial statements were concluded in the years 2007-2010.

The fair value of derivative instruments designated as hedging instruments according to cash flow hedge accounting, planned realization date and planned date of the influence on the result of the hedged cash flow:

– net fair value which will be recognised in the profit or loss at the realization date:

	as at 31/12/2010	as at 31/12/2009
Planned realization date of hedged cash flows		
Currency operating exposure		
2010	-	40 246
2011	31 216	-
Interest rate exposure		
until 1Q 2012	(7 132)	(5 154)
until 1Q 2014	(88 036)	(12 284)
Commodity risk exposure		
1Q 2011	126 092	-
1Q 2012	14 364	-
	76 504	**22 808**

In case of interest rate exposure, the interest rate swap hedging the issue of bonds denominated in PLN is based on 6-month WIBOR, whereas the interest rate swaps hedging loans denominated in EUR and USD are based on 1-month EURIBOR and 1-month LIBOR.

– fair value which will be included in the initial cost of property, plant and equipment at the realization date, and recognised in the profit or loss through depreciation charges in the following periods:

(all amounts in PLN thousand)

	as at 31/12/2010	as at 31/12/2009
Planned realization date of hedged cash flows		
2010 (currency investment exposure)	-	6 440
2011 and following years (currency investment exposure)	728	-
	728	**6 440**

In 2010 as a result of settlement of hedge instruments the amount of PLN 12,876 thousand was recognised and an increase of equity and included:

- in profit or loss as sales of finished goods – PLN 26,369 thousand, in foreign exchange differences surplus – PLN (4,300) thousand and in interest expense - PLN (61 212) thousand, and
- in construction in progress – PLN 52,019 thousand.

In 2009 as a result of settlement of hedge instruments the amount of PLN (214,031) thousand decreased the equity and included:

- in profit or loss of sales of finished goods - PLN (313,143) thousand, in foreign exchange differences surplus - PLN 9,776 thousand, in interest expense - PLN 261 thousand and in financial expenses from the settlement and valuation of financial instruments – PLN (15,364) thousand, and
- in construction in progress – PLN 104,444 thousand.

In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2010 and 2009 amounting to PLN (1,622) thousand and PLN (1,162) thousand, respectively.

Limitations in application of cash flows hedge accounting

For the transactions concluded and settled in the same quarter the Group does not apply hedge accounting. The settlement result is recognised in the current period profit or loss.

As at 31 December 2010 and 31 December 2009 the fair value of transactions hedging cash flows connected with realization of investment projects against changes in exchange rates (USD/PLN, EUR/PLN), for which hedge accounting is not applied due to separation of embedded derivatives for these contracts, amounted to PLN 765 thousand and PLN 17,886 thousand, respectively.

Net investment hedge in a foreign operation

Starting from the second quarter of 2008 the Group uses net investment hedges in a foreign. Net investment hedge hedges currency risk of the portion of net investment in a foreign operation that uses USD as its functional currency.

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Orlen Lietuva Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN amounting to PLN 489,234 thousand (net of deferred tax) were recognised in other comprehensive income in the line “Foreign exchange differences on subsidiaries from consolidation”.

32.7. Financial risk management

The Group is exposed particularly to the following financial risks:

- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices).

Credit risk

Within its trading activity the Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group’s receivables from sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types.

The established payment term of receivables connected with the ordinary course of sales amounts to 14-30 days.

(all amounts in PLN thousand)

Each non-cash customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

Based on the analysis of receivables the customers were divided into two groups:
- I group – customers with good or very goods history of cooperation in the current year;
- II group – other customers.

The division of not past due receivables based on the criteria described above:

	as at 31/12/2010	as at 31/12/2009
Group I	3 631 698	2 978 780
Group II	1 030 722	897 147
	4 662 420	**3 875 927**

The ageing analysis of financial assets past due, but not impaired as at the end of the reporting period:

	Current receivables		Loans granted	
	as at 31/12/2010	as at 31/12/2009	as at 31/12/2010	as at 31/12/2009
Up to 1 month	702 517	629 167	-	-
1-3 months	21 083	37 578	-	-
3-6 months	8 484	18 349	-	-
6-12 months	9 356	15 659	-	78
Above 1 year	39 065	50 490	-	-
	780 505	**751 243**	**-**	**78**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

In order to reduce the risk of recoverability of trade receivables, the Company receives from its customers securities such as: bank and issuance guarantees, blockade of cash on bank accounts, mortgages and bills of exchange.

Credit risk associated with cash and cash equivalents and deposits is assessed by the Group as low.

All entities in which the Group's free cash and cash equivalents are deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (81% of deposited cash and cash equivalents) or good credibility (19% of deposited cash and cash equivalents).
Rating A-1 in Standard & Poor's, F1 in Fitch and Prime-1 in Moodys are treated as the highest credibility, while A-2 in Standard & Poor's, F2 in Fitch and Prime-2 in Moodys are considered to be good credibility.
Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by the Group as low, due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

As at 31 December 2010 and 31 December 2009 due to changes in payment terms referring to trade receivables, the Group did not recognise impairment loss of receivables in profit or loss in the amount PLN 528 thousand and PLN 13,409 thousand, respectively.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of assets is disclosed in the note 32.3.

(all amounts in PLN thousand)

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between short term liabilities and current assets.

As at 31 December 2010 and as at 31 December 2009 current assets to short-term liabilities ratio (current ratio) amounted to 1.28 and 1.37, respectively.

Detailed information regarding loans is disclosed in the note 20.1.

In 2006 the Group entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Group to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. For the Group the cost of gaining cash is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the Group.

In order to optimize financial expenses the Group uses cash pool facility. As at 31 December 2010 the domestic cash pool facility comprised 20 entities belonging to the Group, while cross border cash pool facility comprised 3 foreign entities belonging to the Group.

As at 31 December 2010 and 31 December 2009 the maximum possible indebtedness due to loans amounted to PLN 17,989,434 thousand and PLN 17,029,569 thousand, respectively, of which as at 31 December 2010 and 31 December 2009 PLN 7,685,036 thousand and PLN 4,794,093 thousand respectively remained unused.

Maturity analysis for financial liabilities:

	as at 31/12/2010					
	up to 1 year	**1-3 years**	**3-5 years**	**above 5 years**	**Total**	**Carrying amount**
Debt securities	-	1 196 737	-	-	1 196 737	1 155 289
Floating rate bonds - undiscounted value	-	761 366	-	-	761 366	761 064
Fixed rate bonds - undiscounted value	-	435 371	-	-	435 371	394 225
Loans - undiscounted value	1 233 322	7 069 165	14 182	647 145	8 963 814	8 952 079
Borrowings - undiscounted value	216 721	345 134			561 855	560 359
Finance lease	26 095	35 238	12 830	17 743	91 906	91 906
Trade liabilities	9 130 835	-	-	-	9 130 835	9 130 835
Investment liabilities	880 499	1 474	-	-	881 973	881 973
Embedded derivatives and hedging instruments including:	22 932	20 608	88 036	-	131 576	132 051
Gross settled amounts	22 932	13 476	-	-	36 408	36 883
Net settled amounts	-	7 132	88 036	-	95 168	95 168
Other	161 310	15 901	2 792	740	180 743	180 743
	11 671 714	**8 684 257**	**117 840**	**665 628**	**21 139 439**	**21 085 235**

As at 31 December 2010, the line „loans – undiscounted value" includes the amount of PLN 864,526 thousand relating to long-term liabilities reclassified to short-term liabilities due to the fact, that the due date of those loans falls in 2011.

	as at 31/12/2009					
	up to 1 year	**1-3 years**	**3-5 years**	**above 5 years**	**Total**	**Carrying amount**
Debt securities	-	762 272	453 026	-	1 215 298	1 173 549
Floating rate bonds - undiscounted value	-	762 272	-	-	762 272	762 087
Fixed rate bonds - undiscounted value	-	-	453 026	-	453 026	411 462
Loans - undiscounted value	1 337 468	9 019 421	40 138	878 021	11 275 048	11 269 993
Borrowings - undiscounted value	212 709	547 976			760 685	760 685
Finance lease	28 947	38 205	12 538	19 786	99 476	99 476
Trade liabilities	7 130 654	-	-	-	7 130 654	7 130 654
Investment liabilities	1 214 824	1 902	-	-	1 216 726	1 216 726
Embedded derivatives and hedging instruments including:	78 330	10 710	33 699	-	122 739	122 823
Gross settled amounts	78 330	5 555	-	-	83 885	83 969
Net settled amounts		5 155	33 699		38 854	38 854
Other	147 644	19 130	-	-	166 774	164 043
	10 150 576	**10 399 616**	**539 401**	**897 807**	**21 987 400**	**21 973 949**

(all amounts in PLN thousand)

Market risks

The Company is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

Market risks management in PKN ORLEN S.A. Group is performed by entities exposed to the highest risks, i.e. PKN ORLEN, Basell ORLEN Polyolefins, ORLEN Asfalt, Anwil, Unipetrol Group and ORLEN Lietuva.

The PKN ORLEN S.A. Group manages market risks resulting from the above mentioned factors using market risk management policy. The applied policy describes methods of management of each of the exposures by defining process of exposure measurement, hedge parameters, hedging instruments, as well as time horizon of hedging. Market risk management is realized by designated organization units under supervision of the Financial Risk Committee of PKN ORLEN, the Management Board of PKN ORLEN and the Supervisory Board of PKN ORLEN.

The objective of market risk management is to reduce the unfavorable effects of changes in market risk factors on the cash flow and financial results in the short and medium term.

Market risk management is conducted using hedging strategies based on derivative instruments. Derivatives are used solely to reduce the risk of changes in fair value and risk of changes in cash flows. The PKN ORLEN S.A. Group applies only those instruments which can be measured independently, using standard valuation models for given instrument. As far as market valuation of the instruments is concerned, the Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

- **Currency risk**

The Group is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as liabilities from loans and bonds issued denominated in foreign currencies as well as from future planned cash flows from sales of refinery and petrochemical products and merchandise. Currency risk exposure is hedged by forward and swap instruments.

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN Exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

Currency structure of financial instruments as at 31 December 2010

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other	Total after conversion to PLN
Financial assets							
Unquoted shares	116	-	189 525	-	-	-	30 403
Bonds/other debt securities	-	11 766	-	-	-	-	34 876
Trade receivables	285 401	172 842	5 489 828	162 409	-	6 685	2 703 290
Receivables from sale of non-current non-financial assets	-	-	9 720	-	-	-	1 536
Loans granted	5 442	105	99 614	-	-	3 668	41 066
Embedded derivatives and hedging instruments	3 801	54 503	-	-	19 987	-	177 332
Cash	46 483	353 194	4 371 754	23 643	67 051	27 325	1 982 730
Other	-	32 780	117 266	-	-	-	115 692
	341 243	625 190	10 277 707	186 052	87 038	37 678	5 086 925
Financial liabilities							
Debt securities	-	-	2 495 096	-	-	-	394 226
Loans	953 872	1 662 277	292 992	1 545	-	-	8 750 588
Borrowings	-	182 040	-	-	-	-	539 586
Finance lease	24	-	24 412	-	-	-	3 953
Trade liabilities	51 360	2 168 470	4 207 640	111 319	30 438	11 953	7 436 693
Investment liabilities	5 458	6 339	428 476	-	2 000 540	-	181 004
Embedded derivatives and hedging instruments	15 587	13 067	76 203	-	-	-	112 501
Other	5 663	9 776	120 620	-	-	-	70 463
	1 031 964	4 041 969	7 645 439	112 864	2 030 976	11 953	17 489 014

(all amounts in PLN thousand)

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2010) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

Influence of financial intruments on profit before tax				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(542 331)	-15%	542 331
USD/PLN	+15%	(478 133)	-15%	478 133
JPY/PLN	+15%	(9 223)	-15%	9 223
		(1 029 687)		**1 029 687**

Influence of financial intruments on hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(145 942)	-15%	145 942
USD/PLN	+15%	(59 230)	-15%	59 230
JPY/PLN	+15%	6 771	-15%	(6 771)
		(198 401)		**198 401**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation including net investment hedge in foreign entities				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	6 021	-15%	(6 021)
USD/PLN	+15%	(1 066 500)	-15%	1 066 500
CZK/PLN	+15%	76 391	-15%	(76 391)
LTL/PLN	+15%	25 995	-15%	(25 995)
		(958 093)		**958 093**

Total				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(682 252)	-15%	682 252
USD/PLN	+15%	(1 603 863)	-15%	1 603 863
CZK/PLN	+15%	76 391	-15%	(76 391)
JPY/PLN	+15%	(2 452)	-15%	2 452
LTL/PLN	+15%	25 995	-15%	(25 995)
		(2 186 181)		**2 186 181**

The influence of changes in relevant currencies in relation to functional currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2010:

Sensitivity of a net investment in a foreign operations including hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	73 267	-15%	(73 267)
USD/PLN	+15%	8 364	-15%	(8 364)
CZK/PLN	+15%	901 869	-15%	(901 869)
		983 500		**(983 500)**

(all amounts in PLN thousand)

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2010.

Total influence of changes in exchange rates of relevant currencies in relation to functional currency (PLN) on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2010:

Total influence on other comprehensive income				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(615 006)	-15%	615 006
USD/PLN	+15%	(528 999)	-15%	529 000
CZK/PLN	+15%	901 869	-15%	(901 869)
JPY/PLN	+15%	(2 452)	-15%	2 452
		(244 588)		**244 588**

Currency structure of financial instruments exposed to market risk as at 31 December 2009

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other	Total after conversion to PLN
Financial assets							
Unquoted shares	-	-	198 346	-	-	-	30 823
Bonds/other debt securities	-	-	359 408	-	-	-	55 852
Trade receivables	233 872	48 621	5 691 648	-	-	-	2 317 572
Receivables from sale of non-current non-financial assets	-	-	16 746	-	-	-	2 602
Loans granted	5 156	37	85 830	-	-	-	34 640
Embedded derivatives and hedging instruments	7 590	19 965	-	-	447 123	-	101 899
Cash and cash equivalents	91 956	242 082	741 018	243 916	103	24 764	1 504 490
Other	445	35 278	141 667	-	-	-	124 394
	339 019	345 983	7 234 663	243 916	447 226	24 764	4 172 272
Financial liabilities							
Debt securities	-	-	2 647 762	-	-	-	411 462
Loans	1 391 121	1 633 776	688 198	8 058	-	-	10 464 787
Borrowings	-	258 842	-	-	-	-	737 776
Finance lease	42	-	36 780	-	-	-	5 891
Trade liabilities	272 590	2 177 488	737 559	-	-	-	7 368 653
Investment liabilities	144	3 963	397 287	-	6 498 365	-	274 406
Embedded derivatives and hedging instruments	15 668	6 075	-	-	220 929	-	88 507
Other	5 526	11 505	1 091 133	-	-	-	157 612
	1 685 091	4 091 649	5 598 719	8 058	6 719 294	-	19 509 094

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2009) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation

Influence of financial intruments on profit before tax				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(760 774)	-15%	760 774
USD/PLN	+15%	(515 838)	-15%	515 838
JPY/PLN	+15%	(30 109)	-15%	30 109
		(1 306 721)		**1 306 721**

(all amounts in PLN thousand)

Influence of financial intruments on hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(109 247)	-15%	109 247
USD/PLN	+15%	3 158	-15%	(3 158)
JPY/PLN	+15%	39 427	-15%	(39 427)
		(66 662)		**66 662**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation including net investments hedge in foreign entities				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	5 159	-15%	(5 159)
USD/PLN	+15%	(938 630)	-15%	938 630
CZK/PLN	+15%	(102 652)	-15%	102 652
JPY/PLN	+15%	2	-15%	(2)
LTL/PLN	+15%	60 134	-15%	(60 134)
		(975 987)		**975 987**

Total				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(864 862)	-15%	864 862
USD/PLN	+15%	(1 451 310)	-15%	1 451 310
CZK/PLN	+15%	(102 652)	-15%	102 652
JPY/PLN	+15%	9 320	-15%	(9 320)
LTL/PLN	+15%	60 134	-15%	(60 134)
		(2 349 370)		**2 349 370**

The influence of changes in relevant currencies in relation to functional currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2009:

Sensitivity of a net investment in a foreign operations including hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	74 075	-15%	(74 075)
USD/PLN	+15%	176 386	-15%	(176 386)
CZK/PLN	+15%	870 094	-15%	(870 094)
		1 120 555		**(1 120 555)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2009.

Total influence of changes in exchange rates of relevant currencies in relation to functional currency (PLN) on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2009.

(all amounts in PLN thousand)

Total influence on other comprehensive income				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(795 946)	-15%	795 946
USD/PLN	+15%	(336 294)	-15%	336 294
CZK/PLN	+15%	870 094	-15%	(870 094)
JPY/PLN	+15%	9 318	-15%	(9 318)
		(252 828)		**252 828**

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts' forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using

assumed increases/(decreases) in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates.

For other currencies the sensitivity of financial instruments is irrelevant to the Group.

– **Interest rate risk**

The Group is exposed to risk of volatility of cash flows due to interest rates resulting from borrowings, interest-bearing loans and debt securities based on floating interest rates as well as derivative transactions hedging risk of cash flows.

Interest rate structure of financial instruments:

	as at 31/12/2010					
Financial instruments by class	EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Financial assets						
Bonds/other debt securities	-	34 876	-	-	-	34 876
Loans granted	21 552	311	15 739	-	3 464	41 066
Embedded derivatives and hedging instruments	15 053	162 281	-	-	2 192	179 526
	36 605	**197 468**	**15 739**	**-**	**5 656**	**255 468**
Financial liabilities						
Debt securities	-	-	-	-	761 064	761 064
Loans	3 777 860	4 925 289	46 196	1 243	201 491	8 952 079
Borrowings	-	-	-	-	20 773	20 773
Embedded derivatives and hedging instruments	61 729	38 732	12 040	-	19 550	132 051
	3 839 589	**4 964 021**	**58 236**	**1 243**	**1 002 878**	**9 865 967**

	as at 31/12/2009					
Financial instruments by class	EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Financial assets						
Bonds/other debt securities	-	-	55 852	-	-	55 852
Loans granted	21 182	104	13 338	-	375	34 999
Embedded derivatives and hedging instruments	31 181	70 718	-	-	22 975	124 874
	52 363	**70 822**	**69 190**	**-**	**23 350**	**215 725**
Financial liabilities						
Debt securities	-	-	-	-	762 087	762 087
Loans	5 692 169	4 656 226	106 856	9 536	805 206	11 269 993
Borrowings	-	-	-	-	22 909	22 909
Embedded derivatives and hedging instruments	64 367	24 140	-	-	34 316	122 823
	5 756 536	**4 680 366**	**106 856**	**9 536**	**1 624 517**	**12 177 812**

(all amounts in PLN thousand)

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax and hedging reserve due to changes in significant interest rates:

Interest rate	Assumed variation		Influence on profit before tax		Influence on hedging reserve		Total	
	31/12/2010	31/12/2009	2010	2009	2010	2009	2010	2009
WIBOR	+50	+50	(4 899)	(7 949)	2 062	3 938	(2 837)	(4 011)
LIBOR	+50	+50	(24 451)	(23 281)	19 635	23 810	(4 816)	529
EURIBOR	+50	+50	(19 008)	(28 425)	21 062	28 890	2 054	465
PRIBOR	+50	+50	(212)	(188)	-	-	(212)	(188)
			(48 570)	**(59 843)**	**42 759**	**56 638**	**(5 811)**	**(3 205)**
WIBOR	-50	-50	4 899	7 949	(2 084)	(3 895)	2 815	4 054
PRIBOR	-50	-50	212	188	-	-	212	188
			5 111	**8 137**	**(2 084)**	**(3 895)**	**3 027**	**4 242**

The above interest rates variations were calculated based on observations of interest rates fluctuations in the current and prior year reporting period as well as on the basis of available analysts' forecasts.

The Company does not take the potential decrease of EURIBOR and LIBOR into consideration because of market forecasts and low level of EURIBOR and LIBOR interest rates as at the end of 2010 and market forecast.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010 and 31 December 2009. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate. In case of derivatives, the influence of interest rate variations on fair value was examined at constant level of currency rates.

– **Risk of changes in commodity prices**

The Group is exposed to changes in commodity prices due to:

– expenditures concerning purchases of crude oil for processing, which depend on the volume of processing, the level of inventories as well as the level of crude oil price on the global market and differential;
– revenues from sales of refinery and petrochemical products, which depend on the volume of sales, the level of product prices on the global market.

As at 31 December 2010 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from crude oil settlements.

Sensitivity analysis for risk of changes in crude oil prices

The influence of derivatives on hedging reserve due to changes in crude oil prices as at 31 December 2010:

	Increase of brent price	Total influence	Decrease of brent price	Total influence
USD/BBL	+27%	559 591	-27%	(559 591)
		559 591		**(559 591)**

The above variations of oil prices described above were calculated based on historical volatility of crude oil prices for 2010 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010. The influence of changes in crude oil prices was presented on annual basis.

In case of derivatives, the influence of crude oil prices variations on fair value was examined at constant level of currency rates.

(all amounts in PLN thousand)

The carrying amount of hedging instruments for crude oil deliveries as at 31 December 2010 amounted to PLN 140,456 thousand.

As at 31 December 2009 the Group did not have financial instruments hedging the risk of changes in commodity prices.

– **Risk of changes in CO_2 emission rights prices**

PKN ORLEN S.A. was granted CO_2 emission rights on the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers.

Every year the Group performs verification of the number of rights and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation.

In 2010 the Group sold surpluses of CO_2 emission rights and concluded forward purchase transactions. More information relating to CO_2 emission rights is disclosed in note 8.

33. Leases

33.1. Capital Group as a lessee

Operating lease

As at 31 December 2010 and as at 31 December 2009, the Capital Group possessed non – cancellable operating lease agreements as a lessee.

Operating lease agreements (tenancy, rent) regard mainly the lease of tanks, petrol stations, means of transportation and computer equipment. The lease contracts do not contain any clauses concerning contingent liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

The total lease payments, resulting from non – cancellable operating lease agreements recognised as expenses in profit or loss, in 2010 and 2009 amounted to PLN 115,753 thousand and PLN 122,850 thousand, respectively.

Future minimum lease payments under non – cancellable operating lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	81 777	86 888
Between 1 and 5 years	282 877	336 321
Above 5 years	542 834	657 335
	907 488	**1 080 544**

Finance lease

The Capital Group as at 31 December 2010 and as at 31 December 2009 possesses the finance lease agreements as a lessee.

In concluded lease agreements, the general conditions of finance lease are effective, there are neither particular restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning contingent liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

(all amounts in PLN thousand)

Future minimum lease payments under finance lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	25 160	26 969
Between 1 and 5 years	48 029	52 668
Above 5 years	23 087	27 539
	96 276	**107 176**

Present value of future minimum lease payments under finance lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31/12/2010	as at 31/12/2009
Up to 1 year	22 285	23 831
Between 1 and 5 years	41 003	43 197
Above 5 years	16 246	18 163
	79 534	**85 191**

The difference between total value of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.

As at 31 December 2010 and as at 31 December 2009 the net carrying amount of for each class of assets was as follows:

	as at 31/12/2010	as at 31/12/2009
Intangible assets	998	1 132
Property, plant and equipment	92 421	177 384
buildings and constructions	22 454	24 034
machinery and equipment	2 505	72 442
vehicles	67 462	80 383
other	-	525

Disclousures resulting from IFRS 7 relating to finance lease are captured in note 32 and are presented jointly with other financial instruments.

33.2. Capital Group as a lessor

Operating lease

As at 31 December 2010 and as 31 December 2009 the Capital Group did not posses non – cancellable operating lease agreements as a lessor.

Financial lease

As at 31 December 2010 and as 31 December 2009 the Capital Group did not posses non – cancellable financial lease agreements as a lessor.

(all amounts in PLN thousand)

34. Investment expenditures incurred and future commitments resulting from signed investment contracts

Investment expenditures inccured in 2010 and in 2009 accounted for PLN 3,011,192 thousand and PLN 3,776,325 thousand respectively, including PLN 192,187 thousand and PLN 254,375 thousand of environmental protection related investments. As at 31 December 2010 and as at 31 December 2009 the value of future liabilities resulting from contracts signed until this date amounted to PLN 502,491 thousand and PLN 969,098 thousand.

35. Contingent liabilities

	as at 31/12/2009	increase/ (decrease)	as at 31/12/2010
Anti trust proceeding of the Office for Competition and Consumer's Protection	18 500	-	18 500
Other legal cases	5 653	14 297	19 950
	24 153	**14 297**	**38 450**

36. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,663,831 thousand and PLN 1,289,169 thousand, respectively.

Guarantees granted as at 31 December 2010 and as at 31 December 2009 amounted to PLN 107,191 thousand and PLN 224,765 thousand, respectively.

37. Related party transactions

37.1. Information on material transactions concluded by the companies or subsudiaries with related parties on other than market terms

In 2010 and 2009 there were no material related party transactions in the Group concluded on other than market terms.

37.2. Transactions with members of the Management Board, Supervisory Board of the Parent Company, their spouses, siblings, descendants and ascendants and their other relatives

In 2010 and 2009 the Group companies did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or other agreements obliging, to render services to the Parent Company and its related parties.

In 2010 and 2009 there were no significant transactions concluded with members of the Management Board, Supervisory Board of the Parent Company, their spouses, siblings, descendants, ascendants or their own relatives.

37.3. Transactions with related parties concluded through the key management personnel of the Parent Company and the Group companies

In 2010 and 2009 members of the key executive personnel of the Parent Company and the Capital Group companies basing on the submitted statements on transactions concluded with related parties disclosed the following transactions:

Type of relation through key executive personnel of the Parent Company and Group Companies								
	Sales		Purchase		Receivables		Liabilities	
	year ended		year ended		as at		as at	
	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009	31/12/2010	31/12/2009
Supervising persons	-	442 266	-	244 639	-	18 072	-	2 414
Managing persons	70	68	12	16	-	-	-	-
Other key executive personnel	139	16	-	-	-	-	-	-
	209	**442 350**	**12**	**244 655**	**-**	**18 072**	**-**	**2 414**

(all amounts in PLN thousand)

Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2010

	Joinlty controlled entities	Associates	Total related parties
Sales	1 447 935	144 396	1 592 331
Purchases	476 782	174 342	651 124
Interest income	34 117	1 120	35 237
Dividend income	-	146 658	146 658
Interest expenses	44	59	103
Trade and other receivables (net)	295 115	21 829	316 944
Other short-term financial assets	1 014	-	1 014
Trade and other liabilities	210 865	26 144	237 009

for the year ended 31 December 2009

	Joinlty controlled entities	Associates	Total related parties
Sales	1 102 182	132 764	1 234 946
Purchases	403 852	179 037	582 889
Interest income	14 114	787	14 901
Dividend income	-	418 222	418 222
Interest expenses	8	24	32
Trade and other receivables (net)	257 696	23 064	280 760
Other short-term financial assets	8	-	8
Trade and other liabilities	199 892	24 235	224 127

The above transactions with related parties include sale and purchase of petrochemicals and refinery producst and sale and purchase of repair, transportation and other services. Settlements with related parties include trade and financial receivables and liabilities.

The Group granted guarantees and sureties on behalf of related parties as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,218,886 thousand and PLN 777,923 thousand, respectively.

(all amounts in PLN thousand)

38. Remuneration together with profit-sharing paid and due or potentially due to Management Board, Supervisory Board and other members of key executive personnel of Parent Company and the Capital Group companies in accordance with IAS 24

The Management Board's, the Supervisory Board's and other key executive personnel's remuneration includes short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

	as at 31/12/2010		as at 31/12/2009	
Remuneration of the Management Board members of the Company	**12 140**		**12 297**	
- remuneration and other benefits	6 040		6 031	
- bonus paid for previous year	5 454		2 873	1)
- remuneration of the Management Board Members performing the function in previous years	646	2	3 393	3)
Bonus potentially due to Management Board members, to be paid in the following year[4)]	**5 454**		**5 454**	
Remuneration and other benefits of the key executive pesonnel	**172 985**		**176 692**	
- other key executive personnel of the Company	31 522		32 584	
- key executive personnel of the subsidiaries belonging to the Group	141 463		144 108	
Remuneration of the Supervisiory Board Members of the Company	**1 213**		**1 210**	

1) for the period of performing the function from 7 June till 31 December 2008
2) payment in respect of court settlement regarding the remuneration for 2005
3) concerns the period of performing the function from 1 January till 6 June 2008
4) bonus estimated assuming full realization of the Management Board Members objectives

38.1. Principles of incentives for key executive personnel of the ORLEN Capital Group

In 2010 the ORLEN Group's key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to PKN ORLEN Management Board, Management Boards of the ORLEN Group entities and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel members. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

In 2010 new standards of MBO for key executive personnel in the ORLEN Group were developed and accepted, to enter into force starting from 2011. The basic assumptions for implementing the changers is to make the bonus system match the PKN ORLEN Management Board's goals and to enhance the highest management's liability for the results generated by the ORLEN Group.

38.2. Remuneration regarding non-competition clause and dissolution of the contract because of dismission from the position held

According to agreements with Members of PKN ORLEN Management Board, Management Board Members are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of six or twelve basic monthly remuneration, paid in equal monthly installments. Furthermore, contracts include remuneration payments in case of dissolution of the contract because of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.
In case of other companies of the PKN ORLEN S.A. Capital Group Members of the Management Board by standards are obliged to obey a non-completion clause for 6 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of 50% of six basic monthly remuneration, paid in six equal monthly installments. Furthermore remuneration payments in

(all amounts in PLN thousand)

amount of three or six basic monthly remuneration are due in case of dissolution of the contract because of dismission from the position held.

39. Remuneration arising from the agreement with the entity authorized to conduct audit of the financial statements

In the period covered by this consolidated financial statement the entity authorized to conduct audit of the Group's financial statements is KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 with subsequent amendments for period 2005 – 2010 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of unconsolidated and consolidated financial statements.

	for the year ended 31/12/2010	for the year ended 31/12/2009 (restated data)
Fees payable to KPMG Audyt Sp. z o.o. in respect of the Parent Company	**1 892**	**1 843**
audit of the annual financial statements	647	615
reviews of financial statements	572	725
related services	**673**	**503**
Fees payable to KPMG companies in respect of subsidiaries belonging to the Capital Group	**4 569**	**5 199**
audit of the annual financial statements	2 723	2 752
reviews of financial statements	1 784	2 447
related services, including:	**61**	**-**
tax advisory services	6	-
	6 461	**7 042**

Remuneration comprises net fees due or paid to the entity authorized to conduct audit for:
- audit of unconsolidated and consolidated financial statements,
- review of interim unconsolidated and consolidated financial statements,
- services related comprising mainly other services related to the audit and review of unconsolidated and consolidated financial statements, not included in the above mentioned positions.

40. Employment structure

	as at 31/12/2010	as at 31/12/2009
Average employment in persons		
Blue collar workers	12 548	13 010
White collar workers	9 713	9 953
	22 261	**22 963**
Employment in persons		
Blue collar workers	12 380	12 617
White collar workers	9 660	9 918
	22 040	**22 535**

41. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

As at 31 December 2010 the PKN ORLEN S.A. Capital Group entities were parties in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

41.1. Proceedings in which the PKN ORLEN S.A. Capital Group entities act as a defendant

41.1.1 Proceedings with the total value exceeding 10% of the Issuer's equity

Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN S.A. regarding the payment of CZK 19,464,473,000 with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN S.A. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.

The Court of Arbitration ruling dated 21 October 2010 ended the least of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL shares by PKN ORLEN S.A.

Agrofert Holdings a.s. had the right to issue a motion to revoke the sentence of the Court of Arbitration until 4 February 2011. As at the date of publication of these consolidated financial statement, PKN ORLEN S.A. did not receive a copy of the sentence.

41.1.2. Other significant proceedings with the total value not exceeding 10% of the Issuer's equity

a) Tax proceedings in Rafineria Trzebinia S.A.

As at 31 December 2010 at the end of the reporting period in Rafineria Trzebinia S.A. following tax proceedings and controls are in progress:

- **Tax proceedeing concerning the determiantion of excise tax liability for the period May – September 2004**

As a result of the Customs Office proceeding, the excise tax liability for the period May – September 2004 was set at the amount of PLN 100 million. The Management Board of Rafineria Trzebinia filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków (Director of the CC) kept the first instance authority's decisions in force. In February 2006, as a result of the motion of Rafineria Trzebinia, the Director of the CC suspended execution of the complained decisions until the case is decided by the Woivodship Administrative Court in Kraków (WAC).
According to the sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia, overruled the decision of Director of the CC. On 16 January 2009 the Director of the Customs Chamber in Kraków filed an annulment the above sentence to the Supreme Administrative Court (SAC) in Warsaw.

On 25 September 2009 the SAC overruled the annulment of the Director of the Customs Chamber in Kraków, according to above the sentence as at 12 November 2008 is legally binding, which dismissed the decision of Director of the Customs Chamber and decided to revoke them to reexamination. On 25 September 2009 the first instance authority (Head of the Customs Office - HCO) issued decisions determining the amount of excise tax liability for the period: May - August 2004 of approximately PLN 80 million. On 14 October 2009 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Kraków dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination by this authority.
In respect of excise tax liability for September of 2004 on 25 August 2009 the Supreme Administrative Court overruled the annulment of the Director of the Customs Chamber in Kraków concerning the determination of excise tax liability for this period. On 24 November 2010 Head of the Customs Office in Kraków issued once again a decision determining the amount of excise tax liability for September 2004 of app. PLN 38 million. On 15 December 2010 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision.

On 18 February 2011 Rafineria Trzebinia S.A. obtained a notification from District Court in Chrzanów the Real- estate Register Department about registration of compulsory security deposit mortgage due to excise tax liability for September 2004 of PLN 36,334 thousand.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and for the period January - April 2004**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. In May 2006, tax control proceedings relating to the period January - April 2004 were instituted.

On 5 December 2007 the Director of the Tax Control Office in Kraków issued a result of tax control proceedings in respect of excise tax for 2002, acknowledging settlements made by Rafineria Trzebinia as correct.
In July 2008 Rafineria Trzebinia received a protocol prepared by the TCO concerning audit of the Company's accounting books for the tax year 2003 determining potential additional excise tax liability in the amount of PLN 73,408 thousand and protocol from audit of the accounting books for the period January – April 2004 determining potential additional excise tax liability in the amount of PLN 126,150 thousand. Rafineria Trzebinia raised reservations and additional explanations to these protocols.
On 27 November 2008 a result of the fiscal control proceedings was issued in respect of reliability of stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the respective result was issued for the period January – April 2004.
In the issued results it was stated, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand included in the excise tax return August 2003.
Rafineria Trzebinia S.A. appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia S.A. and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia S.A. raised a complaint to the Woivodship Administrative Court in Kraków against the above mentioned decision of the Director of the Customs Chamber in respect of faulty formulation of legal justification.

As at the date of publication of these consolidated financial statements, the above proceeding is suspended.

- **Tax proceedings in respect of determination of value added tax amount for the period January - August 2005.**

In October 2006 the Head of the Tax Office for Małopolska ("TOM") instituted tax control proceedings in respect of determination of value added tax liability for the period January, February and April – August 2005. Additionally, in February 2007 the Head of the TOM in Kraków instituted tax control proceedings relating to March 2005.

On 12 January 2009 the Head of the Tax Office for Małopolska in Kraków issued a decision on cancellation of tax proceedings regarding value added tax liability for the above mentioned period.

The amounts included in this note relate to the principal tax liabilities. As at the date of preparation of these consolidated financial statements, the final outcome of the above control proceedings as well as potential impact of the proceedings extended to other periods are not yet known.

Based on opinions of recognised tax advisors, the Board of Directors believes, that the above mentioned proceedings are likely to give a satisfactory outcome for Rafineria Trzebinia S.A. Therefore, in these consolidated financial statements for 2010 and 2009, no provision to cover potential liabilities have been recognised.

b) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia S.A.

In March 2006 the Chairman of the Energy Regulatory Office instituted proceedings in respect of imposing a fine in connection with violating of concession terms regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of the European Union directives while on the one hand effective 1 May 2004 Poland became a member of the European Union whereas on the other hand no regulations of the Minister of Economy in respect of quality requirements for biofuels were available.

In September 2006 the Chairman of the ERO imposed a fine of PLN 1 million to Rafineria Trzebinia. The decision of the Chairman of the ERO was repealed in April 2007 by the sentence of the Court of Competition and Consumers Protection in Warsaw ("CCCP"). In November 2007 the Court of Appeals in Warsaw dismissed the appeal of the Chairman of the ERO and sentenced the reimbursement of court proceedings costs in favor of Rafineria Trzebinia. The sentence is legally binding.

In March 2008 the Representative of the Chairman of the ERO submitted an annulment, which on 4 September 2008 was accepted for recognition by the Supreme Court. In its sentence dated 5 November 2008 the Supreme Court repealed the sentence of the Court of Appeals in Warsaw and revoked it to reexamination by this Court. In the assessment of the Supreme Court it is necessary to carry out evidence proceedings in respect of quality norms specific for biofuels produced in the contentious period. At the same time the Supreme Court stated that concession possessed by Rafineria Trzebinia S.A. entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning the necessity to carry out evidence proceedings, repealed the sentence of CCCP District Court and revoked the case to its reexamination.

In the verdict dated 7 June 2010 the District Court in Warsaw – Court of Competition and Consumer Protection discharged the proceedings. In October 2010 the ERO appealed against this verdict.

As at the date of publication of these consolidated financial statements the outcome of the case is not yet known.

c) Power transfer fee in settlements with ENERGA – OPERATOR S.A. (legal successor of Zakład Energetyczny Płock S.A.)

As at the date of preparation of these consolidated financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA OPERATOR S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the paragraph 36 of the above regulation, the method of settlement of system fee, constituting an element of a power transfer fee, was changed. According to the paragraph 37 of the above regulation, a different method of system fee calculation was introduced.

– **Court proceedings in which PKN ORLEN acts as a defendant**

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.

In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN. In 2004 the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR S.A. of PLN 46,232 thousand. In its objection to the precept PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – OPERATOR S.A. entirely as well as sentenced the reimbursement of court proceeding costs of PLN 31 thousand in favor of PKN ORLEN. In September 2008 ENERGA – OPERATOR S.A. appealed against the above sentence.

On 10 September 2009 of ENERGA - OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment.

On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In connection with the Supreme Court verdict, PKN ORLEN called on ENERGA – OPERATOR S.A. to return paid receivables by the Company based on the verdict of the Court of Appeals in Warsaw from 10 September 2009 in total amount of PLN 75,879 thousand. On 4 March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand.

- **Court proceedings in which PKN ORLEN acts as an outside intervener**

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – OPERATOR S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - OPERATOR S.A. appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009 the Court of Appeals declined the appeal of ENERGA-OPERATOR S.A. against the verdict of the first instance Court that sentenced the specified amount. The verdict in this case is already legally binding. The defendant submitted an annulment which on 5 February 2010 was accepted for recognition by the Supreme Court.

In its sentence dated 26 March 2010 the Supreme Court repealed the sentence and revoked it to reexamination by the Court of Appeals in Warsaw.

Court ruling will not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

d) Anti-trust proceedings

Anti-trust proceedings concern an allegation that:

- PKN ORLEN S.A. concluded an agreement with the Lotos S.A. Group which limited competition on the domestic market of trading in universal petrol U95, initiated in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN S.A. and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN S.A. amounted to PLN 4,500 thousand. PKN ORLEN S.A. appealed to the Court of Competition and Consumer Protection. On 6 May 2010 the Court of Competition and Consumer Protection issued a verdict, revoking the appeals of PKN ORLEN S.A and the Lotos S.A. Group. On 12 July 2010 PKN ORLEN S.A. has issued an appeal against this verdict. On 11 February 2011 the Court of Appeals in Warsaw issued a verdict, revolving the appeals of PKN ORLEN S.A. and LOTOS Group.
- proceedings in connection with an allegation that in the years 2000-2004 PKN ORLEN S.A. was using practice limiting competition on the domestic market of trading in glycol by setting prices for “Petrygo” liquid to radiators which were inadequate compared to increase in price of glycol, instituted in March 2005. In December 2006 the Chairman of OCCP imposed a fine on PKN ORLEN S.A. in the amount of PLN 14 million. PKN ORLEN S.A. appealed against this decision. On 6 October 2010 the Court of Competition and Consumer Protection revolved the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN’s S.A. leading position on the glycol market and repealed the penalty imposed on PKN ORLEN S.A. The President of the OCCP has issued an appeal against this verdict. PKN ORLEN S.A. responded to the appeal of the OCCP Chairman. The Court of Appeal in Warsaw has not yet set a date of the next appeal proceeding.
- in the years 1996-2007 PKN ORLEN S.A., Petrol Station Kogut sp.j. and MAGPOL B. Kułakowski i Wspólnicy sp.j. were using practices limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. The proceeding was instituted in July 2008. PKN ORLEN S.A. responded to allegations raised by the Chairman of the OCCP and filed a motion to issue a decision establishing a liability based on par. 12 of the competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine. On 16 July 2010 the President of the Office of Competition and Consumer Protection (“OCCP”) issued a decision, in which PKN ORLEN S.A. and Stacja Paliw Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN S.A. of PLN 52.7 million. On 2 August 2010 PKN ORLEN S.A. appealed from the decision of the President of the OCCP to the Court of Competition and Consumer Protection. The date of appeal proceeding has not been set yet.

e) Claims and court proceedings – Tankpol Sp. z o.o.

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy sp. j.). The claim concerns the return of 253 out of 470 shares in ORLEN PetroTank Sp. z o.o. that were transferred by Tankpol to PKN ORLEN S.A. as a security, based on the agreement dated 20 December 2002. The subjects of the security were receivables acquired by PKN ORLEN S.A. from ORLEN PetroTank Sp. z o.o. based on the trust receivable transfer agreement. The Court of Appeals in Warsaw pronounced that PKN ORLEN S.A. is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy sp.j. The verdict is binding in this respect. As a result of an annulment submitted by Tankpol R. Mosio i Wspólnicy sp. j. the case was revoked to reexamination in front of the District Court in Warsaw.

In its sentence dated 8 January 2010 the District Court dismissed the suit of Tankpol related to the return of 227 shares in ORLEN PetroTank. Tankpol appealed against the above sentence. On 21 January 2011 the Court of Appeal overruled the appeal of Tankpol. As at the date of publication of the foregoing financial statements, the verdict is legally binding, but an annulment regarding this verdict can be submitted.

f) Claim connected with penalty imposed by the European Commission on UNIPETROL a.s.

In November 2006, the European Commission imposed fines on Shell, Dow, Eni, Unipetrol and Kaucuk for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s., its subsidiary at that time, were jointly imposed a fine of EUR 17.5 million. Unipetrol a.s. and Kaucuk a.s. paid the fine to the European Commission. At the same time, both entities appealed to the First Instance Court in Luxembourg. The court proceedings are currently in progress.

Following the above decision of the European Commission, Unipetrol a.s. received a claim for damages, which tire producers brought against all members of the ESBR cartel to the Supreme Court of England and Wales. The claimants request a compensation for damages, together with interest, relating to losses suffered because of an alleged cartel. The amount claimed is still to be assessed. Unipetrol a.s. challenged the jurisdiction of the British Courts to deal with the claim. The challenge of Unipetrol a.s. is pending.

At the same time, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings in front of a Court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred to tire producers as a result thereof. Eni's action has been presented to Unipetrol a.s., which decided to be a party of the proceedings.

The Court proceedings regarding UNIPETROL's appeal against the European Commission decision took place on 20 October 2009 in front of the European union First Instance Court. The sentence has not been delivered yet.

As at the date of publication of these foregoing consolidated financial statements the status of the case is not yet known.

41.2. Court proceedings in which Companies of the Capital Group act as plaintiff

Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN S.A. submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with transaction of purchase of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB - Mazeikiu Nafta shares by PKN ORLEN S.A. Demands of PKN ORLEN concern reimbursement of the amount of USD 250 million deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

On 14 September 2009 Yukos International submitted to the Court of Arbitration by the International Chamber of Commerce a response to PKN ORLEN's request for arbitration proceedings. In its response Yukos International appealed to dismiss all PKN ORLEN's claims and adjudge it with proceeding costs refund.

On the first seating of the Arbitration Court, PKN ORLEN S.A. and Yukos International agreed i.a. proceedings schedule and extent of competence of the Court of Arbitration. On 3 May 2010, according to the schedule, PKN ORLEN S.A. issued a law suit in which it demands from Yukos International a reimbursement of USD 250 million with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claim and for refund of proceeding costs. At present, the parties exchange correspondence regarding mutual disclosure of possessed documents. The Court of Arbitration in London hearing was set for the period: 28 November – 9 December 2011.

42. Significant events after the end of the reporting period

After the end of the reporting period there were no significant events that should have been presented in the consolidated financial statement for 2010.

43. Factors and events that may influence future results

The Parent Company has decided to terminate negotiations with Zakłady Azotowe "Puławy" S.A in June 2010 regarding the process of sale of its 84.79 % stock of ANWIL S.A. to due to sustaining differences of standpoints concerning price and non – price terms of transaction.

According to approved strategy PKN ORLEN S.A. will continue operations connected with the sale of the ANWIL Group. As at 31 December 2010 total assets of the ANWIL Group amounted to PLN 2,645,389 thousand, equity amounted to PLN 1,993,931 thousand, net profit for the year ended 31 December 2010 amounted to PLN 46,114 thousand.

The Parent Company started preparatory works concerning sales of shares in Polkomtel S.A. which were accounted in the foregoing consolidated financial statements of the PKN ORLEN S.A. Capital Group under the equity method of PLN 1,451,334 thousands as at 31 December 2010.

44. **Signatures of the Management Board Members**

The foregoing consolidated financial statements were authorized by the Management Board of the Parent Company in Warsaw on 29 March 2011.

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Dariusz Krawiec
President of the Board

………………………..
Sławomir Jędrzejczyk
Vice-President of the Board

……………………..
Wojciech Kotlarek
Member of the Board

……………………
Krystian Pater
Member of the Board

……………………..
Marek Serafin
Member of the Board

Signature of a person responsible
for keeping accounting books

………………………………………
Rafał Warpechowski
Executive Director
Planning and Reporting