Separate Annual Report of Polski Koncern Naftowy ORLEN SPÓŁKA AKCYJNA for the year 2011

March 2012

SEPARATE ANNUAL REPORT FOR THE YEAR 2011 INCLUDES:

1. **LETTER OF THE PRESIDENT OF THE BOARD**
2. **OPINION AND REPORT OF THE INDEPENDENT AUDITOR FROM AUDIT OF SEPARATE FINANCIAL STATEMENTS**
3. **SELECTED FINANCIAL DATA**
4. **SEPARATE FINANCIAL STATEMENT OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2011**
5. **MANAGEMENT BOARD REPORT ON THE OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2011**

POLISH FINANCIAL SUPERVISION AUTHORITY

Annual Report R 2011

(year)

(in accordance with § 82 section 1 point 3 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 2011 that is for the period from 1 January 2011 to 31 December 2011 which includes financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish currency (PLN).

on 29 March 2012
(submission date)

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

PKN ORLEN	**OIL AND GAS**
(abbreviated name of the issuer)	(industrial sector in line with classification of Warsaw Stock Exchange)
09-411	**PŁOCK**
(zip code)	(location)
CHEMIKÓW	**7**
(street)	(number)

48 24 256 81 80	**48 24 367 77 11**	**ir@orlen.pl**
(telephone)	(fax)	(e-mail)
774-00-01-454	**610188201**	**www.orlen.pl**
(NIP)	(REGON)	(www)

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

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the year ended 31/12/2011	for the year ended 31/12/2010	for the year ended 31/12/2011	for the year ended 31/12/2010
I. Sales revenues	79 037 121	62 215 581	19 090 631	15 027 555
II. Profit from operations	3 173 938	2 756 827	766 633	665 884
III. Profit before tax	2 396 447	2 826 324	578 838	682 670
IV. Net profit	1 386 166	2 357 127	334 815	569 341
V. Total comprehensive income	1 307 675	2 406 151	315 856	581 182
VI. Net cash provided by /(used in) operating activities	(793 335)	3 895 427	(191 622)	940 902
VII. Net cash provided by /(used in) investing activities	2 490 678	(2 568 977)	601 599	(620 511)
VIII. Net cash provided by /(used in) financing activities	1 197 823	(1 881 372)	289 322	(454 427)
IX. Net increase/(decrease) in cash and cash equivalents	2 895 166	(554 922)	699 299	(134 036)
X. Net profit and diluted net profit per share (in PLN/EUR per share)	3.24	5.51	0.78	1.33
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
XI. Non-current assets	22 429 271	24 663 871	5 078 172	5 584 104
XII. Current assets	23 439 812	15 230 187	5 306 967	3 448 240
XIII. Total assets	45 869 083	39 894 058	10 385 139	9 032 344
XIV. Long-term liabilities	9 844 384	8 350 861	2 228 850	1 890 704
XV. Short-term liabilities	15 177 975	12 004 148	3 436 419	2 717 838
XVI. Equity	20 846 724	19 539 049	4 719 870	4 423 802
XVII. Share capital	1 057 635	1 057 635	239 457	239 457
XVIII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XIX. Book value and diluted book value per share (in PLN/EUR per share)	48.74	45.68	11.04	10.34

The above data for 2011 and 2010 were translated into EUR using the following exchange rates:
- positions of assets and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2011 – 4.4168 PLN/EUR;
- positions 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 the month during the period 1 January - 31 December 2011 – 4.1401 PLN/EUR.

SEPARATE FINANCIAL STATEMENTS OF Polski Koncern Naftowy ORLEN SPÓŁKA AKCYJNA for the year ended 31 December 2011

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

ORLEN

Table of contents:

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SEPARATE STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Separate statement of financial position

	Note	as at 31/12/2011	as at 31/12/2010
ASSETS			
Non-current assets			
Property, plant and equipment	6	12 190 347	12 379 779
Intangible assets	7	362 791	383 190
Perpetual usufruct of land	8	89 692	90 812
Shares in related parties	9	9 051 706	11 529 773
Financial assets available for sale	10	40 328	40 828
Deferred tax assets	29.2.	11 280	198 686
Other non-current assets	11	683 127	40 803
		22 429 271	**24 663 871**
Current assets			
Inventories	13	11 549 043	7 450 787
Trade and other receivables	14	7 271 441	5 853 469
Other short-term financial assets	15	320 480	506 067
Income tax receivable		1 142	15 568
Cash and cash equivalents	16	4 291 187	1 396 060
Non-current assets held for sale	17	**6 519**	**8 236**
		23 439 812	**15 230 187**
Total assets		**45 869 083**	**39 894 058**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18.1.	1 057 635	1 057 635
Share premium	18.2.	1 227 253	1 227 253
Hedging reserve	18.4.	(14 617)	63 874
Retained earnings	18.3.	18 576 453	17 190 287
Total equity		**20 846 724**	**19 539 049**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans	19	9 346 203	7 937 850
Provisions	20	327 747	363 053
Other long-term liabilities	21	170 434	49 958
		9 844 384	**8 350 861**
Short-term liabilities			
Trade and other liabilities	22	10 998 036	10 038 858
Interest-bearing loans and borrowings	19	2 320 861	1 164 699
Income tax liability		613 182	-
Provisions	20	442 181	512 570
Deferred income	23	118 423	64 609
Other financial liabilities	24	685 292	223 412
		15 177 975	**12 004 148**
Total liabilities		**25 022 359**	**20 355 009**
Total equity and liabilities		**45 869 083**	**39 894 058**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SEPARATE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Separate statement of comprehensive income

	Note	for the year ended 31/12/2011	for the year ended 31/12/2010
Income statement			
Sales revenues	25	79 037 121	62 215 581
Cost of sales	26	(73 327 619)	(57 045 562)
Gross profit on sales		**5 709 502**	**5 170 019**
Distribution expenses		(1 947 915)	(1 824 472)
General and administrative expenses		(671 186)	(584 243)
Other operating revenues	27.1.	435 158	303 637
Other operating expenses	27.2.	(351 621)	(308 114)
Profit from operations		**3 173 938**	**2 756 827**
Financial revenues	28.1.	2 999 717	527 993
Financial expenses	28.2.	(3 777 208)	(458 496)
Financial revenues and expenses		**(777 491)**	**69 497**
Profit before tax		**2 396 447**	**2 826 324**
Income tax expense	29	(1 010 281)	(469 197)
Net profit		**1 386 166**	**2 357 127**
Items of other comprehensive income			
Hedging instruments valuation		62 756	25 502
Hedging instruments settlement		(159 658)	35 021
Deferred tax on other comprehensive income items		18 411	(11 499)
		(78 491)	**49 024**
Total net comprehensive income		**1 307 675**	**2 406 151**
Net profit and diluted net profit per share (in PLN per share)		3.24	5.51

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Separate statement of cash flows

	Note	for the year ended 31/12/2011	for the year ended 31/12/2010
Cash flows - operating activities			
Net profit		**1 386 166**	**2 357 127**
Adjustments for:			
Depreciation and amortisation	26	991 405	870 517
Foreign exchange loss		1 063 096	69 798
Interest, net		299 764	258 794
Dividends received		(400 702)	(384 731)
(Profit) on investing activities		(579 191)	(18 150)
Change in receivables	30	(1 358 678)	(1 397 106)
Change in inventories	30	(4 083 934)	(133 105)
Change in liabilities	30	1 160 070	2 208 249
Change in provisions	30	248 509	396 274
Income tax expense	29	1 010 281	469 197
Income tax (paid)		(176 856)	(413 375)
Other adjustments	30	(353 265)	(388 062)
Net cash provided by/(used in) operating activities		**(793 335)**	**3 895 427**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 249 218)	(2 683 839)
Disposal of property, plant and equipment and intangible assets		254 970	218 600
Disposal of shares		3 672 247	13 828
Acquisition of shares		(111 094)	(116 145)
Additional payments to subsidiaries' equity		-	(2 450)
Disposal of other securities		-	1 000
Interest received		28 417	5 027
Dividends received		403 602	384 373
Additional repayable payments to subsidiaries' equity		(135 334)	(89 042)
Proceeds from additional repayable payments to subsidiaries' equity		19 080	11 000
Long-term loans granted		(561 380)	(301 673)
Proceeds from repayments of short-term loans granted		314 249	-
(Outflows) from cash pool facility		(81 046)	(7 983)
Other		(63 815)	(1 673)
Net cash provided by/(used in) investing activities		**2 490 678**	**(2 568 977)**
Cash flows - financing activities			
Proceeds from loans and borrowings received		13 773 529	7 319 135
Debt securities issued		5 550 239	6 574 070
Repayments of loans and borrowings		(12 713 195)	(8 866 468)
Redemption of debt securities		(5 223 918)	(6 492 076)
Interest paid		(396 983)	(402 739)
Payment of liabilities under finance lease agreements		(6 647)	(2 961)
Proceeds/(outflows) from cash pool facility		214 798	(10 333)
Net cash provided by/(used in) financing activities		**1 197 823**	**(1 881 372)**
Net increase/(decrease) in cash and cash equivalents		**2 895 166**	**(554 922)**
Effect of exchange rate changes		(39)	(13 421)
Cash, beginning of the period	16	**1 396 060**	**1 964 403**
Cash and cash equivalents, end of the period	16	**4 291 187**	**1 396 060**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
STATEMENT OF CHANGES IN SEPARATE EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Separate statement of changes in equity

	Note	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2011		2 284 888	63 874	17 190 287	19 539 049
Net profit		-	-	1 386 166	1 386 166
Other comprehensive income		-	(78 491)	-	(78 491)
Total comprehensive income	**18**	-	**(78 491)**	-	**(78 491)**
31 December 2011		**2 284 888**	**(14 617)**	**18 576 453**	**20 846 724**
1 January 2010		2 284 888	14 850	14 833 160	17 132 898
Net profit		-	-	2 357 127	2 357 127
Other comprehensive income		-	49 024	-	49 024
Total comprehensive income	**18**	**-**	**49 024**	-	**49 024**
31 December 2010		**2 284 888**	**63 874**	**17 190 287**	**19 539 049**

(all amounts in PLN thousand)

Accounting policies, notes and other supplementary information

1. General information

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

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.

Principal activity of the Company includes:
- 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.

The Company, due to its operations of a high importance to the public interest, is the owner of particular concessions granted by proper bodies of the public administration based on proper regulations.

Concessions as at 31/12/2011	remaining concession periods (in years)
Electrical energy: manufacturing, transmission and distribution, trade	14
Heating energy: manufacturing, transmission and distribution, trade	14 - 19
Liquid and gas fuels: manufacturing, trade and storage	2 - 14

The process of granting concessions in the Company is periodical and is administrative in nature. The Management Board believes that the probability of failure in obtaining concessions is remote.

The Company as the owner of the particular concession is paying annual fees that are recognized in the profit for the period. As at 31 December 2011 and 31 December 2010 the Company had no liabilities related to concession services in scope of IFRIC 12.

(all amounts in PLN thousand)

Shareholders' structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting of PKN ORLEN as at 31 December 2011

	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%
Other	288 254 829	288 254 829	360 318 536	67.40%
	427 709 061	**427 709 061**	**534 636 326**	**100.00%**

*according to the information obtained by the Company as at 9 February 2010

Composition of the Management Board of the Company

As at 31 December 2011

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
Piotr Wielowieyski – Member of the Supervisory Board (from 9 December 2011 till 9 March 2012 delegated to act temporarily as a Member of the Management Board, Petrochemistry)

As at the date of authorization of the separate annual report

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

Composition of the Supervisory Board of the Company

as at 31 December 2011

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
Krzysztof Kołach – Member of the Supervisory Board
Leszek Jerzy Pawłowicz – Member of the Supervisory Board
Piotr Wielowieyski –Member of the Supervisory Board (from 9 December 2011 till 9 March 2012 delegated to act temporarily as a Member of the Management Board, Petrochemistry)
Janusz Zieliński – Member of the Supervisory Board

as at the date of authorization of the separate annual report

Maciej Mataczyński – Chairman of the Supervisory Board
Angelina Sarota – Secretary of the Supervisory Board
Cezary Banasiński – Member of the Supervisory Board
Grzegorz Borowiec – Member of the Supervisory Board
Artur Gabor – Member of the Supervisory Board
Michał Gołębiowski – Member of the Supervisory Board
Leszek Jerzy Pawłowicz – Member of the Supervisory Board

Detailed information of changes in composition of the Management Board and Supervisory Board of PKN ORLEN are included in point VIII.8.7.1, VIII 8.7.4 of Management Board Report on the Operations of PKN ORLEN.

1.2. Statement of the Management Board

1.2.1. In respect of the reliability of separate financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing separate financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Company in force, disclosed in point 2, and that they reflect true and fair view on financial position and financial result of the Company and that the Management Board Report on the Company's Operations presents true overview of development, achievement and business situation of Company, 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 separate 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 separate financial statements of PKN ORLEN S.A. and consolidated financial statements of Polski Koncern Naftowy ORLEN S.A. Group ("Capital Group ORLEN", "Group", "Capital Group") for the year 2011.

2. Accounting policies

2.1. Principles of presentation

The separate 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 2011. The scope of separate 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 separate financial statements cover the period from 1 January to 31 December 2011 and the comparative period from 1 January to 31 December 2010.

Presented separate financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2011 and comparative data as at 31 December 2010, results of its operations and cash flows for the year ended 31 December 2011 and comparative data for the year ended 31 December 2010.

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

Duration of the Company is unlimited.

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

2.2. Impact of IFRS amendments and interpretations on separate financial statements of the Company

2.2.1. Binding amendments and interpretations to IFRSs

The amendments adopted from 1 January 2011 until the date of publication of these financial statement had no impact on the foregoing financial statements.

2.2.2. IFRSs and interpretations to IFRSs not yet effective

The Company intends to adopt amendments to IFRSs that are published by the International Accounting Standards Board (IASB) but not effective as at the date of publication of these financial statements, in accordance with their effective date. In the current reporting period, the Company did not make decision to voluntary early adopt amendments and interpretations to IFRSs.

IFRSs and interpretations to IFRSs adopted by EU

From 1 January 2011 until the approval for publication of the foregoing financial statements, there has been no amendments, that were adopted by the EU and has not been effective yet.

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 normalization 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 financial statements, as IFRS 1 will not be applicable to the Company.

Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The Amendments contain new disclosure requirements for financial assets and liabilities that are:
- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

Effective for periods beginning on or after 1 January 2013.

The Company does not expect the amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

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 to 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 mainly about liabilities “designated as fair value through profit or loss” in case of changes in fair value, as a result of changes in credit risk of a liability, that are presented directly in other comprehensive income. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. Accumulated profit or loss may be transferred within equity.

New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.
Moreover, the amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.
Effective for periods on or after 1 January 2015.
The Company expects that new standard will not have an impact on items presented in financial statements. Based on the standard, assets will be assigned to changed financial instruments categories.

New Standard - IFRS 10 Consolidated Financial Statements

IFRS 10 replaces IAS 27 Consolidated and separate financial statements, in scope of consolidation and SIC 12 interpretation Special Purpose Entities.
IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12.
Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvements with the investee,
- has the ability to affect those returns through its power over that investee and
- there is a link between power and returns.

Effective for periods beginning on or after 1 January 2013.

Not applicable to the financial statements of the Company.

New Standard- IFRS 11 Joint Arrangements

IFRS 11 “Joint Arrangements”, supersedes and replaces IAS 31 “Interest in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non Monetary Contributions by Venturers”.
IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.
Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations (recognizing particular items of assets and liabilities), under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.
Effective for periods beginning on or after 1 January 2013.
Not applicable to the financial statement of the Company.

New Standard- IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and separate structured entities.
Effective for periods beginning on or after 1 January 2013.
Not applicable to the financial statement of the Company.

New Standard - IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.
It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains ‘how’ to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.
Effective for periods beginning on or after 1 January 2013.
The Company does not expect IFRS 13 to have material impact on the separate financial statements, as the Management assesses the methods and assumptions used when measuring assets at fair value as being in line with IFRS 13.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects then the aggregated tax amount should be allocated between these sections.
Effective for periods beginning on or after 1 July 2012.
The Company does not expect the new standard to have significant impact on the separate financial statements, but the number of required disclosures will increase.

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 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.
Effective for periods beginning on or after 1 January 2012.
The Company expects that new standard will have no significant impact on future separate financial statements, as the amendments to IAS 12, are not applicable to the Company.

Amendments to IAS 19 Employee Benefits

The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income.
Effective for periods beginning as the or after 1 January 2013.
The Company does not expect the amendments to have a significant impact on future separate financial statements, since the Company does not use the corridor method.

Amendments to IAS 27 Separate Financial Statements

IAS 27 (2011) was modified in relation to issuance of IFRS 10 Consolidated Financial Statement and carries forward the existing accounting and disclosure requirements for separate financial statements. For that reason requirements of IAS 28 (2008) and IAS 31 relating to separate financial statements will be incorporated to IAS 27.
Effective for periods beginning on or after 1 January 2013.
The above amendment will have no material impact on the separate financial statements, since it does not results in a change in the Company's accounting policy.

Amendments to IAS 28 Investments in Associates and Joint Ventures

Amendments comprise:

- Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
- Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

Effective for periods beginning on or after 1 January 2013.

It is expected that the standard, when initially applied, will have no impact on the separate financial statements, as the Company holds no investments in associates or joint ventures that are classified as held for sale.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

Effective for periods beginning on or after 1 January 2014.
It is expected that the amendment, when initially applied, will have no significant impact on separate financial statements, since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

The Interpretation sets out requirements relating to:

- the recognition of production stripping costs,
- initial measurement of stripping activity assets, and
- subsequent measurement of stripping activity assets as at reporting date.

Production stripping costs, that will cause the flow of future economic benefits to the entity, may be capitalized by an entity if a certain criteria are met. Capitalization and depreciation period will be dependent on identified inventory, to which the stripping costs refer to.
Effective for periods beginning on or after 1 January 2013.
It is expected the interpretation, when initially applied, will have no significant impact on the future separate financial statements, since the Company does not have any stripping activities.

2.2.3. Presentation changes

In the year 2011 and comparable periods, no changes in the presentation of financial data occurred.

2.2.4. Functional currency and presentation currency of financial statements

The functional currency and presentation currency of the foregoing separate financial statements is Polish Złoty (PLN). The data is presented in PLN thousand in the separate financial statements.
Accounting policies for foreign currency transactions are disclosed in note 2.3.2.

2.3. Applied accounting policies

2.3.1. Change in accounting policies, estimates and prior period errors

An entity shall change an accounting policy only if the change:

- is required by an IFRS; or,
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the 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 financial statements (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 separate 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. The effects of changes in estimates are accounted prospectively in the statement of comprehensive income.

The correction of a material prior period error is made to the equity. When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred.

2.3.2. Transactions in foreign currency

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 Company 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 Company in 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. 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.

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.

2.3.4. 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 Company’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 Company 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 Company'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 Company 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.

2.3.5. 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, including grants related to assets. 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 statement of financial position prepared at the end of the reporting period at the carrying amount, including grants related to assets. 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 Rother	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 major inspections and overhaul and replacement components 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 Company 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.

2.3.6. 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 Company 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 Company.

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 Company, and
- the cost of the asset can be measured reliably.

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the Company can demonstrate all of the following:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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, including grants related to assets. 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 financial statements in its net carrying amount, including grants related to assets.

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.

2.3.6.1 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 separate 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 amortised against the book value of provision, as its settlement. Outgoing of allowances is recognised using FIFO method (first in, first out).

2.3.7. Perpetual usufruct of land

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

2.3.8. 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 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.

2.3.9. 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.

2.3.10. 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.
Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.

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.

2.3.11. Receivables

Receivables, including trade receivables, are recognised initially at amortized cost using the effective interest method less impairment allowances.

2.3.12. 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 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 cash management.
Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (first in first out) method.

2.3.13. 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 recognized.

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 Company shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the 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 Company 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.

2.3.14. Equity

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

2.3.14.1. Share capital

The share capital is an equity paid by shareholders and is stated at nominal value in accordance with the 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 Company's own shares and outstanding shares capital contributions decrease the equity.

2.3.14.2. 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 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.

2.3.14.3. Hedging reserve

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

2.3.14.4. 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.

2.3.14.5. Other reserve capital

Non repayable additional payments to equity with non-confirmed repayment date are presented in equity of receiving entity with a corresponding entry as investment in shares of entity making the additional payments.
Repayable additional payments to equity received are presented as liabilities (short or long term) in entity receiving payment. Repayable additional payments to equity made are presented as current or non-current receivables in entity transferring payment (including effect of discounting) based on the repayment date, initially recognized at fair value.

2.3.14.6. 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.

2.3.15. Liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method.

2.3.15.1. 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.

2.3.16. Provisions

A provision is a liability of uncertain timing or amount.

The Company 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 recognized.

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.

2.3.16.1. Environmental provision

The Company 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 Company conducts regular reclamation of contaminated land that decreases the provision by its utilization.

2.3.16.2. 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 in 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.

2.3.16.3. 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 Company 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 Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.3.16.4. Shield programs

Shield programs provision (restructuring provision) is created when the Company 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 Company 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.

2.3.16.5. CO_2 emissions

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

2.3.17. Goverment grants

Government grants are transfers of resources to the Company 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. Revenues from sale

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Company was founded, revenues are recurring and are not of incidental character. In particular, these are revenues that are fully controlled by the Company.

2.3.18.1. 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 Company 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company 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 finished goods, merchandise, materials 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 Company 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 Company.

2.3.18.2. 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 Company are recognised as deferred income and settled in the periods when economic benefits are realized according to the agreements.

2.3.18.3. 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.

2.3.19. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Company 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 Company’s control.

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

2.3.19.1. Cost of sales

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

2.3.19.2. Distribution expenses

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

2.3.19.3. General and administrative expenses

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

2.3.20. 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 Company, 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 expenses refer to operating expenses, 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 transferred 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.

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

2.3.22. Income tax expenses

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.
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 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 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 statement of financial position, if the Company 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, 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.

2.3.23. 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 Company (numerator) by the weighted average number of ordinary shares outstanding during the period (denominator).

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. Profit or loss of the 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.

2.3.24. Statement of cash flows

The statement of cash flows is prepared using indirect method.

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

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

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

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

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

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

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

If the contract is accounted 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.

2.3.25. 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.

2.3.25.1. Recognition and derecognition in statement of financial position

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

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

The Company derecognises a financial asset from the 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 Company derecognises a financial liability (or part of financial liability) from its 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.

2.3.25.2. Measurement of financial assets and liabilities

When a financial asset or liability is recognised initially, the Company 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 Company 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 Company 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 Company 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 making, 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 Company 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 Company 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 Company 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 Company measures them at cost, that is the acquisition price less any accumulated impairment losses.

Financial assets designated as hedging 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 Company measures loans and other receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. Effective interest is the rate which precisely discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and in grounded situations in shorter period – up to net book value of asset of financial liability.

c. Fair value measurement of financial liabilities

As at the end of the reporting period or other dates after the initial recognition the Company 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 Company 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 Company measures other financial liabilities at amortized cost using the effective interest rate method.

Financial guarantee contracts, that are contracts that require the Company (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 amortization.

2.3.25.3. Transfers

The Company:

- 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 Company as measured at fair value through profit and 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 Company does not reclassify financial instruments into category of fair value through profit or loss after initial recognition.

2.3.25.4. Impairment of financial assets

The Company 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 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.

2.3.25.5. Embedded derivatives

If the Company 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 (combined) instrument is not measured at fair value with changes in fair value recognised in 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 Company 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.

2.3.25.6. 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 Company'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 Company does not apply hedge accounting in case when embedded derivative instrument is separated from the host contract.

The Company assess effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Company assess hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Company uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Company 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 Company discontinues 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 Company's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Company 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 comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognised in 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 comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Company expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies to 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 Company 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 Company discontinues prospectively 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 comprehensive income remain separately recognised in 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 comprehensive income remain separately recognised in 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 comprehensive income are recognised in profit or loss.

If the Company revokes the designation, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in 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 comprehensive income; and
- the ineffective portion shall be recognised in profit or loss.

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

2.3.26. 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 Polish 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 transfers ownership of the asset at or 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 Company uses an asset based on the operating lease, the asset is not recognised in the statement of financial position and lease payments are recognised as an expense in profit or loss.

If the Company 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 Company’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 shorter of the lease term or useful life.

If the Company 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 Company’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 Company 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.

2.3.27. 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 Company.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the 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 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 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 Company; 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 (liabilities) cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the statement of financial position however the information on contingent liabilities is disclosed in the financial statements unless the probability of outflow of resources embodying to economic benefits is remote.
Contingent liabilities assumed in a business combinations are recognized in the statement of financial position as provisions.

2.3.28. Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between end of the reporting period and date of when the 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 Company adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date.
The Company does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

3. The Management Board estimates and assumptions

The preparation of separate 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 and equity, 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 financial statements were disclosed in the following notes:

- Financial instruments classification methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 31). The Management Board classifies the financial instruments depending on the purpose of the purchase and nature of the instrument. 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 32). 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 separate financial statements were disclosed in the following notes:

- Impairment of property, plant and equipment and intangible asstes (note 6 and 7). 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 company 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 7). As described in note 2.3 the Company 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 7.
- Provisions (note 20). 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 separate financial statements are disclosed in note 20.
- Contingent liabilities (note 34). 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.

(all amounts in PLN thousand)

4. Differences between data disclosed in the financial statements and previously prepared and issued financial statements

Changes introduced to financial data in condensed financial statements for the IV quarter of 2011 published on 9 February 2012 with an effect on total assets and net result

	Data disclosed in the interim financial information of PKN ORLEN	Adjustments	Data disclosed in the separate financial statements for 2011
Assets, including:	**47 750 593**	**(1 881 510)**	**45 869 083**
Shares in related parties	10 604 558	(1 552 852)	9 051 706
Deferred tax assets	339 938	(328 658)	11 280
Liabilities and shareholder's equity, including:	**47 750 593**	**(1 881 510)**	**45 869 083**
Retained earnings	20 461 082	(1 884 629)	18 576 453
Trade and other liabilities	10 994 186	3 850	10 998 036
Income tax liability	613 913	(731)	613 182
Income statement, including:			
Profit from operations	3 177 788	(3 850)	3 173 938
Profit before tax	3 953 149	(1 556 702)	2 396 447
Income tax expense	(682 354)	(327 927)	(1 010 281)
Net profit	**3 270 795**	**(1 884 629)**	**1 386 166**

The most significant changes introduced to the financial statements of the Company is recognition of impairment allowance on shares held in AB ORLEN Lietuva of PLN (1,552,852) thousand.

5. Operating Segments

Accounting principles used in reportable segments are in line with the Company's accounting principles, described in note 2. 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(Management Board of the Company).

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 separate statement of comprehensive income. The Management Board evaluates the results of segment activities based on the segment operating result.

(all amounts in PLN thousand)

5.1. Revenues and financial results by operating segments

for the year ended 31 December 2011

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	54 823 726	17 695 991	6 454 132	63 272	-	79 037 121
Transactions with other segments	21 374 669	-	2 901 326	62 135	(24 338 130)	-
Total sales revenues	76 198 395	17 695 991	9 355 458	125 407	(24 338 130)	79 037 121
Total operating expenses	(73 857 147)	(17 328 409)	(8 409 004)	(690 290)	24 338 130	(75 946 720)
Other operating revenues	183 897	51 795	23 640	175 826	-	435 158
Other operating expenses	(71 420)	(167 489)	(4 762)	(107 950)	-	(351 621)
Segment operating profit/(loss)	**2 453 725**	**251 888**	**965 332**	**(497 007)**	**-**	**3 173 938**
Financial revenues						2 999 717
Financial expenses						(3 777 208)
Profit before tax						**2 396 447**
Income tax expense						(1 010 281)
Net profit						**1 386 166**
Depreciation and amortisation	**427 469**	**186 990**	**309 088**	**67 858**	**-**	991 405
Additions to non-current assets	**515 493**	**228 303**	**184 614**	**82 323**	**-**	1 010 733

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	44 275 102	13 989 286	3 894 402	56 791	-	62 215 581
Transactions with other segments	15 397 160	-	2 329 847	65 862	(17 792 869)	-
Total sales revenues	59 672 262	13 989 286	6 224 249	122 653	(17 792 869)	62 215 581
Total operating expenses	(57 333 084)	(13 337 433)	(5 950 203)	(626 426)	17 792 869	(59 454 277)
Other operating revenues	66 781	99 919	16 584	120 353	-	303 637
Other operating expenses	(21 294)	(108 071)	(3 486)	(175 263)	-	(308 114)
Segment operating profit/(loss)	**2 384 665**	**643 701**	**287 144**	**(558 683)**	**-**	**2 756 827**
Financial revenues						527 993
Financial expenses						(458 496)
Profit before tax						**2 826 324**
Income tax expense						(469 197)
Net profit						**2 357 127**
Depreciation and amortisation	**440 320**	**192 004**	**165 872**	**72 321**	**-**	**870 517**
Additions to non-current assets	**591 012**	**193 112**	**1 412 933**	**59 311**	**-**	**2 256 368**

Additions to non-current assets include capital expenditure and borrowing costs, which are disclosed in details in notes 6 and 7.

5.2. Other segment data

5.2.1. Assets by operating segments

	as at 31/12/2011	as at 31/12/2010
Refining Segment	21 044 325	16 107 697
Retail Segment	3 342 511	3 263 192
Petrochemical Segment	6 392 544	5 979 633
Total segment assets	**30 779 380**	**25 350 522**
Corporate Functions	15 089 703	14 543 536
	45 869 083	**39 894 058**

(all amounts in PLN thousand)

including:

Non-current assets classified as held for sale

	as at 31/12/2011	as at 31/12/2010
Refining Segment	-	1 166
Retail Segment	-	276
Total segment assets	**-**	**1 442**
Corporate Functions	6 519	6 794
	6 519	**8 236**

Operating segments include all assets except for financial assets (disclosed in notes 9,10,11,15,16) 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 31/12/2011	for the year ended 31/12/2010	for the year ended 31/12/2011	for the year ended 31/12/2010
Refining Segment	(12 087)	(27 556)	26 091	25 504
Retail Segment	(103 777)	(57 182)	21 514	60 118
Petrochemical Segment	(656)	(9 521)	366	8 287
Impairment allowances by segment	**(116 520)**	**(94 259)**	**47 971**	**93 909**
Corporate Functions	(73 842)	(52 983)	58 486	49 902
Impairment allowances in operating activities	**(190 362)**	**(147 242)**	**106 457**	**143 811**
Impairment allowances in financing activities	**(1 557 937)**	**(6 406)**	**6 693**	**11 824**
	(1 748 299)	**(153 648)**	**113 150**	**155 635**

Impairment allowances of assets by segments recognised in the statement of comprehensive income include:

- 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, intangible assets and other shares.

In 2011 allowances recognised in the refining segment concerned decrease in the value of receivables and inventories. Allowances recognised in the retail segment concerned mainly petrol stations. Allowances for receivables, idle assets and obsolete raw materials were recognised in corporate functions.

In 2011 allowances recognised in the financing activities related mainly to impairment of shares in AB ORLEN Lietuva.

(all amounts in PLN thousand)

5.2.3. Geographical information

Revenues from sale are disclosed in geographical information by customer's premises countries.

	for the year ended 31/12/2011	for the year ended 31/12/2010
Poland	44 776 905	37 580 556
Germany	660 710	209 082
Czech Republic	9 227 788	7 288 449
Lithuania, Latvia, Estonia	21 217 545	15 735 643
Other countries	3 154 173	1 401 851
	79 037 121	**62 215 581**

Other countries include mainly sales to customers from Denmark, Ukraine and Cyprus.

As at 31 December 2011 and 31 December 2010 non-current assets of the Company were located in Poland.

5.3. Revenues from sale

	for the year ended 31/12/2011	for the year ended 31/12/2010
Refining Segment		
Gasoline	4 099 160	3 691 794
Diesel fuel	11 841 956	9 439 773
Light heating oil	1 970 247	1 757 590
Jet A-1 fuel	1 262 798	903 051
LPG	441 905	443 066
Heavy heating oil	2 178 099	1 224 028
Crude oil	29 900 918	24 460 065
Other	3 128 643	2 355 735
Total	**54 823 726**	**44 275 102**
Retail Segment		
Gasoline	4 528 241	3 777 702
Diesel fuel	10 023 752	7 412 904
LPG	1 158 635	968 266
Other	1 985 363	1 830 414
Total	**17 695 991**	**13 989 286**
Petrochemical Segment		
Monomers	3 268 378	2 519 251
PTA	1 237 102	-
Benzene	504 360	198 740
Butadiene	442 327	262 807
Acetone	85 645	61 457
Ethylene oxide	125 450	68 313
Phenol	175 254	128 689
Glycol	298 265	189 163
Toluene	107 220	187 292
Ortoxylene	42 664	15 317
Other	167 467	263 373
Total	**6 454 132**	**3 894 402**
Corporate Functions	**63 272**	**56 791**
Revenues	**79 037 121**	**62 215 581**

(all amounts in PLN thousand)

5.4. Information about major customers

In 2011, there were three major customers in the refining segment, whose revenues from sales amounted to PLN 38,161,191 thousand and individually exceeded 10% of revenues from sales to external customers, whereas in petrochemical segment there was one customer whose revenue from sales amounted to PLN 2,825,685 thousand.

In 2010, there were three major customers in the refining segment, whose revenues from sales amounted to PLN 29,344,777 thousand and individually exceeded 10% of revenues from sales to external customers, whereas in petrochemical segment there was one customer whose revenue from sales amounted to PLN 2,265,294 thousand.

In 2011 and 2010 the major customers of the Company were related entities belonging to ORLEN Capital Group.

6. Property, plant and equipment

	as at 31/12/2011	as at 31/12/2010
Land	269 609	267 014
Buildings and constructions	6 796 374	4 899 594
Machinery and equipment	4 206 507	2 047 817
Vehicles and other	367 908	206 888
Construction in progress	549 949	4 958 466
	12 190 347	**12 379 779**

(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 2011	269 446	8 066 217	6 832 461	547 462	4 986 665	20 702 251
Investments expenditures	-	110	55 903	13 524	891 937	961 474
Other increases	-	12 184	1 177	171	34 588	48 120
Borrowing costs	-	110 192	120 651	8 726	(190 310)	49 259
Reclassifications	3 002	2 283 583	2 465 258	210 654	(5 134 496)	(171 999)
Sale	-	(2 557)	(84)	(347)	-	(2 988)
Liquidation	(181)	(64 416)	(102 682)	(63 015)	-	(230 294)
Other decreases	(184)	(7 076)	(7 683)	(2 689)	(9 019)	(26 651)
31 December 2011	**272 083**	**10 398 237**	**9 365 001**	**714 486**	**579 365**	**21 329 172**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2011	2 432	3 166 623	4 784 644	340 574	28 199	8 322 472
Depreciation	-	412 649	474 757	67 706	-	955 112
Other increases	-	8 530	834	140	-	9 504
Impairment allowances, net	42	70 476	4 080	297	1 217	76 112
recognition	289	91 990	5 322	681	2 000	100 282
reversal	(247)	(21 514)	(1 242)	(384)	(783)	(24 170)
Reclassifications	-	583	(573)	(10)	-	-
Sale	-	(2 224)	(62)	(327)	-	(2 613)
Liquidation	-	(52 571)	(98 713)	(59 390)	-	(210 674)
Other decreases	-	(2 964)	(6 481)	(2 428)	-	(11 873)
Government grants - settlement	-	64	1	4	-	69
31 December 2011	**2 474**	**3 601 166**	**5 158 487**	**346 566**	**29 416**	**9 138 109**
Gross book value						
1 January 2010	269 691	7 725 153	6 651 934	511 893	3 590 317	18 748 988
Investments expenditures	33	-	14 379	9 718	2 051 211	2 075 341
Other increases	-	992	2 057	171	-	3 220
Borrowing costs	-	1 970	1 695	107	148 044	151 816
Reclassifications	12	383 283	290 395	80 159	(799 453)	(45 604)
Sale	(3)	(55)	(1 615)	(1 775)	-	(3 448)
Liquidation	(192)	(23 683)	(120 609)	(50 373)	-	(194 857)
Other decreases	(95)	(21 443)	(5 775)	(2 438)	(3 454)	(33 205)
31 December 2010	**269 446**	**8 066 217**	**6 832 461**	**547 462**	**4 986 665**	**20 702 251**
Accumulated depreciation and impairment allowances						
1 January 2010	2 025	2 826 658	4 479 600	316 325	44 363	7 668 971
Depreciation	-	352 103	431 986	48 903	-	832 992
Other increases	-	906	447	128	-	1 481
Impairment allowances, net	407	8 187	813	219	(16 164)	(6 538)
recognition	407	56 665	4 962	716	851	63 601
reversal	-	(48 478)	(4 149)	(497)	(17 015)	(70 139)
Reclassifications	-	6 783	(6 613)	(170)	-	-
Sale	-	(11)	(1 322)	(1 460)	-	(2 793)
Liquidation	-	(14 010)	(115 275)	(21 062)	-	(150 347)
Other decreases	-	(13 993)	(4 992)	(2 309)	-	(21 294)
31 December 2010	**2 432**	**3 166 623**	**4 784 644**	**340 574**	**28 199**	**8 322 472**
Government grants						
1 January 2011	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2011	**-**	**697**	**7**	**12**	**-**	**716**
Net book value						
1 January 2011	**267 014**	**4 899 594**	**2 047 817**	**206 888**	**4 958 466**	**12 379 779**
31 December 2011	**269 609**	**6 796 374**	**4 206 507**	**367 908**	**549 949**	**12 190 347**
1 January 2010	**267 666**	**4 898 495**	**2 172 334**	**195 568**	**3 545 954**	**11 080 017**
31 December 2010	**267 014**	**4 899 594**	**2 047 817**	**206 888**	**4 958 466**	**12 379 779**

Impairment allowances of property, plant and equipment as at 31 December 2011 and 31 December 2010 amounted to PLN 238,781 thousand and PLN 162,669 thousand, respectively. The impairment allowances related primarily to petrol stations and idle assets.

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

(all amounts in PLN thousand)

The Company reviews economic useful lives of property, plant and equipment and adjustment to depreciation expense is made prospectively.
Should the rates from the previous year be applied depreciation expense for 2011 would be higher by PLN (74,032) thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2011 and as at 31 December 2010 amounted to PLN 1,737,418 thousand and PLN 1,881,735 thousand, respectively.

Net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2011 and as at 31 December 2010 amounted to PLN 6,707 thousand and PLN 11,659 thousand, respectively.
Impairment allowances of property, plant and equipment retired from active use as at 31 December 2011 and as at 31 December 2010 amounted to PLN 42,630 thousand and PLN 38,510 thousand, respectively.

The carrying amount of property, plant and equipment under the finance lease as at 31 December 2011 and 31 December 2010 amounted to PLN 61,618 thousand and PLN 51,595 thousand, respectively. Detail division of leased non-current assets was disclosed in note 32.1.

7. Intangible assets

	as at 31/12/2011	as at 31/12/2010
Acquired patents, trade marks and licenses	239 291	131 041
Property rights	123 500	252 149
	362 791	**383 190**

(all amounts in PLN thousand)

The changes of intangible assets were as follows

	Patents, trade marks and licenses	Property rights	Other	Total
Gross book value				
1 January 2011	363 759	267 686	2 166	633 611
Increases	15 044	409 917	-	424 961
Reclassifications	137 215	34 768	(180)	171 803
Sale	-	(204 372)	-	(204 372)
Liquidation	(5 617)	(15 715)	(779)	(22 111)
Other decreases	(309)	(354 204)	(3)	(354 516)
31 December 2011	**510 092**	**138 080**	**1 204**	**649 376**
Accumulated amortisation and impairment allowances				
1 January 2011	232 718	15 537	2 166	250 421
Amortisation	35 107	-	-	35 107
Other increases	8 761	14 758	-	23 519
Impairment allowances, net	32	-	-	32
recognition	32	-	-	32
Liquidation	(5 592)	(15 715)	(789)	(22 096)
Other decreases	(225)	-	(173)	(398)
31 December 2011	**270 801**	**14 580**	**1 204**	**286 585**
Gross book value				
1 January 2010	323 137	-	6 556	329 693
Investment expenditures	142	29 069	-	29 211
Other increases	36	759 814	-	759 850
Reclassifications	43 764	-	-	43 764
Sale	-	(164 219)	-	(164 219)
Liquidation	(1 819)	(12 873)	(9)	(14 701)
Other decreases	(1 501)	(344 105)	(4 381)	(349 987)
31 December 2010	**363 759**	**267 686**	**2 166**	**633 611**
Accumulated amortisation and impairment allowances				
1 January 2010	198 784	-	2 177	200 961
Amortisation	36 329	-	-	36 329
Other increases	32	28 410	-	28 442
Impairment allowances, net	(44)	-	-	(44)
reversal	(44)	-	-	(44)
Liquidation	(1 614)	(12 873)	(9)	(14 496)
Other decreases	(769)	-	(2)	(771)
31 December 2010	**232 718**	**15 537**	**2 166**	**250 421**
Net book value				
1 January 2011	**131 041**	**252 149**	**-**	**383 190**
31 December 2011	**239 291**	**123 500**	**-**	**362 791**
1 January 2010	**124 353**	**-**	**4 379**	**128 732**
31 December 2010	**131 041**	**252 149**	**-**	**383 190**

Impairment allowances of intangible assets as at 31 December 2011 and 31 December 2010 amounted to PLN 3,023 thousand and PLN 2,991 thousand, respectively.

Recognition and reversal of impairment allowances of intangible assets are recognised in other operating activities.
The Company reviews economic useful lives of intangible assets and adjustment of amortisation expense is made prospectively.

Should the rates from the previous year be applied, amortisation expense for 2011 would be higher by PLN (9,307) thousand.

(all amounts in PLN thousand)

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2011 and as at 31 December 2010 amounted to PLN 157,274 thousand and PLN 154,055 thousand, respectively.

Net book value of intangible assets with an indefinite useful life as at 31 December 2011 and as at 31 December 2010 amounted to PLN 5,152 thousand and PLN 4,945 thousand, respectively. The Company 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, Authorization and Restriction of Chemicals) - so called REACH. Due to the fact that registration is indefinite and 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 (NAP 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 in 2011

	Quantity (tonnes)	Value
as at 1 January 2011	**4 637 340**	**251 490**
Granted free of charge	6 579 147	391 853
Settled for the year 2010	(6 153 239)	(354 204)
Purchase/(Sale) net	(3 086 485)	(183 703)
as at 31 December 2011	**1 976 763**	**105 436**
CO_2 emission in 2011	5 978 268	225 679
Shortage	**(4 001 505)**	**(120 243)**
Planned coverage of the shortage by the use of the tranche granted for the next year	4 001 505	120 243

As at 31 December 2011 the market value of one EUA allowance (European Union Emission Allowance) allocated to installations according to National Allocation Program (NAP) amounted to PLN 30.48 (EUR 6.90). (source: http://www.bluenext.eu/statistics/downloads.php)

In 2011 the Company concluded sale transaction of CO_2 emission rights and forward purchase transactions.

The remaining amount concerns origin certificates rights to electric energy produced from highly efficient cogeneration (red energy rights).

8. Perpetual usufruct of land

	as at 31/12/2011	as at 31/12/2010
At the beginning of the period	90 812	90 209
Reclassifications	196	1 840
Depreciation	(1 186)	(1 196)
Disposals and liquidation	(130)	(41)
	89 692	**90 812**

PKN ORLEN possesses perpetual usufruct of land received free of charge under administrative decisions as according to binding regulations. The land, in the most cases is located nearby buildings associated with the Company's core business. In particular, on this land are production facilities, fuel terminals, petrol stations and other facilities supporting Company operations.

As at 31 December 2011 and 31 December 2010 the Company recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 893,116 thousand and PLN 885,469 thousand, respectively. These rights were valued based on the fair value determined in previous years.The total amount of perpetual usufruct charges, recognised as expenses in profit or loss in 2011 and 2010 amounted to PLN (41,232) thousand and PLN (39,315) thousand, respectively.

(all amounts in PLN thousand)

9. Shares in related entities

	Seat	as at 31/12/2011	as at 31/12/2010	Company's share in capital / voting rights as at 31/12/2011	Company's share in capital / voting rights as at na 31/12/2010	Principal activity
Subsidiaries and jointly controlled entities						
AB ORLEN Lietuva (formerly AB Mozeikiu Nafta)	Lithuania – Juodeikiai	4 957 834	6 510 686	100%	100%	processing of crude oil
UNIPETROL a.s.	Czech Republic – Praha	1 812 882	1 812 882	62.99%	62.99%	asset management of the Unipetrol Group
ORLEN Deutschland GmbH	Germany – Elmshorn	503 803	503 803	100%	100%	asset management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Plock	453 699	453 699	50%	50%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Wloclawek	322 108	257 206	95.14%	90.35%	production of nitrogen fertilizers, PVC
Rafineria Trzebinia S.A.	Poland – Trzebinia	109 424	109 424	86.35%	86.35%	processing of paraffin, production and trade in fuels and oil
ORLEN PetroCentrum Sp. z o.o.	Poland – Plock	83 631	83 631	100%	100%	liquid fuels trade
Rafineria Nafty Jedlicze S.A.	Poland – Jedlicze	79 376	64 000	89.95%	75%	processing of paraffin, production and trade in oil-derivates
ORLEN Oil Sp. z o.o.	Poland – Krakow	57 144	57 144	51.69%	51.69%	sale of chemical, refinery and petrochemical products
ORLEN Asfalt Sp. z o.o.	Poland – Plock	50 000	50 000	82.46%	82.46%	production and processing of refining crude oil products
Inowroclawskie Kopalnie Soli "SOLINO" S.A.	Poland – Inowroclaw	46 296	17 560	98.17%	70.54%	storage of crude oil, fuels and gases, extraction and supply of brine
ORLEN Koltrans Sp. z o.o.	Poland – Plock	40 796	40 796	99.85%	99.85%	rail services
ORLEN Transport S.A.	Poland – Plock	39 362	39 362	100%	100%	transport services
ORLEN PetroTank Sp. z o.o.	Poland – Widelka	36 246	36 246	100%	100%	distribution and sale of liquid fuels
Plocki Park Przemyslowo-Technologiczny S.A.	Poland – Plock	31 959	31 959	50%	50%	renting real estate for its own account and reinvoicing costs of energy and water
ORLEN Upstream Sp. z o.o.	Poland - Warszawa	24 950	24 950	100%	100%	exploration and prospecting of hydrocarbon deposits, extraction of oil and natural gas
ORLEN Gaz Sp. z o.o.	Poland – Plock	24 824	24 824	100%	100%	sale of liquid gas
ORLEN Eko Sp. z o.o.	Poland – Plock	23 047	22 000	100%	100%	waste management, processing of nonmetallic waste
Other subsidiaries		85 122	84 542			
Additional repayable payments to subsidiaries' equity		269 203	145 869			
Associates						
Polkomtel S.A.	Poland - Warszawa	-	1 159 190		24.39%	rendering mobile telecommunication services
		9 051 706	**11 529 773**			

As at 31 December 2011 and 31 December 2010 impairment allowances of shares in related entities amounted to PLN 3,299,029 thousand and PLN 1,746,177 thousand, respectively and related mainly to impairment of shares of AB ORLEN Lietuva. Detailed information concerning the increase in impairment allowances in 2011 is disclosed in note 12.2.

On 9 November 2011 PKN ORLEN sold its total share held in Polkomtel S.A. of 24.39% for the total price of PLN 3,672,147 thousand. The transfer of shares was made based on a signed sales agreement of Polkomtel S.A. shares, performed based on the preliminary sale agreement of 100% of Polkomtel S.A. shares signed on 30 June 2011.

10. Financial assets available for sale

	as at 31/12/2011	as at 31/12/2010
Quoted shares	**690**	**1 190**
Wodkan S.A.	674	1 151
Centrozap Katowice S.A.	16	39
Unquoted shares	**39 638**	**39 638**
Naftoport Sp. z o.o.	39 502	39 502
Other	136	136
	40 328	**40 828**

(all amounts in PLN thousand)

As at 31 December 2011 and 31 December 2010 impairment allowances of financial assets available for sale amounted to PLN 71,478 thousand and PLN 70,978 thousand, respectively.

11. Other long-term assets

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments - foreign currency forwards (operating exposure)	81	-
Loans granted	682 882	39 603
Repayable payments to subsidiaries' equity	-	1 000
Other	164	200
Financial assets	**683 127**	**40 803**

12. Impairment of non-current assets

Among the major indicators for impairment, resulting in recognition impairment allowance in PKN ORLEN were: worsening macroeconomic situation in 2011, sustaining high crude oil price accompanied by depreciation of local currencies as well as pressure on refinery and petrochemical margins and decrease of PKN ORLEN shares quotations on Warsaw Stock Exchange below its book value.

As at 31 December 2011 an impairment test was carried out for all identified cash generating units (CGUs).

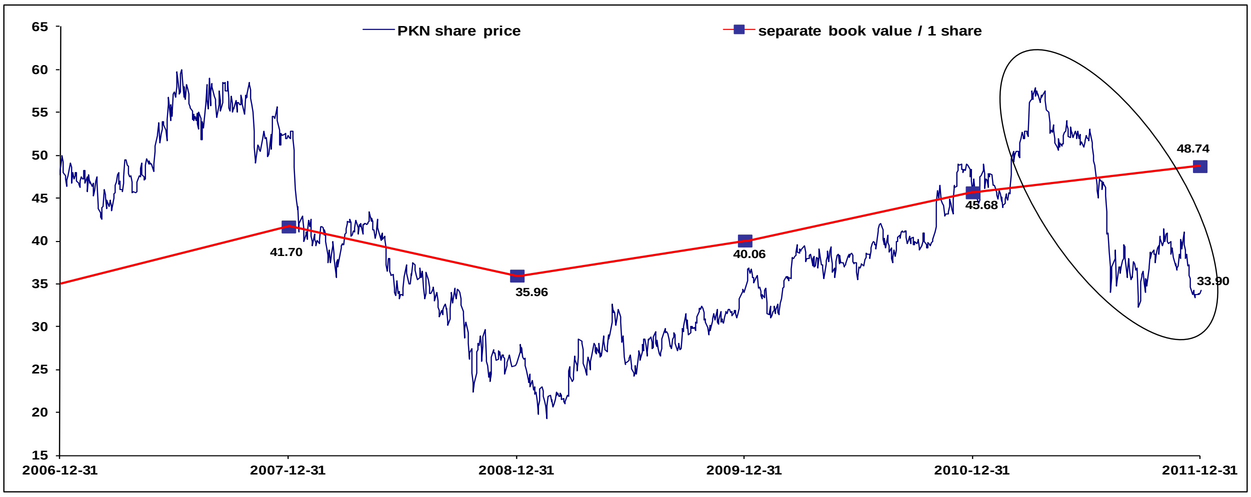
The analysis were performed based on financial projections for years 2012-2016. Financial projections for the year 2012 are based on approved financial plan for the Company.

The Company'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 Company's control. The change of these variables and assumptions might influence the results of the impairment tests of non-current assets, and consequently might lead to changes in financial position and performance of the Company.

In the calculation of value in use, future cash flows are discounted to its present value using pre-tax discount rate, that reflects current market assessment of the time value of money and the risk specific to the asset. For the purpose of calculation of discount rate the Company used available as at 31 December 2011 publications of prof. Aswath Damodaran regarding macroeconomic indicators. (source: http://pages.stern.nyu.edu/~adamodar/)

After 5-year prognosis period the Company used a fixed rate of increase of cash flows, estimated individually for particular geographical market until the end of economical useful life of particular assets.

Book value per 1 share at the end of 2007-2011 after impairment allowances



(all amounts in PLN thousand)

The structure of discount rates for geographical segments of PKN ORLEN

	CZECH REPUBLIC (CZK)	GERMANY (EUR)	POLAND (PLN)	LITHUANIA (USD)
Cost of capital	12.18%	8.48%	14.76%	11.89%
Cost of debt after tax	4.13%	3.09%	5.72%	6.33%
D/E	0.40	0.40	0.40	0.40
Discount rate	**9.88%**	**6.92%**	**12.18%**	**10.31%**
Fixed rate of increase after 2016	2.28%	1.82%	3.02%	2.18%

Cost of capital = risk free rate + (Leveraged Beta * Market risk premium)
Cost of debt after tax = (Money market rate + Bank margin) * (1–tax rate)
Fixed rate of increase after 2016 = Average long-term inflation rate forecast for the years 2012 – 2016 according to Reuters

Changes in discount rates applied in the impairment analysis for the past 4 years

		Discount rate			
		2008	**2009**	**2010**	**2011**
Czech Republic		9.41%	8.67%	8.15%	9.88%
	change y/y p.p.		*-0.74*	*-0.52*	*1.73*
Germany		6.49%	6.33%	5.78%	6.92%
	change y/y p.p.		*-0.16*	*-0.55*	*1.14*
Poland		10.86%	10.60%	10.24%	12.18%
	change y/y p.p.		*-0.26*	*-0.36*	*1.94*
Lithuania		9.46%	9.48%	9.20%	10.31%
	change y/y p.p.		*0.02*	*-0.28*	*1.11*

12.1. Impairment of property, plant and equipment and intangible assets

For the purposes of impairment analysis of property, plant and equipment and intangible assets, the Company introduced necessary adjustments to the financial projections concerning mainly level and effect of investment expenditures as well as activities related to effectiveness.

The period of impairment analysis for particular cash generating units, representing operating segments in the Company, has been set based on projected useful life of main CGU's segment assets.

General deterioration of macroeconomic situation in 2011 (a sudden increase of fuel prices accompanied by increasing crude oil quotations and depreciation of local currency) has forced a reduction of retail unit margins and was a direct indicator for impairment test in retail segment. As a result an impairment allowance PLN (90,432) thousand was recognized.

Detailed information on recognition and reversal of impairment allowances of non-financial non-current assets is disclosed in note 6 and 7.

12.2. Impairment of shares in related entities

For the purposes of impairment analysis of investment in shares, each related entities was treated as a separate cash generating unit (CGU).

The valuations were performed based on the cash flows for the first 5 years of the prognosis and residual value calculated after that period. In the calculations the Company considered changes in net working capital and net debt.

As a result as at 31 December 2011 an impairment allowance of PLN (1,552,852) thousand was recognized on AB ORLEN Lietuva shares.

Detailed information on current investment in shares in related entities is disclosed in note 9.

(all amounts in PLN thousand)

13. Inventories

	as at 31/12/2011	as at 31/12/2010
Raw materials	6 699 775	3 527 616
Work in progress	861 360	650 986
Finished goods	2 950 581	2 674 645
Merchandise	831 905	425 987
Spare parts	205 422	171 553
Inventories, net	**11 549 043**	**7 450 787**
Impairment allowances of inventories	11 501	12 200
Inventories, gross	**11 560 544**	**7 462 987**

On 31 March 2011 the agreement regarding gathering and keeping of mandatory reserves of crude oil signed by PKN ORLEN with LAMBOURN Sp. z o.o. as a part of changing the formula of maintaining mandatory reserves of crude oil has expired. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by LAMBOURN Sp. z o.o. for PLN 1,190,298 thousand translated based on exchange rate from the date of transaction (USD 421,278 thousand). The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 346,976 thousand translated based on exchange rate from the date of transaction (USD 121,939 thousand). The transfer of ownership of the raw material to PKN ORLEN has been made on 1 April 2011, after settlement of full amount of the transaction.

Change in impairment allowances of inventories

	for the year ended 31/12/2011	for the year ended 31/12/2010
Beginning of the period	12 200	7 288
Recognition	3 398	37 905
Reversal	(4 097)	(32 537)
Usage	-	(456)
	11 501	**12 200**

Recognition and reversal of impairment allowances of inventories are recognised in cost of merchandise and raw materials sold.

(all amounts in PLN thousand)

14. Trade and other receivables

	as at 31/12/2011	as at 31/12/2010
Trade receivables	6 738 417	5 381 445
Receivables due to sale of non-current non-financial assets	873	17 469
Additional payments to equity	8 641	14 721
Other	7 902	7 309
Financial assets	**6 755 833**	**5 420 944**
Excise tax and fuel charge receivables	155 801	182 494
Other taxes, duty and social security receivables	123 409	121 910
Advances for construction in progress	8 173	28 904
Prepayments for deliveries	8 713	8 700
Prepayments	153 214	90 517
Other	66 298	-
Non-financial assets	**515 608**	**432 525**
Receivables, net	**7 271 441**	**5 853 469**
Receivables impairment allowance	266 021	277 776
Receivables, gross	**7 537 462**	**6 131 245**

Change in impairment allowances of trade and other receivables

	for the year ended 31/12/2011	for the year ended 31/12/2010
Beginning of the period	277 776	281 684
Recognition	90 912	51 342
Reversal	(84 430)	(53 777)
Usage	(18 237)	(1 473)
	266 021	**277 776**

Recognition and reversal of impairment allowances of 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.

15. Other short-term financial assets

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments	**204 423**	**175 496**
foreign currency forwards (operating exposure)	4 411	34 312
foreign currency forwards (investing exposure)	-	728
commodity swaps	200 012	140 456
Derivatives not designated as hedge accounting	**1 317**	**811**
foreign currency forwards	1 317	811
Embedded derivatives	**179**	**1 026**
foreign currency swap	179	1 026
Loans granted	**4**	**295 670**
Cash pool	**114 557**	**33 064**
	320 480	**506 067**

(all amounts in PLN thousand)

16. Cash and cash equivalents

	as at 31/12/2011	as at 31/12/2010
Cash on hand and in bank	3 244 710	1 357 414
Cash in transit	93 658	38 646
Other financial assets (treasury bills)	952 819	-
	4 291 187	**1 396 060**

17. Non-current assets classified as held for sale

Net book value of non-current assets classified as held for sale as at 31 December 2011 and as at 31 December 2010 amounted to PLN 6,519 thousand and PLN 8,236 thousand, respectively. As at 31 December 2011 and 31 December 2010 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 the impairment allowances of non-current assets classified as held for sale amounted to PLN 1,672 thousand. In 2011 the Company used and reversed the impairment allowances of non-current assets classified as held for sale of PLN 1,182 thousand and PLN 490 thousand, respectively.

18. Shareholders' equity

18.1. Share capital

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2011 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 2011 and 31 December 2010 consisted of the following series of shares

	Number of shares issued		Number of shares authorized	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Series A	336 000 000	336 000 000	336 000 000	336 000 000
Series B	6 971 496	6 971 496	6 971 496	6 971 496
Series C	77 205 641	77 205 641	77 205 641	77 205 641
Series D	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 31/12/2011	as at 31/12/2010
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)

18.2. 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 31/12/2011	as at 31/12/2010
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
	1 227 253	**1 227 253**

As at 31 December 1996, the share capital and share premium were revalued based on monthly consumer price indices in accordance with IAS 29.24 and 29.25.

18.3. Retained earnings

	as at 31/12/2011	as at 31/12/2010
Reserve capital	16 306 547	13 949 420
Other capital	883 740	883 740
Net profit for the period	1 386 166	2 357 127
	18 576 453	**17 190 287**

Other capital includes a privatization fund, dedicated to the privatization of Petrochemia Płock S.A. and the revaluation reserve resulting from valuation of property, plant and equipment in 1995.

18.4. Hedging reserve

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

18.5. Suggested distribution of the Company's profit for 2011

The Dividend Policy of PKN ORLEN 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. Additionally taking into consideration the negative macroeconomic situation, the Management Board proposes to distribute the net profit for the year 2011 of PLN 1,386,165,827.51 to reserve capital of the Company.

18.6. Distribution of the Company's profit for 2010

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 art. 7 point 3 of the Company's Articles of Association, on 29 June 2011 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, has decided to distribute the total net profit for 2010 of PLN 2,357,127,065.35 to the Company's reserve capital.

18.7. 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.

(all amounts in PLN thousand)

The Management Board monitors the following ratios:

- debt to equity ratio (net financial leverage) of the Group. As at 31 December 2011 and 31 December 2010 net financial leverage amounted to 30.2% and 39.4%, respectively;
- net debt to earnings before interest, taxes, depreciation and amortisation plus dividends from Polkomtel S.A. As at 31 December 2011 and as at 31 December 2010 this ratio for the Group amounted to 1.62 and 1.38, respectively;
- dividend per ordinary shares – dividend amount depends on current finance condition of the Group. Detailed description of dividends policy is disclosed in note 18.5.

Net financial leverage = net debt / equity (recalculated according to average balance sheet value in period) x 100%
Net debt = long- term loans and borrowings + short- term loans and borrowings – cash and cash equivalents

19. Interest-bearing loans and borrowings

	long-term		short-term		Total	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Bank loans	9 346 203	7 176 786	477 120	912 560	9 823 323	8 089 346
Borrowings	-	-	501 026	312	501 026	312
Debt securities	-	761 064	1 342 715	251 827	1 342 715	1 012 891
	9 346 203	**7 937 850**	**2 320 861**	**1 164 699**	**11 667 064**	**9 102 549**

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

19.1. Bank loans

- **by currency (translated into PLN)**

	as at 31/12/2011	as at 31/12/2010
PLN	614	22 231
USD	6 437 706	4 604 461
EUR	3 385 003	3 462 654
	9 823 323	**8 089 346**

- **by interest rate**

	as at 31/12/2011	as at 31/12/2010
WIBOR	614	22 231
LIBOR	6 437 706	4 604 461
EURIBOR	3 385 003	3 462 654
	9 823 323	**8 089 346**

At the end of the reporting period unused credit lines exceeded short term liabilities less current receivables and cash and cash equivalents by PLN 6,262,122 thousand.

In the period covered by the foregoing separate financial statements as well as after reporting date there were no cases of violations of loans repayment nor breaches of covenants.

(all amounts in PLN thousand)

19.2. Borrowings

– **by currency (translated into PLN)**

	as at 31/12/2011	as at 31/12/2010
USD	338 765	228
EUR	162 261	84
	501 026	**312**

– **by interest rate**

	as at 31/12/2011	as at 31/12/2010
LIBOR	338 765	228
EONIA	162 261	84
	501 026	**312**

As at 31 December 2011 and 31 December 2010 the Company presented liability relating to borrowings from ORLEN Finance AB within cash pool agreement amounting to PLN 501,026 thousand and PLN 312 thousand, respectively.

In the period covered by the foregoing separate financial statements as well as after reporting date there were no cases of violations of borrowings repayment nor breaches of covenants.

19.3. Debt securities

– **by currency (translated into PLN)**

	as at 31/12/2011	as at 31/12/2010
PLN	1 342 715	1 012 891
	1 342 715	**1 012 891**

– **by interest rate**

	Floating rate bonds		Fixed rate bonds	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Nominal value	750 000	750 000	583 000	252 300
Carrying amount	763 428	761 064	579 287	251 827
Expiration date	2012-02-27	2012-02-27	2012-03-09	2011-03-02

20. Provisions

	long-term		short-term		Total	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Environmental provision	202 493	242 049	32 149	24 510	234 642	266 559
Jubilee and post-employment benefits provision	125 254	121 004	22 616	20 415	147 870	141 419
Business risk provision	-	-	18 706	15 700	18 706	15 700
Shield programs provision	-	-	29 692	35 322	29 692	35 322
Provision for CO_2 emission	-	-	225 679	338 018	225 679	338 018
Other	-	-	113 339	78 605	113 339	78 605
	327 747	**363 053**	**442 181**	**512 570**	**769 928**	**875 623**

(all amounts in PLN thousand)

Change in provisions in 2011

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2011	**266 559**	**141 419**	**15 700**	**35 322**	**338 018**	**78 605**	**875 623**
Recognition	-	17 523	12 667	682	246 219	70 256	**347 347**
Usage	(25 985)	(11 072)	(4 308)	(6 312)	(354 204)	(28 340)	**(430 221)**
Reversal	(5 932)	-	(5 353)	-	(4 354)	(7 182)	**(22 821)**
31 December 2011	**234 642**	**147 870**	**18 706**	**29 692**	**225 679**	**113 339**	**769 928**

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	**257 192**	**130 064**	**29 246**	**46 216**	**340 103**	**16 631**	**819 452**
Recognition	27 313	22 057	1 439	450	342 020	77 978	**471 257**
Usage	(16 139)	(10 702)	(3 325)	(9 923)	(344 105)	(13 451)	**(397 645)**
Reversal	(1 807)	-	(11 660)	(1 421)	-	(2 553)	**(17 441)**
31 December 2010	**266 559**	**141 419**	**15 700**	**35 322**	**338 018**	**78 605**	**875 623**

20.1. Environmental provision

The Company has legal obligation to clean contaminated land-water environment in the area of production plant in Plock, petrol stations, fuel terminals and fuel warehouses.

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

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

The assumptions used in calculation of environmental provision did not change in 2011 in comparison to 2010.

20.2. Provision for jubilee bonuses and post-employment benefits

The Company realizes the program of paying out the jubilee bonuses and post-employment benefits, which includes retirement and pension benefits. Provisions for jubilee bonuses and post-employment benefits are calculated individually for each entitled individual. The base for the calculation of provision for an employee is expected benefit which the Company is obliged to pay in accordance with Corporate Collective Labour Agreement. 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 in 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 provision amount equals 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 2011

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2011	**83 817**	**57 602**	**141 419**
Current service cost	4 996	1 455	6 451
Interest expense	4 509	3 132	7 641
Actuarial gains and losses, net	4 264	(471)	3 793
Benefits paid	(8 667)	(2 767)	(11 434)
31 December 2011	**88 919**	**58 951**	**147 870**

(all amounts in PLN thousand)

Change in employee benefits obligations in 2010

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2010	**75 431**	**54 633**	**130 064**
Current service cost	4 617	1 478	6 095
Interest expense	4 206	3 165	7 371
Actuarial gains and losses, net	8 737	(1 017)	7 720
Benefits paid	(9 174)	(657)	(9 831)
31 December 2010	**83 817**	**57 602**	**141 419**

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2011 and 31 December 2010.

as at	Present value of employee benefits obligation
31/12/2011	147 870
31/12/2010	141 419
31/12/2009	130 064
31/12/2008	139 917
31/12/2007	118 715

Total expense recognised in profit or loss

	for the year ended 31/12/2011	for the year ended 31/12/2010
Current service cost	(6 451)	(6 095)
Interest cost	(7 641)	(7 371)
Actuarial gains and losses, net	(3 793)	(7 720)
	(17 885)	**(21 186)**

Costs of employee benefits are recognised in general and administrative expenses.

In 2011 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate, projected inflation and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be higher by PLN 3,535 thousand.

For updating the provision at as at 31 December 2011 the Company adopted the following actuarial assumptions:
- discount rate - 5.75%;
- expected inflation rate - 3.10% in 2012, 2.80% in 2013 and 2.50% in the following years;
- remuneration increase rates - from 4.16% in 2012 up to 3.17% in 2014 and 2.50% in following years.

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

20.3. Business risk provision

Decrease of the business risk provision in 2011 results mainly from the verification of the status of administration and court proceedings concerning the land.

20.4. Shield programs provision

Employee shield programs were launched to support the restructuring processes conducted in the Company. 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.

(all amounts in PLN thousand)

Employees, who agreed to change the workplace are entitled to receive the relocation package comprising: relocation bonus and refund of relocation costs.

The assumptions used in calculation of shield programs provision did not change in 2011 in comparison to 2010.

20.5. Provision for CO_2 emission

The Company recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision in the profit or loss is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. Detailed description of applied accounting principles is disclosed in notes 2.3.6.1 and 31.6.

20.6. Other provisions

The increase of other provisions in 2011 is mainly a result of estimation of risk relating mainly to tax issues.

21. Other long-term liabilities

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments - interest rate swaps	113 602	-
Finance lease	56 832	49 958
Financial liabilities	**170 434**	**49 958**

22. Trade and other liabilities

	as at 31/12/2011	as at 31/12/2010
Trade liabilities	8 558 341	7 374 176
Investement liabilities	449 201	728 634
Finance lease liabilities	9 975	5 052
Declared payments to equity	66 298	-
Other	60 198	43 740
Financial liabilities	**9 144 013**	**8 151 602**
Payroll liabilities	98 206	95 577
Environmental liabilities	10 290	11 590
Special funds	5 729	5 729
Excise tax and fuel charge	1 111 839	990 666
Value added tax	580 881	748 264
Other taxation, duty, social security and other benefits	16 569	14 418
Holiday pay accruals	15 000	14 252
Other	15 509	6 760
Non-financial liabilities	**1 854 023**	**1 887 256**
	10 998 036	**10 038 858**

23. Deferred income

	as at 31/12/2011	as at 31/12/2010
Unsettled points in loyalty program VITAY	72 632	61 537
Government grants	39 956	759
Other	5 835	2 313
	118 423	**64 609**

(all amounts in PLN thousand)

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. Fuel prize is also 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 revenues from retail sale. 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. (source: http://www.vitay.pl)

23.1. Government grants

As at 31 December 2011 the Company possesses CO_2 emission rights allowances of PLN 39,938 thousand. As at 31 December 2010 unsettled government grants related to CO_2 emission rights amounted to zero. Other amounts disclosed as at 31 December 2011 and as at 31 December 2010 concern government grants received from National Environmental Protection Fund and European Regional Development Fund, respectively.

24. Other financial liabilities

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments	**109 761**	**98 263**
foreign currency forwards (operating exposure)	107 220	3 095
interest rate swaps	1 507	95 168
commodity swaps	1 034	-
Derivatives not designated for hedge accounting	**229 526**	**47**
foreign currency forwards	223 589	47
commodity swaps	5 937	-
Embedded derivatives	**7 240**	**1 314**
foreign currency swap	7 240	1 314
Cash pool	**338 765**	**123 788**
	685 292	**223 412**

25. Sales revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Sales of finished goods	44 030 078	32 665 140
Sales of services	386 100	363 313
Revenues from sales of finished goods and services, net	**44 416 178**	**33 028 453**
Sales of merchandise	34 313 435	27 382 290
Sales of raw materials	307 508	1 804 838
Revenues from sale of merchandise and raw materials, net	**34 620 943**	**29 187 128**
	79 037 121	**62 215 581**

26. Operating expenses

Cost of sales

	for the year ended 31/12/2011	for the year ended 31/12/2010
Cost of finished goods sold	(39 069 675)	(28 490 809)
Cost of merchandise and raw materials sold	(34 257 944)	(28 554 753)
	(73 327 619)	**(57 045 562)**

(all amounts in PLN thousand)

Cost by kind

	for the year ended 31/12/2011	for the year ended 31/12/2010
Materials and energy	(38 173 644)	(27 994 854)
Cost of merchandise and raw materials sold	(34 257 944)	(28 554 753)
External services	(2 086 467)	(1 866 908)
Employee benefits costs	(612 048)	(581 728)
Depreciation and amortisation	(991 405)	(870 517)
Taxes and charges	(302 450)	(284 447)
Other	(527 679)	(466 655)
	(76 951 637)	**(60 619 862)**
Change in inventories	486 310	718 424
Cost of products and services for own use	166 986	139 047
Operating expenses	**(76 298 341)**	**(59 762 391)**
Distribution expenses	1 947 915	1 824 472
General and administrative expenses	671 186	584 243
Other operating expenses	351 621	308 114
Cost of sales	**(73 327 619)**	**(57 045 562)**

In 2011 and 2010 external services included research and development expenditures of PLN (7,851) thousand and PLN (11,524) thousand, respectively.

Employee benefits costs

	for the year ended 31/12/2011	for the year ended 31/12/2010
Payroll expenses	(502 671)	(475 042)
Future service costs	(6 451)	(11 355)
Social security expenses	(74 006)	(71 118)
Other employee benefits expenses	(28 920)	(24 213)
	(612 048)	**(581 728)**

27. Other operating revenues and expenses

27.1. Other operating revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Profit on sale of non-financial non-current assets	41 878	63 003
Reversal of provisions	17 981	17 415
Reversal of receivables impairment allowances	78 052	43 277
Reversal of impairment allowances of property, plant and equipment and intangible assets	24 308	67 997
Penalties and compensations earned	97 200	57 475
Other	175 739	54 470
	435 158	**303 637**

In 2011 penalties and compensations include mainly return of PLN 75,879 thousand from ENERGA-OPERATOR S.A. (detailed information in note 40.1.2.2).

In 2011 the line “other” mainly includes recalculation of provision for CO_2 emissions as a result of changes in rights' prices of PLN 130,591 thousand.

(all amounts in PLN thousand)

27.2. Other operating expenses

	for the year ended 31/12/2011	for the year ended 31/12/2010
Loss on sale of non-financial non-current assets	(34 992)	(17 498)
Recognition of provisions	(40 562)	(111 182)
Recognition of receivables impairment allowances	(86 650)	(45 143)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(100 314)	(64 200)
Cost of damages and breakdowns	(8 926)	(10 585)
Other	(80 177)	(59 506)
	(351 621)	**(308 114)**

In 2011 impairment allowances of property, plant and equipment and intangible assets concerned mainly Retail segment.
Detailed description of impairment allowances is disclosed in notes 6, 7, 12.1 and 14.

28. Financial revenues and expenses

28.1. Financial revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Interest	68 774	27 465
Dividends	400 702	384 731
Profit on sale of shares and other securities	2 506 611	77
Decrease in receivables impairment allowances	6 378	10 500
Settlement and valuation of financial instruments	8 871	94 850
Decrease in investment impairment allowances	315	1 324
Other	8 066	9 046
	2 999 717	**527 993**

In 2011 profit on sale of shares and other securities includes profit from sale of Polkomtel S.A. shares.

28.2. Financial expenses

	for the year ended 31/12/2011	for the year ended 31/12/2010
Interest	(328 979)	(273 813)
Foreign exchange losses surplus	(1 583 487)	(135 002)
Loss on sale of shares and other securities	(453)	-
Increase in receivables impairment allowances	(4 262)	(6 199)
Settlement and valuation of financial instruments	(301 798)	(33 896)
Increase in investment impairment allowances	(1 553 667)	(201)
Other	(4 562)	(9 385)
	(3 777 208)	**(458 496)**

Increase in investment impairment allowances in 2011 concerns mainly shares of AB ORLEN Lietuva of PLN (1,552,852) thousand.

According to IAS 23 Borrowing cost, the Company 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 2011 and 2010 amounted to PLN (49,259) thousand and PLN (151,816) thousand, respectively. In 2011 and in 2010 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.10% per annum and 3.22% per annum, respectively.

(all amounts in PLN thousand)

29. Income tax expense

	for the year ended 31/12/2011	for the year ended 31/12/2010
Current income tax	(804 464)	(392 961)
Deferred income tax	(205 817)	(76 236)
	(1 010 281)	**(469 197)**

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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Profit before tax	**2 396 447**	**2 826 324**
Corporate income tax for 2011 and 2010 by the valid tax rate	(455 325)	(537 002)
Impairment allowance of AB ORLEN Lietuva shares	(623 700)	-
Current tax adjustment relating to previous years	702	12 921
Dividends received	76 685	73 031
Provisions not deductible for tax purposes	59	(10 694)
Receivables impairment allowances	(2 400)	(3 742)
Other	(6 302)	(3 711)
Income tax expense	**(1 010 281)**	**(469 197)**
Effective tax rate	**42%**	**17%**

29.2. Deferred tax

	as at 31/12/2011	as at 31/12/2010
Deferred tax assets		
Impairment allowances	67 648	382 200
Provisions and accruals	159 377	176 946
Unrealized foreign exchange differences	249 307	109 551
Valuation of financial instruments	48 284	-
Other	31 455	25 055
	556 071	**693 752**
Deferred tax liabilities		
Investment relief	48 343	55 421
Difference between carrying amount and tax base of property, plant and equipment	433 133	364 803
Difference in contribution in kind	42 870	42 870
Valuation of financial instruments	-	14 765
Other	20 445	17 207
	544 791	**495 066**
Deferred tax assets, net	**11 280**	**198 686**

29.3. Change in deferred tax assets, net

	for the year ended 31/12/2011	for the year ended 31/12/2010
Beginning of the period	198 686	286 421
Deferred tax recognized in income statement	(205 817)	(76 236)
Deffered tax asset recognized in other comprehensive income (from hedge accounting)	18 411	(11 499)
	11 280	**198 686**

(all amounts in PLN thousand)

30. 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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	**(2 060 296)**	**(1 231 234)**
Change in investment receivables from	665 070	(143 091)
advances for construction in progress	(20 731)	(121 105)
sale of non-current non-financial assets	(16 596)	16 454
sale of non-current financial assets	(100)	(36 961)
repayable payments to subsidiaries' equity	59 218	-
non-current loans granted	643 279	(1 479)
Change in prepayments regarding bank commisions	34 109	(22 373)
Other	2 439	(408)
Change in receivables in the statement of cash flows	**(1 358 678)**	**(1 397 106)**
Change in inventories presented in the statement of financial position	**(4 098 256)**	**(152 131)**
Reclassification of inventories from/to property, plant and equipment	14 322	19 026
Change in inventories in the statement of cash flows	**(4 083 934)**	**(133 105)**
Change in other long-term liabilities, trade liabilities and other liabilities presented in the statement of financial position	**1 079 654**	**1 844 470**
Change in investment liabilities from	213 135	345 250
investment expenditures	279 433	345 250
declared repayable payments to subsidiaries' equity	(66 298)	-
Change in cash flow hedge instruments	(113 602)	-
Compensation of investment liabilities with investment receivables	-	18 209
Change in financial liabilities due to finance lease	(11 755)	(3 338)
Other	(7 362)	3 658
Change in liabilities in the statement of cash flows	**1 160 070**	**2 208 249**
Change in provisions presented in the statement of financial position	**(105 695)**	**56 171**
Usage of prior year provision for CO_2 emission rights	354 204	340 103
Change in provisions in the statement of cash flows	**248 509**	**396 274**

Other adjustments in cash flows from operating activities

	for the year ended 31/12/2011	for the year ended 31/12/2010
CO_2 emission rights granted free of charge	(391 853)	(373 469)
Change in deferred income	53 814	(2 461)
Other	(15 226)	(12 132)
	(353 265)	**(388 062)**

(all amounts in PLN thousand)

31. Financial instruments

31.1. Financial instruments by category and class

Financial assets

as at 31 December 2011

		Financial instruments by category				
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note					
Quoted shares	10	-	-	690	-	690
Unquoted shares	10	-	-	39 638	-	39 638
Trade receivables	14	-	6 738 417	-	-	6 738 417
Receivables from sale of non-current non-finacial assets	14	-	873	-	-	873
Loans granted	11, 15	-	682 886	-	-	682 886
Repayable payments to subsidiaries' equity	14	-	8 641	-	-	8 641
Embedded derivatives and hedging instruments	11, 15	1 496	-	-	204 504	206 000
Cash and cash equivalents	16	-	4 291 187	-	-	4 291 187
Cash pool	15	-	114 557	-	-	114 557
Other	11, 14	-	8 066	-	-	8 066
		1 496	**11 844 627**	**40 328**	**204 504**	**12 090 955**

as at 31 December 2010

		Financial instruments by category				
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note					
Quoted shares	10	-	-	1 190	-	1 190
Unquoted shares	10	-	-	39 638	-	39 638
Trade receivables	14	-	5 381 445	-	-	5 381 445
Receivables from sale of non-current non-finacial assets	14	-	17 469	-	-	17 469
Loans granted	11, 15	-	335 273	-	-	335 273
Repayable payments to subsidiaries' equity	11, 14	-	15 721	-	-	15 721
Embedded derivatives and hedging instruments	11, 15	1 837	-	-	175 496	177 333
Cash	16	-	1 396 060	-	-	1 396 060
Cash pool	15	-	33 064	-	-	33 064
Other	11, 14	-	7 509	-	-	7 509
		1 837	**7 186 541**	**40 828**	**175 496**	**7 404 702**

(all amounts in PLN thousand)

Financial liabilities

as at 31 December 2011

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	19	-	1 342 715	-	-	1 342 715
Loans	19	-	9 823 323	-	-	9 823 323
Borrowings	19	-	501 026	-	-	501 026
Finance lease	21, 22	-	-	-	66 807	66 807
Trade liabilities	22	-	8 558 341	-	-	8 558 341
Investment liabilities	22	-	449 201	-	-	449 201
Declared payments to equity	22		66 298		-	66 298
Embedded derivatives and hedging instruments	21, 24	236 766	-	223 363	-	460 129
Cash pool	24	-	338 765	-	-	338 765
Other	22	-	60 198	-	-	60 198
		236 766	**21 139 867**	**223 363**	**66 807**	**21 666 803**

as at 31 December 2010

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	19	-	1 012 891	-	-	1 012 891
Loans	19	-	8 089 346	-	-	8 089 346
Borrowings	19	-	312	-	-	312
Finance lease	21, 22	-	-	-	55 010	55 010
Trade liabilities	22	-	7 374 176	-	-	7 374 176
Investment liabilities	22	-	728 634	-	-	728 634
Embedded derivatives and hedging instruments	21, 24	1 361	-	98 263	-	99 624
Cash pool	24	-	123 788	-	-	123 788
Other	22	-	43 740	-	-	43 740
		1 361	**17 372 887**	**98 263**	**55 010**	**17 527 521**

31.2. Income and expense, gains and losses in the separate statement of comprehensive income

	for the year ended 31/12/2011	for the year ended 31/12/2010
by category		
Financial assets and financial liabilities at fair value through profit or loss	(292 117)	74 500
Loans and receivables	567 038	73 903
Financial assets held-to-maturity	-	4
Financial assets available for sale	777	259
Financial liabilities measured at amortized cost	(2 431 595)	(445 635)
Hedging financial instruments	26 088	(13 546)
Liabilities excluded from the scope of IAS 39	(3 313)	(2 699)
	(2 133 121)	**(313 214)**
other, excluded from the scope of IFRS 7		
Dividends from related parties	402 325	382 634
Disposal of shares in related parties	2 506 611	77
Related parties investment impairment allowances	(1 553 305)	-
	1 355 630	**382 711**
Financial revenues and expenses net	**(777 491)**	**69 497**

(all amounts in PLN thousand)

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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Quoted shares	(815)	(190)
Unquoted shares	-	(11)
Trade receivables	(4 262)	(6 199)
	(5 077)	**(6 400)**

Impairment allowances of financial assets are disclosed in the note 10 and 14.

31.4. Fair value of financial instruments

	as at 31/12/2011		as at 31/12/2010	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Quoted shares	690	690	1 190	1 190
Unquoted shares	not applicable	39 638	not applicable	39 638
Trade receivables	6 738 417	6 738 417	5 381 445	5 381 445
Sale of non-current non-finacial assets	873	873	17 469	17 469
Loans granted	684 330	682 886	335 273	335 273
Repayable payments to subsidiaries' equity	8 641	8 641	15 721	15 721
Embedded derivatives and hedging instruments	206 000	206 000	177 333	177 333
Cash and cash equivalents	4 291 187	4 291 187	1 396 060	1 396 060
Cash pool	114 557	114 557	33 064	33 064
Other	8 066	8 066	7 496	7 509
	12 052 761	**12 090 955**	**7 365 051**	**7 404 702**
Financial liabilities				
Debt securities	1 342 729	1 342 715	1 013 509	1 012 891
Loans	9 829 086	9 823 323	8 100 409	8 089 346
Borrowings	501 026	501 026	312	312
Finance lease	58 315	66 807	47 672	55 010
Trade liabilities	8 558 341	8 558 341	7 374 176	7 374 176
Investment liabilities	449 201	449 201	728 634	728 634
Declared payments to equity	66 298	66 298	-	-
Embedded derivatives and hedging instruments	460 129	460 129	99 624	99 624
Cash pool	338 765	338 765	123 788	123 788
Other	60 198	60 198	43 740	43 740
	21 664 088	**21 666 803**	**17 531 864**	**17 527 521**

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2011 and 31 December 2010 the Company held unquoted shares in entities, 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. The above mentioned shares were recognised and measured at acquisition cost less impairment allowances in the statement of financial position of PLN 39,638 thousand. 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 statement of financial position at fair value (fair value hierarchy)

The Company 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 Company has not changed valuation methods concerning derivative instruments.

(all amounts in PLN thousand)

Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price. Forward rates of exchange are not modeled as a separate risk factor, but they are a result of spot rate and forward interest rate for foreign currency in relation to PLN.

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

	Note	as at 31/12/2011		as at 31/12/2010	
		Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	10	690	-	1 190	-
Embedded derivatives and hedging instruments	11, 15	-	206 000	-	177 333
		690	**206 000**	**1 190**	**177 333**
Financial liabilities					
Embedded derivatives and hedging instruments	21, 24	-	460 129	-	99 624
		-	**460 129**	**-**	**99 624**

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

Methods and assumptions applied in determining fair values of financial instruments presented in the separate 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 2011 and 31 December 2010 according to quotations of 1-month and 3-months and 6-months interest rates, respectively, increased by margins proper for particular financial instruments. For the majority of financial instruments recognized as at 31 December 2011 and 31 December 2010 1-month interest rate quotations were applied.

	as at 31/12/2011	as at 31/12/2010
WIBOR	4.7700%	3.6600%
EURIBOR	1.0240%	0.7820%
LIBOR	0.2953%	0.2606%

31.5. Hedge accounting

Cash flow hedge accounting

The Company 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 Company hedges also cash flows from investment projects against changes in exchange rates (EUR/PLN, JPY/PLN). Foreign exchange forwards are used as hedging instruments.

PKN ORLEN hedges cash flows from sales/purchases of crude oil, gasolines, diesel oil using commodity swaps.

(all amounts in PLN thousand)

The Company 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).

Hedging transactions, settlement and fair value measurement of which influence the foregoing separate financial statements were concluded in the years 2007-2011.

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

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

	as at 31/12/2011	as at 31/12/2010
Planned realization date of hedged cash flows		
Currency operating exposure		
2011	-	31 216
2012	(102 728)	-
Interest rate exposure		
till 1 Q 2012	(1 507)	(7 132)
till 1 Q 2014	(113 602)	(88 036)
Commodity risk exposure		
2011	-	126 092
2012	198 979	14 364
	(18 858)	**76 504**

In case of interest rate exposure the Company uses interest rate swap to hedge the bonds issued in PLN. The swap is based on 6-month WIBOR, whereas interest rate swaps hedging loans in EUR and USD are based on 1-month EURIBOR and 1-month LIBOR.

– net fair value which will be included in the cost of non-current assets and recognised in profit or loss through depreciation charges in the following periods

	as at 31/12/2011	as at 31/12/2010
Planned realization date of hedged cash flows		
2011 (currency investment exposure)	-	728
	-	**728**

Settlement of hedge instruments

	for the year ended 31/12/2011	for the year ended 31/12/2010
Revenues from sales of finished goods	(34 420)	26 369
Foreign exchange differences	79 907	(4 300)
Interest	(53 009)	(61 212)
Construction in progress	(1 185)	52 019
Inventories	337 790	-
	329 083	**12 876**

In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2011 and 2010 amounting to PLN (810) thousand and PLN (1,622) thousand, respectively.

(all amounts in PLN thousand)

31.6. Financial risk management

The Company 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).
- other, disclosed in details in the Management Board Report on the Operations of PKN ORLEN in point VII.7.2.

Credit risk

Within its trading activity the Company sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Company's receivables from sales of products and services. In order to minimize credit risk and working capital the Company 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.

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 criterion described above

	as at 31/12/2011	as at 31/12/2010
Group I	6 054 479	4 437 540
Group II	553 960	755 373
	6 608 439	**5 192 913**

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

	as at 31/12/2011	as at 31/12/2010
Current receivables		
Up to 1 month	202 230	222 683
1-3 months	9 080	3 909
3-6 months	2 382	1 439
	213 692	**228 031**

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.

Credit risk associated with cash and bank deposits is assessed by the Company as low. All entities in which the Company's free cash are deposited, are operating in financial sector. They include domestic and foreign banks and branches of foreign banks which have the highest short-term credit credibility (78% of deposited cash) or good credibility (22% of deposited cash).

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. The source of information on ratings are web site publications of each of the banks, where the Group invest its free cash.

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed 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.

Credit risk associated with granted intercompany borrowings is assessed by the Company as low, due to the fact that agreements are concluded with companies having secure both financial and operating position. The Company does not identify any threat in settling the obligation resulting from borrowings agreements.

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.

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.

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 financial assets is disclosed in the notes 27.2, 28.2.

Liquidity risk

The Company is exposed to liquidity risk associated with the relation between and current assets and short- term liabilities. As at 31 December 2011 and as at 31 December 2010 current assets to short-term liabilities ratio (current ratio) amounted to 1.5 and 1.3, respectively.

Detailed information regarding loans is disclosed in the note 19.

In 2007 the Company entered into Bond issuance program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the Group. During 2011 bond issues were made only on the domestic market.

In order to optimize financial expenses the Company uses cash pool facility. As at 31 December 2011 the domestic cash pool facility (in PLN) comprised 21 entities belonging to the Group, while cross border cash pool facility denominated in EUR, USD and PLN held in foreign bank comprised PKN ORLEN and foreign entities belonging to the Capital Group (Orlen Finance, ORLEN Lietuva, ORLEN Deutschland, Unipetrol Deutschland).

As at 31 December 2011 and 31 December 2010 the maximum possible indebtedness due to loans amounted to PLN 16,089,813 thousand and PLN 13,864,316 thousand, respectively. As at 31 December 2011 and 31 December 2010 PLN 5,697,530 thousand and PLN 5,526,852 thousand respectively remained unused.

(all amounts in PLN thousand)

Maturity analysis for financial liabilities

as at 31/12/2011	up to 1 year	1-3 years	3-5 years	above 5 years	Total	Carrying amount
Debt securities						
Floating rate bonds - undiscounted value	763 592	-	-	-	763 592	763 428
Fixed rate bonds - undiscounted value	579 287	-	-	-	579 287	579 287
Loans received - undiscounted value	462 022	-	8 621 857	742 734	9 826 613	9 823 323
Borrowings received - undiscounted value	501 026	-	-	-	501 026	501 026
Finance lease	9 975	19 461	10 798	26 573	66 807	66 807
Trade liabilities	8 558 341	-	-	-	8 558 341	8 558 341
Investment liabilities	449 201	-	-	-	449 201	449 201
Declared payments to subsidiaries' equity – undiscounted value	66 298	-	-	-	66 298	66 298
Embedded derivatives and hedging instruments						
Gross settled amounts	338 049	-	-	-	338 049	338 049
Net settled amounts	8 478	113 602	-	-	122 080	122 080
Cash pool	338 765	-	-	-	338 765	338 765
Other	60 198	-	-	-	60 198	60 198
	12 135 232	**133 063**	**8 632 655**	**769 307**	**21 670 257**	**21 666 803**

as at 31/12/2010	up to 1 year	1-3 years	3-5 years	above 5 years	Total	Carrying amount
Debt securities						
Floating rate bonds - undiscounted value		761 366	-	-	761 366	761 064
Fixed rate bonds - undiscounted value	251 827	-	-	-	251 827	251 827
Loans received - undiscounted value	873 328	6 588 768	-	641 394	8 103 490	8 089 346
Borrowings received - undiscounted value	312	-	-	-	312	312
Finance lease	5 052	10 795	8 948	30 215	55 010	55 010
Trade liabilities	7 374 176	-	-	-	7 374 176	7 374 176
Investment liabilities	728 634	-	-	-	728 634	728 634
Embedded derivatives and hedging instruments						
Gross settled amounts	4 456	-	-	-	4 456	4 456
Net settled amounts	-	7 132	88 036	-	95 168	95 168
Cash pool	123 788	-	-	-	123 788	123 788
Other	43 740	-	-	-	43 740	43 740
	9 405 313	**7 368 061**	**96 984**	**671 609**	**17 541 967**	**17 527 521**

Market risks

The Company is exposed to currency risks, interest rate risks and risks of changes in raw materials and petroleum products prices and CO_2 emission rights prices.

PKN ORLEN 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.

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 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 Company 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.

(all amounts in PLN thousand)

Currency risk

The Company 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 and purchases 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 2011

Financial instruments by class	EUR	USD	JPY	GBP	Total after translation to PLN
Financial assets					
Trade receivables	43 419	893 953	-	-	3 246 769
Loans granted	-	199 826	-	-	682 886
Embedded derivatives and hedging instruments	1 325	58 567	-	-	206 000
Cash	5 987	6 078	4 846	-	47 429
Other	100	-	-	-	442
	50 831	**1 158 424**	**4 846**	**-**	**4 183 526**
Financial liabilities					
Loans	766 393	1 883 802	-	-	9 822 709
Borrowings	36 737	99 129	-	-	501 026
Trade liabilities	58 755	2 017 911	27 885	44	7 156 985
Investment liabilities	7 265	5 268	54 736	38	52 701
Declared payments to equity	-	19 400	-	-	66 298
Embedded derivatives and hedging instruments	79 476	31 022	35 750	-	458 621
	948 626	**4 056 532**	**118 371**	**82**	**18 058 340**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2011) arising from hypothetical changes in exchange rates of relevant currencies in relation to presentation currency (PLN) on profit before tax and hedging reserve

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(552 207)	-15%	552 207
USD/PLN	+15%	(1 503 186)	-15%	1 503 186
JPY/PLN	+15%	(1 528)	-15%	1 528
		(2 056 921)		**2 056 921**

	Influence on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(185 575)	-15%	185 575
USD/PLN	+15%	(41 595)	-15%	41 595
		(227 170)		**227 170**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(737 782)	-15%	737 782
USD/PLN	+15%	(1 544 781)	-15%	1 544 781
JPY/PLN	+15%	(1 528)	-15%	1 528
		(2 284 091)		**2 284 091**

(all amounts in PLN thousand)

Currency structure of financial instruments as at 31 December 2010

Financial instruments by class	EUR	USD	JPY	Pozostałe	Total after translation to PLN
Financial assets					
Trade receivables	1 101	918 939	-	-	2 728 187
Sale of non-finacial non-current assets	2 907	-	-	-	11 514
Loans granted	10 559	99 004	-	-	335 273
Embedded derivatives and hedging instruments	3 801	54 503	19 987	-	177 333
Cash	3 509	257 486	67 051	-	779 555
Other	4 674	-	-	-	18 511
	26 551	**1 329 932**	**87 038**	**-**	**4 050 373**
Financial liabilities					
Loans	874 341	1 553 409	-	-	8 067 115
Borrowings	21	77	-	-	312
Trade liabilities	18 499	2 161 173	-	226	6 480 246
Investment liabilities	24 471	16 938	2 000 541	97	220 462
Embedded derivatives and hedging instruments	13 575	13 067	-	-	92 493
	930 907	**3 744 664**	**2 000 541**	**323**	**14 860 628**

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 presentation currency (PLN) on profit before tax and hedging reserve

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(539 083)	-15%	539 083
USD/PLN	+15%	(1 095 349)	-15%	1 095 349
JPY/PLN	+15%	(10 568)	-15%	10 568
		(1 645 000)		**1 645 000**

	Influence 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**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(685 025)	-15%	685 025
USD/PLN	+15%	(1 154 579)	-15%	1 154 579
JPY/PLN	+15%	(3 797)	-15%	3 797
		(1 843 401)		**1 843 401**

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. Fair value of forwards is calculated based on discounted future cash flows calculated based on difference between forward price and transaction price.

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

(all amounts in PLN thousand)

Interest rate risk

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

Structure of financial instruments subject to interest rate risk

Financial instruments by class	WIBOR		LIBOR		EURIBOR		Total	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Selected financial assets								
Loans granted	-	-	682 886	293 456	-	41 817	682 886	335 273
Additional repayable payments to subsidiaries' equity	8 641	1 000	-	-	-	-	8 641	1 000
Cash pool	114 557	33 064	-	-	-	-	114 557	33 064
Other	7 624	200	-	-	442	-	8 066	200
	130 822	**34 264**	**682 886**	**293 456**	**442**	**41 817**	**814 150**	**369 537**
Selected financial liabilities								
Debt securities	763 428	761 064	-	-	-	-	763 428	761 064
Loans	614	22 231	6 437 706	4 604 461	3 385 003	3 462 654	9 823 323	8 089 346
Borrowings	-	-	338 765	228	-	84	338 765	312
Declared payments to equity	-	-	66 298	-	-	-	66 298	-
Embedded derivatives and hedging instruments	1 507	7 131	48 857	35 070	64 745	52 967	115 109	95 168
Cash pool	338 765	123 788	-	-	-	-	338 765	123 788
	1 104 314	**914 214**	**6 891 626**	**4 639 759**	**3 449 748**	**3 515 705**	**11 445 688**	**9 069 678**

As at 31 December 2011 the Company holds a borrowing denominated in EUR received from ORLEN Finance AB within cash pool agreement amounting PLN 162,261 thousand, for which EONIA rate is applied. Due to low sensitivity of the above interest rate the borrowing is not subject to sensitivity analysis.

Sensitivity analysis for interest rate risk

The influence of financial instruments measured at amortised cost 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	
	as at 31/12/2011	as at 31/12/2010	2011	2010	2011	2010	2011	2010
WIBOR	+50	+50	(4 860)	(4 364)	930	2 062	(3 930)	(2 302)
LIBOR	+50	+50	(30 799)	(21 556)	17 981	19 635	(12 818)	(1 921)
EURIBOR	+50	+50	(16 923)	(17 105)	15 932	21 062	(991)	3 957
			(52 582)	**(43 025)**	**34 843**	**42 759**	**(17 739)**	**(266)**
WIBOR	-50	-50	4 860	4 364	(932)	(2 084)	3 928	2 280
EURIBOR	-50	0	16 923	-	(16 271)	-	652	-
			21 783	**4 364**	**(17 203)**	**(2 084)**	**4 580**	**2 280**

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 forecasts.

The Company does not take the potential decrease of LIBOR into consideration because of market forecasts and low level of EURIBOR and LIBOR interest rates as at the end of 2011 and market forecast.

The Company recognizes derivatives at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011 and 31 December 2010, the impact of interest rate changes is 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.

For derivatives in sensitivity analysis for interest rate risk, the Company uses interest rate curve displacement due to potential reference rate change, provided that other risk factors remain constant.

(all amounts in PLN thousand)

Risk of changes in raw materials and petroleum products prices

The operating activity of the Company includes the following risks:

- price change of crude oil used to be processed
- the obligation to maintain reserves of crude oil and fuels
- Ural/Brent differential fluctuations,
- price changes of refining and petrochemical products, which depend from the quotations of crude oil and products on international markets

As at 31 December 2011 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from crude oil, gasoline and diesel oil sale/purchase settlements.

The volume of hedged crude oil, gasoline and diesel oil as at 31 December 2011 and 31 December 2010

Hedged raw material/finished good	Unit of measure	as at 31/12/2011	as at 31/12/2010
Crude oil	BBL	5 529 035	3 589 591
Diesel oil	MT	49 240	-
Gasoline	MT	12 737	-

Sensitivity analysis for risk of changes in crude oil, diesel oil and gasoline prices

The influence of derivatives on profit before tax and hedging reserve due to changes in crude oil, diesel oil and gasoline prices as at 31 December 2011

	Influence on profit before tax			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+27.5%	(20 007)	-27.5%	20 007
		(20 007)		**20 007**

	Influence on hedging reserve			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+27.5%	540 009	-27.5%	(540 009)
	Increase of prices		Decrease of prices	
Diesel oil USD/MT	+23%	36 529	-23%	(36 529)
	Increase of prices		Decrease of prices	
Gasoline USD/MT	+28%	11 221	-28%	(11 221)
		587 759		**(587 759)**

	Total influence on other comprehensive income			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+27.5%	520 002	-27.5%	(520 002)
Diesel oil USD/MT	+23%	36 529	-23%	(36 529)
Gasoline USD/MT	+28%	11 221	-28%	(11 221)
		567 752		**(567 752)**

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

	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+27%	559 591	-27%	(559 591)
		559 591		**(559 591)**

(all amounts in PLN thousand)

The above variations of crude oil, diesel oil and gasoline prices described above were calculated based on historical volatility of crude oil prices for 2011 and 2010 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011 and 31 December 2010. The influence of interest rates changes was presented on annual basis. The fair value of commodity swaps is calculated based on discounted cash flows method calculated as a difference between term and transaction price.

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

The carrying amount of hedging instruments for crude oil, diesel oil and gasoline deliveries as at 31 December 2011 amounted to PLN 193,041 thousand.
The carrying amount of hedging instruments for crude oil as at 31 December 2010 amounted to PLN 140,456 thousand.

Risk of changes in CO_2 emission rights prices

PKN ORLEN 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 Company 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 2011 the Company concluded sale agreements of CO_2 emission rights and simultaneously concluded forward purchase transactions.

As at 31 December 2011 financial liabilities due to negative valuation of CO_2 emission rights forwards amounted to PLN 222,449 thousand.

Change in CO_2 emission rights quotations by 45% (in plus or in minus) would potentially impact the fair valuation of financial liabilities on concluded forward contracts by PLN 95,794 thousand and PLN (95,794) thousand.

Variations in CO_2 emission rights allowances were calculated based on historical volatility in 2011.

Detailed information regarding CO_2 emission rights allowances is disclosed in note 7.

32. Leases

32.1. Company as a lessee

Operating lease

As at 31 December 2011 and 31 December 2010, the Company possessed non-cancellable operating lease agreements as a lessee, related to leased building and caverns. Agreements include clauses concerning contingent rent payables and they can be prolonged.

The total lease payments related to non-cancellable operating lease agreements recognised as expenses in profit or loss in 2011 and 2010 amounted to PLN (31,355) thousand and PLN (36,463) thousand, respectively.

Future minimum lease payments under non-cancellable operating lease agreements as at 31 December 2011 and as at 31 December 2010

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	30 565	30 519
Betw een 1 and 5 years	110 644	107 281
Above 5 years	26 495	39 438
	167 704	**177 238**

(all amounts in PLN thousand)

Finance lease

As at 31 December 2011 and 31 December 2010 the Company possessed finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of petrol stations, cars and car wash.
In concluded lease agreements, the general conditions of finance lease are effective. There are no special restrictions nor additional terms of contract and there is a renewal option included. The finance lease contracts do not contain any clauses concerning contingent rent payables and provide purchase option.

Future minimum lease payments under finance lease agreements as at 31 December 2011 and as at 31 December 2010

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	12 227	7 668
Between 1 and 5 years	38 337	27 730
Above 5 years	31 973	37 081
	82 537	**72 479**

Present value of future minimum lease payments under finance lease agreements as at 31 December 2011 and 31 December 2010

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	9 975	5 052
Between 1 and 5 years	30 259	19 743
Above 5 years	26 573	30 215
	66 807	**55 010**

The difference between future minimum lease payments and their present value results from discounting of lease payments with discount rate proper for each agreement.

Net carrying amount for each class of assets under finance lease as at 31 December 2011 and 31 December 2010

	as at 31/12/2011	as at 31/12/2010
Property, plant and equipment	**61 618**	**51 595**
buildings and constructions	39 176	42 738
machinery and equipment	5 333	-
vehicles and other	17 109	8 857

Disclosures required by IFRS 7 regarding finance lease are disclosed in the note 31 and presented together with other financial instruments.

32.2. The Company as a lessor

Operating lease

As at 31 December 2011 and 31 December 2010 the Company did not possess non-cancellable operating lease agreements as a lessor.

Finance lease

As at 31 December 2011 and 31 December 2010 the Company did not possess finance lease agreements as a lessor.

(all amounts in PLN thousand)

33. Investment expenditures incurred and commitments resulting from signed investment contracts

Investment expenditures together with borrowing costs incurred in 2011 and 2010 amounted to PLN 1,010,733 thousand and PLN 2,256,368 thousand respectively. This include environmental protection related investments of PLN 57,742 thousand and PLN 148,100 thousand, respectively.

As at 31 December 2011 and 31 December 2010 future liabilities resulting from contracts signed until this date amounted to PLN 253,076 thousand and PLN 405,131 thousand, respectively.

34. Contingent liabilities

	as at 31/12/2010	increases/ (decreases)	as at 31/12/2011
Antitrust proceedings of the OCCP	18 500	(4 500)	14 000
Legal cases	19 950	(6 172)	13 778
	38 450	**(10 672)**	**27 778**

Anti-trust proceedings of the OCCP were disclosed in details in note 40.1.2.

Court proceedings as at 31 December 2011 relate mainly to claims arising from trade contracts with contractors of PLN 12,721 thousand and employees' claims of PLN 1,057 thousand.

35. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2011 and as at 31 December 2010 amounted to PLN 958,411 thousand and PLN 1,224,802 thousand, respectively.

Guarantees granted as at 31 December 2011 and as at 31 December 2010 amounted to PLN 102,114 thousand and PLN 90,602 thousand, respectively. Guarantees concerned mainly performance guarantee, for which the beneficiaries were Company's business partners.

36. Related party transactions

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

In 2011 and 2010 there were no material related party transactions in the Company concluded on other than market terms.

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

In 2011 and 2010 the Company 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 Company and its related parties.
As at 31 December 2011 and 31 December 2010 there were no loans granted by the Company to managing and supervising persons and their relatives.

In 2011 and 2010 there were no significant transactions concluded with members of the Management Board, Supervisory Board of the Company, their spouses, siblings, descendants, ascendants or their own relatives.

36.3. Transactions with related parties concluded through the key management personnel

In 2011 key management personnel of the Company concluded sale transaction with related party of PLN 1 thousand. In 2010 key management personnel did not conclude any transaction with related parties.

(all amounts in PLN thousand)

36.4. Transactions and balances of settlements of the Company with related parties

for the year ended 31 December 2011

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Sales	40 130 238	2 976 876	16 297	43 123 411
Purchases	4 120 850	24 782	82 627	4 228 259
Financial income	26 376	1 713	48	28 137
Dividend	149 411	-	250 013	399 424
Financial expense	32 041	-	-	32 041

as at 31 December 2011

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Other non-current assets	682 882	-	-	682 882
Trade and other receivables	4 139 800	586 898	1 242	4 727 940
Receivables impairment allowances	188	-	-	188
Other short-term financial assets	114 535	-	-	114 535
Other long-term liabilities	18 530	-	-	18 350
Trade and other liabilities	1 068 288	3 160	161	1 071 609
Borrowings	501 026	-	-	501 026
Other financial liabilities	338 735	-	-	338 735

for the year ended 31 December 2010

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Sales	30 389 314	2 409 238	18 533	32 817 085
Purchases	3 923 260	21 669	116 310	4 061 239
Financial income	7 170	2 279	37	9 486
Dividend	236 335	-	146 658	382 993
Financial expense	9 983	-	4	9 987

as at 31 December 2010

	Subsidiaries	Jointly controlled entities	Associates	Total related parties
Other non-current assets	1 000	39 603	-	40 603
Trade and other receivables	3 389 151	511 487	2 365	3 903 003
Receivables impairment allowances	379	-	4	383
Other short-term financial assets	326 705	2 029	-	328 734
Other long-term liabilities	20 144	-	-	20 144
Trade and other liabilities	644 885	2 823	15 735	663 443
Borrowings	312	-	-	312
Other financial liabilities	123 578	-	-	123 578

The above transactions with related parties include mainly sale and purchase of refinery and petrochemicals products, crude oil and purchase of repair, transportation and other services sales and purchases transactions with related parties were concluded on market terms. Settlements with related parties include trade and financial receivables and liabilities.

(all amounts in PLN thousand)

The Company granted guarantees and sureties to related parties as at 31 December 2011 and as at 31 December 2010 of PLN 2,132,512 thousand and PLN 1,377,887 thousand, respectively. They concerned guarantee payments by subsidiaries. Revenues from guarantees granted for 2011 and 2010 amounted to PLN 9,648 thousand and PLN 5,670 thousand, respectively.

37. Remuneration together with profit-sharing paid and due or potentially due to Management Board, Supervisory Board and other members of key executive personnel of the Company 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.

	for the year ended 31/12/2011	for the year ended 31/12/2010
Remuneration of the Management Board Members	**11 952**	**12 140**
- remuneration and other benefits	6 498	6 040
- bonus paid for previous year	5 454	5 454
- remuneration of the Management Board Members performing the function in the previous years	-	646 [1]
Bonus potentially due to the Management Board Members, to be paid in next year [2]	**5 460**	**5 454**
Remuneration due to the Management Board Members, to be paid in next year [3]	**1 140**	-
Remuneration and other benefits of the key executive personnel of the Company	**32 762**	**31 522**
Remuneration of the Supervisory Board Members	**1 322**	**1 213**

[1] payment in respect of court settlement regarding the remuneration for 2005
[2] bonus estimated assuming full realization of the Management Board Members objectives
[3] remuneration due relating to severance and non-competition clause of the Management Board

Further details on remuneration of key management personnel are disclosed in point III.3.5 to Management Board Report on the Operations of PKN ORLEN.

37.1. Bonus system for key executive personnel (including Management Board Members)

In 2011 the PKN ORLEN key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to PKN ORLEN Management Board and reporting directly to the Board, and other key positions 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. 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 PKN ORLEN. The goals so-said are qualitative or quantitative 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 2011 a new bonus regulation defining a new bonus standards was introduced with respect to Legal Counselor and Directors directly reporting to Management Board of PKN ORLEN. Implemented changes increased flexibility and motivate capability of a system as well as simplified its functionality.
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 Capital Group.

37.2. 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, 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.

(all amounts in PLN thousand)

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

In the period covered by this separate financial statement the entity authorized to conduct audit of the Company's financial statements is KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 with subsequent amendments KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of separate and consolidated financial statements for period 2005 – 2012.

	for the year ended 31/12/2011	for the year ended 31/12/2010
Remuneration payable to KPMG Audyt Sp. z.o.o.	**1 645**	**1 892**
for the audit of the annual financial statement	647	647
for the reviews of the financial statements	572	572
for other attestation services, including:	425	673
tax advisory	80	-

Remuneration of the auditor, according to the agreement, for the services relating to 2011 and 2010.

39. Employment structure

Average employment in persons

	for the year ended 31/12/2011	for the year ended 31/12/2010
Blue collar workers	1 992	2 008
White collar workers	2 487	2 502
	4 479	**4 510**

Employment in persons

	as at 31/12/2011	as at 31/12/2010
Blue collar workers	1 999	2 033
White collar workers	2 446	2 480
	4 445	**4 513**

Average employment is calculated based on number of active employees. Employment in persons includes all employees.

Further details on employment structure are disclosed in point III.3.3. to Management Board Report on PKN ORLEN Operations.

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

As at 31 December 2011 the Company was a party in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

40.1. Proceedings in which the Company acts as a defendant

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

40.1.1.1 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 regarding the payment of PLN 3,330,371 thousand (CZK 19,464,473 thousand translated using exchange

rate as at 31 December 2011) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. 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 last of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL a.s. shares by PKN ORLEN.
On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.

In the opinion of PKN ORLEN the decision included in judgment of the arbitration court dated 21 October 2010 is correct and there is no ground for its reverse.
On 16 January 2012 PKN ORLEN submitted a response to Agrofert's claim. In its response PKN ORLEN appealed to dismiss all Agrofert Holding a.s's claim and adjudge it with proceeding costs refund.

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

40.1.2.1 Anti-trust proceedings

Anti-trust proceedings is held due to suspision that in the years 1996 – 2007, PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. On 16 July 2010 the President of the Office of Competition and Consumer Protection issued a decision, in which PKN ORLEN and Petrol Station 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 of PLN 52,700 thousand. On 2 August 2010 PKN ORLEN appealed from the decision of the President of the OCCP dated 16 July 2010 to the Court of Competition and Consumer Protection. The date of the appeal proceeding has not been set yet.

Moreover, there have been finished proceedings concerning allegations that:

- PKN ORLEN concluded an agreement with Grupa Lotos S.A. which limited competition on the domestic market of trading in universal petrol U95. The proceeding was initiated in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN and Grupa Lotos S.A. for the participation in the above-described agreement. The fine imposed on PKN ORLEN amounted to PLN 4,500 thousand. PKN ORLEN 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 and Grupa Lotos S.A. On 12 July 2010 PKN ORLEN has issued an appeal against this verdict. On 11 February 2011 the Court of Appeals in Warsaw issued a verdict, revoking the appeals of PKN ORLEN and Grupa Lotos S.A. The company filed an annulment to the sentence of the Court of Appeal in Warsaw from 11 February 2011 on 20 May 2011 to the Supreme Court. The Supreme Court refused to accept the annulment.

- allegedly in the years 2000 – 2004 PKN ORLEN was using practice limiting competition on the domestic market of trading in glycol. On 6 October 2010 the Court of Competition and Consumer Protection repealed the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN's leading position on the glycol market and repealed the penalty imposed to PKN ORLEN of PLN 14,000 thousand. The President of the OCCP has issued an appeal against this verdict. On 15 September 2011 Court of Appeals in Warsaw revoked the appeal of the President of the OCCP. As a result, the verdict of the Court of Competition and Consumer Protection repealing the penalty imposed to PKN ORLEN of PLN 14,000 thousand. The President of OCCP did not file an annulment to the sentence of the Supreme Court from 15 September 2011. As a result, in the first half of March 2012 an appeal proceeding was definitely and successfully finished.

40.1.2.2. 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 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 after examination 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 March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand.
On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 ENERGA – OPERATOR S.A. paid to PKN ORLEN the amount of PLN 45,716 thousand, as a partial return of the original amount paid by PKN ORLEN due to the sentence of Court of Appeals in Warsaw dated 10 September 2009. The District Court set the date of hearing on 30 April 2012.

– **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 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.

On 21 September 2011 the Court of Appeals pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plantiff was requested to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA - OPERATOR S.A. Court ruling does not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

40.2. Court proceedings in which the Company acts as plaintiff

40.2.1. Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN 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 ORLEN Lietuva shares by PKN ORLEN. Demands of PKN ORLEN concern reimbursement of the amount of PLN 854,350 thousand at exchange rate as at 31 December 2011 (USD 250,000 thousand) 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 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 in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule,
PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of PLN 854,350 thousand at exchange rate as at 31 December 2011 (USD 250,000 thousand) 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 claims and for refund of proceeding costs. On 11 July 2011 PKN ORLEN pleaded the surrebutter in which replied to Yukos International arguments.

Between 28 November and 8 December 2011 an evidentiary seating in front of the Court of Arbitration was held in London, during which representatives of PKN ORLEN and Yukos International summed up the opinions of the parties, witnesses have been heared and experts have been appointed by the parties. At the closing of the seating the Court of Arbitration obliged the parties to submit final leadings and proceeding costs refund in March and April 2012. After the submission of pleadings PKN ORLEN will be expecting for the final decision of the Court of Arbitration.

41. Significant events after the end of the reporting period

On 31 January 2012 expired the agreement with Maury Sp. z o.o. (that has been concluded on 23 December 2010) regarding gathering and keeping of mandatory reserves of crude oil, upon which a part of mandatory reserves of crude oil for PLN 909,592 thousand translated based on exchange rate from the date of transaction (USD 299,968 thousand) has been sold.
Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Maury Sp. z o.o. for PLN 1,213,157 thousand translated based on exchange rate from the date of transaction (representing USD 374,050 thousand). The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 202,707 thousand translated based on exchange rate from the date of transaction (USD 63,283 thousand). The transfer of ownership of the raw material to PKN ORLEN has been made on 31 January 2012, after settlement of full amount of the transaction. As a result PKN ORLEN will recognize the purchase of crude oil of PLN 1,010,450 thousand translated based on exchange rate from the date of transaction (USD 310,767 thousand) in the I quarter of 2012.

On 28 March 2012 within the process of changing the formula of mandatory reserves of crude oil maintenance by PKN ORLEN, the Company has signed the contract for sale of part of mandatory reserves and the contract for gathering and keeping of crude oil reserves with Ashby Sp. z o.o., with its registered office in Warsaw.
Based on the sale agreement PKN ORLEN has sold crude oil to Ashby Sp. z o.o. The value of crude oil sold was approximately PLN 1,250,000 thousand translated with exchange rate as at 28 March 2012 (approximately USD 403,000 thousand).
The price of raw material was determined based on market quotations.
Based on the agreement regarding gathering and keeping of crude oil reserves Ashby Sp. z o.o. will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 1 year, whereby the Company takes into account the possibility of its renewal for another period.

On 27 February 2012, according to agreement dated 2006, the Company redeemed the debt securities amounted to PLN 750,000 thousand. At the same day, according to mentioned agreement, there was a new securities issue amounted to PLN 1,000,000 thousand.

The above described events have no impact on current financial result of the Company.

42. Factors and events that may influence future results

In the reporting period the were no factors or events, that may influence future results.

43. Signatures of the Management Board Members

The foregoing separate financial statements were authorized by the Management Board of the Parent Company in Warsaw on 28 March 2012.

……………………
Dariusz Krawiec
President of the Board

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

……………………
Piotr Chełmiński
Member of the Board

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

……………………………
Marek Podstawa
Member of the Board

Signature of a person responsible for
keeping accounting books

………………………………………..……

Rafał Warpechowski

Executive Director

Planning and Reporting