Consolidated Annual Report of ORLEN Capital Group for the year 2011

March 2012

CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2011 INCLUDES:

1. **LETTER OF THE PRESIDENT OF THE BOARD**
2. **OPINION AND REPORT OF THE INDEPENDENT AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS**
3. **SELECTED FINANCIAL DATA**
4. **CONSOLIDATED FINANCIAL STATEMENTS OF ORLEN CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2011**
5. **MANAGEMENT BOARD REPORT ON THE OPERATIONS OF ORLEN CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2011**

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2011

(year)

(in accordance with § 82 section 2 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259)

(for issuers of securities whose business activity embraces manufacture, construction, trade and services)

for the reporting year 2011, that is for the period from 1 January 2011 to 31 December 2011 which includes consolidated 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 (abbreviated name of the issuer)
OIL & GAS (industrial sector in line with classification of Warsaw Stock Exchange)

09-411 (zip code)
PŁOCK (location)

CHEMIKÓW (street)
7 (number)

48 24 256 81 80 (telephone)
48 24 367 77 11 (fax)
ir@orlen.pl (e-mail)

774-00-01-454 (NIP)
610188201 (REGON)
www.orlen.pl (www)

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

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the year ended 31/12/2011	for the year ended 31/12/2010	for the year ended 31/12/2011	for the year ended 31/12/2010
I. Sales revenues	106 973 074	83 547 432	25 838 283	20 180 052
II. Profit from operations	2 066 472	3 122 649	499 136	754 245
III. Profit before tax	2 791 741	3 070 167	674 317	741 568
IV. Net profit attributable to equity holders of the parent	2 363 397	2 371 358	570 855	572 778
V. Net profit	2 015 003	2 455 467	486 704	593 094
VI. Total comprehensive income attributable to equity holders of the parent	2 845 641	2 537 678	687 336	612 951
VII. Total comprehensive income	2 689 065	2 658 224	649 517	642 068
VIII. Net cash provided by operating activities	761 106	6 110 199	183 837	1 475 858
IX. Net cash provided by/(used in) investing activities	1 497 021	(2 920 060)	361 591	(705 312)
X. Net cash provided by/(used in) financing activities	332 376	(3 297 740)	80 282	(796 536)
XI. Net increase/(decrease) in cash and cash equivalents	2 590 503	(107 601)	625 710	(25 990)
XII. Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	5,53	5,54	1,33	1,34
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
XIII. Non-current assets	28 599 141	30 430 874	6 475 082	6 889 801
XIV. Current assets	30 132 337	20 718 918	6 822 210	4 690 934
XV. Total assets	58 731 478	51 149 792	13 297 292	11 580 735
XVI. Long-term liabilites	12 120 002	10 684 821	2 744 069	2 419 132
XVII. Short-term liabilities	19 812 793	16 225 018	4 485 780	3 673 478
XVIII. Equity	26 798 683	24 239 953	6 067 443	5 488 126
XIX. Equity attributable to equity holders of the parent	24 533 773	21 627 938	5 554 649	4 896 744
XX. Share capital	1 057 635	1 057 635	239 457	239 457
XXI. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XXII. Book value and diluted book value per share attributable to equity holders of the parent (in PLN/EUR per share)	57,36	50,57	12,99	11,45

The above data for 2011 and 2010 was translated into EUR by the following exchange rates:

- specific items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2011 – 4,4168 PLN/EUR;
- specific items of statement of comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of
- month during the period 1 January - 31 December 2011 – 4,1401 PLN/EUR.

CONSOLIDATED FINANCIAL STATEMENTS OF ORLEN Capital Group for the year ended 31 December 2011

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

Table of contents:

ORLEN CAPITAL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of financial position

	Note	as at 31/12/2011	as at 31/12/2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	26 578 651	27 403 013
Investment property	8	117 645	71 976
Intangible assets	9	1 323 044	1 102 709
Perpetual usufruct of land	10	95 664	96 354
Investments accounted for under equity method	11	13 125	1 501 016
Financial assets available for sale	12	40 520	42 783
Deferred tax assets	31.2.	399 526	163 893
Other non-current assets	13	30 966	49 130
		28 599 141	**30 430 874**
Current assets			
Inventories	15	16 296 517	11 294 851
Trade and other receivables	16	8 071 011	6 288 802
Other short-term financial assets	17	293 434	224 601
Income tax receivable		33 684	48 273
Cash and cash equivalents	18	5 409 166	2 820 742
Non-current assets held for sale	19	**28 525**	**41 649**
		30 132 337	**20 718 918**
Total assets		**58 731 478**	**51 149 792**
LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY			
Share capital	20.1.	1 057 635	1 057 635
Share premium	20.3.	1 227 253	1 227 253
Hedging reserve	20.5.	(24 305)	63 872
Revaluation reserve	20.6.	5 301	-
Foreign exchange differences on subsidiaries from consolidation	20.7.	415 628	(149 492)
Retained earnings	20.4.	21 852 261	19 428 670
Total equity attributable to equity holders of the parent		**24 533 773**	**21 627 938**
Non-controlling interest	20.8.	**2 264 910**	**2 612 015**
Total equity		**26 798 683**	**24 239 953**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	21	10 537 792	9 123 987
Provisions	22	621 379	635 618
Deferred tax liabilities	31.2.	740 910	818 581
Deferred income	25	16 239	16 960
Other long-term liabilities	23	203 682	89 675
		12 120 002	**10 684 821**
Short-term liabilities			
Trade and other liabilities	24	15 092 524	13 435 998
Interest-bearing loans and borrowings	21	2 459 799	1 543 740
Income tax liability		673 643	23 370
Provisions	22	1 008 140	1 002 428
Deferred income	25	136 379	74 959
Other financial liabilities	26	442 308	144 523
		19 812 793	**16 225 018**
Total liabilities		**31 932 795**	**26 909 839**
Total equity and liabilities		**58 731 478**	**51 149 792**

ORLEN Polski Koncern Naftowy ORLEN Spółka Akcyjna

ORLEN CAPITAL GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of comprehensive income

	Note	for the year ended 31/12/2011	for the year ended 31/12/2010
Income statement:			
Sales revenues	27	106 973 074	83 547 432
Cost of sales	28	(98 397 811)	(75 566 961)
Gross profit on sales		**8 575 263**	**7 980 471**
Distribution expenses		(3 660 256)	(3 394 612)
General and administrative expenses		(1 468 298)	(1 365 195)
Other operating revenues	29.1.	1 006 655	771 321
Other operating expenses	29.2.	(2 386 892)	(869 336)
Profit from operations		**2 066 472**	**3 122 649**
Financial revenues	30.1.	2 780 145	446 754
Financial expenses	30.2.	(2 243 175)	(751 248)
Financial revenues and expenses		**536 970**	**(304 494)**
Share in profit from investments accounted for under equity method		188 299	252 012
Profit before tax		**2 791 741**	**3 070 167**
Income tax expense	31	(776 738)	(614 700)
Net profit		**2 015 003**	**2 455 467**
Items of other comprehensive income:			
Hedging instruments valuation		42 798	25 502
Hedging instruments settlement		(159 052)	35 020
Fair value measurement of investment property as at the date of reclassification		10 389	-
Foreign exchange differences on consolidation		759 813	153 734
Deferred tax on other comprehensive income items		20 114	(11 499)
		674 062	**202 757**
Total net comprehensive income		**2 689 065**	**2 658 224**
Net profit/(loss) attributable to:		**2 015 003**	**2 455 467**
equity holders of the parent		2 363 397	2 371 358
non-controlling interest		(348 394)	84 109
Total comprehensive income attributable to:		**2 689 065**	**2 658 224**
equity holders of the parent		2 845 641	2 537 678
non-controlling interest		(156 576)	120 546
Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN per share)		5.53	5.54

ORLEN
Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN CAPITAL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of cash flow

	Note	for the year ended 31/12/2011	for the year ended 31/12/2010
Cash flows - operating activities			
Net profit		**2 015 003**	**2 455 467**
Adjustments for:			
Share in profit from investments accounted for under equity method		(188 299)	(252 012)
Depreciation and amortisation	28	2 379 948	2 422 747
Foreign exchange loss/(gain)		729 342	(36 860)
Interest ,net		381 683	393 130
Dividend received		(1 287)	(3 152)
(Profit)/Loss on investing activities		(68 924)	206 817
Change in receivables	32	(1 319 184)	(799 146)
Change in inventories	32	(4 565 020)	(608 981)
Change in liabilities	32	1 080 799	2 282 677
Change in provisions	32	594 175	715 077
Income tax expense	31	776 738	614 700
Income tax (paid)		(333 469)	(517 882)
Other adjustments	32	(720 399)	(762 383)
Net cash provided by operating activities		**761 106**	**6 110 199**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 542 445)	(3 724 370)
Disposal of property, plant and equipment and intangible assets		324 705	686 025
Disposal of shares		3 675 922	53 339
Acquisition of shares		(121 348)	(115 927)
Disposal of securities and deposits		115 700	198 711
Acquisition of securities and deposits		(111 280)	(174 955)
Interest received		8 333	8 857
Dividends received		251 300	149 880
Other		(103 866)	(1 620)
Net cash provided by/(used in) investing activities		**1 497 021**	**(2 920 060)**
Cash flows - financing activities			
Proceeds from loans and borrowings received		18 892 646	14 688 673
Repayments of loans and borrowings		(18 021 857)	(17 408 772)
Interest paid		(496 462)	(545 378)
Payments of liabilities under finance lease agreements		(27 553)	(24 060)
Dividends paid to non-controlling interest		(13 986)	(10 468)
Other		(412)	2 265
Net cash provided by/(used in) financing activities		**332 376**	**(3 297 740)**
Net increase/(decrease) in cash and cash equivalents		**2 590 503**	**(107 601)**
Effect of exchange rate changes		(2 079)	(12 696)
Cash and cash equivalents, beginning of the period	18	**2 820 742**	**2 941 039**
Cash and cash equivalents, end of the period	18	**5 409 166**	**2 820 742**

ORLEN CAPITAL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of changes in equity

	Note	Equity attributable to equity holders of the parent						Non-controlling interest	Total equity
		Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Revaluation reserve	Retained earnings	Total		
1 January 2011		2 284 888	63 872	(149 492)	-	19 428 670	21 627 938	2 612 015	24 239 953
Net profit		-	-	-	-	2 363 397	2 363 397	(348 394)	2 015 003
Items of other comprehensive income		-	(88 177)	565 120	5 301	-	482 244	191 818	674 062
Total comprehensive income		**-**	**(88 177)**	**565 120**	**5 301**	**2 363 397**	**2 845 641**	**(156 576)**	**2 689 065**
Change in the structure of non-controlling interest		-	-	-	-	60 194	60 194	(177 625)	(117 431)
Dividends		-	-	-	-	-	-	(12 904)	(12 904)
31 December 2011	20	**2 284 888**	**(24 305)**	**415 628**	**5 301**	**21 852 261**	**24 533 773**	**2 264 910**	**26 798 683**
1 January 2010		2 284 888	14 849	(266 789)	-	17 004 955	19 037 903	2 669 308	21 707 211
Net profit		-	-	-	-	2 371 358	2 371 358	84 109	2 455 467
Items of other comprehensive income		-	49 023	117 297	-	-	166 320	36 437	202 757
Total comprehensive income		**-**	**49 023**	**117 297**	**-**	**2 371 358**	**2 537 678**	**120 546**	**2 658 224**
Change in the structure of non-controlling interest		-	-	-	-	52 357	52 357	(168 284)	(115 927)
Dividends		-	-	-	-	-	-	(9 555)	(9 555)
31 December 2010	20	**2 284 888**	**63 872**	**(149 492)**	**-**	**19 428 670**	**21 627 938**	**2 612 015**	**24 239 953**

(all amounts in PLN thousand)

Accounting principles, notes and other explanatory information

1. General information

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

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

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

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

The principal activity of the Polski Koncern Naftowego ORLEN S.A. Capital Group („ORLEN Capital Group", „Capital Group",) 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;
- Services to the entire society, medical services, fire protection, education.

Concessions

The Group, 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.

Name of concession as at 31/12/2011	remaining concession periods (in years)
Electrical energy: manufacturing, transmission, distribution and trade	6-14
Heating energy: manufacturing, transmission, distribution and trade	9-19
Liquid and gaseous fuels: manufacturing, transmission, distribution, trade, storage and transportation	2-42
International profit-making road transportation services	2
Non-reservuar storage of crude oil and liquid fuels	18
Rock salt: exploitation and recognition	2-22
Exploration and recognition of crude oil and natural gas	5
Personal and property security services	indefinetely

(all amounts in PLN thousand)

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

The Group 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 Group had no liabilities related to concession services in scope of IFRIC 12.

Shareholders' structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting 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 Parent Entity as at 9 Feburary 2010.

Composition of the Management Board of the Parent

as at 31.12.2011

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 (since 30 June 2011)
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 consolidated 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 Parent

as at 31.12.2011

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 consolidated 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 on changes in the composition of the Management Board and Supervisory Board of PKN ORLEN are disclosed in point VIII.8.7 of the Management Board Report on the Operations of ORLEN Group.

1.2. Statement of the Management Board

1.2.1. In respect of the reliability of consolidated financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing consolidated financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Group in force (disclosed in point 2) and that they reflect true and fair view on financial position and financial result of the Group and that the Management Board Report on the Group's Operations presents true overview of development, achievement and business situation of Capital Group, including basic risks and exposures.

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

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

KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of separate financial statements of PKN ORLEN and consolidated financial statements of ORLEN Capital Group for the year 2011.

2. Accounting policies

2.1. Principles of presentation

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and were in force as at 31 December 2011. The scope of consolidated financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (Official Journal no. 33, item 259 with further amendments).

The foregoing consolidated financial statements cover the period from 1 January to 31 December 2011 and the comparative period from 1 January to 31 December 2010.

Presented consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 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 consolidated financial statements have been prepared assuming that the Group will continue to operate as a going concern in the foreseeable future. As at the date of approval of these consolidated financial statements there is no evidence indicating that the Group will not be able to continue its operations as a going concern.

Duration of the Parent Company and the entities comprising the ORLEN Capital Group is unlimited.

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

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

2.2.1. Binding amendments and interpretations to IFRSs

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

2.2.2. IFRSs and interpretations to IFRSs not yet effective

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

IFRSs and interpretations to IFRSs adopted by EU

From 1 January 2011 until approved for publication of the foregoing consolidated 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 normalisation date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.
An entity shall apply those amendments for annual periods beginning on or after 1 July 2011.
It is expected that at the date of adoption, the amendments to standard will have no impact on future consolidated financial statements, 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 Group does not expect the amendments to have any impact on the consolidated 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 that fair value through profit or loss in case of changes in fair value (as a result of changes in credit risk of a liability), 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 Group expects that new standard will not have an impact on items presented in consolidated 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.
The Group does not expect the new standard to have any impact on the financial statements of the Group, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

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 venturers, 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 as on or after 1 January 2013.
If the new Standard had been applied from 31 December 2011, the impact would be that joint venture for Basell Orlen Polyolefines Sp. z o.o. Group (BOP) and Płocki Park Przemysłowo-Technologiczny S.A. (PPPT) should be accounted for using the equity method instead of proportionate consolidation. The financial data as at 31 December 2011 and 31 December 2010 were disclosed in note 11.2. The adoption of the new standard will have no effect on consolidated net profit of the Group.

New Standard- IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

Effective for periods beginning on or after 1 January 2013.

It is expected that the new standard, when initially applied, will increase the number of disclosures of interest in other entities in the financial statements.

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 Group does not expect IFRS 13 to have material impact on the consolidated financial statements, as the Management assesses the methods and assumptions used when measuring assets at fair values 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 Group does not expect the new standard to have significant impact on the consolidated financial statements, but the number of recognized 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.
An entity shall apply those amendments for annual periods beginning on or after 1 January 2012.
The Group expects that new standard will have no significant impact on future consolidated 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 Group does not expect the amendments to have a significant impact on future consolidated financial statements, since the Group 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 on or after 1 January 2013.
The above amendment will have no impact on the consolidated financial statements, since it does not result in a change of the Group's accounting policy.

Amendments to IAS 28 Investments in Associates and Joint Ventures

Amendments comprise:
- Associates and joint ventures held for sale. For any retained portion of the investment that has classified as held for sale (according to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations), 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 a no impact on the consolidated financial statements, as they do not result in changes of accounting principles of the Capital Group.

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 consolidated financial statements, since the Group 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 as the or after 1 January 2013.
It is expected the interpretation, when initially applied, will have no significant impact on the future consolidated financial statements, since the Group 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 and methods applied to translation of data for consolidation purposes

The functional currency of the Parent Entity and presentation currency of the foregoing consolidated financial statements is Polish Złoty (PLN). The data is presented in PLN thousand in the consolidated financial statements.

(all amounts in PLN thousand)

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

CURRENCIES	average exchange rate for the reporting period		exchange rate at the end of the reporting period	
	for the year ended 31/12/2011	for the year ended 31/12/2010	as at 31/12/2011	as at 31/12/2010
PLN/EUR	4.1186	3.9950	4.4168	3.9603
PLN/USD	2.9638	3.0174	3.4174	2.9641
PLN/CZK	0.1675	0.1580	0.1711	0.1580

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 and estimates

An entity shall change an accounting policy only if the change:
- is required by an IFRS,
- 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 consolidated financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. 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 Group and receivables and liabilities due in a defined or definable units of currency shall be translated using the closing rate, i.e. the spot rate at the end of the reporting period,
- non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

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

2.3.3. Principles of consolidation

The consolidated financial statements of the Group include data of PKN ORLEN S.A., its subsidiaries and jointly controlled entities (joint ventures) prepared as at the end of the same reporting period as separate financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

2.3.3.1. Investments in subsidiaries

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

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

Subsidiaries are consolidated using the full consolidation method.

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

2.3.3.2. Investments in jointly controlled entities

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

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

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

2.3.3.3. Investment in associates

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

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

2.3.3.4. Consolidation procedures

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

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

In preparing consolidated financial statements using full consolidation method, an entity combines the financial statements of the Parent Company and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses and then performs adequate consolidation procedures:

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

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

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

2.3.4. Business combinations

An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:

- identifying the acquirer,
- determining the acquisition date,
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- recognising and measuring goodwill or a gain from a bargain purchase.

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

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

2.3.5. Operating segments

An operating segment is a component of an entity:

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

The operations of the Group were divided into the following segments:

- the Refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,

- the Retail segment, which includes sales at petrol stations,
- the Petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals

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

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

Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion of the Group's expenses that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.
Segment expenses do not include:

- income tax expense,
- interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature,
- losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

Segment result is calculated on the level of operating result.

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

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

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

2.3.6. Property, plant and equipment

Property, plant and equipment are assets that:

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

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

Property, plant and equipment are initially stated at cost, 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 consolidated 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 other	2-20 years

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

The cost of major inspections and overhaul and replacement of 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 Group assesses (once a year) the residual value of property, plant and equipment.

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

2.3.7. Investment property

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.
After initial recognition, a Group shall measure all of its investment property at fair value, estimated based on a valuation performed by and independent expert. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

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

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

2.3.8. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.
An asset is identifiable if it either:
− is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, or
− arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group.

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

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the Group 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 Group 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 consolidated 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
Internally generated development costs	3-16 years

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

2.3.8.1. Goodwill

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

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

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

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

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

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided the test is performed at the same time every year.
A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.

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

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

2.3.8.2. Rights

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

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

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

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

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

Nitrous suboxide emission reduction units (N_2O)
Recognised units of emission reduction are presented gross in receivables in correspondence with deferred income (grant in scope of IAS 20) at fair value as at the last working day of a monthly period.

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

As at the date of registration of emission reduction units in the following period, recognised receivable is settled through recognition of intangible assets at fair value at that day.

At each period deferred income is also updated.

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

2.3.8.3 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.

2.3.9. Borrowing cost

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

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

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

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

Upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually born by the entity.
The commencement date for capitalization is the date when all of the following three conditions are met:

- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

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

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

2.3.10. 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.

2.3.11. 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.

2.3.12. Receivables

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

2.3.13. 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. Cash equivalents are rather part of the cash management process implemented by the entity, nor investment or other. 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.

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

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

2.3.15. Equity

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

2.3.15.1. Share capital

The share capital is an equity paid by shareholders and is stated at nominal value in accordance with the Parent Company's articles of association and the entry in the Commercial Register.
Declared but not paid share capital is presented as outstanding share capital contributions. The Parent Company's own shares and outstanding shares capital contributions decrease the equity.

2.3.15.2. Share premium

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

2.3.15.3. Hedging reserve

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

2.3.15.4. 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.

2.3.15.5. Foreign exchange differences on subsidiaries from consolidation

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

2.3.15.6. 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.

2.3.16. Liabilities

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

2.3.16.1. 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.

2.3.17. Provisions

A provision is a liability of uncertain timing or amount.

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally 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,
- CO2 emission.

Provisions are not recognised for the future operating losses.

2.3.17.1. Environmental provision

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

2.3.17.2. 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.

2.3.17.3. 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 Group recognises a provision (if the recognition criteria are met);
- it is more likely that no present obligation exists at the end of the reporting period, the Group discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.3.17.4. Shield programs

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

2.3.17.5. CO_2 emissions

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

2.3.18. Goverment grants

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

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

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.
Government grants related to assets, shall be presented net with the related asset and is recognised in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

2.3.19. Revenues from sale

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

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

Revenues from sales of finished goods, merchandise, materials and services are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, raw materials and services are recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods or services rendered decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.
Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognised based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognised up to the cost incurred, but not greater than the cost which are expected to be recovered by the Group.

2.3.19.2. Revenues from licenses, royalties and trade mark

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

2.3.19.3. 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.

2.3.20. Costs

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

2.3.20.1. Cost of sales

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

2.3.20.2. Distribution expenses

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

2.3.20.3. General and administrative expenses

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

2.3.21. Other operating revenues and expenses

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

2.3.22. 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 costs 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 expense.

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

2.3.24. Earnings per share

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

For the purpose of calculating 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 attributable to ordinary equity holders of the Parent Company is increased by the after-tax amounts of dividends and interest for the period, attributable to the dilutive potential ordinary shares adjusted by all other changes of income and expense, which would result from the change of dilutive ordinary shares.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.
For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

2.3.25. Consolidated statement of cash flows

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

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

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

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

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

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

Interest received from finance leases, loans granted, short-term securities 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, 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 Group 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.

2.3.26. 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.

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

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

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

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

The Group derecognises a financial liability (or part of financial liability) from its 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.

2.3.26.2. Measurement of financial assets and liabilities

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

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

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

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Group upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:
- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit 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 Group has the positive intention and ability to hold to maturity.

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

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

a. Fair value measurement of financial assets

The Group measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.
Fair value of financial assets is determined in the following way:
- for instruments quoted on an active market based on current quotations available as at the end of the reporting period,
- for debt instruments unquoted on an active market based on discounted cash flows analysis,
- for forward and swap transactions based on discounted cash flows analysis.

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

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

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

d. Amortized cost measurement of financial liabilities

The Group measures other financial liabilities, at amortized cost using the effective interest rate method.

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

2.3.26.3. Transfers

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

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

2.3.26.4. Impairment of financial assets

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

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

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

2.3.26.5. Embedded derivatives

If the Group is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid combined instrument is not measured at fair value with changes in fair value recognised in the statement of comprehensive income (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

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

A derivative is a financial instrument with all three of the following characteristics:

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

2.3.26.6. Hedge accounting

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

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

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

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

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

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

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

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.
If a cash flow hedge is used, it is accounted for as follows:
- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other 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 Group 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 Group removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

The Group discontinues cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognised in other 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 Group 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.

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

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

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

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

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

2.3.28. Exploration and extraction of hydrocarbons/salt

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

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

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

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

Expenditures related to exploration and recognition:
– Expenditures incurred for each exploratory drilling is initially recognised as construction in progress. If the exploratory drilling is unsuccessful, the cost previously recognised as an asset is included in profit or loss. If the appraisal is successful, the cost incurred for all appraisal drillings (including unsuccessful drillings) is transferred to property, plant and equipment at the date put into use. In case of performance exploratory drillings on already extracted resource, the Group analyzes, if costs incurred enable rising new boreholes- expenditures are recognised in non – current assets at the date of put into use. If despite the expenditures, new borehols do not rise, expenditures are recognised in profit or loss when incurred.
– Other expenditures at the exploration and recognition stage is initially recognised as intangible assets under development or construction in progress, depending on the type of cost incurred. If the exploration and recognition stage ends without success, initially incurred costs, previously recognised as an asset are included in profit or loss.
– When the commercial and technical feasibility of a resource is confirmed, the Group defines cash generating unit. It is assumed that cash generating unit will be defined as hydrocarbons/salt resource.
– General and administrative expenses that can be directly attributed to the stage of exploration and recognition should be recognised as an asset and included in previously defined cash generating unit. If cost cannot be allocated, it is included in profit or loss when incurred.

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

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

Depreciation of non-current assets used for exploration and extraction activity is calculated proportionally to the amount of extracted hydrocarbons/salt, using unit of production method.

The Group creates provisions for the cost of removal of drillings and supporting infrastructure. The amount of the provision for future dismantling and land reclamation is initially recognised as a provision and as a part of initial value of an asset at the date of put into use.
The amount of created provisions is verified at the end of each reporting period and adjusted to reflect the current knowledge as at that date. The increase in the provision due to the passage of time (due to discounting) is recognised as a financial expense in the profit or loss. Changes in the provision due to assessment of cost, change of discount rate, change of date of removal/ reclamation adjust the book value of a provision and book value of an asset.

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

2.3.29. Contingent assets and contingent liabilities

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

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the consolidated financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.
Contingent assets are not recognised in the statement of financial position, however the respective information on the contingent asset is disclosed in the additional information to financial statements if the inflow of economic benefits is probable and if practicable is estimates the influence on financial results, as according to accounting principles for valuation of provisions.

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

Contingent liabilities are not recognised in the 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.

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

3. Management Board estimates and assumptions

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

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

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

Actual results may differ from the estimated values.

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

– Financial instruments classification, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 33). 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 34). The Management Board classifies lease agreements as finance lease or operating lease on the basis of business nature analysis.

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

– Impairment of property, plant and equipment and intangible assets (notes: 7 and 9). The Management Board assess, if there is an objective indicator for impairment of assets or cash generating units. If there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determing higher of fair value less cost to sell or value in use by applying the proper discount rate.
– Estimated economic useful lives of property, plant and equipment and intangible assets (note 7 and 9). As described in note 2.3 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year. The effect of verification performed in the current reporting year was disclosed in note 7 and 9.
– Provisions (note 22). As described in note 2.3, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in note 22.
– Contingent liabilities (note 36). 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.

	Information disclosed in the interim condensed consolidated financial statements for the 3 and 12 months ended as at 31 December 2011	Adjustment	Information disclosed in the consolidated financial statements for 2011
Assets, including:	**59 864 901**	**(1 133 423)**	**58 731 478**
Property, plant and equipment	27 675 514	(1 096 863)	26 578 651
Intangible assets	1 356 265	(33 221)	1 323 044
Perpetual usufruct of land	95 710	(46)	95 664
Deferred tax asset	402 819	(3 293)	399 526
Liabilities and shareholders' equity, including:	**59 864 901**	**(1 133 423)**	**58 731 478**
Foreign exchange differences on subsidiaries from consolidation	398 803	16 825	415 628
Retained earings	22 679 368	(827 107)	21 852 261
Equity attributable to non-controling interest	2 519 335	(254 425)	2 264 910
Deferred tax liabilities	876 108	(135 198)	740 910
Trade and other liabilities	15 088 674	3 850	15 092 524
Income tax liability	674 374	(731)	673 643
Provisions	944 777	63 363	1 008 140
Income statement, including:			
General and administrative expenses	(1 464 448)	(3 850)	(1 468 298)
Other operating expenses	(1 202 862)	(1 184 030)	(2 386 892)
Financial expenses	(2 208 189)	(34 986)	(2 243 175)
Profit before tax	4 014 607	(1 222 866)	2 791 741
Income tax expense	(912 080)	135 342	(776 738)
Net profit	**3 102 527**	**(1 087 524)**	**2 015 003**

The most significant changes introduced to the financial statements of the Capital Group are creation of impairment allowance concerning property, plant and equipment and perpetual usufruct of land of PLN (1,187,880) thousand. (Detailed information is disclosed in note 14).

(all amounts in PLN thousand)

5. Entities consolidated using full and proportionate method

These consolidated financial statements for the years 2011 and 2010 include the following Group entities located mainly in Poland, Germany, Czech Republic and Lithuania.
PKN ORLEN is a multisegment, appropiately allocated to all operating segments and corporate functions.

name of the entity		parent company	Share in total voting rights 31/12/2011	31/12/2010	consolidation method	website
Refining Segment						
Production and trading Companies						
PARAMO A.S.		UNIPETROL A.S.	100%	100%	full	
CESKA RAFINERSKA A.S.		UNIPETROL A.S.	51%	51%	proportionate	
PARAMO OIL s.r.o.		PARAMO A.S.	100%	-	full	
MOGUL SLOVAKIA s.r.o.		PARAMO A.S.	100%	100%	full	
PARAMO ASFALT s.r.o.		PARAMO A.S.	100%	-	full	
ORLEN Oil Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlenoil.pl
AB ORLEN Lietuva (ORLEN Lietuva)		PKN ORLEN S.A.	100%	100%	full	www.orlenlietuva.lt
ORLEN Asfalt Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlen-asfalt.pl
Rafineria Nafty Jedlicze S.A.		PKN ORLEN S.A.	90%	75%	full	www.rnjsa.com.pl
Rafineria Trzebinia S.A.		PKN ORLEN S.A.	86%	86%	full	www.rafineria-trzebinia.pl
Inowrocławskie Kopalnie Soli "Solino" S.A.		PKN ORLEN S.A.	98%	71%	full	www.solino.pl
ORLEN PetroCentrum Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlenpetrocentrum.pl
ORLEN Petrotank Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlenpetrotank.pl
Petrolot Sp. z o.o.		PKN ORLEN S.A.	51%	51%	full	www.petrolot.pl
ORLEN Gaz Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlengaz.pl
Ship-Service S.A.	1	PKN ORLEN S.A.	56%	56%	full	www.ship-service.pl
Fabryka Parafin Naftowax Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	
Platinum Oil Sp. z o.o.		ORLEN OIL Sp. z o.o.	100%	100%	full	
Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o.		ORLEN OIL Sp. z o.o.	100%	24%	full	
Orlen Oil Cesko s.r.o.		ORLEN OIL Sp. z o.o.	100%	100%	full	
UNIPETROL SLOVENSKO s.r.o.		UNIPETROL RPA s.r.o.	100%	100%	full	
UAB Mezeikiu naftos prekybos namai		AB ORLEN Lietuva	100%	100%	full	
SIA ORLEN Latvija (dawniej SIA Mazeikiu Nafta Tirdzniecibas nams)		UAB Mezeikiu naftos prekybos namai	100%	100%	full	
OU ORLEN Eesti (dawniej OU Mazeikiu Nafta Trading House)		UAB Mezeikiu naftos prekybos namai	100%	100%	full	
Mazeikiu Nafta Trading House Sp. z o.o.		UAB Mezeikiu naftos prekybos namai	-	100%	full	
Service Companies						
RAF-KOLTRANS Sp. z o.o.		RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	
Konsorcjum Olejów Przepracowanych - Organizacja Odzysku S.A.		RAFINERIA NAFTY JEDLICZE S.A.	81%	81%	full	
RAF- Służba Ratownicza Sp. z o.o.		RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	
RAF-BIT Sp. z o.o.		RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	
Energomedia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	
Euronaft Trzebinia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	
EkoNaft Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	99%	full	
Zakładowa Straż Pożarna Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	
UNIPETROL DOPRAVA s.r.o.		UNIPETROL RPA s.r.o.	100%	100%	full	
ORLEN Koltrans Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orlenkoltrans.pl
ORLEN Transport S.A.		PKN ORLEN S.A.	100%	100%	full	www.orlentransport.pl
ORLEN Automatyka Sp. z o.o.		PKN ORLEN S.A.	100%	52%	full	www.orlenautomatyka.pl
ORLEN Wir Sp. z o.o.		PKN ORLEN S.A.	77%	51%	full	www.orlenwir.pl
ORLEN Eko Sp. z o.o.		PKN ORLEN S.A.	100%	100%	full	www.orleneko.pl
UAB PASLAUGOS TAU		AB ORLEN Lietuva	100%	100%	full	
UAB EMAS		AB ORLEN Lietuva	100%	100%	full	
Retail Segment						
Trading Companies						
BENZINA s.r.o.		UNIPETROL A.S.	100%	100%	full	
AB Ventus-Nafta		AB ORLEN Lietuva	100%	100%	full	
ORLEN Deutschland GmbH		PKN ORLEN S.A.	100%	100%	full	www.orlen-deutschland.de
Service Companies						
PETROTRANS s.r.o.		BENZINA s.r.o.	100%	100%	full	
ORLEN Centrum Serwisowe Sp. z o.o.		PKN ORLEN S.A.	99%	99%	full	www.orlencs.pl
ORLEN Budonaft Sp .z o.o.		PKN ORLEN S.A.	100%	100%	full	www.budonaft.com.pl
Petrochemical Segment						
Production and trading Companies						
BUTADIEN KRALUPY A.S.		UNIPETROL A.S.	51%	51%	proportionate	
UNIPETROL DEUTSCHLAND GmbH		UNIPETROL A.S.	100%	100%	full	
UNIPETROL RPA s.r.o.		UNIPETROL A.S.	100%	100%	full	
Anwil S.A.		PKN ORLEN S.A.	95%	90%	full	www.anwil.pl
Basell ORLEN Polyolefins Sp. z o.o.		PKN ORLEN S.A.	50%	50%	proportionate	www.basellorlen.pl
Spolana A.S.		ANWIL S.A.	100%	100%	full	
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.		Basell ORLEN Polyolefins Sp. z.o.o.	100%	100%	full	
Service Companies						
Przedsiebiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.		ANWIL S.A.	100%	100%	full	
Przedsiebiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.		ANWIL S.A.	99%	99%	full	
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.		ANWIL S.A.	56%	56%	full	
POLYMER INSTITUTE BRNO s.r.o.		UNIPETROL RPA s.r.o.	100%	100%	full	
Vyzkumny ustav anorganicke chemie A.S.		UNIPETROL A.S.	100%	100%	full	

(all amounts in PLN thousand)

Entities consolidated using full and proportionate method continued

name of the entity	parent company	Share in total voting rights 31/12/2011	31/12/2010	consolidation method	website
Corporate Functions					
Service Companies					
Unipetrol A.S.	PKN ORLEN S.A.	63%	63%	full	www.unipetrol.cz
ORLEN Administracja Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenadministracja.pl
ORLEN Ochrona Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenochrona.pl
Medica Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenmedica.pl
Płocki Park Przemysłowo-Technologiczny S.A.	PKN ORLEN S.A.	50%	50%	proportionate	www.pppt.pl
ORLEN Laboratorium Sp. z o.o.	PKN ORLEN S.A.	95%	95%	full	www.orlenlaboratorium.pl
ORLEN Księgowość Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenksiegowosc.pl
ORLEN Projekt S.A.	PKN ORLEN S.A.	51%	51%	full	www.orlenprojekt.pl
ORLEN Prewencja Sp. z o.o.	PKN ORLEN S.A.	-	100%	full	
Sanatorium Uzdrowiskowe Krystynka Sp. z o.o.	ORLEN MEDICA Sp. z o.o.	99%	99%	full	
Centrum Edukacji Sp. z o.o.	PPPT S.A.	69%	69%	full	
Other Companies					
UNIPETROL SERVICES s.r.o.	UNIPETROL A.S.	100%	100%	full	
HC VERVA Litvinov A.S. (dawniej HC Benzina Litvinov A.S.)	UNIPETROL RPA s.r.o.	71%	71%	full	
ORLEN Upstream Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenupstream.pl
Baltic Spark Sp. z o.o.	PKN ORLEN S.A.	100%	-	full	
Baltic Power Sp. z o.o.	PKN ORLEN S.A.	100%	-	full	
ORLEN International Exploration & Production Company BV	PKN ORLEN S.A.	100%	100%	full	www.orleninternational.com
ORLEN Finance AB	PKN ORLEN S.A.	100%	100%	full	
ORLEN Capital AB	PKN ORLEN S.A.	100%	100%	full	
ORLEN Holding Malta Ltd.	PKN ORLEN S.A.	100%	100%	full	
Orlen Insurance Ltd.	ORLEN HOLDING MALTA Ltd.	100%	100%	full	
SIA Balin Energy	OIEP Co BV	50%	50%	proportionate	
UAB Mažeikių naftos sveikatos priežiūros centras	AB ORLEN Lietuva	100%	100%	full	

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

Detailed information about presentation of the Capital Group and its operations is disclosed in Management Board Report on Capital Group Operations, point III.

More information about changes in the structure of the Capital Group is disclosed in point VIII to Management Board Report on Capital Group Operations.

6. Operating Segments

Accounting principles used in reportable segments are in line with the accounting principles of the Group, described in note 2.3. The segment's result is the result generated by respective segments without the allocation of corporate functions, financial revenues and expenses as well as income tax expenses. The Management Board of PKN ORLEN and Management Boards of Capital Group companies assess the segment financial results and decide about allocation of resources.

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

6.1. 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	58 475 608	34 037 500	14 313 184	146 782	-	106 973 074
Transactions with other segments	25 011 572	115 966	3 343 901	217 775	(28 689 214)	-
Total sales revenues	83 487 180	34 153 466	17 657 085	364 557	(28 689 214)	106 973 074
Total operating expenses	(81 137 448)	(33 645 953)	(16 398 891)	(1 033 296)	28 689 223	(103 526 365)
Other operating revenues	331 169	116 333	202 450	356 881	(178)	1 006 655
Other operating expenses	(575 007)	(198 112)	(1 447 156)	(166 795)	178	(2 386 892)
Segment operating profit/(loss)	**2 105 894**	**425 734**	**13 488**	**(478 653)**	**9**	**2 066 472**
Financial revenues						2 780 145
Financial expenses						(2 243 175)
Share in profit from investments accounted for under equity method	625	-	179	187 495	-	188 299
Profit before tax						**2 791 741**
Income tax expense						(776 738)
Net profit						**2 015 003**
Depreciation and amortisation	**1 113 911**	**333 801**	**821 409**	**110 827**		**2 379 948**
Additions to non-current assets	**899 882**	**425 064**	**641 796**	**166 712**		**2 133 454**

(all amounts in PLN thousand)

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	45 478 727	27 037 040	10 952 844	78 821	0	83 547 432
Transactions with other segments	18 503 242	115 150	2 654 105	198 512	(21 471 009)	-
Total sales revenues	63 981 969	27 152 190	13 606 949	277 333	(21 471 009)	83 547 432
Total operating expenses	(61 343 255)	(26 351 006)	(13 218 690)	(884 841)	21 471 024	(80 326 768)
Other operating revenues	187 529	154 070	303 771	126 033	(82)	771 321
Other operating expenses	(344 975)	(130 796)	(205 662)	(187 985)	82	(869 336)
Segment operating profit/(loss)	**2 481 268**	**824 458**	**486 368**	**(669 460)**	15	**3 122 649**
Financial revenues						446 754
Financial expenses						(751 248)
Share in profit from investments accounted for under equity method	1 527	-	341	250 144	-	252 012
Profit before tax						**3 070 167**
Income tax expense						(614 700)
Net profit						**2 455 467**
Depreciation and amortisation	**1 249 921**	**320 843**	**737 170**	**114 813**		**2 422 747**
Additions to non-current assets	**778 026**	**353 723**	**1 748 482**	**130 961**		**3 011 192**

Additions to non-current assets include capital expenditures and borrowing costs, which are described in details in notes 7, 8, 9 and 10.

6.2. Other segment data

6.2.1. Assets by operating segments

	as at 31/12/2011	as at 31/12/2010
Refining Segment	32 821 176	26 965 016
Retail Segment	6 067 744	5 530 917
Petrochemical Segment	13 030 826	13 264 657
Total segment assets	**51 919 746**	**45 760 590**
Corporate Functions	7 077 508	5 718 371
Adjustments	(265 776)	(329 169)
	58 731 478	**51 149 792**

including:

	Non-current assets classified as held for sale		Investments in shares accounted for under equity method	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Refining Segment	20 960	31 276	7 758	4 918
Retail Segment	-	275	-	-
Petrochemical Segment	1 046	3 304	5 367	24 878
Total segment assets	**22 006**	**34 855**	**13 125**	**29 796**
Corporate Functions	6 519	6 794	-	1 471 220
	28 525	**41 649**	**13 125**	**1 501 016**

Operating segments include all assets except for financial assets (disclosed in notes 11,12,17,18, 31.2) and tax assets. Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.
Decrease in Corporate Functions in the position of investments accounted for under equity method is connected with sale of Polkomtel S.A. shares (detailed information is disclosed in note 11.1).

6.2.2. 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	(624 596)	(392 284)	66 190	42 787
Retail Segment	(119 597)	(61 523)	37 683	73 275
Petrochemical Segment	(1 447 992)	(183 884)	42 720	56 161
Impairment allowances by segment	**(2 192 185)**	**(637 691)**	**146 593**	**172 223**
Corporate Functions	(79 773)	(53 114)	83 296	50 871
Impairment allowances in operating activities	**(2 271 958)**	**(690 805)**	**229 889**	**223 094**
Impairment allowances in financing activities	**(15 012)**	**(16 483)**	**8 861**	**15 995**
	(2 286 970)	**(707 288)**	**238 750**	**239 089**

(all amounts in PLN thousand)

Impairment allowances of assets by segment include items recognised in the consolidated 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 financial assets available for sale.

In 2011 allowances recognised in the refining segment concerned primarily impairment of property, plant and equipment of Orlen Lietuva and Paramo. Allowances recognised in the retail segment concerned mainly petrol stations. Allowances in the petrochemical segment resulted primarily from impairment of property, plant and equipment in Spolana and Anwil S.A. Allowances for idle assets and obsolete raw materials were recognised in corporate functions.

Detailed information concerning impairment allowances of property, plant and equipment are disclosed in note 14.

6.2.3. 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	46 326 625	39 011 668
Germany	18 460 641	13 693 847
Czech Republic	11 576 378	9 494 295
Lithuania, Latvia, Estonia	8 832 521	5 430 452
Other countries	21 776 909	15 917 170
	106 973 074	**83 547 432**

„Other countries" entry comprises sales to customers from Switzerland, Denmark, Great Britain, Austria and Ukraine.

The above non-current assets consist of property, plant and equipment (note 7), investment properties (note 8), intangible assets (note 9) and perpetual usufruct of land (note 10).

	as at 31/12/2011	as at 31/12/2010
Poland	15 962 029	16 876 331
Germany	927 668	763 891
Czech Republic	5 382 672	5 629 991
Lithuania, Latvia and Estonia	5 806 542	5 370 587
Other countries	36 093	33 251
	28 115 005	**28 674 052**

(all amounts in PLN thousand)

6.3. Revenues from sale

	for the year ended 31/12/2011	for the year ended 31/12/2010
Refining Segment		
Gasoline	14 327 239	11 592 025
Diesel fuel	26 796 382	19 456 694
Light heating oil	2 153 135	1 888 467
Jet A-1 fuel	2 649 446	1 831 153
LPG	1 292 938	894 484
Engine oils	602 023	363 668
Bitumens	2 200 845	1 599 712
Heavy heating oil	5 551 787	3 787 558
Other	2 901 813	4 064 966
Total	**58 475 608**	**45 478 727**
Retail Segment		
Gasoline	12 698 682	10 579 008
Diesel fuel	16 163 880	11 936 468
LPG	1 224 193	1 022 864
Other	3 950 745	3 498 700
Total	**34 037 500**	**27 037 040**
Petrochemical Segment		
Polymers	3 991 723	3 643 645
Monomers	2 033 615	1 713 847
Terephthalic acid	1 238 788	-
PVC	1 329 757	1 095 676
Fertilizers	1 035 732	782 303
Benzene	1 154 859	790 846
Butadiene	634 951	342 459
Acetone	85 628	61 439
Ethylene oxide	125 450	68 313
Phenol	175 254	128 689
Glycol	298 117	193 223
Toluene	62 282	89 258
Ortoxylene	42 664	15 317
Caprolactam	380 430	319 137
Ammonia	175 056	125 916
Soda lye	231 416	118 872
Other	1 317 462	1 463 904
Total	**14 313 184**	**10 952 844**
Corporate Functions	**146 782**	**78 821**
Revenues	**106 973 074**	**83 547 432**

6.4. Information about major customers

In 2011 and 2010 no leading external customers were identified in the Capital Group, for which turnover would exceeded 10% of total revenues from sale of the ORLEN Capital Group.

7. Property, plant and equipment

	as at 31/12/2011	as at 31/12/2010
Land	938 968	895 828
Buildings and constructions	10 867 658	9 211 310
Machinery and equipment	12 701 312	10 843 336
Vehicles and other	902 736	755 271
Construction in progress	1 167 977	5 697 268
	26 578 651	**27 403 013**

(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	927 646	15 610 355	26 742 192	2 037 383	5 777 300	51 094 876
Investment expenditures	503	18 845	133 431	63 708	1 792 417	2 008 904
Other increases	-	16 071	14 992	6 419	34 589	72 071
Borrowing costs	-	111 590	125 307	9 322	(192 739)	53 480
Reclassifications	19 873	2 463 316	3 110 459	282 605	(6 107 631)	(231 378)
Sale	(5 137)	(7 417)	(5 075)	(52 144)	-	(69 773)
Liquidation	(829)	(73 574)	(317 018)	(110 767)	-	(502 188)
Other decreases	(184)	(8 201)	(30 199)	(6 936)	(42 808)	(88 328)
Foreign exchange differences	62 780	483 718	1 983 794	95 722	59 863	2 685 877
31 December 2011	**1 004 652**	**18 614 703**	**31 757 883**	**2 325 312**	**1 320 991**	**55 023 541**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2011	31 818	6 369 268	15 868 927	1 281 771	80 032	23 631 816
Depreciation	865	643 083	1 428 894	205 153	-	2 277 995
Other increases	-	8 647	3 771	2 761	-	15 179
Impairment allowances, net	31 315	578 769	972 620	25 073	67 839	1 675 616
recognition	37 083	611 889	981 367	26 559	74 996	1 731 894
reversal	(5 768)	(33 120)	(8 747)	(1 486)	(7 157)	(56 278)
Reclassifications	-	(21 185)	(360)	(213)	-	(21 758)
Sale	(145)	(4 902)	(18 002)	(49 804)	-	(72 853)
Liquidation	-	(55 920)	(287 343)	(103 532)	-	(446 795)
Other decreases	-	(3 157)	(12 389)	(6 565)	-	(22 111)
Government grants - settlement	-	2 544	2 496	61	-	5 101
Foreign exchange differences	1 831	201 132	1 069 418	64 281	5 143	1 341 805
31 December 2011	**65 684**	**7 718 279**	**19 028 032**	**1 418 986**	**153 014**	**28 383 995**
Gross book value						
1 January 2010	924 950	15 027 606	25 816 266	2 005 978	4 561 426	48 336 226
Investment expenditures	45	30 237	40 274	26 955	2 645 986	2 743 497
Other increases	238	1 375	2 108	1 427	-	5 148
Borrowing costs	-	5 770	641	293	150 023	156 727
Reclassifications	6 703	569 575	808 399	122 281	(1 592 838)	(85 880)
Sale	(1 212)	(12 843)	(26 442)	(34 806)	-	(75 303)
Liquidation	(442)	(39 220)	(240 704)	(83 831)	-	(364 197)
Other decreases	(597)	(35 078)	(70 442)	(19 710)	(5 099)	(130 926)
Foreign exchange differences	(2 039)	62 933	412 092	18 796	17 802	509 584
31 December 2010	**927 646**	**15 610 355**	**26 742 192**	**2 037 383**	**5 777 300**	**51 094 876**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2010	31 103	5 671 192	14 371 514	1 142 592	49 388	21 265 789
Depreciation	-	583 872	1 513 785	221 675	-	2 319 332
Other increases	737	15 991	18 007	6 113	-	40 848
Impairment allowances, net	84	127 402	75 841	(152)	31 089	234 264
recognition	407	191 032	115 638	3 070	50 028	360 175
reversal	(323)	(63 630)	(39 797)	(3 222)	(18 939)	(125 911)
Reclassifications	-	6 609	(6 347)	(941)	-	(679)
Sale	-	(7 659)	(17 802)	(24 625)	-	(50 086)
Liquidation	(250)	(26 879)	(223 578)	(52 690)	-	(303 397)
Other decreases	-	(25 015)	(34 798)	(17 449)	-	(77 262)
Government grants - settlement	-	3 255	1 862	74	-	5 191
Foreign exchange differences	144	20 500	170 443	7 174	(445)	197 816
31 December 2010	**31 818**	**6 369 268**	**15 868 927**	**1 281 771**	**80 032**	**23 631 816**
Government grants						
1 January 2011	**-**	**29 777**	**29 929**	**341**	**-**	**60 047**
31 December 2011	**-**	**28 766**	**28 539**	**3 590**	**-**	**60 895**
1 January 2010	**-**	**55 230**	**17 075**	**-**	**-**	**72 305**
31 December 2010	**-**	**29 777**	**29 929**	**341**	**-**	**60 047**
Net book value						
1 January 2011	**895 828**	**9 211 310**	**10 843 336**	**755 271**	**5 697 268**	**27 403 013**
31 December 2011	**938 968**	**10 867 658**	**12 701 312**	**902 736**	**1 167 977**	**26 578 651**
1 January 2010	**893 847**	**9 301 184**	**11 427 677**	**863 386**	**4 512 038**	**26 998 132**
31 December 2010	**895 828**	**9 211 310**	**10 843 336**	**755 271**	**5 697 268**	**27 403 013**

Impairment allowances of property, plant and equipment as at 31 December 2011 and 31 December 2010 amounted to PLN 5,166,270 thousand and PLN 3,132,778 thousand, respectively, and referred mainly to impairment of property, plant and equipment in Orlen Lietuva Group, Paramo and Anwil Group (detailed information is disclosed in note 14).

(all amounts in PLN thousand)

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

The Group reviews economic useful lives of property, plant and equipment and adjustment of depreciation expense is introduced prospectively.
Should the rates from 2010 be applied, depreciation expense for 2011 would be higher by PLN (226,360) thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2011 and 31 December 2010 amounted to PLN 4,064,004 thousand and PLN 4,283,859 thousand.

As at 31 December 2011 and 31 December 2010 items of property, plant and equipment of PLN 586,065 thousand and PLN 626,054 thousand, respectively, were used as a pledge for the Group's liabilities.

Additionally as at 31 December 2011 in the Capital Group according to the bank agreements property, plant and equipment of net book value of PLN 65,355 thousand was pledged as collateral for bank overdrafts, which balance amounts to nil as at 31 December 2011.
The net book value of temporarily idle property, plant and equipment as at 31 December 2011 and 31 December 2010 amounted to PLN 31,364 thousand and PLN 81,634 thousand, respectively.

The net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2011 and 31 December 2010 amounted to PLN 53,435 thousand and PLN 47,074 thousand respectively.
As at 31 December 2011 and 31 December 2010 the Group recognised impairment allowance for property, plant and equipment retired from active use of PLN 47,106 thousand and PLN 39,117 thousand, respectively.

As at 31 December 2011 and 31 December 2010 the Group received grants from European Regional Development Fund (ERDF) and National Fund for Environmental Protection and Water Management of PLN 60,047 thousand and PLN 60,895 thousand, respectively for the financing investment projects related to changing technology of chlorine production, purchase of fluid furnances, and creating new facilities cubature within Płocki Park Przemysłowo Technologiczny.
Additionally the Group used the funds from Corporate Fund for Rehabilitation and Disabled Persons for the purchase of car sets for fuel transportation.

As at 31 December 2011 and 31 December 2010 the net book value of leased non-current assets amounted to PLN 168,464 thousand and PLN 168,780 thousand, respectively. A detailed division of leased non-current assets is disclosed in note 34.1.

As at 31 December 2011 and 31 December 2010 property, plant and equipment related to exploration and extraction of hydrocarbons amounted to PLN 72,567 thousand and PLN 35,722 thousand, respectively.

8. Investment property

	for the year ended 31/12/2011	for the year ended 31/12/2010
Beginning of the period	71 976	71 487
Reclassification from property, plant and equipment	32 220	15
Sale	(319)	(303)
Fair value adjustment	10 390	(122)
increase	10 390	-
decrease	-	(122)
Foreign exchange differences	3 378	899
	117 645	**71 976**

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

In 2011 and 2010 the Capital Group gained rental income from investment property of PLN 18,046 thousand and PLN 10,711 thousand, respectively.

(all amounts in PLN thousand)

Direct operating expenses arising from investment property in 2011 and 2010, that in the given period generated rental income, amounted to PLN (6,615) thousand and PLN (2,649) thousand, respectively. Direct operating expenses arising from investment property, that in a given period did not generate rental income in 2011 and 2010 amounted to PLN (544) thousand and PLN (380) thousand, respectively.

In 2011 UNIPETROL Group reclassified construction in progress of PLN 32,220 thousand to investment property, concerning buildings and land held to earn rentals.

Depending on the characteristics of the investment property, its fair value was estimated based on comparison or revenue approach. Comparison approach was applied assuming, that the value of assessed property was equal to the market price of a similar property. In revenue approach the calculation was based on discounted cash flow method, due to variability of revenues in foreseeable future. 10-year period forecasts were applied in the analysis. The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property.
Forecasts of discounted cash flows relating to the valued assets consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar assets, in the like location, technical conditions, standard and designed for similar purposes.

9. Intangible assets

	as at 31/12/2011	as at 31/12/2010
Internally generated intangible assets	**55 401**	**58 243**
Intangible assets under development	35 284	26 622
Development expenditures	20 117	31 621
Other intangible assets	**1 269 430**	**1 044 466**
Software	60 808	64 019
Patents, trade marks and licenses	544 854	482 316
Goodwill	98 832	88 247
Rights	507 785	384 307
Other	55 364	25 577
	1 323 044	**1 102 709**

(all amounts in PLN thousand)

The changes in internally generated intangible assets were as follows

	Internally generated intangible assets		
	Intangible assets under development	Development expenditures	Total
Gross book value			
1 January 2011	26 622	83 388	110 010
Investment expenditures	15 006	390	15 396
Other increases	-	3 837	3 837
Reclassifications	7 151	1 890	9 041
Liquidation	-	(267)	(267)
Other decreases	(12 108)	(7 094)	(19 202)
Foreign exchange differences	979	6 146	7 125
31 December 2011	**37 650**	**88 290**	**125 940**
Accumulated amortisation, impairment allowances and settled government grants			
1 January 2011	-	51 767	51 767
Amortisation	-	10 189	10 189
Impairment allowances, net	2 428	2 328	4 756
recognition	2 428	2 388	4 816
reversal	-	(60)	(60)
Liquidation	-	(207)	(207)
Other decreases	-	(2)	(2)
Foreign exchange differences	(62)	4 098	4 036
31 December 2011	**2 366**	**68 173**	**70 539**
Gross book value			
1 January 2010	32 322	67 301	99 623
Investment expenditures	36 326	1 203	37 529
Other increases	2 999	17 971	20 970
Reclassifications	1 767	(56)	1 711
Sale	-	(59)	(59)
Other decreases	(47 744)	(3 804)	(51 548)
Foreign exchange differences	952	832	1 784
31 December 2010	**26 622**	**83 388**	**110 010**
Accumulated amortisation, impairment allowances and settled government grants			
1 January 2010	-	42 304	42 304
Amortisation	-	8 930	8 930
Impairment allowances, net	-	(13)	(13)
recognition	-	59	60
reversal	-	(72)	(73)
Sale	-	(59)	(59)
Foreign exchange differences	-	605	605
31 December 2010	**-**	**51 767**	**51 767**
Net book value			
1 January 2011	**26 622**	**31 621**	**58 243**
31 December 2011	**35 284**	**20 117**	**55 401**
1 January 2010	**32 322**	**24 997**	**57 319**
31 December 2010	**26 622**	**31 621**	**58 243**

As at 31 December 2011 and 31 December 2010 impairment allowances of internally generated intangible assets amounted to PLN 5,415 thousand and PLN 729 thousand, respectively (detailed information was disclosed in note 14).

(all amounts in PLN thousand)

The changes in other intangible assets were as follows

	Other intangible assets					
	Software	Patents, trade marks and licenses	Goodwill	Rights	Other	Total
Gross book value						
1 January 2011	241 346	1 014 543	419 390	403 028	40 784	2 119 091
Investment expenditures	4 555	4 013	6 608	-	28 601	43 777
Other increases	5 174	16 125	3 922	1 063 821	5 543	1 094 585
Reclassifications	3 980	139 296	-	34 589	1	177 866
Sale	(1)	-	-	(242 595)	-	(242 596)
Liquidation	(2 234)	(16 497)	-	(17 122)	-	(35 853)
Other decreases	(21)	(646)	-	(669 022)	(4 643)	(674 332)
Foreign exchange differences	21 990	27 780	3 712	24 650	2 309	80 441
31 December 2011	**274 789**	**1 184 614**	**433 632**	**597 349**	**72 595**	**2 562 979**
Accumulated amortisation, impairment allowances and settled government grants						
1 January 2011	177 306	532 122	331 143	18 721	15 207	1 074 499
Amortisation	17 557	70 138	-	-	1 859	89 554
Other increases	217	8 771	1 844	14 580	4 310	29 722
Impairment allowances, net	4 708	25 383	(159)	71 854	350	102 136
recognition	4 731	34 526	-	75 038	350	114 645
reversal	(23)	(9 143)	(159)	(3 184)	-	(12 509)
Sale	(1)	-	-	-	-	(1)
Liquidation	(2 174)	(7 206)	-	(15 045)	(4 291)	(28 716)
Other decreases	(2)	(342)	-	-	(659)	(1 003)
Government grants - settlement	3	32	-	-	-	35
Foreign exchange differences	16 343	10 789	1 972	(546)	455	29 013
31 December 2011	**213 957**	**639 687**	**334 800**	**89 564**	**17 231**	**1 295 238**
Gross book value						
1 January 2010	210 673	966 733	421 071	-	23 552	1 622 029
Investment expenditures	8 216	9 805	-	29 069	26 333	73 423
Other increases	24 705	16 924	-	1 593 253	(4 484)	1 630 398
Reclassifications	11 709	43 929	-	-	1 116	56 754
Sale	(40)	(695)	-	(612 548)	-	(613 283)
Liquidation	(16 061)	(27 873)	-	(5 428)	-	(49 362)
Other decreases	292	(312)	(937)	(592 876)	(6 064)	(599 897)
Foreign exchange differences	1 852	6 032	(744)	(8 442)	331	(971)
31 December 2010	**241 346**	**1 014 543**	**419 390**	**403 028**	**40 784**	**2 119 091**
Accumulated amortisation, impairment allowances and settled government grants						
1 January 2010	169 723	472 350	331 235	-	15 639	988 947
Amortisation	17 546	72 612	-	-	2 828	92 986
Other increases	4 383	104	1 746	28 410	-	34 643
Impairment allowances, net	26	12 424	(369)	3 184	(1)	15 264
recognition	23	12 471	-	3 184	-	15 677
reversal	3	(47)	(369)	-	(1)	(413)
Sale	(40)	(122)	-	-	-	(162)
Liquidation	(16 061)	(27 605)	(886)	(12 871)	-	(57 423)
Other decreases	(27)	(335)	-	(2)	(3 473)	(3 837)
Foreign exchange differences	1 756	2 694	(583)	-	214	4 081
31 December 2010	**177 306**	**532 122**	**331 143**	**18 721**	**15 207**	**1 074 499**
Government grants						
1 January 2011	**21**	**105**	**-**	**-**	**-**	**126**
31 December 2011	**24**	**73**	**-**	**-**	**-**	**97**
1 January 2010	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2010	**21**	**105**	**-**	**-**	**-**	**126**
Net book value						
1 January 2011	**64 019**	**482 316**	**88 247**	**384 307**	**25 577**	**1 044 466**
31 December 2011	**60 808**	**544 854**	**98 832**	**507 785**	**55 364**	**1 267 643**
1 January 2010	**40 950**	**494 383**	**89 836**	**-**	**7 913**	**633 057**
31 December 2010	**64 019**	**482 316**	**88 247**	**384 307**	**25 577**	**1 044 466**

(all amounts in PLN thousand)

As at 31 December 2011 and 31 December 2010 impairment allowances of other intangible assets amounted to PLN 132,480 thousand and PLN 31,856 thousand, respectively (detailed information was disclosed in note 14).

As at 31 December 2011 and 31 December 2010 impairment allowances of goodwill amounted to PLN 309,650 thousand and PLN 309,773 thousand, respectively.
Recognition and reversal of impairment allowances of intangible assets are recognized in other operating activities.

The Group reviews economic useful lives of intangible assets and adjustment of amortisation expense is introduced prospectively.
Should the rates from 2010 be applied, amortisation expense for 2011 would be higher by PLN (9,434) thousand.

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2011 and 31 December 2010 amounted to PLN 510,749 thousand and PLN 458,289 thousand.
The net book value of intangible assets with indefinite useful life as at 31 December 2011 and as at 31 December 2010 amounted to PLN 11,498 thousand and PLN 8,502 thousand, respectively.

The Group incurred expenses related to registration of produced or imported chemicals (described in Regulation No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals) – so called REACH. Due to the fact, that the registration is indefinite and the period of production or import of particular chemicals is unknown, indefinite useful life was assumed.
The Capital Group classifies goodwill as intangible assets with indefinite useful life. The net book value of goodwill amounts to PLN 98,831 thousand and PLN 88,247 thousand as at 31 December 2011 and 31 December 2010, respectively.

As at 31 December 2011 and 31 December 2010 the net book value of leases non-current assets amounted to PLN 863 thousand and PLN 998 thousand. Detailed description of leased non-current assets is disclosed in note 34.1.

As at 31 December 2011 and 31 December 2010 intangible assets related to exploration and extraction of hydrocarbons amounted to PLN 52,750 thousand and PLN 27,628 thousand, respectively.

Rights

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

Change in CO_2 emission rights in 2011:

	Quantity (in tonnes)	Value
As at 1 January 2011	**5 607 337**	**307 958**
Granted free of charge	13 502 574	801 471
Settled for 2010	(11 879 766)	(665 312)
Purchase/(Sale), net	52 973	1 335
Impairment allowances	-	(74 524)
Foreign exchange differences	-	25 196
As at 31 December 2011	**7 283 118**	**396 124**
CO_2 emission in 2011	11 356 633	546 736
Shortage	**(4 073 515)**	**(150 612)**
Planned coverage of shortage by usage of the rights granted for the following year	4 073 515	150 612

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)

(all amounts in PLN thousand)

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

As at 31 December 2011 the Group possessed other rights of PLN 111,661 thousand that concerned accomplished investment in Nitric Acid Plant reducing emission of nitrous suboxide, which in accordance to regulations in force enabled recognition of ERU 2,418,000 (Emission Reduction Unit) amounting to PLN 93,597 thousand.

10. Perpetual usufruct of land

	as at 31/12/2011	as at 31/12/2010
Beginning of the period	96 354	96 043
Acquisitions	1 420	16
Reclassifications	200	1 882
Depreciation	(1 526)	(1 499)
Impairment allowances	(384)	-
recognition	(472)	-
reversal	87	-
Sale and liquidation	(430)	(77)
Foreign exchange differences	30	(11)
	95 664	**96 354**

The Group 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 Group's core business. In particular, on this land are production facilities, fuel terminals, petrol stations and other facilities supporting Group operations.

As at 31 December 2011 and 31 December 2010 the Group recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 1,017,741 thousand and PLN 993,948 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 (47,435) thousand and PLN (41,862) thousand, respectively.

11. Investments in shares accounted for under equity method

	Carrying amount as at		Group's share in capital/voting rights as at		Principal activity
	31/12/2011	31/12/2010	31/12/2011	31/12/2010	
Polkomtel S.A.	-	1 451 334	0.00%	24.39%	rendering mobile telecommunication services
Other	13 125	49 682			
	13 125	**1 501 016**			

Until 30 June 2011 Polkomtel S.A. was accounted for under equity method. As a result share in Polkomtel's profit has been presented in consolidated statement of comprehensive income in line share in profit from investments accounted for under equity method.

Condensed financial data of Polkomtel S.A. as at and for the year ended 31 December 2010, are disclosed below.

	as at 31/12/2010
Non-current assets	6 596 916
Current assets	1 369 002
Long-term liabilities	1 892 622
Short-term liabilities	2 321 642

(all amounts in PLN thousand)

	for the year ended 31/12/2010
Revenues from sale	7 672 409
Profit from operations	1 534 825
Profit before tax	1 429 302
Income tax expense	(279 143)
Net profit	1 150 159

11.1. The settlement of the sale transaction of Polkomtel S.A. shares

On 9 November 2011 PKN ORLEN S.A. 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.
The settlement of the transaction in the consolidated financial statements of the ORLEN Capital Group:

	for the year ended 31/12/2011
Sales revenue from sale of shares less transaction costs	3 665 801
Value of shares accounted for under equity method at the time of reclassification to assets held for sale	(1 388 349)
Profit from sale od shares in Polkomtel S.A.	**2 277 452**

11.2. Jointly controlled entities consolidated using proportionate method

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

As at 31 December 2011 and for the year ended 31 December 2011 and as at 31 December 2010 and for the year ended 31 December 2010, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	as at 31/12/2011	as at 31/12/2010
Non-current assets	597 518	650 761
Current assets	696 774	568 362
Long-term liabilities	238 700	280 290
Short-term liabilities	515 398	420 304

	for the year ended 31/12/2011	for the year ended 31/12/2010
Revenues	1 747 653	1 513 023
Cost of finished goods, merchandise and raw materials sold	(1 596 446)	(1 356 508)
Gross profit on sales	**151 206**	**156 515**
Distribution expenses	(65 432)	(66 367)
General and administrative expenses	(12 956)	(11 531)
Other operating revenues and expenses, net	926	(819)
Profit from operations	**73 745**	**77 799**
Financial revenues and expenses, net	(47 056)	(12 417)
Profit/(Loss) before tax	**26 689**	**65 381**
Income tax expense	(5 023)	(12 795)
Net profit/(loss)	**21 666**	**52 587**
Cash flows from operating activities	154 815	127 045
Cash flows from investing activities	(27 130)	(14 245)
Cash flows from financing activities	(88 839)	(66 050)

As at 31 December 2011 and for the year ended 31 December 2011 and as at 31 December 2010 and for the year ended 31 December 2010 the Group's share in assets and liabilities, revenues and expenses (PPPT) was as follows:

(all amounts in PLN thousand)

	as at 31/12/2011	as at 31/12/2010
Non-current assets	9 584	9 736
Current assets	24 527	22 802
Short-term liabilities	1 300	336

	for the year ended 31/12/2011	for the year ended 31/12/2010
Revenues	2 921	892
Cost of finished goods, merchandise and raw materials sold	(1 480)	(686)
Gross profit on sales	**1 441**	**206**
General and administrative expenses	(2 686)	(1 394)
Other operating revenues and expenses, net	470	245
(Loss) from operations	**(775)**	**(943)**
Financial revenues and expenses, net	1 084	951
Share in profit from investments accounted for under equity method	-	65
Profit before tax	**309**	**73**
Income tax expense	(58)	(5)
Net profit	**251**	**68**
Cash flows from operating activities	26	50
Cash flows from investing activities	1 228	21

12. 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	**39 830**	**41 593**
Naftoport sp. z.o.o.	39 502	39 502
Other	328	2 091
	40 520	**42 783**

As at 31 December 2011 and 31 December 2010 impairment allowances of financial assets available for sale amounted to PLN 74,469 thousand and PLN 73,748 thousand, respectively.

13. Other long-term assets

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments	**81**	**-**
Loans granted	13 115	35 356
Other	5 141	4 983
Financial assets	**18 337**	**40 339**
Advances for construction in progress	2 520	2 760
Other	10 109	6 031
Non-financial assets	**12 629**	**8 791**
	30 966	**49 130**

Change in impairment allowance of other long-term assets

	for the year ended 31/12/2011	for the year ended 31/12/2010
Beginning of the period	5	5
Recognition	408	-
Foreign exchange differences	(10)	-
	403	**5**

14. Impairment of non-current assets

Among the major indicators for impairment, resulting in recognition impairment allowance in ORLEN Group 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, decrease of PKN ORLEN shares quotations on Warsaw Stock Exchange below its book value and technological changes.

(all amounts in PLN thousand)

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

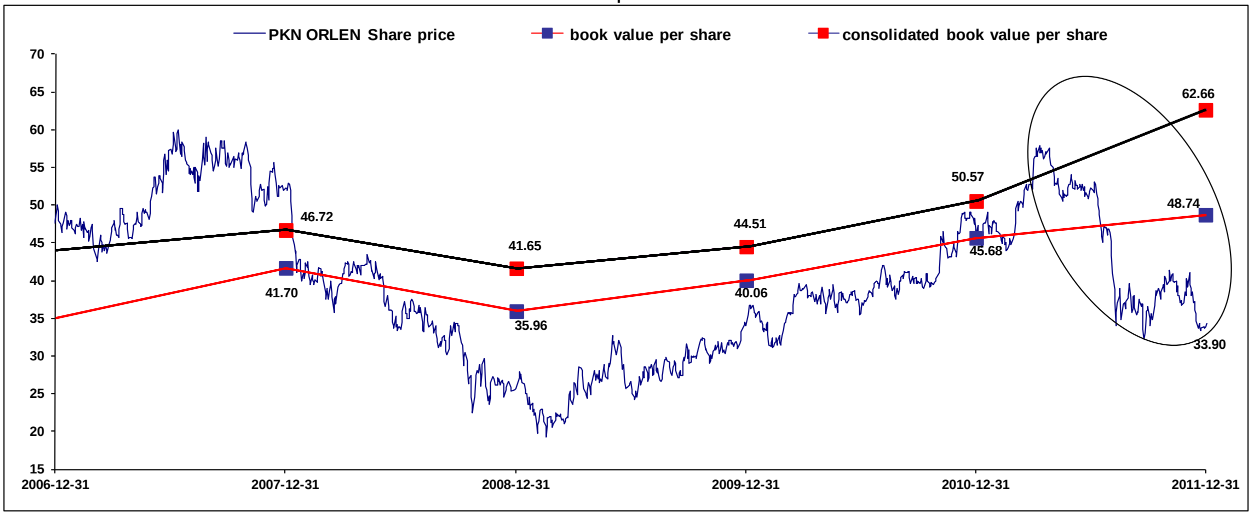
The analysis were performed based on financial projections for years 2012-2016 adjusted by level and effects of capital expenditures and effectiveness activities.
The period of analysis for particular CGU for the purposes of impairment analysis of property, plant and equipment and intangible assets was based on expected useful life of assets. After 5-year prognosis period the Group used a fixed rate of increase for the individual geographical market.

For the purpose of impairment analysis of shares value, on the Parent Company level, after 5 year prognosis period the Parent Company defined terminal value. In the calculations changes in net working capital and net debt were considered for particular Group companies.

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

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 Group used available as at 31 December 2011 publications of Aswath Damodaran regarding macroeconomic indicators. (source: http://pages.stern.nyu.edu)

Book value / 1 share as at the end of 2007 – 2011 after impairment allowances



The discount rate structure by geographical segment in ORLEN Capital Group:

	CZECH REPUBLIC (CZK)	GERMANY (EUR)	POLAND (PLN)	LITHUANIA (USD)
Cost of capital	12.18%	8.45%	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

(all amounts in PLN thousand)

Additionally for CGUs: Spolana –PVC division and Anwil – PVC division the discount rate amounted to 7.88% and 10.20%.

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

		Discount rates			
		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*

Impact of impairment allowances on consolidated statement of comprehensive income for 2011.

	Recognition	Reversal	Impairment allowances, net
Land	(37 083)	5 765	(31 318)
Buildings and constructions	(611 889)	31 062	(580 827)
Machinery and equipment	(981 367)	6 145	(975 222)
Vehicles and other	(28 947)	566	(28 381)
Construction in progress	(74 996)	7 157	(67 839)
Software	(4 731)	23	(4 708)
Patents, trade marks and licenses	(34 526)	9 143	(25 383)
Rights	(75 038)	0	(75 038)
Intangible assets under development	(2 428)	-	(2 428)
Perpetual usufruct of land	(472)	87	(385)
Non-cuurent assets held for sale	(4 023)	-	(4 023)
Other	(350)	708	358
31 December 2011	**(1 855 850)**	**(60 656)**	**(1 795 194)**

Impact on consolidated statement of comprehensive income for 2011.

	Recognition	Reversal	Impairment allowances, net
Refining Segment	(360 072)	19 729	(340 343)
Retail Segment	(106 050)	31 271	(74 779)
Petrochemical Segment	(1 382 313)	8 919	(1 373 394)
Corporate Functions	(7 416)	737	(6 679)
31 December 2011	**(1 855 850)**	**60 656**	**(1 795 194)**

Net impairment allowance in 2011 in refining segment included mainly:
- in Unipetrol Group: Paramo a.s. of PLN (209,358) thousand
- in Orlen Lietuva Group: AB Orlen Lietuva (104,821) thousand

Net impairment allowance in 2011 in retail segment included mainly:
- PKN ORLEN S.A. of PLN (70,696) thousand
- Orlen Lietuva Group: AB Ventus Nafta of PLN (13,401) thousand.

Net impairment allowance in 2011 in petrochemical segment included mainly:
- in Unipetrol Group: RPA s.r.o. of PLN (601,435) thousand
- in Anwil Group: Anwil S.A. of PLN (455,712) thousand, Spolana a.s. of PLN (276,971) thousand.

(all amounts in PLN thousand)

Change in impairment allowances of property, plant and equipment, intangible assets and perpetual usufruct of land

	1 January 2011	Recognition	Reversal	Other	31 December 2011
PKN ORLEN	165 661	100 315	(24 308)	137	241 805
Unipetrol Group	363 062	845 924	(13 220)	8 551	1 204 317
Orlen Lietuva Group	2 327 964	157 153	(14 803)	335 753	2 806 067
Anwil Group	151 914	748 233	(4 582)	(3 297)	892 268
Rafineria Trzebinia Group	92 192	-	(1 225)	-	90 968
Rafineria Nafty Jedlicze Group	46 212	-	(52)	-	46 160
Other companies	17 629	4 225	(2 466)	(2 607)	16 780
	3 164 634	**1 855 850**	**(60 656)**	**338 537**	**5 298 365**

Caption other comprises mainly of foreign exchange differences on subsidiaries from consolidation.

As at 31 December 2011 the Group performed impairment analysis for intangible assets of indefinite useful life and goodwill. Based on these analysis no indicators for impairment allowances were identified.

In 2010 the Group recognized impairment allowances of PLN (376,510) thousand and reversal of impairment allowances of PLN106,291 thousand. The impairment allowances regarded mainly refining segment (Orlen Lietuva, Rafineria Trzebinia) and petrochemical segment (Unipetrol Group, Anwil Group).

Information about recognitions and reversals of allowances by category of non-current non-financial assets was disclosed in note 7,9,10 and 19.

15. Inventories

	as at 31/12/2011	as at 31/12/2010
Raw materials	8 333 449	4 854 391
Work in progress	1 439 798	1 148 723
Finished goods	4 673 760	4 038 525
Merchandise	1 296 945	716 079
Spare parts	552 565	537 133
Inventory, net	**16 296 517**	**11 294 851**
Inventory impairment allowances	238 726	137 179
Inventory, gross	**16 535 243**	**11 432 030**

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 (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 (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	137 179	142 097
Recognition	300 879	201 888
Reversal	(39 416)	(39 461)
Usage	(179 613)	(170 383)
Foreign exchange differences	19 697	3 038
	238 726	**137 179**

(all amounts in PLN thousand)

Recognition and reversal of impairment allowances of inventories are recognised in cost of sales.

As at 31 December 2011 and as at 31 December 2010 inventories of PLN 195,008 thousand and PLN 123,642 thousand respectively, were used as a pledge for the Group's liabilities.

16. Trade and other receivables

	as at 31/12/2011	as at 31/12/2010
Trade receivables	7 055 689	5 296 717
Receivables due to sale of non-financial non-current assets	853	13 673
Finance lease	-	421
Other	110 103	132 114
Financial assets	**7 166 645**	**5 442 925**
Excise tax and fuel charge receivables	170 997	211 205
Other taxation, duty and social security receivables	448 184	387 095
Advances for construction in progress	14 695	36 971
Prepayments for deliveries	10 929	9 374
Prepayments	246 966	180 019
Other	12 595	21 213
Non-financial assets	**904 366**	**845 877**
Receivables, net	**8 071 011**	**6 288 802**
Receivables impairment allowance	542 971	576 800
Receivables, gross	**8 613 982**	**6 865 602**

As at 31 December 2011 and as at 31 December 2010 trade and other receivables denominated in foreign currencies amounted to PLN 3,798,910 thousand and PLN 3,012,189 thousand, respectively. Detailed information about receivables from related parties is disclosed in note 38.4.

Detailed information about currency structure of financial assets was disclosed in note 33.7.

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	576 800	572 387
Recognition	127 526	112 956
Reversal	(138 358)	(91 967)
Usage	(43 138)	(17 854)
Inclusion the entity to consolidation	595	-
Foreign exchange differences	19 546	1 278
	542 971	**576 800**

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.

(all amounts in PLN thousand)

17. Other short-term financial assets

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments	**225 910**	**175 498**
foreign currency forwards	25 898	35 042
commodity swaps	200 012	140 456
Derivatives not designated as hedge accounting	**48 003**	**3 002**
foreign currency forwards	30 395	1 662
foreign currency swaps	3 410	415
commodity swaps	14 198	-
other	-	925
Embedded derivatives	**180**	**1 026**
foreign currency swaps	180	1 026
Bonds/other debt securities	**15 197**	**34 876**
Loans granted	**4 041**	**5 710**
Other	**103**	**4 489**
	293 434	**224 601**

18. Cash and cash equivalents

	as at 31/12/2011	as at 31/12/2010
Cash on hand and in bank	4 361 978	2 757 599
Other cash (incl. cash in transit)	94 351	63 143
Other monetary assets	952 837	-
	5 409 166	**2 820 742**
incl. restricted cash	108 517	68 289

Other monetary assets with a maturity date of less than 3 months from the acquisition date include treasury bonds of PLN 952,819 thousand.

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

19. Non-current assets classified as held for sale

	as at 31/12/2011	as at 31/12/2010
Shares	1 430	3 388
Items of non-current assets	27 095	29 019
Other	-	9 242
	28 525	**41 649**

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 2011 and as at 31 December 2010 the impairment allowances of non-current assets classified as held for sale amounted to PLN 9,261 thousand and PLN 9,753 thousand, respectively. (Detailed information is disclosed in note 14)

20. Shareholders' equity

20.1. 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 and is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

(all amounts in PLN thousand)

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
A Series	336 000 000	336 000 000	336 000 000	336 000 000
B Series	6 971 496	6 971 496	6 971 496	6 971 496
C Series	77 205 641	77 205 641	77 205 641	77 205 641
D Series	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	**427 709 061**	**427 709 061**	**427 709 061**

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

	as at 31/12/2011	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**

20.2. 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, in accordance with IAS 29.24 and 29.25 the share capital and share premium were revalued on a basis of monthly general price indices.

20.3. Retained earnings

	as at 31/12/2011	as at 31/12/2010
Reserve capital	18 605 124	16 173 572
Other capital	883 740	883 740
Net profit for the period	2 363 397	2 371 358
	21 852 261	**19 428 670**

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

20.4. Hedging reserve

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

20.5. Revaluation reserve

The difference between the fair value and the acquisition cost of assets available for sale, netted by deferred tax, is transferred to the revaluation reserve, if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods.
As at 31 December 2011 revaluation relates to property, plant and equipment that has been reclassified to investment property.

(all amounts in PLN thousand)

20.6. Foreign exchange differences on subsidiaries from consolidation

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net investment hedge in a foreign operation, are also recognised in this position. Detailed information in case of hedge accounting of net investment in foreign entity is presented in note 33.6

20.7. Equity attributable to non-controlling interest

	as at 31/12/2011	as at 31/12/2010
Capital Group of Unipetrol	1 953 228	2 118 726
Capital Group of Anwil	117 532	233 353
Capital Group of Rafineria Trzebinia	51 423	55 272
Capital Group of Rafineria Nafty Jedlicze	14 100	34 625
Inowrocławskie Kopalnie Soli "Solino" S.A.	2 928	41 833
Petrolot Sp. z o.o.	31 471	34 240
Other companies	94 228	93 966
	2 264 910	**2 612 015**

In 2011 and 2010 equity attributable to non-controlling interest was adjusted by results attributable to non-controlling interests and by attributable paid and declared dividends. Hedging reserve and revaluation reserve attributable to non-controlling interest was also considered. Additionally the adjustments concerning the buy-out of non-controlling interest (changes in total voting rights of the Parent Company) were introduced.

20.8. Suggested distribution of the Parent Company's profit for 2011

The Dividend Policy of PKN ORLEN assumes setting recommended dividend in relation to free cash flows after investment expenditures 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.

20.9. Distribution of the Parent Company's profit for 2010

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 art. 7 point 3 of 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.

20.10. Capital management policy

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

The Management Board monitors on the Group the level following ratios:
- net debt to equity ratio (net financial leverage) for the Group. As at 31 December 2011 and 31 December 2010 Group 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 ratio. 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 20.8.

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

(all amounts in PLN thousand)

21. 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	10 179 994	7 662 239	1 644 324	1 289 840	11 824 318	8 952 079
Borrowings	-	345 134	10 055	215 225	10 055	560 359
Debt securities	357 798	1 116 614	805 420	38 675	1 163 218	1 155 289
	10 537 792	**9 123 987**	**2 459 799**	**1 543 740**	**12 997 591**	**10 667 727**

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

21.1. Bank loans

- by currency (translated into PLN)

	as at 31/12/2011	as at 31/12/2010
PLN	224 707	201 491
EUR	4 205 198	3 777 860
USD	7 061 057	4 925 289
CZK	332 323	46 196
LTL	1 033	1 243
	11 824 318	**8 952 079**

- by interest rate

	as at 31/12/2011	as at 31/12/2010
WIBOR	224 707	201 491
EURIBOR	4 205 198	3 777 860
LIBOR	7 061 057	4 925 289
PRIBOR	332 323	46 196
VILIBOR	1 033	1 243
	11 824 318	**8 952 079**

At the end of the reporting period unused credit lines increased by current receivables and cash and cash equivalents exceeded short term liabilities less by PLN 5,707,285 thousand.

As at 31 December 2011 and 31 December 2010 bank loans of PLN 402,153 thousand and PLN 404,090 thousand, respectively, were pledged on the Group's assets.

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

21.2. Borrowings

- by currency (translated into PLN)

	as at 31/12/2011	as at 31/12/2010
PLN	10 055	20 773
USD	-	539 586
	10 055	**560 359**

(all amounts in PLN thousand)

- by interest rate

	as at 31/12/2011	as at 31/12/2010
WIBOR	10 055	20 773
fixed interest rate	-	539 586
	10 055	**560 359**

As at 31 December 2011 borrowings were not pledged on the Group's assets. As at 31 December 2010 borrowings of PLN 43,237 thousand were pledged on the Group's assets.

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

21.3. Debt securities

- by currency (translated into PLN)

	as at 31/12/2011	as at 31/12/2010
PLN	763 428	761 064
CZK	399 790	394 225
	1 163 218	**1 155 289**

- by interest rate

	Fixed rate bonds		Floating rate bonds	
	as at 31/12/2011	as at 31/12/2010	as at 31/12/2011	as at 31/12/2010
Nominal value	342 200	316 000	750 000	750 000
Carrying amount	399 790	394 225	763 428	761 064
Expiration date	2013-12-28	2013-12-28	2012-02-27	2012-02-27

22. 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	292 413	329 033	42 416	36 101	334 829	365 134
Jubilee and post-employment benefits provision	254 568	242 475	36 604	33 315	291 172	275 790
Business risk provision	26 903	40 402	67 488	80 006	94 391	120 408
Shield programs provision	2 365	-	64 704	41 426	67 069	41 426
Provision for CO_2 emission	-	-	542 054	644 703	542 054	644 703
Other	45 130	23 708	254 874	166 877	300 004	190 585
	621 379	**635 618**	**1 008 140**	**1 002 428**	**1 629 519**	**1 638 046**

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	**365 134**	**275 790**	**120 408**	**41 426**	**644 703**	**190 585**	**1 638 046**
Recognition	5 978	39 922	26 175	40 637	558 475	165 679	836 866
Reclassification	-	178	(3 076)	-	-	2 929	31
Usage	(28 224)	(23 247)	(11 515)	(15 144)	(669 023)	(45 224)	(792 377)
Reversal	(15 017)	(4 803)	(44 115)	-	(18 450)	(36 820)	(119 205)
Discounting	-	-	-	-	-	(2 860)	(2 860)
Foreign exchange differences	6 958	3 332	6 514	150	26 349	25 715	69 018
31 December 2011	**334 829**	**291 172**	**94 391**	**67 069**	**542 054**	**300 004**	**1 629 519**

(all amounts in PLN thousand)

Change in provisions in 2010

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

22.1. Environmental provision

The Group has legal obligation to clean contaminated land – water environment in the area of production plants, 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 independent experts. The amount of the provision is the best estimate based on the average level of costs necessary to remove contamination by facilities.
As the Czech Republic is concerned, the Government of the Czech Republic is responsible for liabilities arising from contamination of land-water environment before date of entity's privatization (so called Old Ecological Burdens). In case of new contamination that arose after date of the entity's privatization the Group is responsible for those liabilities.

The potential future changes in regulation 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 the prior year.

22.2. Provision for jubilee bonuses and post-employment benefits

The Group realize the program of paying out the jubilee bonuses and post – employment benefits, which include retirement and pension benefits. Provision for jubilee bonuses and post-employment benefits are calculated individually for each employee. The base for the calculation of provision for an employee is expected benefit, which the Group is obliged to pay in accordance with 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 depend on the number of years of service and an employee's remuneration. The present value of these obligations is estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the obligations. The provision 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 provision	Post-employment benefits	Total
1 January 2011	**155 177**	**120 613**	**275 790**
Current service cost	9 310	4 230	13 540
Interest expense	8 336	6 966	15 302
Actuarial gains and losses net	5 037	3 353	8 390
Benefits paid	(18 148)	(8 181)	(26 329)
Change in share structure	18	-	18
Foreign exchange differences	1 579	1 761	3 340
Past service cost	-	1 121	1 121
31 December 2011	**161 309**	**129 863**	**291 172**

(all amounts in PLN thousand)

Change in employee benefits obligations in 2010

	Jubilee bonuses provision	Post-employment benefits	Total
1 January 2010	147 045	114 486	**261 531**
Current service cost	8 855	4 646	**13 501**
Interest expense	7 700	6 803	**14 503**
Actuarial gains and losses net	11 200	1 869	**13 069**
Benefits paid	(18 720)	(7 566)	**(26 286)**
Foreign exchange differences	(903)	375	**(528)**
31 December 2010	**155 177**	**120 613**	**275 790**

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 the above mentioned employee benefits obligation
31/12/2011	291 172
31/12/2010	275 790
31/12/2009	261 531
31/12/2008	283 988
31/12/2007	260 271

Total expense recognized in profit or loss

	for the year ended 31/12/2011	for the year ended 31/12/2010
Current service cost	(13 540)	(13 501)
Interest expense	(15 302)	(14 503)
Actuarial gains and losses net	(8 390)	(13 069)
Past service cost	(1 121)	-
	(38 353)	**(41 073)**

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 lower by PLN (1,826) thousand.

For updating the provision at as at 31 December 2011 the Group 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.

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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Cost of sales	(5 284)	(3 097)
General and administrative expenses	(28 718)	(29 210)
Distribution expenses	(4 351)	(6 719)
Other	-	(2 047)
	(38 353)	**(41 073)**

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

(all amounts in PLN thousand)

22.3. Business risk provision

A increase crease of business risk provision in 2011 results mainly from revision of status of administrative and court proceedings concerning land.

22.4. Shield programs provision

Employee shield programs were launched to support the restructuring processes conducted in the Group. The programs provide depending on particular company i.a. additional money considerations or trainings for employees with whom the employment agreement was or would be dissolved and for the employees, who agreed to change the workplace, 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.

22.5. Provision for CO_2 emission

The Group recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision in the consolidated profit or loss is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. Detailed description is disclosed in note 2.3.8.2 and note 33.7.

22.6. Other provisions

The increase of other provisions in 2011 is mainly a result of an update of court and administrative proceedings.

23. Other long-term liabilities

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments, including	**113 602**	**-**
Interest rate swaps	113 602	-
Derivatives not designated as hedge accounting	**-**	3 414
Interest rate swaps	-	3 414
Investment liabilities	1 310	1 474
Financial lease	69 336	65 811
Other	15 955	14 408
Financial liabilities	**200 203**	**85 107**
Non-financial liabilities	**3 479**	**4 568**
	203 682	**89 675**

(all amounts in PLN thousand)

24. Trade and other liabilities

	as at 31/12/2011	as at 31/12/2010
Trade liabilities	10 984 529	9 130 835
Investment liabilities	586 144	880 499
Dividend liabilities	6 761	5 441
Financial lease liabilities	28 579	26 095
Uninvoiced services	80 840	62 813
Other	76 368	82 195
Financial liabilities	**11 763 221**	**10 187 878**
Prepayments for deliveries	61 876	49 373
Payroll liabilities	223 353	200 023
Environmental liabilities	10 588	11 892
Special funds	12 725	19 652
Excise tax and fuel charge	1 720 017	1 574 267
Value added tax	899 070	1 018 359
Other taxation, duties, social security and other benefits	98 538	87 320
Accruals	295 547	287 234
Holiday pay accrual	50 351	48 378
Customers' discounts and rebates	100 986	78 637
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	144 210	160 219
Other liabilities	7 589	-
Non-financial liabilities	**3 329 303**	**3 248 120**
	15 092 524	**13 435 998**

Trade and other liabilities denominated in foreign currencies as at 31 December 2011 and 31 December 2010 amounted to PLN 10,549,206 thousand and PLN 9,614,535 thousand, respectively.

Detailed information about currency structure of financial liabilities was disclosed in note 33.7.

Trade and other liabilities related to exploration and extraction of mineral materials as at 31 December 2011 and 31 December 2010 amounted to PLN 32,050 thousand and PLN 47,043 thousand, respectively.

As at 31 December 2011 and as at 31 December 2010 trade and other liabilities of PLN 207,845 thousand and PLN 86,135 thousand, respectively, were pledged on the Group's assets.

25. Deferred income

	as at 31/12/2011	as at 31/12/2010
Long-term accruals	**16 239**	**16 960**
Government grants	15 781	16 691
Other	458	269
Short-term accruals	**136 379**	**74 959**
Government grants	41 864	1 842
Unsettled points in loyalty program VITAY	72 632	61 537
Other	21 883	11 580
	152 618	**91 919**

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)

(all amounts in PLN thousand)

25.1. Government grants

As at 31 December 2011 the Group 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 of PLN 17,707 thousand and PLN 18,533 thousand, respectively.

26. Other financial liabilities

	as at 31/12/2011	as at 31/12/2010
Cash flow hedge instruments	**150 258**	**98 263**
foreign currency forwards (operating exposure)	147 718	3 095
interest rate swaps	1 506	95 168
commodity swap	1 034	-
Derivatives not designated as hedge accounting	**284 810**	**29 060**
foreign currency forwards	264 420	12 551
interest rate swaps	-	4 554
other	20 390	11 955
foreign currency-interest rate swap	14 453	11 955
commodity swap	5 937	-
Embedded derivatives	**7 240**	**1 314**
foreign currency swap	7 240	1 314
Other	-	15 886
	442 308	**144 523**

27. Sales revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Sales of finished goods	82 983 039	62 975 218
Sales of services	1 660 422	1 538 707
Revenues from sales of finished goods and services, net	**84 643 461**	**64 513 925**
Sales of merchandise	21 862 019	17 085 722
Sales of raw materials	467 594	1 947 785
Revenues from sales of merchandise and raw materials, net	**22 329 613**	**19 033 507**
	106 973 074	**83 547 432**

28. Operating expenses

Cost of sales

	for the year ended 31/12/2011	for the year ended 31/12/2010
Costs of finished goods and services sold	(77 296 657)	(57 665 333)
Cost of merchandise and raw materials sold	(21 101 154)	(17 901 628)
	(98 397 811)	**(75 566 961)**

(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	(73 601 514)	(54 438 067)
Cost of merchandise and raw materials sold	(21 101 154)	(17 901 628)
External services	(4 110 251)	(3 712 213)
Payroll, social security and other employee benefits	(2 078 987)	(1 991 488)
Depreciation and amortisation	(2 379 948)	(2 422 747)
Taxes and charges	(440 619)	(414 461)
Other	(2 797 574)	(1 239 838)
	(106 510 047)	**(82 120 442)**
Change in inventories	372 712	738 373
Cost of products and services for own use	224 078	185 965
Operating expenses	**(105 913 257)**	**(81 196 104)**
Distribution expenses	3 660 256	3 394 612
General and administrative expenses	1 468 298	1 365 195
Other operating expenses	2 386 892	869 336
Cost of sales	**(98 397 811)**	**(75 566 961)**

In 2011 and 2010 external services included research and development expenditures of PLN (14,927) thousand and PLN (15,985) thousand, respectively.

Employee benefits costs

	for the year ended 31/12/2011	for the year ended 31/12/2010
Payroll expenses	(1 617 323)	(1 565 314)
Future benefits expenses	(6 684)	(5 086)
Social security expenses	(344 757)	(319 043)
Other employee benefits expenses	(110 223)	(102 045)
	(2 078 987)	**(1 991 488)**

29. Other operating revenues and expenses

29.1. Other operating revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Profit on sale of non-current non-financial assets	56 446	114 798
Reversal of provisions	85 832	66 941
Reversal of receivables impairment allowances	129 817	77 342
Reversal of impairment allowances of property, plant and equipment and intangible assets	60 656	106 291
Penalties and compensations earned	301 054	127 233
Grants	20 628	110 634
Other	352 222	168 082
	1 006 655	**771 321**

In 2011 penalties and compensation include mainly return of amount of PLN 75,879 thousand from ENERGA-OPERATOR S.A. (detailed information in note 42.1.III) and received by the ORLEN Lietuva Group settlement of damages associated with refinery fire in 2006 of PLN 97,514 thousand, return of the fine paid by Unipetrol of PLN

(all amounts in PLN thousand)

39,060 thousand (detailed information in note 42.1.IV) and compensation of PLN 39,031 thousand received by Anwil S.A. due to the fire in the electrolytic installation at chlorine and soda lye plant in 2010.

In 2011 the line "other" mainly includes the effect of the settlement of CO_2 emission rights received free of charge in relation to actual emissions and recalculation of provision for CO_2 emissions as a result of changes in rights' prices of PLN 259,612 thousand.

29.2. Other operating expenses

	for the year ended 31/12/2011	for the year ended 31/12/2010
Loss on sale of non-current non-financial aasets	(67 269)	(30 585)
Recognition of provisions	(136 892)	(189 167)
Recognition of receivables impairment allowances	(114 992)	(97 693)
Recognition of other impairment allowances	(237)	(14 714)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(1 855 850)	(376 510)
Costs of losses, breakdowns and compensations	(42 806)	(53 025)
Other	(168 846)	(107 642)
	(2 386 892)	**(869 336)**

Detailed description of impairment allowances is disclosed in notes 7, 9, 10, 14 and 15.

30. Financial revenues and expenses

30.1. Financial revenues

	for the year ended 31/12/2011	for the year ended 31/12/2010
Interest	82 870	62 014
Foreign exchange gain	320 287	237 904
Profit from sale of shares	2 278 528	13 185
Decrease in receivables impairment allowances	8 541	14 625
Settlement and valuation of financial instruments	68 110	96 008
Reversal of investment impairment allowances	320	1 370
Other	21 489	21 648
	2 780 145	**446 754**

In 2011 profit on sale of shares and other securities includes mainly profit from sale of Polkomtel S.A. shares of PLN 2,277,452 thousand (detailed information is disclosed in note 11.1).

30.2. Financial expenses

	for the year ended 31/12/2011	for the year ended 31/12/2010
Interest	(369 219)	(386 697)
Foreign exchange loss	(1 391 515)	(254 421)
Increase in receivables impairment allowances	(12 942)	(15 263)
Settlement and valuation of financial instruments	(405 696)	(57 650)
Investment impairment allowances	(2 070)	(1 220)
Other	(61 733)	(35 997)
	(2 243 175)	**(751 248)**

According to IAS 23 Borrowing cost, the Group capitalizes those borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in 2011 and 2010 amounted to PLN (53,480) thousand and PLN (156,727) thousand, respectively. In 2011 and in 2010 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.04% per annum and 3.14% per annum, respectively.

(all amounts in PLN thousand)

31. Income tax expense

Consolidated income statement	for the year ended 31/12/2011	for the year ended 31/12/2010
Current income tax	(1 000 215)	(503 823)
Deferred income tax	223 477	(110 877)
Income tax expense in the income statement	**(776 738)**	**(614 700)**

Consolidated statement of comprehensive income	for the year ended 31/12/2011	for the year ended 31/12/2010
Net profit/(loss) from the cash flows hedge accounting instruments	22 088	(11 499)
Investment property valuation	(1 974)	-
Income tax expense in other comprehensive income	**20 114**	**(11 499)**

31.1. 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	2 791 741	3 070 167
Corporate income tax for 2011 and 2010 by the valid tax rate (19% in Poland)	(530 431)	(583 332)
Differences between tax rates	(23 098)	(22 286)
Lithuania (15%)	(12 743)	(14 278)
Germany (29%)	(10 355)	(8 008)
Valuation of entities accounted for under equity method	35 632	47 515
Tax losses	(183 676)	94
Profit on sale of Polkomtel S.A. shares adjustment	(44 246)	-
Other	(30 918)	(56 691)
Income tax	**(776 738)**	**(614 700)**
Effective tax rate	**28%**	**20%**

The line other in 2011 and 2010 includes the effect of revaluation of tax value of non-monetary assets in Orlen Lietuva due to changes in LTL/USD exchange rates of PLN (30,185) thousand and PLN (45,436) thousand, respectively.

(all amounts in PLN thousand)

31.2. Deferred tax

Change in deferred tax liability, net

	as at 31/12/2010	Deferred tax recognized in profit or loss	Deferred tax recognized in other comprehensive income	Foreign exchange differences recognized in other comprehensive income	as at 31/12/2011
Deferred tax assets					
Impairment allowances	69 830	217 969	-	2 607	290 406
Provisions and accruals	304 777	(37 585)	-	8 973	276 165
Unrealized foreing exchange differences	208 993	(59 645)	-	126 091	275 439
Difference between carrying amount nad tax base of property plant and equipment	61 786	(20 309)	-	6 295	47 772
Tax loss	157 056	48 153	-	18 998	224 207
Valuation of financial instruments	-	39 501	22 088	-	61 589
Other	52 293	(3 223)	(1 974)	2 092	49 188
	854 735	**184 861**	**20 114**	**165 056**	**1 224 766**
Deferred tax liabilities					
Investment relief	74 260	(5 103)	-	-	69 157
Difference between carrying amount nad tax base of property plant and equipment	1 329 877	(13 704)	-	90 483	1 406 656
Difference in contribution in kind	42 870	(1)	-	-	42 869
Finance lease treated as operating for tax purposes	9 544	(7 709)	-	4 937	6 772
Valuation of financial instruments	10 075	(10 075)	-	-	-
Other	42 797	(2 025)	-	(76)	40 696
	1 509 423	**(38 616)**	**-**	**95 343**	**1 566 150**
Deferred tax liability, net	**654 688**	**(223 477)**	**(20 114)**	**(69 713)**	**341 384**

The above positions of deferred tax assets and liabilities are subject to compensation on the level of particular Group companies and are presented in the consolidated statement of ORLEN Capital Group.

As at 31 December 2011 and 31 December 2010 the Group recognized unsettled tax loss of PLN 1,281,098 thousand and PLN 11,261 thousand, for which no deferred tax asset was recognized. Unsettled tax losses in 2011 are a result of recognized impairment allowance of assets and include companies from Unipetrol Group and Anwil Group.

(all amounts in PLN thousand)

32. 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	**(1 764 045)**	**(666 052)**
Change in long term loans granted	(22 250)	-
Change in investment receivables from	(35 336)	(109 834)
advances for construction in progress	(22 516)	(119 677)
sale of non-current non-financial assets	(12 820)	9 843
Change in prepayments regarding bank commisions	34 762	(22 373)
Foreign exchange differences	473 863	10 006
Other	(6 177)	(10 893)
Change in receivables in the statement of cash flows	**(1 319 184)**	**(799 146)**
Change in inventories presented in the statement of financial position	**(5 001 666)**	**(674 992)**
Reclassification of inventories from/to property, plant and equipment and non-current assets held for sale	24 929	6 979
Foreign exchange differences	411 717	59 032
Change in inventories in the statement of cash flows	**(4 565 020)**	**(608 981)**
Change in other long-term liabilities, trade liabilities and other liabilities presented in the statement of financial position	**1 770 533**	**1 933 426**
Change in investment liabilities from acquisition of non-current non-financial assets	294 519	331 095
Change in financial liabilities	(7 329)	7 848
Change in cash flow hedge instruments	(110 196)	-
Foreign exchange differences	(850 730)	884
Other	(15 998)	9 423
Change in liabilities in the statement of cash flows	**1 080 799**	**2 282 677**
Change in provisions presented in the statement of financial position	**(8 528)**	**129 008**
Usage of prior year provision for CO_2 emission rights	669 590	588 869
Change in the composition of Capital Group	-	1 837
Foreign exchange differences	(66 887)	(4 396)
Other	-	(241)
Change in provisions in the statement of cash flows	**594 175**	**715 077**

Other adjustments in cash flows from operating activities

	change in 2011	change in 2010
CO_2 emission rights granted free of charge	(749 667)	(798 702)
Change in deferred income	67 531	(2 309)
Other	(38 263)	38 628
	(720 399)	**(762 383)**

In the consolidated statement of cash flows, net cash used in investing activities in 2011 and 2010 includes the effects of exploration and evaluation of mineral resources of PLN (106,707) thousand and PLN (86,892) thousand.

(all amounts in PLN thousand)

33. Financial instruments

33.1. 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 held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	**Note**						
Quoted shares	12	-	-	-	690	-	690
Unquoted shares	12	-	-	-	39 830	-	39 830
Bonds/other debt securities	17	-	15 197	-	-	-	15 197
Trade receivables	16	-	7 055 689	-	-	-	7 055 689
Receivables from sale of non-current non-financial assets	16	-	853	-	-	-	853
Loans granted	13,17	-	17 156	-	-	-	17 156
Embedded derivatives and hedging instruments	13,17	48 183	-	-	-	225 991	274 174
Cash and cash equivalents	18	-	5 409 166	-	-	-	5 409 166
Other	13,16,17	-	115 347	-	-	-	115 347
		48 183	**12 613 408**	**-**	**40 520**	**225 991**	**12 928 102**

as at 31 December 2010

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	**Note**						
Quoted shares	12	-	-	-	1 190	-	1 190
Unquoted shares	12	-	-	-	41 593	-	41 593
Bonds/other debt securities	17	-	-	34 876	-	-	34 876
Trade receivables	16	-	5 296 717	-	-	-	5 296 717
Receivables from sale of non-current non-financial assets	16	-	13 673	-	-	-	13 673
Loans granted	13,17	-	41 066	-	-	-	41 066
Embedded derivatives and hedging instruments	13,17	4 064	-	-	-	175 462	179 526
Cash and cash equivalents	18	-	2 820 742	-	-	-	2 820 742
Other	13,16,17	-	142 007	-	-	-	142 007
		4 064	**8 314 205**	**34 876**	**42 783**	**175 462**	**8 571 390**

Financial liabilities

as at 31 December 2011

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	21	-	1 163 218	-	-	1 163 218
Loans	21	-	11 824 318	-	-	11 824 318
Borrowings	21	-	10 055	-	-	10 055
Finance lease	23,24	-	-	-	97 915	97 915
Trade liabilities	24	-	10 984 529	-	-	10 984 529
Investment liabilities	23,24	-	587 454	-	-	587 454
Embedded derivatives and hedging instruments	23,26	292 050	-	263 860	-	555 910
Other	23,24,26	-	179 924	-	-	179 924
		292 050	**24 749 498**	**263 860**	**97 915**	**25 403 323**

as at 31 December 2010

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	**Note**					
Debt securities	21	-	1 155 289	-	-	1 155 289
Loans	21	-	8 952 079	-	-	8 952 079
Borrowings	21	-	560 359	-	-	560 359
Finance lease	23,24	-	-	-	91 906	91 906
Trade liabilities	24	-	9 130 835	-	-	9 130 835
Investment liabilities	23,24	-	881 973	-	-	881 973
Embedded derivatives and hedging instruments	23,26	33 788	-	98 263	-	132 051
Other	23,24,26	-	180 743	-	-	180 743
		33 788	**20 861 278**	**98 263**	**91 906**	**21 085 235**

(all amounts in PLN thousand)

33.2. Income and expense, gains and losses in the consolidated statement of comprehensive income

	for the year ended 31/12/2011	for the year ended 31/12/2010
by category		
Financial assets and liabilties at fair value through profit or loss	(336 777)	74 265
Loans and receivables	618 775	(75 717)
Financial assets held to maturity	-	2 993
Financial assets available for sale	(463)	150
Financial liabilities measured at amortised cost	(2 042 455)	(300 056)
Hedging financial instruments	26 088	(13 546)
Liabilities excluded from the scope of IAS 39	(6 726)	(5 768)
other, excluded from IFRS 7	**(1 741 558)**	**(317 679)**
Gain on disposals of shares and other securities	2 278 528	13 185
Financial revenues/expenses, net	**536 970**	**(304 494)**

33.3. 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	(1 816)	(254)
Unquoted shares	(254)	(966)
Trade receivables	(12 942)	(15 263)
	(15 012)	**(16 483)**

Impairment allowances of financial assets were disclosed in the note 12 and 16.

33.4. 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	39 830	not applicable	41 593
Deposits and other debt securities	15 197	15 197	34 665	34 876
Trade receivables	7 055 689	7 055 689	5 296 717	5 296 717
Receivables from sale of non-current non-financial assets	853	853	13 673	13 673
Loans granted	18 600	17 156	43 403	41 066
Embedded derivatives and hedging instruments	274 174	274 174	179 526	179 526
Cash and cash equivalents	5 409 166	5 409 166	2 820 742	2 820 742
Other	114 051	115 347	137 520	142 007
	12 888 420	**12 928 102**	**8 527 436**	**8 571 390**
Financial liabilities				
Debt securities	1 163 231	1 163 218	1 197 053	1 155 289
Loans	11 825 916	11 824 318	8 945 948	8 952 079
Borrowing	10 055	10 055	573 885	560 359
Finance lease	90 558	97 915	79 419	91 906
Trade liabilities	10 984 529	10 984 529	9 130 835	9 130 835
Investment liabilities	587 454	587 454	881 973	881 973
Embedded derivatives and hedging instruments	555 910	555 910	132 051	132 051
Other	179 924	179 924	180 743	180 743
	25 397 577	**25 403 323**	**21 121 907**	**21 085 235**

(all amounts in PLN thousand)

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2011 and 31 December 2010 the Group held unquoted shares in, 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 recognized in the consolidated statement of financial position of PLN 39,830 thousand and PLN 41,593 thousand as financial assets available for sale and measured at acquisition cost less impairment allowances. As at the period end there are no binding decisions relating to ways and dates of disposure of those assets.

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

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

		as at 31/12/2011		as at 31/12/2010	
	Note	Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	12	690		1 190	-
Embedded derivatives and hedging instruments	13,17		274 174	-	179 526
		690	**274 174**	**1 190**	**179 526**
Financial liabilities					
Embedded derivatives and hedging instruments	23,26		555 910	-	132 051
		-	**555 910**	**-**	**132 051**

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

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

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as loans liabilities and other financial instruments are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates as at 31 December 2011 and 31 December 2010 according to quotations of 1-month and 3-months and 6-months interest rates, respectively, increased by proper margins 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%
PRIBOR	0.9400%	0.9900%
VILIBOR	1.0600%	1.0500%

(all amounts in PLN thousand)

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

	as at 31/12/2011	as at 31/12/2010
Cession of receivables	427 409	359 489
Cash in bank pledged as collateral	130 985	92 538

Additionally according to the bank agreement as at 31 December 2011 the Capital Group had pledged cash of net book value of PLN 10,247 thousand as collateral for bank overdrafts, which balance amounts to nil as at 31 December 2011.

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

33.6. Hedge accounting

Cash flow hedge accounting

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

The Group hedges cash flows relating to sales/purchases of crude oil, gasoline, diesel, using commodity swaps.

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

Hedging transactions, settlement and fair value measurement which influence the foregoing 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:

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

	as at 31/12/2011	as at 31/12/2010
Planned realization of hedged cash flows		
Currency operating exposure		
2011	-	31 216
2012	(122 399)	-
Interest rate exposure		
until 1Q 2012	(1 507)	(7 132)
until 1Q 2014	(113 602)	(88 036)
Commodity risk exposure		
2011	-	126 092
2012	198 979	14 364
	(38 529)	**76 504**

As at 31 December 2011 foreign exchange differences on cash flow hedge accounting amounted to PLN (242) thousand and were presented in line foreign exchange differences on consolidation.

Fair value of PLN 5,909 thousand will be recognized in profit and loss attributable to non-controlling interest as at the date of realization.

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

(all amounts in PLN thousand)

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

	as at 31/12/2011	as at 31/12/2010
Planned realization date of hedged cash flows		
2011 (currency investment exposure)	-	728
2012 (currency investment exposure)	580	-
2013 (currency investment exposure)	79	-
	659	**728**

Settlement of hedge instruments

	for the year ended 31/12/2011	for the year ended 31/12/2010
Sales of products	(34 420)	26 369
Foreign exchange differences	96 524	(4 300)
Interest expense	(53 009)	(61 212)
Construction in progress	(1 185)	52 019
Inventories	337 790	-
	345 700	**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.

Net investment hedge in a foreign operation

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

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Orlen Lietuva Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN amounting to PLN (8,260) thousand (net of deferred tax) were recognised in other comprehensive income in the line "Foreign exchange differences on subsidiaries from consolidation".

33.7. Financial risk management

The Group is exposed particularly to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices).
- other, disclosed in details in point VII 7.2. in the Management Board Report on the Operations of ORLEN Capital Group.

Credit risk

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

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

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.

(all amounts in PLN thousand)

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

	as at 31/12/2011	as at 31/12/2010
Group I	5 182 595	3 631 698
Group II	920 950	1 030 722
	6 103 545	**4 662 420**

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

	Current receivables	
	as at 31/12/2011	as at 31/12/2010
Up to 1 month	940 447	702 517
1-3 months	39 688	21 083
3-6 months	8 803	8 484
6-12 months	9 724	9 356
Above 1 year	64 438	39 065
	1 063 100	**780 505**

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 deposits is assessed by the Group as low.
All entities in which the Group's free cash is 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 (81% of deposited cash) or good credibility (19% 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 about ratings are publications on web sites of each of the bank, in which the Group invest its free cash flows.

Credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by the Group as low, due to the fact that all transactions are concluded with banks having high credit rating. One of the factors significant for bank choice is rating on the level not lower than A.

As at 31 December 2011 and 31 December 2010 due to changes in payment terms referring to trade receivables, the Group did not recognise impairment loss of receivables in profit or loss in the amount PLN 4,837 thousand and PLN 528 thousand, respectively.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.
Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount.

In order to reduce the risk of recoverability of trade receivables, the Group receives from its customers securities such as: bank and issuance guarantees, blockade of cash on bank accounts, mortgage 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 assets is disclosed in the note 30.2 and 33.3.

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between 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 21.1.

(all amounts in PLN thousand)

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

In order to optimize financial expenses the Group uses cash pool facility. As at 31 December 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 4 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 20,899,193 thousand and PLN 17,989,434 thousand, respectively, of which as at 31 December 2011 and 31 December 2010 PLN 7,562,831 thousand and PLN 7,685,036 thousand respectively remained unused.

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	805 584	357 797	-	-	1 163 381	1 163 218
Floating rate bonds- undiscounted value	763 592	-	-	-	763 592	763 428
Fixed rate bonds- undiscounted value	41 992	357 797	-	-	399 789	399 790
Loans- undiscounted value	1 629 224	460 932	8 992 623	744 651	11 827 430	11 824 318
Borrowings - undiscounted value	11 539	-	-	-	11 539	10 055
Finance lease	28 579	44 105	9 212	16 236	98 132	97 915
Trade liabilities	10 984 529	-	-	-	10 984 529	10 984 529
Investment liabilities	586 144	905	271	134	587 454	587 454
Embedded derivatives and hedging	442 308	113 602	-	-	555 910	555 910
Gross settled amounts	433 830	-	-	-	433 830	433 830
Net settled amounts	8 478	113 602	-	-	122 080	122 080
Other	163 969	15 955	-	-	179 924	179 924
	14 651 876	**993 296**	**9 002 106**	**761 021**	**25 408 299**	**25 403 323**

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

Market risks

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

Market risks management in ORLEN Capital Group is performed by entities exposed to the highest risks, i.e. PKN ORLEN, Basell ORLEN Polyolefins, ORLEN Asfalt, Anwil, Unipetrol Group, ORLEN Lietuva, Rafineria Trzebinia, Rafineria Nafty Jedlicze, ORLEN GAZ, ORLEN OIL, Orlen Projekt, Petrolot and Ship Service.

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

(all amounts in PLN thousand)

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. ORLEN Capital Group applies only those instruments which can be measured independently, using standard valuation models for given instrument. As far as market valuation of the instruments is concerned, the Group relies on information obtained from market leading banks, brokers and information services. Transactions are concluded only with reliable partners, authorized to participate in transactions through the application of appropriate procedures and signing the relevant documentation.

– **Currency risk**

The Group is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures as well as liabilities from loans and bonds issued denominated in foreign currencies as well as from future planned cash flows from sales and purchases of refinery and petrochemical products and merchandise. Currency risk exposure is hedged by forward or 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	CZK	LTL	JPY	Other currencies after translation to PLN	Total after translation to PLN
Financial assets							
Deposits/other debt securities	1 420	-	-	6 977	-	-	15 197
Trade receivables	370 962	191 498	6 433 206	173 136	-	14 799	3 629 885
Loans granted	790	33	79 209	-	-	-	17 156
Embedded derivatives and hedging instruments	1 629	62 276	297 330	-	-	-	270 891
Cash and cash equivalents	48 627	78 724	2 260 585	46 081	4 846	13 958	943 712
Other	624	11 986	376 411	-	-	-	108 120
	424 052	344 517	9 446 741	226 194	4 846	28 757	4 984 961
Financial liabilities							
Debt securities	-	-	2 336 579	-	-	-	399 790
Loans	952 092	2 066 207	1 942 271	809	-	-	11 599 612
Finance lease	-	-	14 169	-	-	-	2 424
Trade liabilities	350 301	2 064 999	3 744 484	118 272	29 473	3 247	9 400 660
Investment liabilities	48	8 517	430 010	-	-	-	102 893
Embedded derivatives and hedging instruments	79 476	33 644	247 497	13 742	35 750	-	527 507
Other	6 733	9 794	419 328	-	-	-	134 953
	1 388 651	4 183 161	9 134 339	132 822	65 223	3 247	22 167 839

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, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(667 162)	-15%	667 162
USD/PLN	+15%	(790 641)	-15%	790 641
JPY/PLN	+15%	(1 177)	-15%	1 177
		(1 458 979)		**1 458 979**

(all amounts in PLN thousand)

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%	(41 749)	-15%	41 749
		(227 324)		**227 324**

Influence on foreign exchange differences on subsidiaries from consolidation including net investemnt hedge in foreign operations				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	7 050	-15%	(7 050)
USD/PLN	+15%	(1 216 633)	-15%	1 216 633
CZK/PLN	+15%	(11 671)	-15%	11 671
LTL/PLN	+15%	29 638	-15%	(29 638)
		(1 191 616)		**1 191 616**

Total				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(845 687)	-15%	845 687
USD/PLN	+15%	(2 049 023)	-15%	2 049 023
CZK/PLN	+15%	(11 671)	-15%	11 671
JPY/PLN	+15%	(1 177)	-15%	1 177
LTL/PLN	+15%	29 638	-15%	(29 638)
		(2 877 919)		**2 877 919**

The influence of changes in relevant currencies in relation to presentation currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2011

Sensivity of a net investment in a foreign operations including hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	101 618	-15%	(101 618)
USD/PLN	+15%	14 416	-15%	(14 416)
CZK/PLN	+15%	863 379	-15%	(863 379)
		979 413		**(979 413)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2011.

Total influence of changes in exchange rates of relevant currencies in relation to functional currency (PLN) on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2011

Total influence on other comprehensive income				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(751 119)	-15%	751 119
USD/PLN	+15%	(817 972)	-15%	817 972
CZK/PLN	+15%	863 379	-15%	(863 379)
JPY/PLN	+15%	(1 177)	-15%	1 177
		(706 890)		**706 890**

(all amounts in PLN thousand)

Currency structure of financial instruments as at 31 December 2010

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other currencies after translation to PLN	Total after translation to PLN
Financial assets							
Quoted shares	-	-	-	-	-	-	-
Unquoted shares	116	-	189 525	-	-	-	30 403
Bonds/other debt securities	-	11 766	-	-	-	-	34 876
Trade receivables	285 401	172 842	5 489 828	162 409	-	6 685	2 703 290
Receivables from sale of non-current non-financial assets	-	-	9 720	-	-	-	1 536
Loans granted	5 442	105	99 614	-	-	3 668	41 066
Finance lease	-	-	-	-	-	-	-
Embedded derivatives and hedging	3 801	54 503	-	-	19 987	-	177 332
Cash and cash equivalents	46 483	353 194	4 371 754	23 643	67 051	27 325	1 982 730
Other	-	32 780	117 266	-	-	-	115 692
	341 243	625 190	10 277 707	186 052	87 038	37 678	5 086 925
Financial liabilities							
Debt securities	-	-	2 495 096	-	-	-	394 225
Loans	953 872	1 662 277	292 992	1 545	-	-	8 750 588
Borrowings	-	182 040	-	-	-	-	539 586
Finance lease	24	-	24 412	-	-	-	3 953
Trade liabilities	51 360	2 168 470	4 207 640	111 319	30 438	11 953	7 436 693
Investment liabilities	5 458	6 339	428 476	-	2 000 540	-	181 004
Embedded derivatives and hedging instruments	15 587	13 067	76 203	-	-	-	112 501
Other	5 663	9 776	120 620	-	-	-	70 463
	1 031 964	4 041 969	7 645 439	112 864	2 030 978	11 953	17 489 013

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, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

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

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

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

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

(all amounts in PLN thousand)

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

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

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

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

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

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 and embedded derivatives, 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 Group.

– **Interest rate risk**

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

Structure of financial instruments subject to interest rate risk

	as at 31/12/2011					
Financial instruments by class	EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Selected financial assets						
Deposits/other debt securities	6 272	-	-	8 925	-	15 197
Loans granted	3 489	113	13 554	-	-	17 156
	9 761	**113**	**13 554**	**8 925**	**-**	**32 353**
Selected financial liabilities						
Debt securities	-	-	0	-	763 428	763 428
Loans	4 205 198	7 061 057	332 323	1 033	224 707	11 824 318
Borrowings		-	-	-	10 055	10 055
Embedded derivatives and hedging instruments	64 745	48 857	-	-	1 507	115 109
	4 269 943	**7 109 914**	**332 323**	**1 033**	**1 026 593**	**12 712 910**

(all amounts in PLN thousand)

Financial instruments by class	as at 31/12/2010 EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Selected financial assets						
Bonds / other debt securities	-	34 876	-	-	-	34 876
Loans granted	21 552	311	15 739	-	3 464	41 066
Embedded derivatives and hedging instruments	15 053	162 281	-	-	2 192	179 526
	36 605	**197 468**	**15 739**	**-**	**5 656**	**255 468**
Selected financial liabilities						
Debt securities	-	-	-	-	761 064	761 064
Loans	3 777 860	4 925 289	46 196	1 243	201 491	8 952 079
Borrowings	-	-	-	-	20 773	20 773
Embedded derivatives and hedging instruments	52 967	35 070	-	-	7 131	95 168
	3 830 827	**4 960 359**	**46 196**	**1 243**	**990 459**	**9 829 084**

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	(4 991)	(4 899)	930	2 062	(4 061)	(2 837)
EURIBOR	+50	+50	(20 977)	(19 008)	15 932	21 062	(5 045)	2 054
LIBOR	+50	+50	(35 305)	(24 451)	17 981	19 635	(17 324)	(4 816)
PRIBOR	+50	+50	(1 594)	(212)	-	-	(1 594)	(212)
			(62 867)	**(48 570)**	**34 843**	**42 759**	**(28 024)**	**(5 811)**
WIBOR	-50	-50	4 991	4 899	(932)	(2 084)	4 059	2 815
EURIBOR	-50	-	20 977	-	(16 271)	-	4 706	-
PRIBOR	-50	-50	1 594	212	-	-	1 594	212
			27 562	**5 111**	**(17 203)**	**(2 084)**	**10 359**	**3 027**

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 Group 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.

The Group does not consider sensitivity analysis for VILIBOR due to insignificant impact on the Group's financial statements.

The Group 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 influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate.

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

– **Risk of changes in commodity prices, raw materials and refining products prices**

The Group is exposed to changes in commodity prices due to:
- purchases of crude oil for processing, which depend on the volume of processing, the level of inventories as well as the level of crude oil price on the global market and differential;
- sales of refinery and petrochemical products, which depend on the volume of sales, the inventory level and the level of product prices on the global market.

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.

(all amounts in PLN thousand)

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

Hedged raw material/finished good	Unit of measure	as at 31/12/2011	as at 31/12/2010
Crude oil	bbl	7 294 035	3 589 591
Diesel oil	MT	85 190	-
Gasoline	MT	12 737	-
Bitumen	MT	11 140	-
JET A-1	MT	253	-

Sensitivity analysis for risk of changes in crude oil, diesel oil, gasoline, bitumen and JET A-1 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
Brent crude oil USD/BBL	+27.5%	(191 818)	-27.5%	191 818
Diesel oil USD/MT	+23%	(10 430)	-23%	10 430
Bitumen EUR/MT	+25%	5 699	-25%	(5 699)
JET A-1 USD/MT	+22%	186	-22%	(186)
		(196 363)		**196 363**

	Influence on hedging reserve			
	Increase of prices	Total influence	Decrease of prices	Total influence
Brent crude oil USD/BBL	+27.5%	540 009	-27.5%	(540 009)
Diesel oil USD/MT	+23%	36 529	-23%	(36 529)
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
Brent crude oil USD/BBL	+27.5%	348 191	-27.5%	(348 191)
Diesel oil USD/MT	+23%	26 099	-23%	(26 099)
Gasoline USD/MT	+28%	11 221	-28%	(11 221)
Bitumen EUR/MT	+25%	5 699	-25%	(5 699)
JET A-1 USD/MT	+22%	186	-22%	(186)
		391 396		**(391 396)**

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
Brent crude oil USD/BBL	+27%	559 591	-27%	(559 591)
		559 591		**(559 591)**

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

(all amounts in PLN thousand)

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011 and 31 December 2010. The influence of changes in crude oil, diesel oil and gasoline prices were presented on annual basis. 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 207,239 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**

The Capital Group entities were granted CO_2 emission rights on the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers.

Every year the Group performs verification of the number of rights and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation. In 2011 the Group 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 9.

34. Leases

34.1. Capital Group as a lessee

Operating lease

As at 31 December 2011 and as at 31 December 2010, the Capital Group possessed non – cancellable operating lease agreements as a lessee.

Operating lease agreements (tenancy, rent) regard mainly the lease of tanks, petrol stations, means of transportation and computer equipment. The lease contracts contain clauses concerning contingent liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

The total lease payments, resulting from non – cancellable operating lease agreements recognised as expenses in profit or loss, in 2011 and 2010 amounted to PLN (124,507) thousand and PLN (115,753) thousand, respectively.

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

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	91 473	81 777
Between 1 and 5 years	330 403	282 877
Above 5 years	634 778	542 834
	1 056 654	**907 488**

(all amounts in PLN thousand)

Finance lease

The Capital Group as at 31 December 2011 and as at 31 December 2010 possesses the finance lease agreements as a lessee.

In concluded lease agreements, the general conditions of finance lease are effective, there are neither particular restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning contingent liabilities from lease fees and give the possibility to purchased the leased equipment.

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

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	28 820	25 160
Between 1 and 5 years	57 684	48 029
Above 5 years	20 603	23 087
	107 107	**96 276**

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

	as at 31/12/2011	as at 31/12/2010
Up to 1 year	24 808	22 285
Between 1 and 5 years	49 424	37 361
Above 5 years	16 236	19 888
	90 468	**79 534**

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

As at 31 December 2011 and as at 31 December 2010 the net carrying amount of for each class of assets was as follows

	as at 31/12/2011	as at 31/12/2010 (restated data)
Intangible assets	**863**	**998**
Property, plant and equipment	**168 464**	**168 780**
buildings and constructions	20 873	22 454
machinery and equipment	54 278	59 165
vehicles	91 818	87 161
other	1 495	-

Disclosures resulting from IFRS 7 relating to finance lease are captured in note 33 and are presented jointly with other financial instruments.

34.2. Capital Group as a lessor

Operating lease

As at 31 December 2011 and as 31 December 2010 the Capital Group did not posses non – cancellable operating lease agreements as a lessor.

(all amounts in PLN thousand)

Financial lease

As at 31 December 2011 and as 31 December 2010 the Capital Group did not posses financial lease agreements as a lessor.

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

Investment expenditures together with borrowing costs incurred in 2011 and in 2010 accounted for PLN 2,133,454 thousand and PLN 3,011,192 thousand respectively, including PLN 102,565 thousand and PLN 192,187 thousand of environmental protection related investments. Investment expenditures related to exploration and extraction of hydorcarbons in 2011 and 2010 amounted to PLN 62,985 thousand and PLN 42,094 thousand, respectively

As at 31 December 2011 and as at 31 December 2010 the value of future liabilities resulting from contracts signed until this date amounted to PLN 449,293 thousand and PLN 502,491 thousand.

36. Contingent liabilities

	as at 31/12/2010	increase/ (decrease)	as at 31/12/2011
Antitrust proceedings of the OCCP	18 500	(4 500)	14 000
Legal cases	19 950	(3 105)	16 845
	38 450	**(7 605)**	**30 845**

Anti-trust proceeding of the OCCP is described in details in note III 42.1.2.

Court proceedings as at 31 December 2011 relate mainly to claims arising from trade contracts with contractors and employees' claims.

The Company from the Anwil Group – Spolana a.s. recognized the provision for the reclamation of land where ash landfill is located.
Spolana was covered by guarantees from the Ministry of the Environment of CZK 8,159 million (approximately PLN 1,396 million) to cover the costs necessary to remove contamination incurred in the years before the privatization of the Company (till 1992). The guarantees regard environmental projects in Spolana, definied in scope and amount. Expenditures related to the reclamation of land owned by Spolana a.s. incurred by the government of the Czech Republic, which were covered by the above mentioned guarantees, amounted as at 31 December 2011 to CZK 4,427 million.
Spolana a.s. from Anwil Group produces chlorine using the mercury electrolysis according to integrated pollution prevention and control (IPPC), that is in force until 2014. Spolana a.s is required to present a reclamation program after it stops to use the fixes assets on the above described installation. The Board of Directors of Spolana a.s. takes steps to extend the period of IPPC without the necessity to convert the technology and simultaneously considers the continuation of production based on purchased raw materials. This will require the adjustment of the electrolysis building to its new function, what might change the purpose of the building and help to avoid potential reclamation costs.

37. 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 1,336,701 thousand and PLN 1,663,831 thousand, respectively.

Guarantees granted as at 31 December 2011 and as at 31 December 2010 amounted to PLN 156,346 thousand and PLN 107,191 thousand, respectively. Guarantees and sureties relate to third-parties liabilities arising from current business activities and concern: performance guarantees, customs and deposits guarantees and guarantees of payment.

38. Related party transactions

38.1. 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 Group concluded on other than market terms.

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

In 2011 and 2010 the Group companies did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or other agreements obliging to render services to the Company and its related parties.
As at 31 December 2011 and 31 December 2010 there were no loans granted by the Group companies to the managing and supervising persons or their relatives.

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

In 2011 and 2010 members of the key executive personnel of the Parent Company and the Capital Group companies basing on the submitted statements on transactions concluded with related parties disclosed the following transactions

Type of relation through key executive personnel of the Company and the Group companies	Sales (in PLN thousand)		Purchases (in PLN 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
Supervising persons	30	-	-	-
Managing persons	48	70	13	12
Other key executive personnel	94	139	-	-
	172	**209**	**13**	**12**

38.4. Transactions and balances of settlements of the Group companies with related parties

for the year ended 31 December 2011

	Jointly-controlled entities	Associates	Total
Sales	1 857 217	133 983	1 991 200
Purchases	539 943	124 886	664 829
Financial revenues	1 769	2 507 092	2 508 861
Dividends	60 057	250 013	310 070
Financial expenses	32	61	93

as at 31 December 2011

	Jointly-controlled entities	Associates	Total
Trade and other receivables	345 136	17 557	362 693
Trade and other liabilities	243 599	8 108	251 707

for the year ended 31 December 2010

	Jointly-controlled entities	Associates	Total
Sales	1 447 935	144 396	1 592 331
Purchases	476 782	174 342	651 124
Financial revenues	1 746	1 120	2 866
Dividends	32 371	146 658	179 029
Financial expenses	44	59	103

as at 31 December 2010

	Jointly-controlled entities	Associates	Total
Trade and other receivables	295 115	21 829	316 944
Other short-term financial assets	1 014	-	1 014
Trade and other liabilities	210 865	26 144	237 009

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

(all amounts in PLN thousand)

Guarantees and sureties granted in the Group on behalf of related parties as at 31 December 2011 and as at 31 December 2010 amounted to PLN 2,177,823 thousand and PLN 1,218,886 thousand, respectively.

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

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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Remuneration of the Management Board Members of the Company	**11 952**	**12 140**
- remuneration and other benefits	6 498	6 040
- bonus paid for previous year	5 454	5 454
- remuneration paid to 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 Management Board Member, to be paid in the next year [3]	1 140	-
Remuneration and other benefits of the key executive personnel	**179 015**	**172 985**
- other key executive personnel of the Company	32 762	31 522
- key executive personnel of the subsidiaries belongigng to the Capital Group	146 253	141 463
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 3.6. to Management Board Report on ORLEN Capital Group Operations

39.1. Bonus system for key executive personnel of the ORLEN Capital Group

In 2011 the ORLEN Group's key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to PKN ORLEN Management Board, Management Boards of the ORLEN Group entities and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. 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 Group. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

In 2011 amended standards of MBO for key executive personnel in the ORLEN Group (Management Board of ORLEN Group companies and key personnel reporting directly to the PKN ORLEN Management Board) were developed. 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 Group.

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

According to agreements with Members of PKN ORLEN Management Board, Management Board Members are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of six or

(all amounts in PLN thousand)

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

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

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

	for the year ended 31/12/2011	for the year ended 31/12/2010
Remuneration of KPMG Audyt Sp. z o.o. in respect of the Parent Company	**1 645**	**1 892**
audit of the annual financial statements	647	647
reviews of financial statements	572	572
related services, including:	**425**	**673**
tax advisory services	80	-
Remuneration of KPMG in respect of subsidiaries belonging to the Capital Group	**4 714**	**4 569**
audit of the annual financial statements	2 604	2 723
reviews of financial statements	1 731	1 784
related services, including:	**379**	**61**
tax advisory services	-	6
	6 359	**6 461**

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

41. Employment structure

Average employment in persons

	for the year ended 31/12/2011	for the year ended 31/12/2010
Blue collar workers	12 733	12 548
White collar workers	9 728	9 713
	22 461	**22 261**

Employment in persons

	as at 31/12/2011	as at 31/12/2010
Blue collar workers	12 618	12 380
White collar workers	9 762	9 660
	22 380	**22 040**

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

Due to restructuring activities held in ORLEN Lietuva Group, Unipetrol Group and Trzebinia Group, the employment in ORLEN Group decreased by 449 persons. The development of new areas and services and the inclusion of companies belonging to Unipetrol, Jedlicze, Trzebinia, ORLEN Oil, ORLEN Media and PPPT Group under full consolidation method increased employment by 789 persons.

Further details on employment structure are disclosed in point III 3.4. to Management Board Report on ORLEN Capital Group Operations.

42. 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 ORLEN Capital Group entities were parties in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

42.1. Proceedings in which the ORLEN Capital Group entities act as a defendant

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

42.1.1.1. 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 S.A.

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's claim and adjudge it with proceeding costs refund.

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

42.1.2.1. Tax proceedings

At the end of reporting period 31 December 2011 there are ongoing tax proceedings in Rafineria Trzebinia S.A. concerning excise tax settlements for the period May-September 2004.

As a result of the Customs Office proceeding, the excise tax liability for the period May – September 2004 was set at the amount of approximately PLN 100,000 thousand. The Management Board of Rafineria Trzebinia filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków (Director of the CC) kept the first instance authority's decisions in force. Rafineria Trzebinia appealed against above listed decisions. According to the sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia, overruled the decision of Director of the CC. On 16 January 2009 the Director of the Customs Chamber in Kraków filed an annulment the above sentence to the Supreme Administrative Court (SAC) in Warsaw in regards of excise tax liability for September 2004. The annulment was overruled by SAC on 25 August 2009. The proceeding returned to the Customs Chamber stage.

On 25 September 2009 the Head of the Customs Office in Kraków (first instance authority) issued decisions for the period May - August 2004 increasing the tax liability of approximately PLN 80,000 thousand. On 14 October 2009 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Kraków dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination.
As a result of the decision to reexamine this case, Rafineria Trzebinia S.A. appealed against the above mentioned sentence to the Voivodship Administrative Court (VAC). On 30 May 2011 Rafineria Trzebinia S.A. received the sentence of the VAC in Kraków overruling Rafineria Trzebinia's appeal against the decision of the Director of the Customs Chamber in Kraków. On 29 June 2011 Rafineria Trzebinia S.A. filed an annulment of the above sentence to the Supreme Administrative Court.
On 24 November 2010 Head of the Customs Office in Kraków issued once again a decision increasing the amount of excise tax liability for September 2004 by approximately PLN 38,000 thousand. On 15 December 2010 Rafineria

Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision.
On 18 February 2011 Rafineria Trzebinia S.A. obtained a notification from District Court in Chrzanów the Real- estate Register Department about registration of compulsory security deposit mortgage due to excise tax liability for September 2004 of PLN 36,334 thousand.
On 9 May 2011 the Director of the Customs Chamber in Kraków issued a decision regarding the excise tax liability for September 2004 keeping the first instance authority's decisions in force. On 19 May 2011 Rafineria Trzebinia S.A. appealed against the above mentioned decision to the VAC in Kraków and filed a supplement to the appeal on 13 June 2011.
On 25 January 2012 the VAC in Kraków rejected the appeal of Rafineria Trzebinia S.A. and issued a sentence sustaining the decision of the Head of the Customs Office in Kraków regarding the excise tax liability for September 2004.
On 27 February 2012 Rafineria Trzebinia S.A. received a legal justification of the verdict and is currently preparing an annulment claim to SAC.
Rafineria Trzebinia S.A. created a provision recognized in profit or loss of 2011 to cover the potential negative financial impact regarding the realization of excise tax liabilities.

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

The proceeding concerns imposing a fine in connection with violating of concession terms regarding production of liquid fuels. In its verdict dated 7 June 2010 the District Court in Warsaw – Court of Competition and Consumer Protection discharged the proceedings. In October 2010 the Chairman of ERO appealed against this verdict. In its verdict dated 27 January 2011, the Court rejected the decision of the Chairment of ERO imposing a fine in connection with violating of concession terms and rejected the appeal with respect to other matters.

The Chairman of ERO filed an annulment to the sentence of the Supreme Court.

On 18 October 2011 the Supreme Court refused to accept the appeal of the Chairman of ERO and adjudged Rafineria Trzebinia S.A. reimbursement for legal representation costs in the appeal proceeding.

42.1.2.3. Anti-trust proceedings:

Anti-trust proceedings concern an allegation that in the years 1996 – 2007, PKN ORLEN S.A., 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 S.A. of PLN 52,700 thousand. On 2 August 2010 PKN ORLEN S.A. appealed from the decision of the President of the OCCP to the Court of Competition and Consumer Protection. The date of 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 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 appellate proceeding was definitely and successfully finished.

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

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

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

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

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

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

On 10 September 2009 after the 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 S.A 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.

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

In November 2006, the European Commission imposed fines on Shell, Dow, Eni, Unipetrol a.s. and Kaucuk a.s. for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s. (now Synthos Kralupy a.s.), its subsidiary at that time, were jointly imposed a fine of PLN 77,294 thousand (EUR 17,500 thousand at exchange rate as at 31 December 2011). Unipetrol a.s. and Kaucuk a.s. paid the fine to the European Commission. At the same time, both entities appealed to the First Instance Court in Luxembourg.

Following the above decision of the European Commission, Unipetrol a.s. received a claim for damages, which tire producers brought against all members of the ESBR cartel to the Supreme Court of England and Wales. The claimants request a compensation for damages, together with interest, relating to losses suffered because of an alleged cartel.

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

On 13 July 2011 the Court repealed the decision of the European Commission from November 2006. The Court stated, that the European Commission did not prove, that Unipetrol a.s. and Kaucuk a.s. were using cartel practices. As a result both companies were entitled to return of penalty paid of PLN 77,294 thousand (EUR 17,500 thousand at exchange rate as at 31 December 2011). Unipetrol a.s. received together with interest the amount of PLN 43,285 thousand at exchange rate as at 31 December 2011 (EUR 9,800 thousand).

42.1.2.6. Compensation due to compulsory buy-out of non-controlling interest in PARAMO a.s.

The Company UNIPETROL a.s. is a party in a proceeding initiated in 2009 by former non-controlling interest shareholders of PARAMO a.s. and concerns change in compensation received due to losses incurred on compulsory shares buy-out performed by UNIPETROL a.s. in 2009. The claim concerns the difference between officially approved price of PARAMO a.s. shares as at the date of buy-out amounting to CZK 977 per share, and the requested by shareholders price ranging from CZK 1800 to CZK 3200 per share. The total amount of the claim is approximately no more than PLN 52,014 thousand at average exchange rate as at 31 December 2011 (CZK 304,000 thousand). UNIPETROL a.s. considers the above described claims of former shareholders of PARAMO a.s. as ungrounded.

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

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

On 15 July 2009 PKN ORLEN S.A. submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with transaction of purchase of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN S.A. 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 S.A. 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.

42.2.2. Compensations due to property damages

- Rafineria Trzebinia S.A. acts as a plaintiff in the proceedings held by District Court in Kraków concerning abuses associated with the realization of investment in installation for the estherification of biodiesel oil, on which Rafineria Trzebinia S.A. claims to incur a loss of approximately PLN 79,000 thousand. The indictment in this case was raised in December 2010. The Company issued a motion to the court requesting to oblige the defendant to repair the incurred damages.

- AB Orlen Lietuva was a party in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar Inc. due to losses incurred during the accident in Butinge Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately PLN 76,752 thousand (LTL 60,000 thousand at exchange rate as at 31 December 2011). The proceedings is held in I instance in front of district court in Klajpeda.

42.2.3. Tax proceedings

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s., was a party in a tax proceeding related to validity of investment tax relief for 2005. UNIPETROL RPA s.r.o. claims the return of income tax paid for 2006 and 2005 by CHEMOPETROL a.s.. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The total value of claim amounts to approximately PLN 55,608 thousand translated using exchange rate as at 31 December 2011 (CZK 325,000 thousand).

43. 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 (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 (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 (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 (USD 310,767 thousand) in the I quarter of 2012.

On 28 March 2012 within the process of changing the formula of maintenance of mandatory reserves of crude oil 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 Parent 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 Parent Company.

44. Factors and events that may influence future results

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

45. Signatures of the Management Board Members

The foregoing consolidated 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