



TRANSLATION

**Polski Koncern Naftowy Orlen  
Spółka Akcyjna Group**

**Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2006**

KPMG Audyt Sp. z o.o.  
The opinion contains 3 pages  
The report supplementing the auditor's opinion  
contains 24 pages  
Opinion of the independent auditor  
and report supplementing the auditor's opinion  
on the consolidated financial statements  
for the financial year ended  
31 December 2006



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## OPINION OF THE INDEPENDENT AUDITOR

### *To the General Meeting of Polski Koncern Naftowy Orlen Spółka Akcyjna*

We have audited the accompanying consolidated financial statements of Polski Koncern Naftowy Orlen Spółka Akcyjna Group ("PKN ORLEN S.A. Group", "Group"), seated in Płock, 7 Chemików Street, which comprise the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 45,419,084 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 2,060,198 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 2,269,574 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 1,224,559 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, no. 76, item 694 with amendments) ("the Accounting Act"), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the accompanying consolidated financial statements of PKN ORLEN S.A. Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2006 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Without qualifications to fair presentation of the audited consolidated financial statement, we draw attention to following issues:

- As disclosed in note no. 37a5 of the accompanying consolidated financial statements, due to the acquisition of assets and liabilities of AB Mazeikiu Nafta Group, the process of establishment of the fair value of acquired assets and liabilities is in progress. In accordance with IFRS 3, the PKN ORLEN S.A. Group may adjust the fair value of acquired net assets of AB Mazeikiu Nafta Group and recalculate the goodwill in relation to the acquisition of AB Mazeikiu Nafta within twelve months of the acquisition date.
- There is a court proceeding between Unipetrol a.s. and DEZA a.s. disclosed in note no. 35t of the accompanying consolidated financial statements relating to the sale of shares in AGROBOHEMIE a.s. and SYNTHESIA a.s. The result of the court proceeding is uncertain and may negatively influence the value of these shares. PKN ORLEN S.A. Group established neither impairment of these shares (the carrying amount of PKN 508,995 thousand at 31 December 2006) nor a provision for possible penalties.
- As disclosed in note no. 35d of the accompanying consolidated financial statements Rafineria Trzebinia S.A. received decisions from the tax authorities stating an excise tax liability for May-August and September 2004 for a total amount of approximately PLN 100 million increased by interest calculated on these liabilities as a result of the tax proceedings. Recently the appeal procedure is pending and the outcome is unknown. In case of an unfavorable result of the above described dispute there is a risk that the tax authorities will question the correctness of the VAT settlements. The estimated potential VAT liability amounts to approximately PLN 22 million. There is also a risk that negative decisions of the tax authorities will be issued in respect to other periods. In the consolidated financial statements as at 31 December 2006 PKN ORLEN S.A. Group did not establish any provisions to cover potential tax liabilities arising in case of an unfavorable outcome for Rafineria Trzebinia S.A. of the above described matter.



- As disclosed in note no. 35d of the accompanying consolidated financial statements relating to the operation of the tax consignment warehouse by Rafineria Trzebinia S.A., as at the date of this opinion Rafineria Trzebinia S.A. does not hold a certificate from the tax authority stating there are no tax arrears. A statement that there are no tax arrears is one of the necessary conditions to apply for a certificate to operate a tax consignment warehouse. As at the date of issuing this opinion Rafineria Trzebinia S.A. does not hold a certificate to operate a tax consignment warehouse after 30 April 2007. The lack of a certificate to operate a tax consignment warehouse after 30 April 2007 would substantially limit the ability of Rafineria Trzebinia S.A. to conduct its activity at the present scope. In the accompanying financial statements for the year ended 31 December 2006, assets and liabilities of Rafineria Trzebinia S.A. Group are valued based on the going concern assumption, in accordance with the accounting principles described in note 4a. Net assets of Rafineria Trzebinia S.A. Group presented in the accompanying consolidated financial statements of PKN ORLEN S.A. Group amount to PLN 459 million as at 31 December 2006.

As required under the Accounting Act we also report that the Report of the Management Board on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, no. 209, item 1744) and the information is consistent with the consolidated financial statements.



Certified Auditor no. 10268/7598  
Monika Bartoszewicz



For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor no. 9451/7175  
Leszek Dubicki,  
Member of the Management Board

Warsaw, 18 April 2007

**Polski Koncern Naftowy Orlen  
Spółka Akcyjna Group**

Report supplementing  
the auditor's opinion  
on the consolidated financial  
statements

Financial Year ended  
31 December 2006

KPMG Audyt Sp. z o.o.  
The report supplementing the auditor's opinion  
contains 24 pages  
Report supplementing the auditor's opinion  
on the consolidated financial statements  
for the financial year ended  
31 December 2006

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## **1 General**

### **1.1 Identification of the Group**

#### **1.1.1 Name of the Group**

Polski Koncern Naftowy Orlen Spółka Akcyjna Group

#### **1.1.2 Registered office of the Parent Company of the Group**

7 Chemików Street  
09-411 Płock

#### **1.1.3 Registration of the Parent Company in the National Court Register**

Seat of the court: District Court in Warsaw, XXI Commercial Department of the  
National Court Register

Date: 19 July 2001

Registration number: KRS 0000028860

#### **1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office**

NIP: 774-00-01-454

REGON: 610188201

### **1.2 Information about companies comprising the Group**

#### **1.2.1 Companies included in the consolidated financial statements**

As at 31 December 2006, the following companies were consolidated by the Group:

Parent Company:

- PKN ORLEN S.A.

Subsidiaries consolidated on the full consolidation basis:

- Orlen Deutschland AG
- Orlen Gaz Sp. z o.o.
- Orlen PetroCentrum Sp. z o.o.
- Orlen Medica Sp. z o.o.
- Orlen Budonaft Sp. z o.o.
- Orlen Powiernik Sp. z o.o.
- Orlen KolTrans Sp. z o.o.
- Orlen Transport Szczecin Sp. z o.o.
- Orlen Asphalt Sp. z o.o.

- Orlen Petroprofit Sp. z o.o. Group
  - Orlen Petroprofit Sp. z o.o. (parent company)
  - Petro-oil Lubelskie Centrum Sprzedaży Sp. z o.o. (full consolidation)
  - Petrooktan Sp z o.o. (full consolidation)
- Orlen Morena Sp. z o.o.
- Raf Trans Sp. z o.o.
- Orlen Transport Kraków Sp. z o.o.
- Orlen Transport Płock Sp. z o.o.
- Orlen Transport Nowa Sól Sp. z o.o.
- Orlen Transport Słupsk Sp. z o.o.
- Orlen Laboratorium Sp. z o.o.
- Orlen Transport Olsztyn Sp. z o.o.
- Orlen– Oil Sp. z o.o. Group
  - Orlen Oil Sp. z o.o. (parent company)
  - Orlen Oil Cesko s.r.o. (full consolidation)
  - Platinum Oil Mazowsze Sp. z o.o. (full consolidation)
  - Petro – Oil Lubelskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Małopolskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Podlaskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Pomorskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Śląskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Zachodniopomorskie Centrum Sprzedaży Sp. z o.o. (equity method)
  - Petro – Oil Łódzkie Centrum Sprzedaży Sp. z o.o. (equity method)
- Orlen Petro – Tank Sp. z o.o.
- Orlen Transport Kędzierzyn-Koźle Sp. z o.o.
- Petrotel Sp. z o.o.
- Anwil S.A. Group
  - Anwil S.A. (parent company)
  - Przedsiębiorstwo Inwestycyjno – Remontowe Remwil Sp. z o.o. (full consolidation)
  - Przedsiębiorstwo Produkcyjno – Handlowo – Usługowe Pro – Lab Sp. z o.o. (full consolidation)
  - Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o. (full consolidation)
  - Spolana a.s. (full consolidation)
  - Wircom Sp. z o.o. (equity method)
  - Eko-Dróg Sp. z o.o. (equity method)
  - Apex-Elzar Sp. z o.o. (equity method)



- Prof-Med Sp. z o.o. (equity method)
- Arbud Sp. z o.o. (equity method)
- Agro Azoty II Włocławek Sp. z o.o. (shown as held for sale)
- Rafineria Trzebinia S.A. Group
  - Rafineria Trzebinia S.A. (parent company)
  - Energomedia Sp. z o.o. (full consolidation)
  - Euronaft Trzebinia Sp. z o.o. (full consolidation)
  - Fabryka Parafin Nafto Wax Sp. z o.o. (full consolidation)
  - EkoNaft Sp. z o.o. (full consolidation)
- Rafineria Nafty Jedlicze S.A. Group
  - Rafineria Nafty Jedlicze S.A. (parent company)
  - Raf-Energia Sp. z o.o. (full consolidation)
  - Raf-Koltrans Sp. z o.o. (full consolidation)
  - Raf-Remat Sp. z o.o. (full consolidation)
  - Raf-Ekologia Sp. z o.o. (full consolidation)
  - Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A. (full consolidation)
- Inowrocławskie Kopalnie Soli „Solino” S.A.
- Unipetrol a.s. Group
  - Unipetrol a.s. (parent company)
  - Chemopetrol a.s. Group (full consolidation)
    - Chemopetrol a.s. (parent company)
    - Unipetrol – Dobrava a.s. (full consolidation)
  - Kaucuk a.s. (in income statement full consolidation, in balance sheet presented as held for sale)
  - Unipetrol Trade a.s. Group (full consolidation)
    - Unipetrol Trade a.s. (parent company)
    - Chemapol (Schweiz) AG (full consolidation)
    - Unipetrol Austria HmbH (full consolidation)
    - Aliachem Verwaltungs GmbH Group (full consolidation)
      - Aliachem Verwaltungs GmbH (parent company)
      - Unipetrol Deutschland GmbH (full consolidation)
      - Aliapharm GmbH Frankfurt (full consolidation)
    - Unipetrol Chemicals Iberica S.A. (full consolidation)
  - Unipetrol Rafinerie a.s. Group (full consolidation)
    - Unipetrol Rafinerie a.s. (parent company)
    - Uniraf Slovensko s.r.o. (full consolidation)
  - Benzina a.s. Group (full consolidation)
    - Benzina a.s. (full consolidation)
    - Benzina Trade a.s. (full consolidation)
    - Petrotrans a.s. (full consolidation)

- Paramo a.s. (full consolidation)
- Česká Rafinerska a.s. (proportional method)
- Ship-Service S.A. Group
  - Ship-Service S.A. (parent company)
  - Ship Service Agro Sp. z o.o. (full consolidation)
- Orlen Automatyka Sp. z o.o.
- Orlen PetroZachód Sp. z o.o.
- Orlen Petrogaz Wrocław Sp. z o.o.
- Petrolot Sp. z o.o.
- Orlen Projekt S.A.
- Orlen Wir Sp. z o.o.
- Orlen Administracja Sp. z o.o.
- Orlen Eko Sp. z o.o.
- Orlen Księgowość Sp. z o.o.
- Orlen Prewencja Sp. z o.o.
- Orlen Upstream Sp. z o.o.
- Etylobenzen Płock Sp. z o.o.
- Orlen Holding Malta Ltd. Group
  - Orlen Holding Malta Ltd. (parent company)
  - Orlen Insurance Ltd. (full consolidation)
- AB Mazeikiu Nafta Group (full consolidation)
  - AB Možejki Nafta (parent company)
  - UAB Juodeikių nafta (full consolidation)
  - UAB Uotas (full consolidation)
  - AB Ventus-Nafta (full consolidation)
  - UAB Mažeikių naftos prekybos namai Group (full consolidation)
    - UAB Mažeikių naftos prekybos namai (parent company)
    - SIA Mažeiku Nafta Tirdniecibas nams (full consolidation)
    - OU Mazeikiu Nafta Trading House (full consolidation)
    - Mazeikiu Nafta Trading House Sp. z o.o. (full consolidation)
  - Naftelf UAB (equity method)

Joint ventures consolidated on the “proportional consolidation” basis:

- Basell Orlen Polyolefins Sp. z o.o. Group
  - Basell Orlen Polyolefins Sp. z o.o (parent company)
  - Basell Orlen Polyolefins Sprzedaż Sp. z o.o (full consolidation)
- Płocki Park Przemysłowo-Technologiczny S.A.



The following subsidiaries have been subject to consolidation for the first time during the year ended 31 December 2006, as a result of control established by the Parent Company:

- AB Mazeikiu Nafta Group
- Orlen Holding Malta Ltd. Group
- Orlen Prewencja Sp. z o.o.
- Orlen Upstream Sp. z o.o.
- Etylobenzen Płock Sp. z o.o.
- Orlen Księgowość Sp. z o.o.

### **1.2.2 Entities excluded from consolidation**

As at 31 December 2006, the following subsidiaries of the Group were not consolidated:

- Wisła Płock Sportowa S.A.
- Orlen Ochrona Sp z o.o.
- Orlen Centrum Serwisowe Sp. z o.o.
- B.H.T. Dromech S.A. w likwidacji
- Centrum Komercjalizacji Technologii Sp. z o.o.
- Centrum Edukacji Sp. z o.o.
- Petromor Sp.z o.o.
- Wecotect Tradin & Consulting GmbH
- Raf – Bit Sp.z o.o.
- Ran – Petromex Sp.z o.o. w likwidacji
- Ran – Watt Sp. z o.o w likwidacji
- Raf – Służba Ratownicza Sp. z o.o.
- Zakładowa Straż Pożarna Sp. z o.o.
- Chemicka Servisni a.s.
- HC Chemopetrol a.s.
- Polymer Institute Brno spol s.r.o.
- Mogul Slovakia s.r.o.
- Vyzlumny ustav anorganicke chemie a.s.
- Unipetrol Services s.r.o.
- Steen Estates s.r.o.
- Unipetrol (UK) Ltd.
- Unipetrol Francec S.A.
- Unipetrol Italia S.A.
- DP Mogul Ukrajina
- Mogul d o.o.
- Motell Sp.z o.o.

- Niezależny Operator Międzystrefowy Sp. z o.o.
- Poilen Sp. z o.o.
- Petro – Oil Seewax Sp. z o.o.
- Petro – Oil CZ s.r.o. – w likwidacji
- Petro-Ukraine Ltd.
- Lubelski Rynek Hurtowy Sp. z o.o.
- Ran-Petromex Sp. z o.o.
- Ran-Watt Sp. z o.o. w likwidacji
- Raf-Bit Sp. z o.o.
- Raf-Służba Ratownicza Sp. z o.o.

### **1.3 Auditor information**

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw,
Address:	ul. Chłodna 51, 00-867 Warsaw
KRS number.:	0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register
Share capital:	PLN 125,000
NIP number:	526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

### **1.4 Legal status**

#### **1.4.1 Share capital**

Polski Koncern Naftowy Orlen Spółka Akcyjna (the “Parent Company”) was incorporated by a Notarial Deed dated 29 June 1993 through transformation of a state-owned enterprise into a joint stock company. The address of the Parent Company’s registered office is Plock, Chemikow 7.

In accordance with the resolution of the Ordinary General Meeting of Shareholders dated 19 May 1999, registered in the District Court in Plock on 20 May 1999, the Parent Company changed its name to Polski Koncern Naftowy Spółka Akcyjna.

In accordance with the resolution of the Extraordinary General Meeting of Shareholders dated 3 April 2000, registered in the District Court in Plock on 12 April 2000, the Parent Company changed its name to Polski Koncern Naftowy Orlen Spółka Akcyjna.

On 19 May 1999 the Ordinary General Meeting of Shareholders of the Parent Company adopted a resolution on the merger of the Parent Company with Centrala Produktow Naftowych “CPN” S.A. (“CPN”) by incorporation of CPN in to the Parent Company in accordance with Art. 463 point 1 of the Commercial Code.

On 7 September 1999 CPN was deregistered and the merger became effective.



According to the Commercial Register the share capital of the Parent Company amounted to PLN 534,636 thousand as at 31 December 2006 divided into 427,709,061 ordinary shares with a nominal value of PLN 1.25 each. On 1 January 2004 - transition date to IFRS as adopted by the European Union the share capital has been restated by an amount of PLN 522,999 thousand in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". After the restatement share capital presented in the financial statements as at 31 December 2006 amounts to PLN 1,057,635 thousand.

As at 31 December 2006, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (%)	Nominal value of shares (Commercial register)	Percentage of share capital (%)
			PLN '000	
Nafta Polska S.A.	74,076,299	17.3%	92,595,374	17.3%
State Treasury	43,633,897	10.2%	54,542,371	10.2%
Bank of New York (as a depositary)	23,919,466	5.6%	29,899,333	5.6%
Others	286,079,399	66.9%	357,599,249	66.9%
	427,709,061	100.0%	534,636,327	100.0%

#### 1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2006, the Management Board of the Parent Company comprised the following members:

- Igor Chalupec - President of the Management Board, Chief Executive Officer
- Cezary Filipowicz - Vice President of the Management Board, Upstream and Crude Procurement
- Wojciech Heydel - Vice President of the Management Board, Sales
- Piotr Kownacki - Vice President of the Management Board, Audit and Regulations
- Jan Maciejewicz - Vice President of the Management Board, Cost Management
- Cezary Smorszczewski - Vice President of the Management Board, Chief Investment Officer
- Paweł Szymański - Member of the Management Board, Chief Financial Officer
- Krzysztof Szwedowski - Member of the Management Board, Organization and Support Function.

During 2006 the following changes in the Management Board of the Company occurred:

On 21 December 2005, the Supervisory Board of PKN ORLEN S.A., after a motion of Minister of State Treasury, appointed Mr Cezary Stanisław Filipowicz to the position of Vice-President of the Management Board of PKN ORLEN S.A, effective 2 January 2006.

The Supervisory Board of PKN ORLEN S.A., at the meeting held on 31 March 2006, recalled Mr Dariusz Witkowski from the position of the Member of the Management Board, effective from 31 March 2006. Simultaneously the Supervisory Board appointed Mr Krzysztof Szwedowski to the position of the Member of the Management Board of PKN ORLEN S.A., effective from 31 March 2006.

On 17 October 2006, the Supervisory Board appointed Mr Piotr Kownacki to the position of the Member of the Management Board of PKN ORLEN S.A., effective 23 October 2006.

After 31 December 2006 there were the following changes in the Management Board of PKN Orlen S.A.:

On 18 January 2007, the Supervisory Board of PKN ORLEN S.A., acting in accordance with par. 8 section 11 point 1 of the PKN ORLEN S.A. Articles of Association, dismissed Mr Igor Chalupiec from the position of the President of the PKN ORLEN S.A. Management Board, effective from 18 January 2007. Mr Igor Chalupiec held position of the President the PKN ORLEN S.A. Management Board from 1 October 2004.

At the same time, the Supervisory Board of PKN ORLEN S.A. appointed Mr Piotr Kownacki, the Vice President of the Company responsible for Audit and Regulations at that date, to the position of the President of the PKN ORLEN S.A. Management Board.

On 15 March 2007, the Supervisory Board of PKN ORLEN S.A., acting on the basis of par. 8 section 11 point 1 of the PKN ORLEN S.A. Articles of Association, dismissed at the request of the person concerned Mr Jan Maciejewicz from the position of the Vice President of the Management Board responsible for Cost Management, effective from 15 March 2007. Besides, following the motion of the President of the PKN ORLEN S.A. Management Board, the Supervisory Board dismissed Mr Cezary Smorszczewski from the position of the Vice President of the Management Board, Chief Investment Officer, effective from 15 March 2007. At the same time, following the motion of the President of the PKN ORLEN S.A. Management Board, the Supervisory Board of PKN ORLEN S.A. appointed Mr Krystian Pater to the position of the Member of the PKN ORLEN S.A. Management Board.

As at the date of publication of this report the Management Board of the Company comprised the following members:

- |                        |  |
|------------------------|--|
| • Piotr Kownacki       | - President of the Management Board, Chief Executive Officer             |
| • Cezary Filipowicz    | - Vice President of the Management Board, Upstream and Crude Procurement |
| • Wojciech Heydel      | - Vice President of the Management Board, Sales                          |
| • Krystian Pater       | - Member of the Management Board, Production                             |
| • Paweł Szymański      | - Member of the Management Board, Chief Financial Officer                |
| • Krzysztof Szwedowski | - Member of the Management Board, Organization and Support Function.     |

#### **1.4.3 Scope of activities**

The business activities listed in the Parent Company's Statute include the following:

- processing of crude oil and manufacturing of oil-derivative (refinery and petrochemical) products and semi finished products,
- domestic and foreign trade on own account, on commission and as a consignee, including in particular: trade in crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, 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 products, derivative chemical products as well as transportation: by land, by rail, water and by pipeline,
- transportation activity including road, rail, water and pipeline transport,
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations,
- services connected to the principal activity, especially:
  - land and sea reloading,
  - refining of gas and oil including ethylization, dyeing and blending of components,

- purchase, trade and processing of used lubricant oils and other chemical waste,
- manufacturing, transportation and trade in electrical and heating energy,
- overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation,
- metal production and manufacturing of plastics,
- operation of petrol stations, bars, restaurants and hotels,
- capital investment activities, in particular: purchasing and trade in shares and interests in domestic and foreign trade,
- activities in the area of accounting and bookkeeping as well as activities related to databases and its processing,
- providing services in respect of the clearance of electronic fuel cards.

The business activities subsidiaries and joint ventures, included in the Group, according to the Statutes include the following:

- Orlen Deutschland AG – trading
- Orlen Gaz Sp. z o.o. – trading
- Orlen PetroCentrum Sp. z o.o. – trading
- Orlen Medica Sp. z o.o. – services
- Orlen Budonaft Sp. z o.o. services
- Orlen Powiernik Sp. z o.o. – financial services
- Orlen KolTrans Sp. z o.o. – transport services
- Orlen Transport Szczecin Sp. z o.o. – transport services
- Orlen Asphalt Sp. z o.o. – production
- Orlen Petroprofit Sp. z o.o. Group – trading, production
- Orlen Morena Sp. z o.o. – trading
- Raf Trans Sp. z o.o. – services
- Orlen Transport Kraków Sp. z o.o. – transport services
- Orlen Transport Płock Sp. z o.o. – transport services
- Orlen Transport Nowa Sól Sp. z o.o. – transport services
- Orlen Transport Słupsk Sp. z o.o. – transport services
- Orlen Laboratorium Sp. z o.o. – services
- Orlen Transport Olsztyn Sp. z o.o. – transport services
- Orlen– Oil Sp. z o.o. Group – production, trading
- Orlen Petro – Tank Sp. z o.o. – trading, services
- Orlen Transport Kędzierzyn-Koźle Sp. z o.o. – transport, services
- Petrotel Sp. z o.o. – services
- Anwil S.A. Group – production, trading
- Rafineria Trzebinia S.A. Group – production, trading
- Rafineria Nafty Jedlicze S.A. Group – production
- Inowrocławskie Kopalnie Soli „Solino” S.A. – production, services



- Unipetrol a.s. Group – production, trading
- Ship-Service S.A. Group – trading, services
- Orlen Automatyka Sp. z o.o. – production, services
- Orlen PetroZachód Sp. z o.o. – trading
- Petrolot Sp. z o.o. – trading, services
- Orlen Projekt S.A. – services
- Orlen Wir Sp. z o.o. – production, services
- Orlen Administracja Sp. z o.o. – services
- Orlen Eko Sp. z o.o. – services
- Orlen Księgowość Sp. z o.o. – services
- Orlen Prewencja Sp. z o.o. – services
- Orlen Upstream Sp. z o.o. – exploration, services
- Etylobenzen Płock Sp. z o.o. – production
- Orlen Holding Malta Ltd. Group – investment, insurance
- AB Mazeikiu Nafta Group - production, trading

## **1.5 Prior period consolidated financial statements**

The consolidated financial statements for the financial year ended 31 December 2005 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The consolidated financial statements were approved at the General Meeting on 27 June 2006.

The closing balances as at 31 December 2005 have been properly recorded as the opening balances of the audited year.

The consolidated financial statements were submitted to the Registry Court on 28 August 2006 and were published in Monitor Polski B no. 334 on 22 February 2007.

## **1.6 Audit scope and responsibilities**

This report was prepared for the General Meeting of PKN ORLEN S.A. Group, seated in Płock, 7 Chemików Street and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 45,419,084 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 2,060,198 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 2,269,574 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 1,224,559 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Extraordinary General Meeting dated 30 December 2004.





The consolidated financial statements have been audited in accordance with the contract dated 30 May 2005, concluded on the basis of the resolution of Supervisory Board dated 21 January 2005 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements in the Parent Company's head office during the period from 1 March 2007 to 18 April 2007.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the consolidated financial statements fulfil independence requirements from the companies included in the Group. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## **1.7 Information on audits of the financial statements of the consolidated companies**

### **1.7.1 Parent Company**

The financial statements of the Parent Company for the year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

### **1.7.2 Other consolidated entities**

Entity's name	Authorised auditor	Type of auditor's opinion
Basell Orlen Polyolefins Sp. z o.o. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Automatyka Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion

Entity's name	Authorised auditor	Type of auditor's opinion
Orlen Budonaft Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "Negative net equity resulting from incurred losses. In order to improve liquidity of the company – PKN ORLEN S.A. – the sole shareholder of the company, granted long term loan of PLN 7,232.0 thousand, repayable in 2007-2008. The financial situation of the Company in respect of debt repayments is stable at the date of the preparation of those financial statements. The Management Board in additional information accompanying the financial statements listed undertakings realized to improve the situation. However there is essential uncertainty regarding the outcome of these undertakings, mainly regarding sales on the adequate level. If mentioned undertakings were not realized, the Company's ability to continue as a going concern could be threatened."
Orlen Koltrans Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Laboratorium Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Medica Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "In the audited period the company was subject of control of the Control and Security Office of PKN ORLEN S.A. Until the end of our audit we were not provided with the protocols from controls, therefore we cannot state, if any facts were discovered influencing the company's financial position in 2006. The Management Board provided us on 18.01.2007 with the written statement about completeness, reliability and correctness of the audited financial statement and declared that between the balance sheet date and the end of audit no events occurred, that could have materially influenced the financial position of the company and should be included in the audited financial statement."
Orlen Projekt S.A.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Kędzierzyn – Koźle Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Kraków Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "In the introduction to the financial statement the company included the description of disadvantageous tendencies related to the financial position. Special attention was given to the appeal proceedings in front of the Voivodship Administrative Court related to excise tax duties, which may lead to lack of the current liquidity by

Entity's name	Authorised auditor	Type of auditor's opinion
		the company. As at the date of the opinion, (14.02.2007) it is not possible to assess the outcome of the appeal proceedings. The financial statement does not include the adjustments, which would be necessary, if going concern assumption is not valid. The balance sheet as at 31.12.2006 also presents accumulated losses exceeding sum of reserve capital and half of the company's share capital. According to paragraph 233 point 1 of Polish Commercial Code the Shareholders Meeting is obliged to decide on the company's ability to continue as a going concern."
Orlen Transport Nowa Sól Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "The Company did not create provision for receivables of PLN 2,904,548.44, as it holds security in the form of mortgage on the debtor's property, what is in line with the company's accounting policy and was described on page 3 in point 7 of additional information accompanying the financial statements. In line with the resolution of the Ordinary Shareholders' Meeting number 16/2006 of 7 June, the company started the procedure of purchase of its shares for redemption of retained profit, what was described on page 3, point 9 of additional information accompanying the financial statements. Till the balance sheet date the company purchased 480 shares for the total amount of PLN 444,960.00."
Orlen Transport Olsztyn Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Płock Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Słupsk Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Szczecin Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Wir Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Petrotel Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Deutschland AG	KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft	Unqualified opinion
Rafineria Nafty Jedlicze S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Morena Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion

Entity's name	Authorised auditor	Type of auditor's opinion
Orlen Petrozachód Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Oil Sp. z o.o. Group	DGA Audyt Sp. z o.o.	Unqualified opinion
Inowrocławskie Kopalnie Soli "Solino" S.A.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Rafineria Trzebinia S.A. Group	KPMG Audyt Sp. z o.o.	Rafineria Trzebinia S.A. Group did not receive an audit opinion till the date of this report.
Unipetrol a.s. Group	KPMG Ceska republika, s.r.o.	Unqualified opinion with the following emphasis of matter: "There is a dispute between the company and DEZA a.s. relating to the sale of shares in AGROBOHEMIE a.s. and SYNTHESIA a.s. The result of this dispute is uncertain and there may be a significant negative effect on the value of these shares. No impairment charge has been established in respect of these shares (carrying amount of CZK 3,654 million at 31 December 2006) and no provision has been established in respect of possible penalties."
Orlen Prewencja Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Administracja Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Płocki Park Przemysłowo-Technologiczny S.A.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "We draw your attention that, as described in the introduction to the financial statement and in note 13 par. 1 of additional information accompanying the financial statements, the Company has as at the balance sheet date contingent liabilities of PLN 6,682.0m thousand, resulting from the decision of President of Plock regarding consent to cut trees and shrubs on the condition that the new one will be planted. The Company may claim the redemption of imposed payments after 3 years term from the date of the decision if the conditions listed in those decisions would be met."
Orlen Księgowość Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Insurance Ltd.	KPMG Malta	Unqualified opinion
Orlen Petroprofit Sp. z o.o. Group	KPMG Audyt Sp. z o.o.	Qualified opinion: "The group possesses two different valuations of solid reclamation costs for part of the group's warehouse bases and petrol stations. The Management Board of the Parent Company ordered the update of the valuation of

<b>Entity's name</b>	<b>Authorised auditor</b>	<b>Type of auditor's opinion</b>
		reclamation costs. The Management Board of the Parent Company assesses the term of actualization on June 2007. In the light of the above we were not able to assess potential adjustments to the reclamation provision as at 31 December 2006 and their impact on the income statement for 2006, which could be necessary in accordance with International Financial Reporting Standards."
AB Mazeikiu Nafta Group	KPMG Baltics, UAB	Unqualified opinion
Orlen Gaz Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Petro-Tank Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Petrogaz Wrocław Sp. z o.o.	FABER Zespół Biegłych Rewidentów	Unqualified opinion
Anwil S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Petrocentrum Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Asfalt Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Ship-Service S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Petrolot Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Eko Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion

The financial statements of 21 subsidiaries included in the consolidated financial statements were audited by certified auditors other than KPMG Audyt Sp. z o.o., KPMG Ceska republika, s.r.o., KPMG Baltics, UAB, KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and KPMG Malta. The total assets presented in the financial statements of these entities as at 31 December 2006 amount to 0,91 % of the total consolidated assets of the Group before consolidation eliminations and the revenues of these entities for the financial year ended 31 December 2006 amount to 0,82 % of the consolidated revenues of the Group, before eliminations of intercompany transactions.

The financial statements of other entities in the Group were not required to be audited for the financial year ended 31 December 2006.



## 2 Financial analysis of the Group

### 2.1 Summary of the consolidated financial statements

#### 2.1.1 Consolidated balance sheet

ASSETS	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
<b>Non-current assets</b>				
Property, plant and equipment	25,199,681	55.5%	18,510,754	55.4%
Intangible assets	619,783	1.4%	513,167	1.5%
Goodwill	143,704	0.3%	115,447	0.3%
Long-term financial assets	570,932	1.3%	550,984	1.6%
Investments in associates	716,303	1.6%	1,025,077	3.1%
Loans granted	5,272	0.0%	7,145	0.0%
Deferred tax assets	165,928	0.4%	62,131	0.2%
Investment property	34,925	0.1%	11,557	0.0%
Perpetual usufruct of land	87,722	0.2%	76,172	0.2%
Other non-current assets	116,548	0.3%	13,098	0.0%
<b>Total non-current assets</b>	<b>27,660,798</b>	<b>60.9%</b>	<b>20,885,532</b>	<b>62.5%</b>
<b>Current assets</b>				
Inventory	7,398,856	16.3%	6,113,237	18.3%
Trade and other receivables	6,293,672	13.9%	4,777,638	14.3%
Income tax receivable	253,041	0.6%	49,567	0.1%
Short-term investments	7,424	0.0%	104,938	0.3%
Short-term prepayments	121,358	0.3%	145,853	0.4%
Cash and cash equivalents	2,351,320	5.2%	1,126,803	3.4%
Other financial assets	302,007	0.7%	111,899	0.3%
Non-current assets classified as held for sale	1,030,608	2.3%	88,844	0.3%
<b>Total current assets</b>	<b>17,758,286</b>	<b>39.1%</b>	<b>12,518,779</b>	<b>37.5%</b>
<b>TOTAL ASSETS</b>	<b>45,419,084</b>	<b>100.0%</b>	<b>33,404,311</b>	<b>100.0%</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
<b>Equity</b>				
Share capital	1,057,635	2.3%	1,057,635	3.2%
Share premium	1,227,253	2.7%	1,227,253	3.7%
Hedging reserve	8,506	0.0%	57,334	0.2%
Foreign exchange difference on subsidiaries from consolidation	22,003	0.0%	(156,014)	-0.5%
Retained earnings	16,535,543	36.4%	14,485,629	43.4%
Minority interest	2,731,623	5.9%	2,641,152	7.9%
<b>Total equity</b>	<b>21,582,563</b>	<b>47.4%</b>	<b>19,312,989</b>	<b>57.8%</b>
<b>Liabilities</b>				
Interest-bearing loans and borrowings	6,211,193	13.7%	3,405,978	10.2%
Provisions	814,192	1.8%	956,991	2.9%
Deferred tax liabilities	1,765,761	3.9%	1,020,159	3.1%
Other long-term liabilities	166,997	0.4%	170,725	0.5%
<b>Total long-term liabilities</b>	<b>8,958,143</b>	<b>19.7%</b>	<b>5,553,853</b>	<b>16.6%</b>
Trade and other liabilities and accrued expenses	8,221,395	18.1%	6,684,050	20.0%
Provisions	734,027	1.6%	683,273	2.0%
Income tax liability	106,261	0.2%	35,711	0.1%
Interest-bearing loans and borrowings	4,277,912	9.4%	1,110,819	3.3%
Deferred income	27,060	0.1%	19,265	0.1%
Other short-term financial liabilities	1,315,767	2.9%	4,351	0.0%
Liabilities related to non-current assets classified as held for sale	195,956	0.4%	-	0.0%
<b>Total short-term liabilities</b>	<b>14,878,378</b>	<b>32.8%</b>	<b>8,537,469</b>	<b>25.6%</b>
<b>Total liabilities</b>	<b>23,836,521</b>	<b>52.6%</b>	<b>14,091,322</b>	<b>42.2%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>45,419,084</b>	<b>100.0%</b>	<b>33,404,311</b>	<b>100.0%</b>

## 2.1.2 Consolidated profit and loss account

	1.01.2006 - 31.12.2006 PLN '000	% of total sales	1.01.2005 - 31.12.2005 PLN '000	% of total sales
<b>Net sales revenues</b>				
Sales of finished goods	50,089,786		41,015,030	
Excise tax and other charges	(12,405,621)		(12,193,390)	
Revenues from sale of finished goods, net	37,684,165		28,821,640	
Sales of merchandise and raw materials	16,255,925		12,676,620	
Excise tax and other charges	(1,072,901)		(309,993)	
Revenues from sale of merchandise and raw materials, net	15,183,024		12,366,627	
<b>Total sales revenues</b>	52,867,189	100.0%	41,188,267	100.0%
Cost of finished goods sold	(32,160,515)	-60.8%	(22,510,985)	-54.7%
Cost of merchandise and raw materials sold	(13,711,215)	-25.9%	(11,567,863)	-28.1%
Cost of finished goods, merchandise and raw materials sold	(45,871,730)	-86.8%	(34,078,848)	-82.7%
<b>Gross profit on sales</b>	6,995,459	13.2%	7,109,419	17.3%
Distribution expenses	(2,641,239)	-5.0%	(2,391,290)	-5.8%
General and administrative expenses	(1,170,927)	-2.2%	(1,039,333)	-2.5%
Other operating revenues	612,956	1.2%	2,330,291	5.7%
Other operating expenses	(1,221,477)	-2.3%	(1,090,863)	-2.7%
Profit on the sale of all or part of shares of related parties	1,835	0.0%	29,396	0.1%
<b>Profit from operations</b>	2,576,607	4.9%	4,947,620	12.0%
Financial revenues	602,877	1.2%	669,028	1.6%
Financial expenses	(670,838)	-1.3%	(480,195)	-1.2%
<b>Net financial revenues and expenses</b>	(67,961)	2.1%	188,833	0.5%
Share in profit from investments accounted for under equity method	220,701	0.4%	202,768	0.4%
<b>Profit before tax</b>	2,729,347	5.2%	5,339,221	13.0%
Income tax expense	(669,149)	-1.2%	(701,445)	-1.7%
<b>Net profit for the period</b>	2,060,198	3.9%	4,637,776	11.3%



## 2.2 Selected financial ratios

	2006	2005	2004
<b>1. Return on sales</b>			
<u>profit for the period x 100%</u> revenue	3.9%	11.3%	8.3%
<b>2. Debtors' days</b>			
<u>average trade receivables (gross) x 365 days</u> revenue	30 days	26 days	27 days
<b>3. Debt ratio</b>			
<u>total liabilities x 100%</u> total equity and liabilities	58.5%	50.0%	36.8%
<b>4. Current ratio</b>			
<u>total current assets</u> total current liabilities	1.2	1.5	2.0
<b>5. Return on equity</b>			
<u>profit for the period x 100%</u> equity - profit for the period	10.6%	31.6%	22.9%

- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, excluding allowances for receivables.

## 2.3 Interpretation of selected financial ratios

### Return on sales/ Return on equity

Due to the decrease in Ural/ Brent differential, lower crack margins on refining products as well as increase in the average commodity price for Brent crude oil the return on sales and the return on equity decreased as compared to 2005 and 2004. The decrease of return on sales and return on equity in 2006 compared to 2005 resulted also from the fact that other operating revenues for the year 2005 included the excess of fair value over the acquisition cost of Unipetrol in the amount of PLN 1,893,688 thousand.

### Debtors' days

In 2006 the debtors' days ratio remained on the comparable level to 2005 and 2004.

### Debt ratio/ Current ratio

Due to purchase of AB Mazeiku Nafta shares in 2006 and purchase of Unipetrol shares in 2005, both financed mainly by means of credit facilities, the debt ratio has been decreasing in 2005 and 2006 as compared to 2004. The same reason influenced on the decrease of the current ratio.

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### 3 Detailed report

#### 3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Company.

#### 3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the PKN ORLEN S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 on principles for the preparation of financial statements of related entities by entities other than banks and insurance companies.

#### 3.3 Method of consolidation

The method of consolidation is described in note 4 of the notes to the consolidated financial statements.

#### 3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 7 of the notes to the consolidated financial statements.



### **3.5 Consolidation of equity and calculation of minority interest**

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

### **3.6 Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of PKN ORLEN S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

### **3.7 Notes to the consolidated financial statements**

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the consolidated financial statements taken as a whole.

### **3.8 Report of the Management Board of the Parent Company on the Group's activities**

The Report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the consolidated financial statements.



### 3.9 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2006, we have issued an unqualified opinion, with the following emphasis of matter:

“- As disclosed in note no. 37a5 of the accompanying consolidated financial statements, due to the acquisition of assets and liabilities of AB Mazeikiu Nafta Group, the process of establishment of the fair value of acquired assets and liabilities is in progress. In accordance with IFRS 3, the PKN ORLEN S.A. Group may adjust the fair value of acquired net assets of AB Mazeikiu Nafta Group and recalculate the goodwill in relation to the acquisition of AB Mazeikiu Nafta within twelve months of the acquisition date.

- There is a court proceeding between Unipetrol a.s. and DEZA a.s. disclosed in note no. 35t of the accompanying consolidated financial statements relating to the sale of shares in AGROBOHEMIE a.s. and SYNTHESIA a.s. The result of the court proceeding is uncertain and may negatively influence the value of these shares. PKN ORLEN S.A. Group established neither impairment of these shares (the carrying amount of PKN 508,995 thousand at 31 December 2006) nor a provision for possible penalties.

- As disclosed in note no. 35d of the accompanying consolidated financial statements Rafineria Trzebinia S.A. received decisions from the tax authorities stating an excise tax liability for May-August and September 2004 for a total amount of approximately PLN 100 million increased by interest calculated on these liabilities as a result of the tax proceedings. Recently the appeal procedure is pending and the outcome is unknown. In case of an unfavorable result of the above described dispute there is a risk that the tax authorities will question the correctness of the VAT settlements. The estimated potential VAT liability amounts to approximately PLN 22 million. There is also a risk that negative decisions of the tax authorities will be issued in respect to other periods. In the consolidated financial statements as at 31 December 2006 PKN ORLEN S.A. Group did not establish any provisions to cover potential tax liabilities arising in case of an unfavorable outcome for Rafineria Trzebinia S.A. of the above described matter.

- As disclosed in note no. 35d of the accompanying consolidated financial statements relating to the operation of the tax consignment warehouse by Rafineria Trzebinia S.A., as at the date of this opinion Rafineria Trzebinia S.A. does not hold a certificate from the tax authority stating there are no tax arrears. A statement that there are no tax arrears is one of the necessary conditions to apply for a certificate to operate a tax consignment warehouse. As at the date of issuing this opinion Rafineria Trzebinia S.A. does not hold a certificate to operate a tax consignment warehouse after 30 April 2007. The lack of a certificate to operate a tax consignment warehouse after 30 April 2007 would substantially limit the ability of Rafineria Trzebinia S.A. to conduct its activity at the present scope. In the accompanying financial statements for the year ended 31 December 2006, assets and liabilities of Rafineria Trzebinia S.A. Group are valued based on the going concern assumption, in accordance with the accounting principles described in note 4a.





*Polski Koncern Naftowy Orlen Spółka Akcyjna Group*  
*Report supplementing the opinion on the consolidated financial statements*  
*for the financial year ended 31 December 2006*  
*TRANSLATION*

Net assets of Rafineria Trzebinia S.A. Group presented in the accompanying consolidated financial statements of PKN ORLEN S.A. Group amount to PLN 459 million as at 31 December 2006.”

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Certified Auditor no. 10268/7598  
Monika Bartoszewicz

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor no. 9451/7175  
Leszek Dubicki,  
Member of the Management Board

Warsaw, 18 April 2007