The information in this Preliminary Prospectus is not complete and may be changed. This Preliminary Prospectus is not an offer to sell nor is it an offer to buy securities in any jurisdiction where such offer or sale is not permitted or to any person or entity to whom it is unlawful to make an offer or sale. This Preliminary Prospectus is an advertisement and it not a prospectus for the purposes of EU Directive 2003/71/EC (the "Directive"). A final form prospectus will be prepared and made available to the public in accordance with the Directive. Investors should not subscribe for any securities referred to in this document except on the basis of information contained in the final form prospectus. The final form prospectus, when published, will be available from the offices of the Issuer (as defined herein), the Guarantor (as defined herein) and the Principal Paying Agent (as defined herein).

PRELIMINARY PROSPECTUS

SUBJECT TO AMENDMENT AND COMPLETION

Dated 27 June 2007

(Aktiebolaget Grundstenen 108770 to be renamed)

ORLEN Finance AB

(incorporated in the Kingdom of Sweden with registered number 556693-8915)

€●

● per cent. Guaranteed Bonds due ●

guaranteed by

Polski Koncern Naftowy ORLEN Spółka Akcyjna

(a joint stock company incorporated in the Republic of Poland)

Issue Price ● per cent.

The €● ● per cent. Guaranteed Bonds due ● (the "Bonds") will be issued by Aktiebolaget Grundstenen 108770 (to be renamed ORLEN Finance AB) (the "Issuer") and unconditionally and irrevocably guaranteed by Polski Koncern Naftowy ORLEN Spółka Akcyjna (the "Guarantor"). Interest on the Bonds is payable annually in arrear on ● in each year. Payments on the Bonds will be made without deduction for or on account of taxes of Sweden or Poland to the extent described under "Terms and Conditions of the Bonds — Taxation".

The Bonds mature on ●. The Bonds are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Sweden and Poland and at the option of the relevant holder at any time while any of the Bonds remain outstanding, if a Put Event (as defined in the Terms and Conditions of the Bonds) occurs, at the principal amount together with accrued interest to the date fixed for redemption. See "Terms and Conditions of the Bonds — Redemption and Purchase".

The Bonds and the guarantee of the Guarantor will constitute unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively. See "Terms and Conditions of the Bonds — Status".

Application has been made to the Commission de Surveillance du Secteur Financier (the "CSSF") in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 relating to prospectuses for securities, for the approval of this Prospectus for the purposes of Directive 2003/71/EC (the "Prospectus Directive"). Application has also been made to the Luxembourg Stock Exchange for the Bonds to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. References in this Prospectus to the Bonds being "listed" (and all related references) shall mean that the Bonds have been "listed" on the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive 93/22/EEC.

The denomination of the Bonds shall be €50,000 and integral multiples of €1,000 in excess thereof, up to and including €99,000.

The Bonds will initially be represented by a temporary global Bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depositary on behalf of Clearstream Banking, société anonyme ("Clearstream Luxembourg") and Euroclear Bank S.A./N.V. ("Euroclear") on or about ● 2007. The Temporary Global Bond will be exchangeable for interests in a permanent global Bond (the "Global Bond"), without interest coupons, on or after a date which is expected to be ● 2007 upon certification as to non-U.S. beneficial ownership. See "Summary of Provisions relating to the Bonds while in Global Form". No definitive Bonds will be issued with a denomination above €99,000.

The Bonds are expected to be rated Baa3 by Moody's Investors Service, Inc. ("Moody's") and are expected to be rated BBB- by Fitch Ratings Ltd. ("Fitch"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Prospectus.

JOINT BOOKRUNNERS

ABN AMRO **BNP PARIBAS** **CITI** **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

JOINT LEAD MANAGERS

ABN AMRO **BNP PARIBAS** **CITI** **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

ING WHOLESALE BANKING **UNICREDIT GROUP (BA-CA)**

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor, the Guarantor and its controlled, jointly controlled and significantly influenced entities (the ''PKN ORLEN Group'') and the Bonds which according to the particular nature of the Issuer, the Guarantor and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor. Each of the Issuer (in respect of itself only) and the Guarantor accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer (in respect of itself only) and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Managers (as defined in ''Subscription and Sale'' below) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus see ''Subscription and Sale'' below.

None of the Managers has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Bonds. Each person receiving this Prospectus acknowledges that such person has not relied on any of the Managers in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer and the Guarantor and the merits and risks involved in investing in the Bonds. In particular, each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Managers. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or the PKN ORLEN Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor or the PKN ORLEN Group since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the ''Securities Act'') and Bonds in bearer form are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

Unless otherwise specified or the context requires, references to ''EUR'', ''euro'' and ''€'' refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (as amended from time to time), references to ''PLN'' and ''Zloty'' are to Polish Zloty and references to ''CZK'' are to Czech Koruna.

Except as otherwise provided, translations of amounts from one currency into another currency are solely for the convenience of the reader and are made at various exchange rates. No representation is made that the amounts referred to herein could have been, or could be, converted into another currency at any particular exchange rate.

In connection with the issue of the Bonds, ● (the ''Stabilising Manager(s)'') or any person acting on behalf of the Stabilising Manager(s) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any persons acting on behalf of the Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made

and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Data included in this Prospectus have been subject to rounding adjustments; accordingly data shown for the same item of information may vary and figures which are totals may not be arithmetical sums of their components.

In respect of information in this Prospectus sourced from a third party, the Guarantor confirms that the information has been accurately reproduced and that as far as the Guarantor is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Table of Contents

	Page
Definitions and Glossary	5
Overview	9
Risk Factors	11
Terms and Conditions of the Bonds	22
Summary of Provisions relating to the Bonds while in Global Form	32
Use of Proceeds	34
Description of the Issuer	35
Description of the Guarantor	36
Taxation	77
Subscription and Sale	78
General Information	80
Financial Statements of the Guarantor	F–1
Financial Statements of the Issuer	F–296

Definitions and Glossary

"AB Klaipedos Nafta"	means AB Klaipedos Nafta, which has its registered office in Klaipeda Lithuania.
"Act on Biofuels"	means the Polish Act on Biocomponents and Liquid Biofuels of 25 August 2006.
"ARE"	means Agencja Rynku Energii Spółka Akcyjna (Energy Market Agency Joint Stock Company).
"ANWIL" or **"ANWIL S.A."**	means Zaklady Azotowe Anwil S.A. which has its registered office in Wloclawek, Poland.
"Bank of New York"	means The Bank of New York, the depositary bank for PKN ORLEN's depositary receipts programme.
"Basell"	means Basell Europe Holdings B.V.
"BOP"	means Basell ORLEN Polyolefins sp. z o.o. which has its registered office in Plock, Poland.
"BOPS"	means Basell ORLEN Polyolefins Sprzedaż sp. z o.o. which has its registered office in Plock, Poland.
"Borsodchem"	means Borsodchem Nyrt, the Hungarian chemical company focusing on the production of isocyanates and PVC.
"Brent/Urals differential"	means the difference between the price of the commonly traded North Sea crude oil (Brent) and the price of oil shipped from Russia (Ural).
"Bridge Facility"	means the EUR 800 million bridge credit facility entered into on 29 November 2006 between PKN ORLEN as borrower and a syndicate of international banks.
"C4 fraction"	means the product obtained, among others, from the process of catalytic cracking; it is used as a component of feedstock for ether or alkylation installation (light C4 fraction), and as a component of liquid gas and motor gasoline.
"COCCP"	means the Complex Operating Cost-Cutting Programme which was operating in PKN ORLEN in 2004-2005.
"Company"	means PKN ORLEN.
"CPN"	means Centrala Produktow Naftowych Spółka Akcyjna.
"Czech Commercial Code"	means Act No. 513/1991 Coll. as amended, effective from 1 January 1992.
"CZK"	means Czech Koruna, the official currency of the Czech Republic.
"E&P"	means exploration and production.
"Energy Regulatory Office"	means Urząd Regulacji Energetyki (being the Polish energy regulator).
"EUR"	means the Euro, the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.
"FAME"	means fatty acids methyl esters or biodiesel.
"FCC"	means fluid catalytic cracking.
"GDP"	means gross domestic product.
"Hostalen licensed technology"	is a polyethylene production technology. It is used mostly in production of trimodal high-density polyethylene. The newest type of this technology is known as ACP (Advanced Cascade Process). During this process, polymerisation subsequently takes place in three reactors and a polyethylene product characterised by specific properties, suitable for various applications, is produced.

"HDPE"	means high-density polyethylene.
"IKS Solino"	means Inowroclawskie Kopalnie Soli "Solino" S.A. which has its registered office in Inowroclaw, Poland.
"INEOS"	means INEOS Vinyls Limited which has its registered office in Runcorn, Cheshire, England.
"IPPC"	means integrated pollution prevention control.
"J & S Energy"	means J & S Energy S.A. which has its registered office in Warsaw, Poland.
"Kralupy refinery"	means refinery of Česká Rafinérská a.s., which is located in Kralupy nad Vltavou, Czech Republic.
"LDPE"	means low-density polyethylene.
"LHO"	means light heating oil.
"Lithuanian Government"	means the Government of the Republic of Lithuania.
"Lithuanian Government Agreement"	means the share sale and purchase agreement dated 9 June 2006 between PKN ORLEN and the Lithuanian Government relating to the purchase of an additional 30.6615 per cent. of the shares of Mazeikiu by PKN ORLEN from the Lithuanian Government.
"Litvinov refinery"	means refinery of Česká Rafinérská a.s., which is located in Litvinov, Czech Republic.
"Lotos Group"	means Grupa Lotos S.A., which has its registered office in Gdansk, Poland.
"LPG"	means liquefied petroleum gas.
"LTL"	means Lithuanian Lit, the official currency of the Republic of Lithuania.
"Mazeikiu"	means AB Mazeikiu Nafta which has its registered office in Juodeikiai, Lithuania.
"MOL"	means MOL Hungarian Oil and Gas Public Limited Company which has its registered office in Budapest, Hungary.
"MWV"	means the Association of the German Petroleum Industry.
"Nafta Polska"	means Nafta Polska Spółka Akcyjna, a joint stock company in which the State Treasury holds 100 per cent. of the shares, which has its registered office in Warsaw, Poland.
"NAP"	means the European Union ETS — National Allocation Plan.
"NOM"	means Niezależny Operator Międzystrefowy sp. z o.o. which has its registered office in Warsaw, Poland.
"OMV"	means OMV Aktiengesellschaft, Austrian Oil and Gas Public Limited Company.
"ORLEN Asfalt"	means ORLEN Asfalt sp. z o.o. which has its registered office in Plock, Poland.
"ORLEN Deutschland"	means ORLEN Deutschland AG, a company based in Germany which has its registered office in Elmshorn, Germany.
"ORLEN Eko"	means ORLEN Eko sp. z o.o. which has its registered office in Plock, Poland.
"ORLEN Oil"	means ORLEN Oil sp. z o.o. which has its registered office in Cracow, Poland.
"Paramo refinery"	means PARAMO a.s., which has its registered office in Pardubice, Czech Republic.
"PERN"	means PERN "Przyjaźń" S.A. (Przedsiębiorstwo Eksploatacji Rurociągów naftowych "Przyjaźń" S.A.) which has its registered office in Plock, Poland.

"Petrolot"	means Petrolot sp. z o.o. which has its registered office in Warsaw, Poland.
"Petrotank"	means ORLEN PetroTank sp. z o.o. which has its registered office in Widelka, Poland.
"PLN"	means Polish zloty, the official currency of the Republic of Poland.
"PGNiG"	means PGNiG S.A. (Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna) which has its registered office in Warsaw, Poland.
"PKN ORLEN" or **"Company"**	means Polski Koncern Naftowy ORLEN Spółka Akcyjna.
"PKN ORLEN Group"	means PKN ORLEN and its controlled, jointly controlled and significantly influenced entities.
"Polish Commercial Companies Code"	means the Polish Commercial Companies Code of 15 September 2000.
"Polish LPG Association"	means Polska Organizacja Gazu Plynnego.
"Polyethylene"	is a type of polyolefin. The high pressure process of ethylene produces LDPE and the medium pressure polymerisation of ethylene produces HDPE. LDPE is more flexible and has better clarity; HDPE has greater strength and less creep (the continuous yield of material under stress) and is less permeable to gases.
"Polyolefin"	is the collective name given to those polymers that are made from olefins (ethylene, propylene). Polyolefins are high molecular weight compounds made by joining together hundreds or thousands of molecules which consist of monomers. Molecular weight, structure and composition affect a number of the properties of polymers.
"PP"	means polypropylene — a type of polyolefin which is the product of propylene polymerisation reaction. PP is the lowest density polymer. It has fair-to-good impact strength (the ability of a material to withstand shock loading) and excellent colourability. PP has good resistance to heat and low water absorption.
"ppm"	means parts per million.
"PSE"	means Polskie Sieci Elektroenergetyczne S.A. which has its registered office in Warsaw, Poland.
"PTA"	means purified terephthalatic acid.
"Put Option Agreement"	means the put option agreement dated 9 June 2006 between PKN ORLEN and the Lithuanian Government relating to the 10.0006 per cent. shares of Mazeikiu that remained the property of the Lithuanian Government subsequent to the sale of Lithuania's 30.6615 per cent. stake to PKN ORLEN.
"PVC"	means polyvinyl chloride.
"PX"	means paraxylene.
"Rafineria Jedlicze"	means Rafineria Nafty Jedlicze S.A. which has its registered office in Jedlicze, Poland.
"Rafineria Trzebinia"	means Rafineria Trzebinia S.A. which has its registered office in Trzebinia, Poland.
"REACH"	means Registration, Evaluation, Authorisation and Restriction of Chemicals — the new European law on chemicals, which entered into force on 1 June 2007. The aim of REACH is to improve the protection of human health and the environment through the better and earlier identification of the properties of chemical substances. At the same time, innovative capability and competitiveness of the EU chemicals industry should be enhanced.
"REBCO"	means Russian export blend crude oil.

"Regional Market Operators"	means ORLEN PetroCentrum sp. z o.o., ORLEN PetroZachód sp. z o.o., ORLEN PetroProfit sp. z o.o., ORLEN PetroTank sp. z o.o. and ORLEN Morena sp. z o.o.
"Revolving Facility"	means the EUR 800 million five-year revolving credit facility entered into on 29 November 2006 between PKN ORLEN as borrower and a syndicate of international banks.
"ROR"	means Regional Market Operators.
"SBM"	means single buoy mooring.
"Spheripol technology"	is an industrial process which is used in the production of polypropylene. This technology uses advanced catalysts and the polymer produced is in the form of spherical granules.
"Spolana"	means Spolana, a.s. which has its registered office in Neratovice, Czech Republic.
"SPU"	means salt processing unit.
"State Treasury"	means the Polish Ministry of State Treasury.
"sweet crude oil"	means crude oil with a low sulphur content.
"Tankpol"	means Tankpol sp. z o.o.
"Tender Offer"	means the mandatory tender offering required by Lithuanian law in respect of remaining shares in Mazeikiu.
"Transneft"	means OAO AK TRANSNEFT, which has its registered office in Moscow, Russia.
"U95 petrol"	means Universal U-95 unleaded petrol.
"Unipetrol"	means Unipetrol a.s. which has its registered office in Prague, Czech Republic.
"Unipetrol Group"	means Unipetrol, together with its controlled, jointly controlled and significantly influenced entities.
"U.S.$" or **"USD"**	means United States Dollar, the official currency of the United States of America.
"VCP"	means the value creation programme announced by PKN ORLEN on 4 June 2007 for Mazeikiu.
"VAT"	means goods and services tax.
"VDU"	means vacuum distillation unit.
"Ventus"	means AB Ventus Nafta.
"Visbreaker Unit"	means an operation that converts high viscosity petroleum stocks into lower viscosity petroleum stocks suitable as heavy fuel oil.
"Yukos Agreement"	means the share sale and purchase agreement dated 26 May 2006 between PKN ORLEN, as the purchaser, and Yukos International, as the seller, relating to the purchase by PKN ORLEN of a 53.7022 per cent. stake in Mazeikiu.
"Yukos Group"	means Yukos International, together with its subsidiaries.
"Yukos International"	means Yukos International UK B.V., a private limited liability company with its registered office in the Netherlands.
"ZEP S.A."	means Zakład Energetyczny Płock S.A., which has its registered office in Płock, Poland.

Overview

This overview must be read as an introduction to this Prospectus and any decision to invest in the Bonds should be based on a consideration of the Prospectus as a whole, including the full terms and conditions. This overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

Words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meanings in this summary.

The Issuer	Aktiebolaget Grundstenen 108770 to be renamed ORLEN Finance AB.
The Guarantor	Polski Koncern Naftowy ORLEN Spółka Akcyjna.
Joint Bookrunners	ABN AMRO Bank N.V., BNP PARIBAS, Citigroup Global Markets Limited and Société Générale.
Joint Lead Managers	ABN AMRO Bank N.V., Bank Austria Creditanstalt AG, BNP PARIBAS, Citigroup Global Markets Limited, ING Bank N.V. and Société Générale.
The Bonds	€● ● per cent. Guaranteed Bonds due ●.
Issue Price	● per cent. of the principal amount of the Bonds.
Issue Date	Expected to be on or about ● 2007.
Interest	The Bonds will bear interest from and including the Issue Date at a rate of ● per cent. per annum payable annually in arrears on ● in each year commencing on and including ●.
Status of the Bonds and the Guarantee	The Bonds are direct, unsecured and unconditional obligations of the Issuer. The guarantee is a direct, unsecured and unconditional obligation of the Guarantor.
Form and Denomination	The Bonds will be in bearer form in the denomination of €50,000 and integral multiples of €1,000 in excess thereof, up to and including €99,000. See "Summary of Provisions relating to the Bonds in Global Form".
Rating	The Bonds are expected to be rated Baa3 by Moody's and are expected to be rated BBB- by Fitch. A rating reflects only the views of the relevant rating agency and is not a recommendation to buy, sell or hold any Bonds. A rating may be subject to revision, suspension or withdrawal at any time by the relevant rating agency. For information on certain risks connected with ratings see the section entitled "Risk Factors". An explanation of the significance of specific ratings may be obtained from the relevant rating agency.
Withholding Tax	See "Taxation".
Change of Control with Rating Downgrade Put Event	Each Bondholder will have the option to require the Issuer to redeem any outstanding Bonds it holds upon the occurrence of a Put Event. A Put Event will be deemed to occur if there is a Change of Control of the Guarantor and on the Relevant Announcement Date, the Bonds carry from any Rating Agency: (a) an investment grade credit rating and such rating is downgraded to a Non-Investment Grade Rating or withdrawn; (b) a Non-Investment Grade Rating; or (c) no credit rating and a Negative Rating Event occurs. Such rating activity must have resulted from the Change of Control, as confirmed by the relevant Rating Agency.

Events of Default	See Condition 8 of the ‘‘Terms and Conditions of the Bonds’’.
Negative Pledge	See Condition 3 of the ‘‘Terms and Conditions of the Bonds’’.
Governing Law	The Bonds, the Trust Deed, the Agency Agreement and the Subscription Agreement will be governed by English law.
Listing and Trading	Application has been made for the Bonds to be admitted to listing on the official list and to trading on the Luxembourg Stock Exchange’s regulated market.
Clearing Systems	Euroclear and Clearstream, Luxembourg.
Selling Restrictions	See ‘‘Subscription and Sale’’.
Risk Factors	Investing in the Bonds involves risks. See ‘‘Risk Factors’’.

Risk Factors

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer and the Guarantor are not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

1. Risk Factors relating to the Issuer and the Guarantor

Factors that may affect PKN ORLEN's ability to fulfil its obligations under the Bonds

Fluctuations in crude oil prices may have a negative effect on PKN ORLEN's business

The PKN ORLEN Group purchases all the crude oil it processes and therefore its business is significantly affected by changes in the market price of crude oil. In line with other international oil companies, PKN ORLEN purchases crude oil pursuant to agreements priced in or by reference to term and spot world market prices. Such prices may fluctuate widely in response to changes over which PKN ORLEN has no control, including but not limited to:

- economic and political circumstances in oil producing regions, particularly in Russia, the Middle East and Africa;
- global and regional supply and demand and expectations regarding future supply and demand;
- actions taken by oil producing or consuming countries and by major suppliers of oil;
- pipeline owners and operators breaching arrangements and not fulfilling contractual conditions;
- any disruption in crude oil flow (e.g. technical or environmental);
- prices and availability of alternative fuels;
- global economic and political conditions; and
- weather conditions and other catastrophes.

The PKN ORLEN Group is heavily dependent upon Russian crude oil imports

The PKN ORLEN Group operates four refineries in three different countries: the Płock refinery in Poland, the Litvinov and Kralupy refineries in the Czech Republic and the Mazeikiu refinery in Lithuania. PKN ORLEN does not have any crude oil resources and, as a consequence, it is dependent on purchases of crude oil from other companies, mainly in Russia. PKN ORLEN depends, in particular, on REBCO purchases. PKN ORLEN typically purchases REBCO at a discount to its price quoted in Rotterdam. Deliveries of REBCO are delivered to both the Płock and the Litvinov refineries via the Druzhba pipeline (respectively its northern and southern sections). The Mazeikiu refinery is supplied via the Butinge terminal. Although PKN ORLEN's operations in Poland and the Czech Republic have not experienced any significant disruption in REBCO supplies (with the exception of four days in January 2007), any such prolonged disruption without availability of supplies from alternative sources may have a material adverse effect on its business, results of operations and financial condition. The second Czech refinery, Kralupy, processes only sweet crude oil which is delivered there via the Trieste terminal and the IKL pipeline/MERO pipeline and is, therefore, not subject to the same risks.

The PKN ORLEN Group is able to purchase oil from other sources at very short notice in the case of an emergency. The technology available to the PKN ORLEN Group enables it to process REBCO as well as oil from other sources. However, a significant reduction in Russian crude oil availability or increase in crude oil prices could increase PKN ORLEN's costs and reduce its profit margins. As a consumer of Russian crude oil, the PKN ORLEN Group is exposed to fluctuations in the level of discount or differential between the

market price of Brent crude and the market price of Urals crude. A reduction in the level of this differential would reduce PKN ORLEN's profitability.

PKN ORLEN is investigating potential acquisitions of crude oil explorations to expand its production activities internationally. Subject to appropriate evaluation, it plans, in the near future, to purchase interests in crude oil wells. However, PKN ORLEN might not be successful in locating, developing or purchasing hydrocarbon reserves.

Common risks that can affect PKN ORLEN Group operations

The factors below could impact negatively on the business, operations and financial condition of the PKN ORLEN Group:

- Deliveries of crude oil via pipelines are vulnerable to technical accidents, terrorist attacks and sabotage, which could prevent suppliers from providing crude oil for the PKN ORLEN refineries;
- PKN ORLEN's refinery in Płock is almost 100 per cent. supplied (13.4 million tonnes out of total 13.8 million tonnes in 2006) via the Druzhba pipeline (northern section) delivering REBCO. During maintenance periods, low sulphur barrels are purchased and delivered to the port of Gdańsk and also via railway. To reach the gate of the refinery, the crude oil is transported via the Pomeranian pipeline from the sea. Both pipelines, the Polish section of the Druzhba pipeline (from the Adamowo Zastawa pumping station on Belarussian-Polish border to Plebanka tank farm near Płock) and the Pomeranian pipeline (from Gdańsk to Plebanka), are operated and owned by PERN (a state-owned company). PKN ORLEN has long-term agreements with PERN regarding deliveries of crude oil from Gdańsk and Adamowo;
- The Czech refinery in Litvinov is almost 100 per cent. supplied with REBCO (2.9 million tonnes of PKN ORLEN's share in 2006) via the Druzhba pipeline (Southern Section). Small volumes of the local Moravian production reach the refinery gates via railway tank cars. REBCO is delivered to Budkovce station, on the Ukrainian-Slovakian border. Then it is transported by the Slovakian pipeline, fully operated and owned by TRANSPETROL (51 per cent. owned by Rosneft, 49 per cent. state-owned). In the Czech Republic, it is further transported by the pipeline operated and owned by MERO (a state owned company);
- The Czech refinery in Kralupy is supplied with sweet crude oil delivered via the Italian port in Trieste (0.98 million tonnes of PKN ORLEN's share in 2006), then via TAL IKL pipeline on the Italian and Austrian territory to the Czech Republic. Small volumes are also delivered via railway. Unipetrol, as well as other processors in Ceska Rafinerska a.s. (a company set up to operate Litvinov and Kralupy), have long-term agreements with MERO and TRANSPETROL regarding the transportation of REBCO to Litvinov. As far as supplies to Kralupy are concerned, there is a long-term agreement between MERO and Ceska Rafinerska regarding the pipeline transportation in the Czech Republic. Additionally, MERO has a direct agreement with Trans Alpine Pipeline ("TAL");
- There are no assurances that future changes in the Russian oil industry will not result in higher prices for REBCO;
- Russian companies are planning to build new refineries in Russia, which may result in less crude oil being exported and delivered to PKN ORLEN refineries;
- Increasing demand for crude oil in China, which is expected to continue to increase rapidly in the future, and completion of the Burgas to Aleksandroupolis pipeline and the East Siberia Pacific Ocean pipeline, leading to an increasing channelling of REBCO deliveries to destinations in south and east Asia in the next few years, may result in the availability of less crude oil for transportation to the central European region;
- Completion of the Baltic Pipeline System II project, which is designed to deliver crude oil to Primorsk in Russia, and further to Europe, could result in a decrease in the amount of crude oil being delivered via the Druzhba pipeline. Additionally, there is a risk that Russia may discontinue deliveries of REBCO via certain transit countries (Belarus, Poland, Germany, Ukraine, Slovakia, and the Czech Republic) in the future;
- Delivering crude oil by sea on vessels is more expensive than delivering crude oil by pipelines because of the higher costs associated with shipping the oil. Costs are linked to freight cost, so any substantial changes in these rates could impact refining costs;

- Crude oil bound for the Mazeikiu refinery delivered to the Butinge terminal is discharged via an off-shore SBM. The SBM was replaced in September 2006 following damage caused by a vessel colliding with it in December 2005. There is a short-term risk of disruption to the supply of crude oil via the SBM due to severe weather conditions or damage to the SBM. Historically, weather disruptions have been relatively short term, lasting only two to three days. The original SBM is being refurbished and would be ready for installation at short notice in the event of damage to the SBM currently being used; and
- Increased processing of types of crude oil other than REBCO oil, which would be less suitable for PKN ORLEN's refineries in Płock, Litvinov and Mazeikiu, and is likely to cause an increase in production costs and smaller refining margins.

Difficulty of converting crude oil into marketable products

The difficulty of converting crude oil into marketable products is mostly related to the availability of individual units at refinery sites. Any shut down of conversion units in the production line could have an impact on refined products output. Similar issues may arise in normal turnaround activity. Another reason can be logistical problems with dispatching the products. These problems are solved by proper arrangements of tank storage.

Fluctuations in currency exchange rates could impact PKN ORLEN's earnings

The crude oil that PKN ORLEN purchases from external sources is priced in U.S. dollars. A substantial amount of its sales of refined petroleum products is priced in or by reference to U.S. dollars. Consequently, fluctuations in the value of the PLN against the U.S. dollar impact on PKN ORLEN's financial position. A sudden or severe increase in the value of the PLN against the U.S. dollar, could reduce PKN ORLEN's PLN net income of its refined products. On the other hand, a long-term decrease in the value of the PLN against the foreign currencies may strengthen PKN ORLEN's PLN net income.

Domestic and international inflation could affect PKN ORLEN's profitability

The PKN ORLEN Group is investing significant amounts of funds in production, distribution and sales infrastructure. Investment goods price inflation, as well as domestic consumer price inflation could lead to an increase in operating and investment costs, reducing profitability.

Risks particular to the Płock refinery

The Płock refinery outsources transport and storage facilities services (there is only one pipeline operator in Poland, PERN, which manages all crude pipelines in the country, and has the largest storage facilities). The Płock refinery retains only a small amount of its inventories. Therefore, the occurrence of any technical problems, the negotiation of new contracts from time to time or the inability of its business partners to meet contractual arrangements at any time could result in the refinery not being able to buy and/or process crude oil and/or sell its products.

A decrease in the volume of crude oil delivered by the northern leg of the Druzhba pipeline can affect deliveries to the Płock refinery. Currently, due to its location, the Płock refinery may use crude oil designated for Płock, as well as crude oil designated for transit via the Gdańsk terminal as long as transit deliveries flow through Poland to the Gdańsk terminal.

Risks particular to the Mazeikiu refinery

There are limited storage facilities in Lithuania, which are insufficient for the volume of reserves of crude oil, especially following the shutdown of the Druzhba pipeline which increased the dependency of the Mazeikiu refinery on deliveries being made through the Butinge terminal. If there is a shortage of new deliveries of crude oil for the Mazeikiu refinery by any other means, this refinery might not be able to produce enough white products for the current markets.

The Butinge terminal is a terminal with a single mooring point and therefore there is a risk of temporary closure due to weather conditions (in particular, in winter).

There is a risk of temporary stoppage of crude oil deliveries from Primorsk due to icing of the Primorsk port in winter. In such circumstances any crude oil delivered from an alternative source would be much more expensive and more difficult for the Mazeikiu refinery to process.

The Mazeikiu refinery is in the process of reinstating production assets damaged in a fire in October 2006. Potential delays in delivery of the required replacement production equipment could delay the refinery's ability to return to full production capacity and optimal product yield thus affecting profitability.

Risks particular to the Litvinov refinery

The Litvinov refinery in the Czech Republic has virtually no storage facilities. This increases its dependence on regular deliveries to the plant through the southern leg of the Druzhba pipeline. In circumstances where deliveries are disrupted, the Litvinov refinery must rent storage facilities from the Czech State Reserves or other processors of Unipetrol (Shell, Agip, ConocoPhillips) which results in increased costs.

The potential for less crude oil to be delivered in the future through the southern leg of the Druzhba pipeline to Litvinov could cause crude oil procurement problems.

Risks particular to the Kralupy refinery

As there are limited storage facilities in the Trieste terminal for Unipetrol due to the large volumes of traffic at the Trieste terminal, Unipetrol competes with other refiners sourcing crude oil to their refineries via the Trieste terminal. If deliveries of crude oil to the Kralupy refinery were to be delayed, this refinery would not be able to produce gasoline or other products.

The PKN ORLEN Group's dependence on one natural gas supplier

PGNiG is the sole supplier of natural gas to the PKN ORLEN Group. Natural gas prices are determined by PGNiG as the leader in the natural gas segment in Poland and directives from the Energy Regulatory Office. As a result, Polish gas prices are not always comparable to those available in more competitive markets.

PKN ORLEN experienced problems with gas supplies from PGNiG on 18 February 2004 and between January and February 2006. Despite PGNiG's good service record, there is a risk that the amount of gas supplied to the PKN ORLEN Group may be reduced as a consequence of technical problems with PGNiG's infrastructure. This risk may negatively affect the PKN ORLEN Group's performance. It would result in PKN ORLEN either seeking an alternative supply of energy source or in delays on its own resources of gas.

Different charges and price changes for natural gas

Natural gas is one of the basic raw materials used in the PKN ORLEN Group's production process. The purchase of natural gas by PKN ORLEN is based on a long-term agreement between PKN ORLEN and PGNiG. Gas prices depend on external factors, over which PKN ORLEN has no influence. Prices stated in import contracts are related to oil-based product prices.

Factors which can affect natural gas prices include:

- global and regional economic and political trends of development in energy resource rich regions;
- global and regional changes in the supply and demand of natural resources;
- the influence on prices and production levels of OPEC countries and other countries rich in energy sources;
- fluctuations in prices in respect of alternative sources of energy which can impact on financial conditions in gas supply agreements;
- Polish and foreign laws as well as Polish government politics and policies;
- global and local economic conditions;
- prices and access to new technologies in energy production; and
- weather conditions.

All the above factors make future price forecasting changes challenging. Changes in global market prices can impact the way PKN ORLEN prices its products which may affect its profitability.

Risk regarding changes in natural gas supply agreements

As a result of the Polish Energy Law as amended on 7 April 2007, PGNiG is required to amend certain provisions of its gas supply agreements with PKN ORLEN which will result in new agreements being required to be put in place. The content of these agreements will be subject to mutual negotiations and there can be no guarantee that the final form of the new gas supply agreements will be fully satisfactory to PKN ORLEN. It is possible that the gas supply agreements in their new form will have a negative impact on the operations and financial condition of the PKN ORLEN Group.

The PKN ORLEN Group is subject to general operational risks that may result in losses and additional expenditures

The nature of the industrial business conducted by the PKN ORLEN Group carries operational risks typical of entities in the fuel and energy sector. These may involve: accidents, including explosions, fires, leaks and service outages. The occurrence of any of them may result in significant human losses, losses in the Company's assets, as well as natural and social losses. Remedying their effects may lead to substantial additional financial expenditures. Accidents are risks that an entity exercising highest due diligence is unable to foresee, and therefore the management of this category of operational risks is passive in nature and limited to insuring the entity against their effects and potentially minimising the scope of their effects as active efforts upon occurrence. Failures are inconsistent risks which the company may control and manage both actively and passively. PKN ORLEN focuses on the quality of its human resources and assets in order to enable an early response to any potential threats that may result in such an event, providing safety training and having in place safety, maintenance and overhaul procedures.

The PKN ORLEN Group's strategy in the refinery, petrochemical and oil production sectors includes a quality management programme that is aimed at increasing to a minimum of three years the period between service outages and improving the technological and economic effectiveness of PKN ORLEN.

Risk factors relating to the environment in which the PKN ORLEN Group operates

Risk regarding changes in the present law in force

The frequent amendments, the complexity and the lack of uniform interpretation of matters relating to the regulatory framework in which PKN ORLEN operates and purchases natural gas create uncertainty for PKN ORLEN. Regulations in respect of the gas sector were changed in 2006 on a number of occasions (by way of amendments to the Polish Energy Law and executive regulations relating to such law). Further amendments affecting gas sector companies are likely to follow in the next few years. The changes of law raise regulatory compliance issues. Changes in the scope of operations may impact negatively on the operations and/or financial condition of the PKN ORLEN Group.

Risks associated with the wide discretions of the Chairman of the Energy Regulatory Office in respect of Energy Companies

The gas sector is subject to far reaching regulation in Poland. The main discretions of the Polish Energy Regulatory Office are granting concessions, accepting tariffs, agreeing development plans, appointing a systems operator, settling disputes set out in the Polish Energy Law or imposing fines. It is possible that operations taken by the Chairman of the Energy Regulatory Office will have a negative impact on the operations or financial condition of the PKN ORLEN Group. Prices on the Polish gas market are lower than gas prices from import contracts.

Risk regarding concessions

Obtaining new concessions and retaining existing concessions as well as extending their validity is an important factor influencing the activity of the PKN ORLEN Group. It is possible that the Chairman of the Energy Regulatory Office will change the terms of the concessions granted to the PKN ORLEN Group.

Failure to obtain a new concession or to extend an existing one might impact negatively on the potential to diversify the supplies of natural gas and to conduct trading in Poland and abroad.

PKN ORLEN is dependent on licences and permits issued by governmental authorities to conduct its business

There is regulatory risk attached to the holding or exercising of rights under licenses or permits on upstream operations but PKN ORLEN is only exposed to such risk indirectly through its crude oil suppliers since PKN ORLEN does not engage in any domestic or foreign prospecting or extracting operations. Neither is it a holder of any domestic or foreign licences for operating any such business.

The State Treasury shares in PKN ORLEN

The State Treasury is currently the dominant shareholder of PKN ORLEN, which directly, as the Ministry of State Treasury, and indirectly, as Nafta Polska, controls overall 27.52 per cent. interest in PKN ORLEN. The Articles of Association (statut spółki) of PKN ORLEN provide that as long as the State Treasury holds a single share in PKN ORLEN, it reserves the right to apply for the appointment and dismissal (by the supervisory board) of one member of the management board of PKN ORLEN. PKN ORLEN, as a company which has State Treasury shareholding is also subject to corporate supervision carried out by the State

Treasury under the Act on Special Prerogatives of the State Treasury and Performance Thereof in respect of Companies Important for Public Order and Public Safety of 3 June 2005. PKN ORLEN is obliged to provide the State Treasury with information on the activities of PKN ORLEN as required under the Polish Commercial Companies Code. PKN ORLEN is also under a duty to make its Management Board's documentation available for inspection by the State Treasury's observers. The State Treasury may object to a resolution adopted by the Management Board of PKN ORLEN or other legal actions performed by the Management Board the subject of which is a disposal of an asset of primary importance for the business of PKN ORLEN. An objection will only relate to a legal action of PKN ORLEN that has a material significance for public order/ policy, if there is a justified suspicion that such action infringes public order/policy or public safety.

Impact of regulatory CO_2 emission limitations

Two of the PKN ORLEN Group companies' installations, the refinery and the power plant in Plock, have the biggest share of carbon dioxide emissions of all the companies within the PKN ORLEN Group. Both installations are included within NAP 1 and the NAP 2. There were no problems with NAP 1 (covering the period of 2005-2007). Both installations slightly exceed carbon dioxide emission limits. As far as NAP 2 is concerned (covering the period 2008-2012), the Polish government has not yet finalised the allocation of the carbon dioxide emission limits for installations. As a result, the potential consequences of that allocation cannot be estimated at the current time.

PKN ORLEN is subject to general legal risks

The main legal risks that the PKN ORLEN Group is exposed to are potential changes in legislation and potential legal proceedings which may occur in connection with the PKN ORLEN Group's day-to-day activity.

Paragraph 7, point 11 of PKN ORLEN's statutes may not be compliant with the Polish Commercial Companies Code and as a consequence may not be binding. According to this provision, the voting right of the PKN ORLEN's shareholders is restricted in such a way that in a General Meeting of Shareholders, no shareholder can exercise more than 10 per cent. of the total votes existing in PKN ORLEN as of the day when the General Meeting of Shareholders takes place. The above-mentioned voting restriction does not apply to Nafta Polska, the State Treasury and the Bank of New York as a depository of the Global Depositary Receipts. The new Polish Commercial Companies Code requires the voting cap to be a minimum of 20 per cent. For the purpose of calculating the shareholdings, the voting right exercised by the dependent entity is taken to be that exercised by the dominant entity. For the calculation of votes to which a shareholder is entitled, the number of votes per share is added to the number of votes per share a shareholder would have if depository receipts owned by him or her were exchanged for shares. There is currently no single shareholder, holding more than 5 per cent. of the total number of shares, except the State Treasury and Nafta Polska S.A. PKN ORLEN is currently considering amending its statutes to comply with the Polish Commercial Companies Code.

Risk of changes in the shareholders

The majority of the share capital of PKN ORLEN is owned by minority shareholders, holding below 5 per cent. of the shares in PKN ORLEN. At present there are two shareholders holding above 5 per cent. of the share capital of PKN ORLEN; the State Treasury with 10.2 per cent. and Nafta Polska, with 17.32 per cent. (Nafta Polska is wholly owned by the State Treasury). In accordance with the official statements of the State Treasury, neither Nafta Polska nor the State Treasury is interested in disposal of its shares in PKN ORLEN. It is possible that this position could change in the future.

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

As a consequence of the acquisition of the Unipetrol Group and certain subsequent transactions, PKN is currently involved in disputes with third parties. It is uncertain what impact these disputes may have on PKN ORLEN.

In 2003-2004 PKN ORLEN concluded an agreement with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. for the transfer of some of the assets and claims of the Unipetrol Group companies.

Agrofert Holding a.s. consented to PKN ORLEN disclosing only some of the agreements. Some of the agreements were disclosed by Agrofert Holding a.s. itself at a press conference on 13 September 2005.

In January 2006 PKN ORLEN received a copy of a suit for payment of a contractual penalty of EUR 77,266,500 plus interest, filed by Agrofert Holding a.s. before the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague. This suit is now pending.

In February 2006 PKN ORLEN decided to rescind (as such term is understood under the Czech Commercial Code) the agreements concluded with Agrofert Holding a.s. The rescission was caused by a breach of contract by Agrofert Holding a.s. because it allowed DEZA a.s. to exercise a call option for shares in Agrobohemie a.s. and Synthesia a.s. (formerly ALIACHEM a.s.).

In May 2006 PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague a copy of a second suit for payment of a contractual penalty, filed by Agrofert Holding a.s. The value of the subject of the dispute, as in the case of the first proceedings that Agrofert Holding a.s. instituted, is EUR 77,266,500 plus interest. The arbitration proceedings instituted by this action are currently pending.

In July 2006 PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague a copy of a third suit for payment of a contractual penalty, filed by Agrofert Holding a.s. The value of the subject of the dispute is CZK 409,102,494 (EUR 14 million) plus interest. The arbitration proceedings instituted by this action are currently pending.

In July 2006 PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague a copy of a fourth action filed by Agrofert Holding a.s. for payment of compensation for losses resulting from acts of unfair competition and an illegal violation of Agrofert Holding a.s. good name. The value of the subject of the dispute is CZK 17,352,550,000 (EUR 700 million) plus interest.

With respect to the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V., the parties were working towards reaching an amicable settlement of the dispute.

Risk connected with agreements with DEZA a.s.

In August and September 2005 Unipetrol received letters from Deza a.s. demanding the conclusion of an agreement for the purchase of shares in Agrobohemie a.s. and Aliachem a.s. (now Synthesia a.s.). Unipetrol and Deza a.s. each own 50 per cent. shares in Agrobohemie a.s. The shareholding structure in Synthesia a.s. is as follows: Agrobohemie a.s. owns 55.01 per cent. of the shares, Unipetrol owns 38.79 per cent. of the shares and Deza a.s. owns 4.67 per cent. of the shares.

The letters from Deza a.s. referred to agreements for transfer of shares for consideration concluded by Unipetrol a.s. and Deza a.s. with respect to shares in Agrobohemie a.s. and Synthesia a.s., on 12 October 2000 and 15 August 2001, respectively. According to Unipetrol a.s., there were serious legal defects in the documents, which additionally were not consistent with good practice. Unipetrol offered to modify the transaction documents. Deza a.s. rejected this approach and on 26 January 2006 filed an action against Unipetrol for the payment of contractual penalties, arguing that Unipetrol had failed to discharge its obligation to sign the share transfer agreements. Based on the abovementioned agreements, Deza a.s. calculated penalties of CZK 1.5 million (EUR 55,000) per day. On 22 August 2006 Deza a.s. filed a claim for the execution of the share transfer agreements and for damages, arguing that in both cases Unipetrol had failed to discharge its obligation to sign the share transfer agreements. In 2006, Unipetrol and Deza a.s. commenced negotiations to reach a potential out-of-court settlement with regard to both proceedings. The negotiations are ongoing. The outcome of these discussions could have a material adverse effect on the value of Unipetrol's shares in Agrobohemie a.s. and Synthesia a.s.

PKN ORLEN faces significant competition, which may increase in the future

PKN ORLEN faces national, regional and international competition. In the key markets in which PKN ORLEN operates, wholesale and retail liquid fuel trading is highly liberalised in legal and marketing terms.

The main retail competitors of PKN ORLEN include global and regional fuel corporations. In the Polish and Baltic States' markets PKN ORLEN additionally faces competition from European oil and gas companies. In all the markets, independent service station operators and service stations located at hypermarkets are also a source of competition.

PKN ORLEN monitors and checks on a regular basis its competitive position in the retail market. Its business strategy assumes strong growth among its competitors and currently seeks to counteract this by the implementation of two PKN ORLEN brands in Poland i.e. the ORLEN premium brand and the BLISKA economy brand, increasing operational and financial effectiveness and optimising the use of the retail network.

There are wholesale imports of fuel into the home markets in which PKN ORLEN operates from Belarus, Slovakia, Russia, Scandinavia and Germany. These imports can affect PKN ORLEN's pricing and therefore its profitability.

With a view to mitigating these risks imposed by competitors, PKN ORLEN is intensifying its trading operations in such home markets, based on the advantage of the proximity of the raw material and logistical base.

Changes in the motor fuel market

The motor fuel market in Poland is characterised by a high LPG market and a fast growing diesel market. Changes to the dynamics in these two fuel segments will have a sizeable impact on PKN ORLEN's sales. PKN is exposed to retail fuel price competition. A price war amongst retail operators could lead to reduced retail margins and profitability.

PKN ORLEN is subject to extensive environmental regulations and risks

PKN ORLEN is subject to extensive environmental laws and regulations in almost all the countries in which it operates, which regulate, among other matters affecting PKN ORLEN operations, environmentally quality standards for products, air emissions and climate change, water discharges, remediation of soil pollution and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws and regulations have had and will continue to have a substantial impact on PKN ORLEN's operations. PKN ORLEN's operations are subject to certain environmental risks that are inherent in the oil and gas industry and which may arise unexpectedly and result in material adverse effects on PKN ORLEN's business, financial condition and results of operations.

Risks factors which are particular to selected entities within the PKN ORLEN Group

Rafineria Trzebinia S.A.

In accordance with the adopted strategy on the change in the trading profile of Rafineria Trzebinia, Rafineria Trzebinia has been active in the biofuels production segment during 2006. Rafineria Trzebinia is at present the only entity in Poland which produces methyl esters with higher fatty acids of high quality standards and holds the most extensive practical experience in the domain of biofuels in Poland. In 2005, Rafineria Trzebinia launched an extensive development programme in respect of the biodiesel market and continued to work on it during 2006. The biofuel segment is at its early stage of development in Poland. In accordance with the strategy and policy adopted by the European Union under the Directive of the European Parliament and the Council of 8 May 2003, (2003/30/EW), a rapid development of the biofuel and alternative fuels market, originating from renewable sources of energy, is expected to take place in Poland in the years to come. However, the amendment by the Minister of Finance of the regulation on the excise duty relief as of 1 January 2007 caused a significant decrease in profitability of the production and sales of biofuels within the Polish market. On 2 January 2007, Rafineria Trzebinia decided temporarily to discontinue its programme in the production and sales of ON Bio biofuel with 20 per cent. content of FAME until new conditions could justify the relaunching of the production of that biofuel. Consequently, Rafineria Trzebinia decided to suspend the investment programme aimed at significantly improving the existing production capabilities. The announced amendment of fiscal provisions resulted in renegotiations in price and volume under existing agreements for the delivery of raw materials required for the production of biodiesel fuel. This resulted from the expected reduction of biocomponent production at the biodiesel installation. From the opening of the biofuel market, laws regulating the marketing of biocomponents and biofuels required Rafineria Trzebinia to enter into contracts for the delivery of rape oil with a term of at least 5 years. Consequently, there is a potential risk of liquidated damages becoming payable to certain suppliers (at the time when some of the agreements with the suppliers were concluded, the higher tax benefit was in force. Currently, where the tax benefits are lower, there may be a problem with paying additional costs).

With the discontinued production of biofuels, Rafineria Trzebinia lost over 50 per cent. of its revenues from sales of all its products and the potential to generate the related profits. The deterioration of the financial standing of Rafineria Trzebinia resulted in it having to increase the security it had to grant over its assets to third parties. A condition precedent to the establishment of such security was the execution by Rafineria Trzebinia of an agreement with PKN ORLEN and certain banks. PKN ORLEN actively engaged in activities aimed at concluding negotiations with the banks. On 5 March 2007, an agreement was entered into between Rafineria Trzebinia, PKN ORLEN, Bank Pekao S.A. and BPH S.A. restructuring the debt owed to the banks and PKN ORLEN by Rafineria Trzebinia.

There is uncertainty as to what further changes may appear in legislation associated with biofuels in Poland and the extent of the impact on Trzebinia's business and profitability.

ANWIL S.A.

ANWIL is the sole producer of suspension PVC in Poland and one of the largest of such producers in Central and Eastern Europe. This company is also one of Poland's largest producers of nitrogenous fertilisers. One of the main risks to its business is exposure to the price of crude oil which directly influences ethylene and natural gas prices (the main raw materials for PVC and nitrogenous fertilisers production). As referred to previously, PKN ORLEN is dependent on supplies of crude oil and natural gas from Russia.

ANWIL receives pipeline supplies of ethylene from PKN ORLEN. Any pipeline breakdowns may disrupt the ANWIL production process. Similarly disruptions in natural gas supplies from the sole natural gas supplier (PGNiG) may affect production.

There is increased competition on the Polish market caused by Borsodchem and INEOS entering the Polish market (both are competitors of ANWIL). Strong competition in European markets forces foreign companies to expand into external markets. Borsodchem has adopted an aggressive pricing policy in the German, Czech and Slovak markets.

The further restructuring and consolidation of the cable sector in Europe, which is one of the most important consumers of plasticised PVC could lead to a considerable strengthening of these consumers vis-à-vis PVC compounds producers such as ANWIL. Additionally, high copper prices have caused an increase in the raw material costs for cable manufacturers affecting their purchases of PVC as well.

As a leading fertiliser producer, ANWIL could in the future be exposed to intensified competition from Eastern European producers benefiting as a result of reducing certain anti-dumping duties on imports.

Rafineria Nafty Jedlicze S.A.

Due to its production profile, Rafineria Jedlicze is exposed to changes affecting the heating oil markets and the recycled oil markets. Changes in the excise tax regime have recently affected the economics heating oil production and future changes could have further impact on the company's profitability. Strong competition for used oil recovery and regeneration services has an impact on this feedstock's availability and therefore levels of production capacity utilisation.

IKS Solino

The depletion of currently used salt resources would require new sources to be found within the next few years and the potential transfer of the mining activity to another location. The related outlays, including investment outlays, exceed the current possibilities of this company. The process of identifying new sources could necessitate significant outlays for geological and geophysical surveys.

2. Factors which are material for the purpose of assessing the market risks associated with the Bonds

Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the relevant Bonds and the information contained in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Bonds;

(iv) understand thoroughly the terms of the relevant Bonds and be familiar with the behaviour of any relevant indices and financial markets;

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks; and

(vi) be aware that markets such as Poland are subject to rapid change and can face greater risks than more developed markets, including in some cases significant political, economic and legal risks.

Generally, investment in markets such as Poland is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and potential investors are urged to consult with their own legal and financial advisors before making an investment in the Bonds.

3. Risks related to Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

Modification, waivers and substitution

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under the Bonds in place of the Issuer, in the circumstances described in Condition 11 of the Terms and Conditions of the Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other counties). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required, save as provided in Condition 7 of the Bonds, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The Terms and Conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Integral multiples of less than €50,000

The denomination of the Bonds is €50,000 plus integral multiples of €1,000 in excess thereof, up to and including €99,000. Therefore, it is possible that the Bonds may be traded in amounts in excess of €50,000 that are not integral multiples of €50,000. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than €50,000 may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more denominations. If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of €50,000 may be illiquid and difficult to trade.

4. Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Although application has been made to list the Bonds on the Luxembourg Stock Exchange, the Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the ''Investor's Currency'') other than Euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in fixed rate bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate bonds.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Terms and Conditions of the Bonds

The following are the terms and conditions substantially in the form in which they will be endorsed on the Bonds:

The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer on 25 June 2007 and the guarantee of the Bonds was authorised by a resolution of the Board of Directors of the Guarantor on 21 May 2007. The Bonds are constituted by a Trust Deed (the ''Trust Deed'') dated ● 2007 between the Issuer, the Guarantor and Citicorp Trustee Company Limited (the ''Trustee'' which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the ''Bondholders''). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the ''Coupons''). Copies of the Trust Deed, and of the Paying Agency Agreement (the ''Paying Agency Agreement'') dated ● 2007 relating to the Bonds between the Issuer, the Guarantor, the Trustee and the initial principal paying agent and paying agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (presently at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB) and at the specified offices of the principal paying agent for the time being (the ''Principal Paying Agent'') and the paying agents for the time being (the ''Paying Agents'', which expression shall include the Principal Paying Agent). The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the ''Couponholders'') are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those applicable to them of the Paying Agency Agreement.

1 Form, Denomination and Title

(a) Form and denomination

The Bonds are serially numbered and in bearer form in the denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000 each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above €99,000. Bonds of one denomination may not be exchanged for Bonds of any other denomination.

(b) Title

Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Guarantee and Status

(a) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Bonds and the Coupons. Its obligations in that respect (the ''Guarantee'') are contained in the Trust Deed.

(b) Status

The Bonds and Coupons constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all their respective other present and future unsecured and unsubordinated obligations.

3 Negative Pledge

So long as any Bond or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Guarantor will ensure that no Material Subsidiary will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a ''Security Interest''), upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the

Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

This Condition shall not apply in relation to a Security Interest which is created to secure or provide for the payment of Relevant Indebtedness in connection with any Project Financing provided that the assets or revenues subject to such Security Interest are (i) assets which are used or to be used in or in connection with the project to which such Project Financing relates or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or damage to, such assets.

In these Conditions:

(i) "Material Subsidiary" means at any time a Subsidiary of the Guarantor whose net book assets or revenues represent more than 10 per cent. of the total consolidated net book assets or revenues, as the case may be, of the Guarantor. For this purpose:

(A) the net book assets and revenues of a Subsidiary of the Guarantor will be determined from that Subsidiary's financial statements (unconsolidated if it has Subsidiaries) upon which the latest consolidated annual financial statements of the Guarantor and its Subsidiaries (the "Group") have been based;

(B) if a Subsidiary of the Guarantor becomes a member of the Group after the date on which the latest consolidated annual financial statements of the Group have been prepared, the net book assets and revenues of that Subsidiary will be determined from its latest financial statements;

(C) the net book assets and revenues of the Group will be determined from its latest consolidated annual financial statements, adjusted (where appropriate) to reflect the net book assets and revenues of any company or business subsequently acquired or disposed of; and

(D) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Guarantor, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will not be used to determine whether those Subsidiaries are Material Subsidiaries or not.

A certificate of two members of the Board of Directors of the Guarantor as to whether or not a company is a Material Subsidiary will be, in the absence of manifest error, conclusive. The Trustee is entitled to rely without liability on such certificate.

(ii) "Project Financing" means any indebtedness incurred solely to finance a project or the restructuring or expansion of an existing project, in each case for the acquisition, construction, development or exploitation of any property pursuant to which the person or persons to whom such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) (i) expressly agrees or agree that the principal source of repayment of such funds will be that property or assets or revenues generated by such project (or by such restructuring or expansion thereof) and (ii) has or have no other recourse whatsoever to any member of the Group (or its assets and/or revenues) for the repayment of or a payment of any sum relating to such indebtedness;

(iii) "Relevant Indebtedness" means any indebtedness with an original maturity of more than one year which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other debt securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market; and

(iv) "Subsidiary" means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the share capital or similar right of ownership (and for this purpose "control" means the power to direct the management and policies of the entity whether through ownership of voting capital, by contract or otherwise).

4 Interest

The Bonds bear interest from ● 2007 at the rate of ● per cent. per annum, payable annually in arrear in equal instalments of €● per Calculation Amount (as defined below) on ● in each year (each an "Interest Payment Date"). Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all

sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). The period beginning on ● 2007 and ending on the first Interest Payment Date and each successive period beginning on an Interest Payment Date and ending on the next succeeding Interest Payment Date is called an ''Interest Period''.

Interest in respect of any Bond shall be calculated per €1,000 in principal amount of the Bonds (the ''Calculation Amount''). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of ● per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

5 Redemption and Purchase

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on ●. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition.

(b) Redemption for taxation reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if the Issuer satisfies the Trustee immediately prior to the giving of such notice (i) that it (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Poland or Sweden or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after ● 2007 or the Guarantor, in making available to the Issuer any funds required by the Issuer on that occasion, would itself be required to make any withholding or deduction of a kind referred to in Condition 7 from such funds, and (ii) that such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by one member of the Board of Directors of the Issuer (or two members of the Board of Directors of the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

(c) Redemption at the Option of Bondholders on the occurrence of a Put Event

If, at any time while any Bond remains outstanding, a Put Event (as defined below) occurs, then, unless the Issuer shall have given a notice under Condition 5(b) (*Redemption for taxation reasons*) in respect of the Bonds, expiring prior to the Put Date (as defined below), each Bondholder will, upon the giving of a Put Event Notice (as defined below), have the option to require the Issuer to redeem any Bonds it holds on the Put Date at their principal amount, together with interest accrued up to, but excluding, the Put Date.

A ''Put Event'' will be deemed to occur if:

(i) any person or any persons acting in concert (as stipulated in the Public Offering and Public Companies Act (as amended) of Poland), other than a dominant company (as stipulated in the Public Offering and Public Companies Act (as amended) of Poland) whose shareholders are or are to be the same as (or the same save for the initial subscribers of the ordinary shares of such dominant company) and to hold ordinary shares in the same proportions (save for any holding of any such initial subscribers) as the

pre-existing shareholders of the Guarantor, offers to purchase or acquires (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Guarantor or (B) shares in the capital of the Guarantor carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Guarantor (each such event being, a ''Change of Control''); and

(ii) on the date (the ''Relevant Announcement Date'') that is the earlier of (1) the date of the first public announcement of the relevant Change of Control and (2) the date of the earliest Relevant Potential Change of Control Announcement (as defined below) (if any), the Bonds carry from any Rating Agency (as defined below):

(A) an investment grade credit rating (*Baa3/BBB-*, or equivalent, or better), and such rating from any Rating Agency is, within the Change of Control Period, either downgraded to a non-investment grade credit rating (*Ba1/BB+*, or equivalent, or worse) (a ''Non-Investment Grade Rating'') or withdrawn; or

(B) a Non-Investment Grade Rating and such Non-Investment Grade Rating from any Rating Agency is, within the Change of Control Period, downgraded or withdrawn; or

(C) no credit rating and a Negative Rating Event also occurs,

provided that if at the time of the occurrence of the Change of Control the Bonds carry a credit rating from more than one Rating Agency, at least one of which is investment grade, then sub paragraph (A) will apply; and

(iii) in making the decision to downgrade or withdraw a credit rating pursuant to paragraph (A) or (B) above or not to award a credit rating of at least investment grade pursuant to paragraph (C) above, the relevant Rating Agency announces publicly or confirms in writing to the Guarantor that such decision resulted from the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.

If the rating designations employed by any of Moody's, Fitch or S&P (each of such terms, as defined below) are changed from those which are described in paragraph (ii) of the definition of ''Put Event'' above, or if a rating is procured from a Substitute Rating Agency (as defined below), the Guarantor shall determine, with the agreement of the Trustee, the rating designations of Moody's, Fitch or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's, Fitch or S&P and this Condition 5(c) shall be construed accordingly.

The Trustee is under no obligation to ascertain whether a Put Event or Change of Control or any event which could lead to the occurrence of or could constitute a Put Event or Change of Control has occurred, or to seek any confirmation from any Rating Agency pursuant to Condition 5(c)(iii) or pursuant to the definition of Negative Rating Event below, and, until it shall have actual knowledge or notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Put Event or Change of Control or other such event has occurred.

In this Condition 5(c):

''Change of Control Period'' means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which the Bonds are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

a ''Negative Rating Event'' shall be deemed to have occurred if at such time as there is no rating assigned to the Bonds by a Rating Agency, (i) the Guarantor does not, either prior to, or not later than 21 days after the occurrence of the Change of Control seek, a rating of the Bonds, or any other unsecured and unsubordinated debt of the Guarantor or (ii) if, having sought such a rating the Guarantor does not thereafter use all reasonable endeavours to obtain such a rating by the end of the Change of Control Period or (iii) the Guarantor is unable, as a result of the occurrence of such Change of Control, to obtain such a rating of at least investment grade by the end of the Change of Control Period;

''Rating Agency'' means Moody's Investors Service, Inc. (''Moody's''), Fitch Ratings Ltd. (''Fitch'') or Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (''S&P'') or any of their respective successors or any rating agency (a ''Substitute Rating Agency'') substituted for any of them by the Issuer from time to time with the prior written approval of the Trustee; and

"Relevant Potential Change of Control Announcement" means any public announcement or statement by the Guarantor, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where within 180 days following the date of such announcement or statement, a Change of Control occurs.

Promptly upon becoming aware that a Put Event has occurred, and in any event not later than 21 days after the occurrence of the Put Event, the Issuer, failing whom the Guarantor, shall give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 15 (*Notices*), specifying the nature of the Put Event and the procedure for exercising the option contained in this Condition 5(c).

To exercise the option to require the Issuer to redeem a Bond under this Condition 5(c), the Bondholder must deliver such Bond at the specified office of any Paying Agent, on any day which is a day on which banks are open for business in London and in the place of the specified office falling within the period (the "Put Period") of 45 days after the date on which a Put Event Notice is given, accompanied by a duly signed and completed Exercise Notice in the form available from each office of the Paying Agents (the "Exercise Notice"). The Bond must be delivered to the Paying Agent together with all Coupons, if any, appertaining thereto maturing after the date (the "Put Date") being the seventh day after the date of expiry of the Put Period, failing which deduction in respect of such missing unmatured Coupons shall be made in accordance with Condition 6(c). The Paying Agent to which such Bond and Exercise Notice are delivered will issue to the Bondholder concerned a non-transferable receipt (a "Put Option Receipt") in respect of the Bond so delivered. Payment by the Issuer in respect of any Bond so delivered shall be made by transfer to a EUR account which is specified in the Exercise Notice on the Put Date, and in every other case, on or after the Put Date against presentation and surrender of such Put Option Receipt at the specified office of any Paying Agent. An Exercise Notice, once given, shall be irrevocable. For the purposes of these Conditions and the Trust Deed, Put Option Receipts issued pursuant to this Condition 5(c) shall be treated as if they were Bonds.

(d) Notice of redemption and drawings

All Bonds in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition. In the case of a partial redemption the notice shall also contain the serial numbers of the Bonds to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Purchase

Each of the Issuer, the Guarantor and any Subsidiary may at any time purchase Bonds in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). Any purchase by tender shall be made available to all Bondholders alike. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Conditions, 8 and 12.

(f) Cancellation

All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

6 Payments

(a) Method of Payment

Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent. Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond. Payments will be made by credit transfer to a EUR account (or any other account to which EUR may be credited or transferred) specified by the payee or, at the option of the payee, by EUR cheque.

(b) Payments subject to fiscal laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(c) Surrender of unmatured Coupons

Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) Payments on business days

A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a EUR account, on a day which is a TARGET business day). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition and in Condition 8(a), ''business day'' means a day on which commercial banks and foreign exchange markets are open in the relevant city and ''TARGET business day'' means a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto is operating.

(e) Paying Agents

The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Principal Paying Agent, (ii) Paying Agents having specified offices in at least two major European cities approved by the Trustee (including Luxembourg, so long as the Bonds are listed on the Luxembourg Stock Exchange's EEA Regulated Market and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Bondholders.

In this Condition ''EEA Regulated Market'' means a market as defined by Article 1(13) of the Investment Services Directive 93/22/EEC.

7 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Poland or Sweden or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(a) Other connection

by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with Sweden or, in the case of payments made by the Guarantor, Poland other than the mere holding of the Bond or Coupon or

(b) Presentation more than 30 days after the Relevant Date

more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days or

(c) Payment to individuals

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of

the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or

(d) Payment by another Paying Agent

by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

"Relevant Date" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

8 Events of Default

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (in each case subject to being indemnified and/or provided with security to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become, due and payable at their principal amount together with accrued interest:

(a) Non-Payment

the Issuer fails to pay the principal of or any interest on any of the Bonds when due and such failure continues for a period of seven TARGET business days (as defined in Condition 6(d)) or

(b) Breach of Other Obligations

the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer or the Guarantor by the Trustee or

(c) Cross-Acceleration

(i) any other present or future indebtedness of the Issuer or the Guarantor or any Material Subsidiary for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or the Guarantor or any Material Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised within any applicable grace period provided, however, that no Event of Default shall have occurred if the aggregate amount of such indebtedness (or its equivalent) or guarantee or indemnity which is not paid when due (after the expiration of any applicable grace period) or is due and payable prior to its stated maturity date is equal to or less than EUR 50,000,000 (or its equivalent in another currency) or

(d) Enforcement Proceedings

a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or a substantial (in the opinion of the Trustee) part of the undertaking or assets of the Issuer or the Guarantor or any Material Subsidiary and is not discharged within 90 days provided, however, that no Event of Default shall occur under this paragraph (d) if (i) the relevant process is in respect of an amount owed, an asset or group of assets having a value or an obligation having an economic value, in each case, which is less than EUR 50,000,000 (or its equivalent in another currency) or (ii) the relevant process is in respect of any tax liability of the Guarantor (even if it would be excluded by the operation of sub-paragraph (i) of this proviso), unless the process in this sub-paragraph (ii) is certified by the Trustee to be materially prejudicial to the interests of Bondholders or

(e) Security Enforced

any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed over the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Material

Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) provided that the enforcement is in respect of an amount owed, an asset or group of assets having a value or an obligation having an economic value, in each case, which is in excess of EUR 50,000,000 (or its equivalent in another currency) or

(f) Insolvency

proceedings are initiated against the Issuer, the Guarantor or a Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, in relation to the Issuer, the Guarantor or a Material Subsidiary or, as the case may be, in relation to the whole or a substantial (in the opinion of the Trustee) part of the undertaking or assets of the Issuer, the Guarantor or a Material Subsidiary, or an encumbrancer takes possession of the whole or a substantial (in the opinion of the Trustee) part of the undertaking or assets of the Issuer, the Guarantor or a Material Subsidiary, and in any case (other than the appointment of an administrator) is not discharged within 90 days or

(g) Winding-up

an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer, the Guarantor or any Material Subsidiary, or the Issuer or the Guarantor ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a solvent reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another Material Subsidiary or

(h) Ownership

the Issuer ceases to be wholly-owned and controlled by the Guarantor or

(i) Authorisation and Consents

any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Sweden and Poland is not taken, fulfilled or done or

(j) Illegality

it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed or

(k) Analogous Events

any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) to (g) above or

(l) Guarantee

the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect

provided that, in the case of paragraphs (b), (f), (g) (other than the winding up or dissolution of the Issuer or the Guarantor) and (i) to (k) (other than to the extent that the relevant event has an analogous effect to the winding up or dissolution of the Issuer or the Guarantor) inclusive above, the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Bondholders.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying Agent in Luxembourg subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders or the Couponholders, to the substitution of certain other entities in place of the Issuer or Guarantor, or of any previous substituted Issuer, as principal debtor or guarantor under the Trust Deed and the Bonds. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

12 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Bonds and the Coupons, but it need not take any such proceedings unless (a) it

shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding, and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) and (so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

(a) Governing Law

The Trust Deed, the Bonds and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Coupons or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons or the Trust Deed ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) Agent for Service of Process

Each of the Issuer and the Guarantor has in the Trust Deed irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Bonds or the Coupons or the Trust Deed.

Summary of Provisions relating to the Bonds while in Global Form

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be ● 2007 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for the Definitive Bonds described below if the Global Bond is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon the holder may give notice to the Trustee of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying Agent. In exchange for the Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Bonds.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

2 Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. Condition 6(e)(iii) and Condition 7(c) will apply to the Definitive Bonds only.

3 Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*).

4 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

5 Meetings

The holder of the Global Bond will be treated as being 2 persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Bonds.

6 Purchase and Cancellation

Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond.

7 Trustee's Powers

In considering the interests of Bondholders while Global Bond is held on behalf of a clearing system the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond and may consider such interests as if such accountholders were the holder of the Global Bond.

8 Bondholders' Put Option

The Bondholders' put option in Condition 5(c) may be exercised by the holder of the Global Bond giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in Condition 5(c). The Issuer shall procure that any exercise of any option or any right under the Bonds, as the case may be, shall be entered in the records of the relevant Clearing Systems and upon any such entry being made, the nominal amount of the Bonds represented by such Global Bond shall be adjusted accordingly.

Use of Proceeds

The net proceeds of the issue of the Bonds, expected to amount to approximately €●, will be used for the purposes of refinancing the Bridge Facility and, to the extent there are any excess proceeds, to pay amounts due under the Revolving Facility.

The expenses in connection with the transaction are expected to amount to €●.

Description of the Issuer

Aktiebolaget Grundstenen 108770 (to be renamed ORLEN Finance AB) (the "Issuer") is a public limited liability company incorporated under the laws of Sweden, with its registered office at c/o CorpNordic Sweden AB, PO Box 7475, 10392 Stockholm, Sweden. The Issuer was incorporated on 29 November 2005 for an indefinite period of time. The Issuer is recorded in the Swedish Companies Register under number 556693-8915.

The Issuer has fully paid up share capital of SEK 500,000 (EUR 53,000) made up of 5,000 shares, each with a quota of SEK 100 per one share (EUR 10.60). All shares are owned by PKN ORLEN. The Issuer has been dormant since its date of incorporation. No business has been conducted by it and it has no employees.

The principal activities of the Issuer are set forth in clause 3 of its Articles of Association and are, in summary, to own and manage moveable and immoveable property.

The Issuer has a board of directors, currently consisting of four directors. The directors are Mateusz Markiewicz, Robert Czekaj, Remigiusz Paszkiewicz and Martin Gorne.

On incorporation the Issuer's financial year was 1 July to 30 June. On 14 June 2007, the General Meeting of Shareholders of the Issuer approved new articles of association which included a financial year of 1 January to 31 December. The auditor in respect of the period 14 December 2005 to 30 June 2006 was Björn Aspling (Authorised Public Accountant in Sweden) working with Ernst & Young. Currently, the Issuer's auditors are KPMG Bohlins AB (attention of Per Gustafsson), whose registered office is at PO Box 16106, 113 23 Stockholm.

Currently, the proceedings regarding the proposed change of name of the Issuer to ORLEN Finance AB are pending.

Description of the Guarantor

Overview

History

PKN ORLEN is a joint stock company incorporated under the laws of the Republic of Poland, with its registered office at ul. Chemików 7, 09-411 Płock, Poland. The Company is recorded in the entrepreneurs register of the XIV Commercial Division of the National Court Register maintained by the District Court of the capital city of Warsaw, under number KRS 0000028860. The Company has fully paid up share capital of 534,636,326.25 PLN (EUR 139,548,007.48) and tax identification number NIP: 774-00-01-454. The telephone number for the Company is +48 24 365 00 00.

The present legal form of PKN ORLEN (a joint stock company) resulted from the merger in September 1999 of Petrochemia Płock Spółka Akcyjna, the then largest Polish refinery and petrochemicals producer and CPN, a major motor fuel distributor. On 12 April 2000, the Company changed its name from Polski Koncern Naftowy Spółka Akcyjna to its present name.

The shares of the Company were first quoted on the Warsaw Stock Exchange on 26 November 1999. Initially, 45 per cent. of the Company's share capital was publicly traded, including approximately 15 per cent. initially granted to employees in accordance with the Act on the Commercialisation and Privatisation of State-Owned Enterprises of 30 August 1996. Approximately 55 per cent. of the initial public offering of the Company's share capital was targeted at foreign investors in the form of global depository receipts (''GDRs'') listed on the London Stock Exchange.

The second phase of the Company's privatisation took place in 2000 through the second public offering of the Company's share capital. This process resulted in 109.25 million shares being sold to the public. The completion of the second phase of privatisation resulted in significant changes in the shareholding structure. The proportion of shares in the free float increased to 71.56 per cent., with Nafta Polska and the State Treasury retaining 18.06 per cent. and 10.40 per cent., respectively. The Bank of New York, as depository for the GDRs, remained an important shareholder with a stake exceeding 27 per cent.

After PKN ORLEN's initial capital increase in 2003 the proportion of shares in the free float increased to 72.48 per cent., with Nafta Polska and the State Treasury retaining 17.32 per cent. and 10.20 per cent., respectively.

Since 2005, the Company's auditors have been KPMG Audyt sp. z o.o., whose registered office is at ul. Chłodna 51, 00-867 Warsaw, Poland.

Shareholding Structure

As at 30 April 2007, the Company's shares were directly or indirectly held as follows:

Shareholder	*Number of shares*	*Number of votes*	*Nominal value of shares in PLN*	*% of share capital*
Nafta Polska	74,076,299	74,076,299	92,595,374	17.32%
State Treasury	43,633,897	43,633,897	54,542,371	10.20%
Others	309,998,865	309,998,865	387,498,581	72.48%
Total	427,709,061	427,709,061	534,636,326	100.00%

The chart above sets out shareholders holding, directly or indirectly more than 5 per cent. of the shares eligible to vote at the Company's General Shareholders' Meetings. The percentage share in the share capital of PKN ORLEN directly correlates with the percentage share in total votes at the General Shareholders' Meetings.

PKN ORLEN's share capital is divided into four classes: A, B, C and D. All series of shares have equal rights, following the ''one share-one vote'' principle. There are no ''golden shares'' nor privileged shares in terms of voting or dividend rights. The State Treasury has a shareholding in PKN ORLEN and accordingly, PKN ORLEN is subject to corporate supervision conducted by the State Treasury under the Polish Act on Special Prerogatives of the State Treasury and Performance thereof, in respect of Companies of Importance for Public Order and Public Safety of 3 June 2005. This requires PKN ORLEN to provide the Ministry of the State Treasury with information on relevant activities specified in certain commercial law regulations. PKN ORLEN is also under a duty to make its Management Board's documentation available for inspection by observers appointed by the State Treasury. The State Treasury may object to a resolution adopted by the Management Board of the Company, or other legal actions performed by the Management Board, which involve the disposal of an asset of particular primary importance for the business of the Company. An objection may be made to a particular legal act of the Company if there is a justified belief that such act would have a material significance for public order or public safety.

Voting rights of the Company's shareholders are restricted so that, at a General Meeting of Shareholders, no shareholder may exercise more than 10 per cent. of the total votes eligible to be cast on the day on which such meeting takes place. This voting right restriction does not apply to Nafta Polska, the State Treasury or the Bank of New York as a depository of the GDRs. However, the Polish Commercial Companies Code of 15 September 2000 requires any such voting cap to be at a minimum level of 20 per cent. PKN ORLEN is intending to revise its Articles of Association accordingly. Currently there are no shareholders who hold in excess of 5 per cent. of the total number of shares, except for the State Treasury and Nafta Polska.

The Company's shares are listed on the Warsaw Stock Exchange and, in the form of GDRs, on the London Stock Exchange.

Principal Activities

PKN ORLEN is one of the largest oil companies in Central Europe in terms of processing capacity, number of petrol stations and revenues. PKN ORLEN is primarily engaged in manufacturing and distributing fuels and petrochemical products and operates in the Polish, Czech, German and Lithuanian markets, as well as in the markets of the other Baltic States. PKN ORLEN has the largest fuel distribution network in Poland. The operations of the PKN ORLEN Group consist chiefly of the refining of crude oil and the manufacture of a wide range of petroleum products, petrochemical and chemical products, and the delivery, wholesale and retail sale of the above-mentioned products. The PKN ORLEN Group operates through a number of subsidiaries, some of which are also involved in the manufacturing of chemicals, nitrogenous fertilisers and plastics, as well as polyolefins. The PKN ORLEN Group supports PKN ORLEN's core business through a distribution and logistics base.

The operations of the PKN ORLEN Group are divided among the following businesses:

- refining and marketing segment companies (including wholesale and logistics);
- chemical segment companies;
- petrochemical segment companies; and
- unallocated segment companies.

The following chart explains the structure of the PKN ORLEN Group:

Structure of PKN ORLEN Group

THE GROUP DIVISION BY BUSINESS SEGMENTS - AS AT 31 MARCH 2007*

REFINING SEGMENT

- ORLEN Gaz sp. zo.o 100%
- ORLEN PetroProfit sp. zo.o 100%
- ORLEN PetroCentrum sp. zo.o 100%
- ORLEN PetroTank sp. zo.o 90%
- Petrolot sp. zo.o 51%
- ORLEN PetroZachód sp. zo.o 100%
- ORLEN Deutschland AG 100%
- ORLEN EKO sp. zo.o. 100%
- Rafineria Trzebinia S.A. 77%
- SHIP-SERVICE S.A. 61%
- Rafineria Nafty Jedlicze S.A. 75%
- ORLEN Asfalt sp. zo.o 100% (95.99%)**
- ORLEN Oil sp. zo.o. 100% (88.87%)
- ORLEN Morena sp. zo.o. 100%
- ORLEN Petrogaz Wroclaw sp. zo.o. 100%
- AB Mazeikiu Nafta 90% (100%)**
- UNIPETROL a.s. 63%

PETROCHEMICAL SEGMENT

- BASELL ORLEN POLYOLEFINS sp. zo.o. 50%
- Etylobenzen Plock sp. zo.o. 51%***

CHEMICAL SEGMENT

- Zaklady Azotowe "Anwil" S.A. 85%

UNALLOCATED SEGMENT

- Motell sp. zo.o. 35%
- ORLEN Transport Kraków sp. zo.o. 98%
- ORLEN Transport Nowa Sól sp. zo.o. 97%
- IKS SOLINO S.A. 71%
- Petrotel sp. zo.o. 75%
- WISLA Plock S.A. 100%
- Petromor sp. zo.o. 51%
- ORLEN Medica sp. zo.o. 100%
- ORLEN Administracja sp. zo.o. 100%
- POILEN sp. zo.o. 25%
- ORLEN Projekt S.A. 51%
- ORLEN Ochrona sp. zo.o. 100%
- ORLEN Laboratorium sp. zo.o. 95%
- ORLEN Automatyka sp. zo.o. 52%
- ORLEN KolTrans sp. zo.o. 100%
- ORLEN Transport Plock sp. zo.o. 98%
- Polkomtel S.A. 19.61%
- ORLEN Transport Kędzierzyn-Koźle sp. zo.o. 94%
- ORLEN Powiernik sp. zo.o. 100%
- ORLEN Wir sp. zo.o. 51%
- ORLEN Budonaft sp. zo.o. 100%
- ORLEN Prewencja sp. zo.o. 100%
- ORLEN Centrum Servisowe sp. zo.o. 99%
- ORLEN Transport Slupsk sp. zo.o. 97%
- B.H.T Dromech S.A. w upadlości 81%
- Niezależny Operator Międzystrefowy sp. zo.o. 35%
- ORLEN Transport Szczecin sp. zo.o. 100%
- ORLEN Transport Olsztyn sp. zo.o. 95%
- Chemiepetrol GmbH 20%
- ORLEN Księgowość sp. zo.o. 100%
- ORLEN Upstream sp. zo.o. 100%
- ORLEN Holding Malta Ltd 100%
- Plocki Park Przemyslowo - Technologiczny S.A. 50%

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* Prepared in accordance with International Financial Reporting Standards. In each case the first figure represents the effective aggregate voting rights as a result of shareholdings of all PKN Group companies.
** The second specified figure represents the share in consolidated financial data.
*** As of 23 April 2007 PKN ORLEN signed a purchase agreement for a further 49%.

Business Operations

The PKN ORLEN Group operates through a number of direct and indirect wholly, or majority, owned subsidiaries (which are set out in the chart above). Its operations are broadly divided among the following:

1. the refining segment (including logistics and wholesale) which processes, amongst others, crude oil, diesel oil and light heating oil and is also responsible for the wholesale of refined products;
2. the retail segment which is responsible for retail sales of petroleum products through a network of service stations which are located mainly in Poland, Germany, the Czech Republic and Lithuania;
3. the petrochemical segment which is responsible for the production of olefins and polyolefins; and
4. the chemical segment which is responsible for the production of PVC, sodium hydroxide and nitrogenous fertilisers.

Refining Segment

Introduction

The refining segment of the PKN ORLEN Group operates through the PKN ORLEN refinery in Płock and the plants of ORLEN Asfalt, ORLEN Eko, Rafineria Jedlicze and Rafineria Trzebinia, as well as the Litvinov refinery, the Kralupy refinery and the Paramo refinery in the Czech Republic and the Mazeikiu refinery in Lithuania. In the above-mentioned refineries, crude oil, diesel oil, light heating oil and liquid fuels are processed.

Fuel Output

In 2006, the PKN ORLEN Group processed nearly 17.4 million tonnes of oil, including nearly 4.3 million tonnes processed by three refineries in the Czech Republic. Additionally, more than 8 million tonnes of oil were processed by Mazeikiu's refinery which was acquired by PKN ORLEN at the end of 2006. In 2006, PKN ORLEN's plant in Płock processed over 13.6 million tonnes of crude oil, an increase of 8.3 per cent. compared with 2005. This level of processing was achieved through all installations operating at close to full capacity and the output of the Olefin II Plant which was completed in Płock in 2005. In 2006, the highest increase in production was in diesel fuels (13.5 per cent.), an increase of nearly 0.5 million tonnes compared with 2005 at the PKN ORLEN refinery. Strong growth in this area was underpinned by the increase in diesel consumption in Poland (an increase of 24 per cent. compared with 2005). Diesel output at the PKN ORLEN refinery was maximised within the constraints of the available technical capacity. Aircraft fuels are processed in the refineries in Poland and the Czech Republic and in 2006 amounted to a total of 0.4 million tonnes, representing a 9 per cent. increase compared with 2005. The PKN ORLEN Group noted a visible increase in output of aircraft fuel. Growth compared to 2005 resulted directly from intensified aircraft traffic in domestic airports and the need to meet the growing demand for aircraft fuel in Poland.

The PKN ORLEN Group reduced motor petrol output by just under 5 per cent. in 2006 compared with 2005. The main reason for this reduction was that fewer annual supply contracts were concluded by the PKN ORLEN Group with large domestic buyers in 2006 compared to 2005.

The domestic demand for light heating oil in 2006 fell by more than 20 per cent. and this resulted in a further reduction in the levels of output for light heating oil in that year. The reduction in demand for light heating oil in Poland resulted, among other factors, from its high price and the proposed increase of excise duty on heating oil to the level of that applicable to diesel. Other important factors affecting demand included the switching of corporate customers to alternative energy sources as well as the warm autumn and winter.

The table below sets out the volumes of selected refinery product output.

Selected Refinery Product Output in 2005-2006 located of PKN ORLEN and Unipetrol

	PKN ORLEN 2005	*Unipetrol 2005*	*PKN ORLEN 2006*	*Unipetrol 2006*	*PKN ORLEN Change 2006*	*Unipetrol Change 2006*
			(thousands of tonnes)			
Crude oil processing	12,569	4,152	13,612	4,281	8.3%	3.1%
Total petrol	2,861	715	2,723	781	– 4.8%	9.2%
Total diesel	3,521	1,528	3,995	1,632	– 13.5%	6.8%
Ekoterm light heating oil	1,570	53.7	1,207	54.6	– 23.1%	1.6%
Aircraft fuel	370	67	402	66	8.6%	– 1.5%
Liquid gas	235	90.6	216	85.3	– 8.1%	– 5.8%
Total fuel	8,557	2,454.3	8,543	2,618.9	– 0.2%	6.7%
Fuel yield %	68.10	56.2	62.79	57.8	– 5.3%	1.7%
White product yield %	79.81	70.8	78.12	72.8	– 1.7%	2.0%
Refinery utilisation ratio %*	93.1	74.9	100.8	77.1	7.7%	2.2%

* The processing capacity of Plock refinery has been upgraded in 2006 from 13.5 to 13.8 mt/a.

Fuel Quality Investment

In June 2006, a new cracked petrol desulphurisation installation was commissioned in the Płock refinery. This facilitated the production of a full range of low-sulphur petrol products in accordance with European Union requirements (''Regulation on the Quality of Fuels'') which are due to become effective from 1 January 2009 and, according to which, petrol should have a sulphur content of below 10 ppm. The production capacity of the new plant is 145.2 tonnes of desulphurised petrol per hour. The selected technology enables the application of the desulphurisation process but with a minor reduction of the petrol octane output.

In May and October 2006, the first and second stages of the upgrade of the Diesel Oil Hydrodesulphurisation VI Installation (an installation which reduces the content of sulphur in diesel oil) were completed. The purpose of the project was to enable the installation to perform more effective desulphurisation of diesel production with inputs which contain below 10 mg/kg of sulphur.

The petrol blending analytical equipment at the Płock refinery was replaced and expanded in 2006. The petrol blending process was optimised in 2006 to improve quality following internal operational improvements implemented by PKN ORLEN on an ongoing basis.

PKN ORLEN has decided to upgrade and improve the hydrofluoric alkylation installation. Alkylation is an alteration process, which is the reverse of cracking, in which lighter weight compounds are mixed in the presence of a catalyst to produce high octane hydrocarbons. The annual capacity of the hydrofluoric alkylation installation is set to increase to 280,000 tonnes. The purpose of the upgrade is to ensure advanced environmental protection and improved alkylate quality, adding flexibility to the petrol blending process.

Supply of Crude Oil and Crude Supply Risks

The PKN ORLEN Group purchases mainly REBCO. This comprises approximately 90 per cent. of all crude oil purchased by the PKN ORLEN Group. However, the Kralupy refinery in the Czech Republic operates entirely on the basis of sweet crude oil delivered from Trieste, Italy. The PKN ORLEN Group can and will purchase oil from other sources at very short notice in the case of an emergency. The technology available to the PKN ORLEN Group enables it to process REBCO as well as oil from other sources. Approximately 70 per cent. of crude oil is delivered to the PKN ORLEN's refinery in Płock pursuant to long-term agreements and approximately 30 per cent. is on the basis of spot contracts. Crude oil deliveries to the Kralupy refinery and to the refineries located in south-eastern Poland are carried out mainly on the basis of spot contracts. Currently, the price for crude oil provided for in the long-term agreements is calculated on the basis of market-related factors.

In February 2005, the Yukos Group, Mazeikiu's major shareholder until 15 December 2006 and subsequently its major supplier of crude oil based on long-term supply agreements, suspended supplies to Mazeikiu. Mazeikiu took steps to ensure the continuity of this supply by signing agreements with several separate oil traders and a total of 8.2 million tonnes of crude oil were delivered to the refinery during 2006 (compared to 9 million tonnes in 2005).

In the past Mazeikiu has received its crude oil deliveries from a pipeline carrying oil through the Russian Federation, although it has the capacity to import crude oil through its Butinge oil import-export terminal. At the end of July 2006, crude oil deliveries to Mazeikiu via the pipeline located in the Russian Federation were suspended. According to Transneft, the owner and the operator of the pipeline in Russia, the suspension in

crude oil supplies was caused by leakage from the pipeline within Russian territory. Subsequently, Transneft claimed that the leaking pipeline required extensive inspection to identify required repairs and would not be re-commissioned until the pipeline inspections and repairs were completed. Following the suspension of the crude oil supplies through Transneft's pipeline, Mazeikiu started supplying the refinery via the Butinge terminal, and has since continued to deliver crude oil via the Butinge terminal without any problems. Most of the crude oil supplied has been REBCO loaded at the Primorsk export terminal on Russia's Baltic Sea coast, with the exception of two cargoes of Venezuelan crude on a trial basis. The pipeline is still out of commission. Transneft claims that extensive repairs are required and it does not appear that a repair programme has yet begun.

On 5 January 2007, Mazeikiu signed an agreement with PKN ORLEN that guarantees PKN ORLEN the exclusive right to supply Mazeikiu with crude oil. The execution of the agreement is connected with the centralisation of crude oil purchases to the PKN ORLEN Group. The agreement is concluded for an indefinite period of time.

There is a possibility that direct pipeline supplies to Mazeikiu will not be resumed in the medium or long term. Following a political dispute between Russia and Belarus in early 2006 related to the pipeline transit of Russian crude oil through Belarus, the Russian government instructed Transneft to develop plans for an additional crude oil pipeline to the Primorsk terminal, with a capacity of 1 million barrels per day. This pipeline would allow crude oil to be diverted from existing pipelines through Belarus and Ukraine that deliver crude oil to Central and Eastern European refineries.

Since July 2006, Mazeikiu has successfully purchased seaborne crude oil cargoes to supply the refinery. These cargos have been mainly REBCO cargoes loaded from the Primorsk terminal. The Primorsk terminal now exports approximately 70 million metric tonnes of crude oil per year. The crude processing capacity of the Mazeikiu refinery is 10 million metric tonnes per year. Cargoes loading at Primorsk are traded on the open market with a wide range of crude oil producers and traders participating in the market.

Logistics

The PKN ORLEN Group's distribution and logistics operation provides petroleum storage facilities and logistic support to its wholesale and retail petroleum businesses. The logistical infrastructure of the PKN ORLEN Group in Poland and the Czech Republic includes land and sea transport facilities and storage facilities, pipeline systems and rail transportation. Fuels are transported to the PKN ORLEN petrol stations by seven companies from the PKN ORLEN Group: ORLEN Transport Kędzierzyn Koźle sp. z o.o., ORLEN Transport Kraków sp. z o.o., ORLEN Transport Nowa Sól sp. z o.o., ORLEN Transport Płock sp. z o.o., ORLEN Transport Olsztyn sp. z o.o., ORLEN Transport Szczecin sp. z o.o. and ORLEN Transport Słupsk sp. z o.o. PKN ORLEN has long-term agreements on fuel transportation with the above-mentioned companies, which remain valid until the end of 2008. PKN ORLEN is the only company in Poland that utilises product pipelines in its distribution network. In Germany, transport services are carried out by Spedition Hake GmbH, Spedition Paulsen, Mineralölspedition Rolf Eichhorn, Schenk Tanktransport and E.B. Trans GmbH.

Pipelines

Fuel is transmitted in Poland through 232 kilometres of proprietary product pipelines and 570 kilometres of raw material pipelines owned by PERN. PKN ORLEN has a long-term agreement on pipeline transportation of fuels with PERN which provides for the renegotiation of the tariffs on an annual basis. The pipeline crosses the Polish – Belarussian border and PERN's role is to supply crude oil as far as the refinery gate. An alternative crude oil pipeline, the so called "Pomerania Pipeline", connects the Polish harbour in Gdańsk with the pipeline owned by PERN in Płock. It can transport up to 30 million tonnes of crude oil per year in both directions. By 2009, PKN ORLEN plans to commission another proprietary section of the transmission pipeline from Ostrów Wielkopolski to Wrocław to improve the penetration of the Lower Silesian market with PKN ORLEN's products. In 2006, pipeline transmission accounted for some 67 per cent. of total fuel transportation, an increase of approximately 2 per cent. compared with 2005.

In the Czech Republic, through Unipetrol Refinarie a.s. the PKN ORLEN Group uses a network of 1100 kilometres of pipelines owned by a Czech operator, CEPRO a.s. In 2006, pipeline transmission represented some 33 per cent. of total fuel transportation in the Czech Republic.

Railway Transportation

Rail transport in Poland is undertaken by proprietary rail transport and provided by the national rail transport company – PKP CARGO S.A. PKN ORLEN has entered into a long-term agreement with PKP CARGO S.A., which is valid until the end of 2008. PKN ORLEN has also entered into a rail tank leasing agreement with

GATX Rail Poland sp. z o.o., which remains valid until the end of July 2009. In 2006, PKN ORLEN Group transported 1,578 million tonnes of products in Poland using proprietary railway stock, an increase of approximately 53 per cent. in comparison with 2005. Proprietary railway transportation as a percentage of total railway transportation by PKN ORLEN increased from 17.4 per cent. in 2005 to 33 per cent. at the end of 2006. In the Czech Republic, rail transport and the management of rolling stock is handled by Unipetrol Doprava a.s., which in 2006 transported 5,539 million tonnes of products within the Czech Republic, which is 4 per cent. less than in 2005. The share of own transport in the overall rail transport figures for the Unipetrol Group grew from approximately 20 per cent. in 2005 to some 23.6 per cent. at the end of 2006. In 2006, railway transportation accounted for approximately 25 per cent. of total PKN ORLEN Group fuel transportation, a 2 per cent. decrease compared with 2005.

Road Transportation

At the end of 2006, fuel was supplied to service stations in Poland managed by the PKN ORLEN Group by seven haulage subsidiaries of the PKN ORLEN Group. In Germany, ORLEN Deutschland's petrol stations were supplied by five road transportation companies. In the Czech Republic, Benzina a.s. petrol stations were supplied by Petrotrans a.s., a wholly-owned subsidiary of Benzina a.s.

Sea Shipment

Access to the infrastructure of Naftoport sp. z o.o., a company handling the shipment of crude oil imported to Poland by sea, is an important component of the logistical infrastructure of the PKN ORLEN Group. The total annual crude oil shipment capacity of Naftoport sp. z o.o., in which PKN ORLEN holds an 18 per cent. interest, is 34 million tonnes. Following the acquisition of a controlling stake in Mazeikiu in 2006, PKN ORLEN became a majority shareholder in the sea shipment terminal in Butinge, with an annual shipment capacity of some 14 million tonnes of crude oil.

Storage Facilities

In 2006, the PKN ORLEN Group operated 13 over-ground storage facilities in Poland, including 11 as part of its commercial operations and two as shipment facilities. Additional storage capacity of 5,000,000 cubic metres is available in the IKS Solino salt mine in Inowroclaw. At the end of 2006, the PKN ORLEN Group operated in seven salt-mine cavities, including four used for storing crude oil and three for fuel.

Pursuant to the requirements under Council Directive 68/414 of 20 December 1968 imposing an obligation on Member States of the European Union Community to maintain minimum stocks of crude oil and/or petroleum products, each country should have domestic reserves of liquid fuels equivalent to a certain number of days of domestic fuel consumption. These reserves can only be used in case of ''particular urgency'' or ''in order to meet minor local needs''. PKN ORLEN is obliged to reach a stock quantity of liquid fuels corresponding to 76 days of average daily output of liquid fuels, including imports and intra-Community purchases, less intra-Community exports and sales in Poland. At the end of 2006, PKN ORLEN reached a 66-day stock level with a schedule for reaching a 73-day stock level for 2007.

In the Czech Republic, the PKN ORLEN Group operated a total of 14 over-ground storage facilities used by the PKN ORLEN Group as part of its commercial operations and as shipment locations.

Wholesale

The PKN ORLEN Group is a wholesaler of petroleum products in Poland, Lithuania, the Czech Republic and Germany. The PKN ORLEN Group's wholesale products comprise a wide range of goods, including various fuels, liquid gases and non-fuel products. The wholesale segment of the PKN ORLEN Group in Poland is made up of five Regional Market Operators.

The incorporation of the Czech companies into the wholesale segment of the PKN ORLEN Group is scheduled to take place in 2007.

Fuels

In 2006, PKN ORLEN sold almost 6.2 billion litres of engine fuels in its European retail network, almost 4.2 billion of which were sold through PKN ORLEN's Polish outlets (an increase of 11 per cent. across the whole network), over 1.5 billion litres through the PKN ORLEN Group's retail network in Germany (an increase of 2 per cent. compared to 2005) and over 0.5 billion litres through the retail network in the Czech Republic (an increase of 20 per cent. compared to 2005). Average sales of engine fuels per station in PKN ORLEN's retail network in Poland amounted to 2.1 million litres in 2006, which is 9 per cent. more compared with 2005. The average for PKN ORLEN's Polish network of own and franchised stations (remaining under the full control of

PKN ORLEN) amounted to 2.3 million litres in 2006, which is 10 per cent. more than in 2005. In 2006, average sales of engine fuels per station through the ORLEN Deutschland network reached 3.2 million litres, which is an increase of around 100,000 litres compared with 2005. Average sales of engine fuels per station through the Czech BENZINA network increased from 1.5 million litres in 2005 to 1.7 million litres in 2006.

Total wholesale fuel sales by PKN ORLEN together with sales to RORs, Petrolot and DODO and DOFO channels 2005-2006

	2005	*2006*	*Change*
	(thousands of tonnes)		
Petrol	1,898	1,747	-8.0%
Diesel	2,771	3,391	22.4%
Light heating oil	1,562	1,266	-19.0%
JET A-1 (aviation fuel)	372	403	8.3%
Total	**6,603**	**6,807**	**3.1%**

An additional 1,426,900 tonnes of fuel were sold through the Regional Market Operators and Petrolot in 2006. The PKN ORLEN Group's fuel sales are directed to various wholesale customers, including BP Polska sp. z o.o. and Shell Polska sp. z o.o.

In 2006, PKN ORLEN sold 1,471,000 tonnes of petrol in the Polish market, down by 9.4 per cent. compared with 2005. The negative performance is believed to have resulted from the lower demand for the types of petrol accompanied by the higher demand for diesel and LPG. The weak performance in petrol sales was also the result of fewer annual contracts concluded by PKN ORLEN with large domestic and foreign buyers and increased competition. In 2006, PKN ORLEN's share of the Polish wholesale petrol market stood at approximately 60 per cent., down by some 3 per cent. compared with 2005 (according to PKN ORLEN's, Nafta Polska's and ARE's own estimates).

The total volume of diesel sold by the PKN ORLEN Group in the Polish market in 2006 was 3,330,000 tonnes, an increase of 30.4 per cent. compared with 2005. The increase resulted from the growing demand for diesel and larger annual contracts concluded by PKN ORLEN with large domestic and foreign buyers. PKN ORLEN was able to satisfy the growing demand for diesel fuel from the expanding production capacity of the proprietary Soft Asphalt Hydrodesulphurisation installations and from finished product imports, mainly from Germany. According to PKN ORLEN's, Nafta Polska's and ARE's own estimates, PKN ORLEN's share of the Polish wholesale diesel market was approximately 49 per cent. in 2006, an increase of approximately 3 per cent. compared with 2005. The total amount of diesel sold by the PKN ORLEN Group in 2006 in the European market was 6,845 million tonnes. PKN ORLEN's most important clients, in terms of diesel acquisition, are BP Polska sp. z o.o. and Shell Polska sp. z o.o. The most important market for PKN ORLEN for the sale of diesel is the Polish market.

The decline in domestic sales of light heating oil by 19 per cent. to 1,266,000 tonnes in 2006 resulted primarily from the high price of the product and the proposed increase of excise duty on heating oil to the level of diesel excise duty. The continuing shift among corporate buyers to alternative energy sources and the unseasonally warm autumns and winters have also contributed to the decline in the domestic sales of light heating oil. In 2006, PKN ORLEN's share of the Polish heating oil wholesale market stood at approximately 65 per cent., an increase of approximately 3 per cent. compared with 2005 (based on PKN ORLEN's, Nafta Polska's and ARE's own estimates). The total volume of light heating oil sold by the PKN ORLEN Group in 2006 in the European market (i.e. mostly on the Polish and Czech markets) was 1,586,842. The key market for the sale of this product is the Polish market.

In 2006, the sale of aircraft fuel by PKN ORLEN totalled 403,000 tonnes, including the sale of 327,000 tonnes in the Polish market (compared to 256,000 tonnes in 2005) and 76,000 tonnes in foreign markets (compared to 117,000 tonnes in 2005). The growth in Poland resulted from the competitive price offered by PKN ORLEN, combined with increased aircraft traffic in domestic airports. Meeting the domestic aircraft fuel demand has been the key factor in the context of softer product (i.e. high quality product) exports.

Gas

In 2006, PKN ORLEN sold nearly 333,000 tonnes of LPG through ORLEN Gaz sp z o.o., an increase of 15.9 per cent. on 2005. PKN ORLEN's market share at the end of 2006 stood at approximately 13 per cent., a 1.5 per cent. increase compared with 2005, according to PKN ORLEN's, Nafta Polska's and ARE's own estimates.

Total Gas Sales by ORLEN Gaz

Fuel	*2005*	*2006*	*Change(%)*
	(thousands of tonnes)		
Motor LPG	205	256	25.0%
Gas in cylinders	37	36	(4.3)%
Gas in bulk	9	10	10.8%
Wholesale*	36	31	(13.5)%
Total	**287**	**333****	**15.9%**

* Collected by customer from gas terminal

** Additional 21,000 tonnes of LPG was sold through Regional Market Operators

After a number of years of rapid growth in LPG consumption, the liquefied gas market levelled off in Poland in 2006. According to the projection of the Polish Organisation of Liquefied Gas, the domestic consumption of LPG increased in 2006 by approximately 1 per cent. compared with 2005. As in previous years, the LPG market in Poland was mainly based on imports, with domestic output accounting for some 12 per cent. of the whole market, according to the assessment carried out by the Polish Organisation of Liquefied Gas.

Non-Fuel Products

In 2006, overall wholesale non-fuel product sales (including liquid propane butane gas, propylene, phenol and acetone) generated by PKN ORLEN totalled 3,837,200 tonnes, an increase of 27 per cent. compared with 2005, whereas the domestic sales of non-fuel products totalled 3,229,200 tonnes, an increase of 22.5 per cent. compared with 2005 and export sales stood at 608,000 tonnes, representing a 59.8 per cent. increase on 2005. A significant contributing factor to the increase in that segment in 2006 was the export sales of heavy heating oil (representing an increase of 169 per cent. compared with 2005). PKN ORLEN sold approximately 43,000 tonnes of heavy diesel fractions and some 18,000 tonnes of the C4 fraction that had not been marketed in 2005.

Sales of petrochemical products were also very high compared to the same period in the previous year (representing an increase of 65 per cent. compared with 2005); these included mainly ethylene, propylene, butadiene, benzene and toluene. The increased volume resulted from higher output following the upgrade of the Olefin II plant in Płock. In addition, the aromats extraction installation in Płock has provided more aromats to the market which are used, amongst others, by chemical companies.

Total Wholesale Petrochemical Product Sales of PKN ORLEN

Products	*2005*	*2006*	*Change (%)*
	(thousands of tonnes)		
Phenol	43	45	4.7%
Acetone	27	28	3.7%
Ethylene	245	509	107.8%
Propylene	221	387	75.1%
Glycol	90	113	25.6%
Ethylene oxide	14	16	14.3%
Butadiene	40	62	55.0%
Benzene	63	115	82.5%
Ortoxylene	18	20	11.1%
Paraxylene	28	30	7.1%
Liquid gas	235	215	– 8.5%
Other petrochemical products	161	243	50.9%
Total	**1,185**	**1,783**	**50.5%**

Total Wholesale Petrochemical Product Sales of PKN ORLEN Group

Products	*2005*	*2006*	*Change (%)*
	(thousands of tonnes)		
Acetone	27	28	5%
Benzene	110	185	67%
Butadiene	49	92	87%
Ethylene	129	251	95%
Glycols	89	114	27%
Phenol	43	44	3%
Polyethylene	230	468	104%
Polypropylene	184	364	98%
Propylene	164	253	54%
Toluene	81	122	51%
CANWIL	358	395	10%
PVC granules	57	74	31%
PVC	249	332	33%
Ammonium nitrate	530	561	6%
Liquid gas	367	427	16%
Others petrochemical and chemical	947	1,576	66%
Total petrochemical sales	**3,614**	**5,286**	**46%**

Market in Poland

PKN ORLEN has a share of approximately 55 per cent. in the wholesale market for refined oil products in Poland. PKN ORLEN's main competitors are LOTOS Group which has approximately a share of 26 per cent., J&S Energy which has a share of approximately 7 per cent. and Slovnaft which has a share of approximately 3 per cent..

In 2006, the consumption of all types of fuel (petrol, diesel and light heating oil) in Poland totalled over 14.5 million tonnes, an increase of 8 per cent. compared with 2005. According to PKN ORLEN's and Nafta Polska's own estimates, 2006 also saw an increased demand for diesel, and a concurrent decline in the demand for light heating oil.

Demand for the various fuel types in Poland in 2006, according to PKN ORLEN's, Nafta Polska's and ARE's own estimates, was as follows:

	Petrol in 000t	*Diesel oil in 000t*	*Light heating oil in 000t*	*Total*
2005	4,029	6,836	2,534	13,399
2006	4,069	8,494	1,945	14,508
market growth	101%	124%	77%	108%

The main factors driving growth in demand for refined oil products in Poland are economic growth, expected improvement in transport infrastructure (in particular, construction of motorways) as well as an increased trend of importing second hand cars. Diesel growth is thought to result from the diminishing gray zone for heating oil used in transportation and growth in transit transportation. Growth in LPG demand is caused by low autogas prices (in comparison with petrol) resulting from low excise tax for LPG. Growth in aircraft fuel demand is believed to result from significantly increasing air travel in Poland.

Market in the Czech Republic

The main factors having an impact on demand for petrol and diesel in the Czech Republic are the growth of GDP connected with high levels of so called ''dieselisation'' (i.e. an increase in the number of diesel engines, increasing industrial production and building industry activity and high demand in the agricultural sector). Other important drivers are the levels of excise tax for petrol and diesel, and Čepro a.s.'s participation in the market as importer of fuels and manager of the Czech State Strategic Reserves exchange. By contrast, consumption of petrol is decreasing as petrol can only be used in petrol engines, sales of which are decreasing.

Market in Lithuania

In Lithuania, Mazeikiu is the leading supplier of refining products. In the past five years, Mazeikiu has supplied more than 95 per cent. of Lithuanian demand for petrol, with the exception of the end of 2005 and 2006, when Mazeikiu faced competition from petrol imported by Statoil from its own refinery in Norway. In 2007, Mazeikiu has been regaining its position and has entered into a term contract to supply petrol to Statoil. Mazeikiu's objective is to supply 90 per cent. of the petrol required by the market in the Baltic States. In the past five years Mazeikiu has supplied more than 90 per cent. of the diesel fuel required by the Lithuanian market and has been increasing the supply to meet demand in the market with the exception of 2004, when, following Lithuania's accession to the European Union and the removal of fuel market entry barriers, its market share decreased to 80 per cent. By adjusting pricing, Mazeikiu has regained its market share. Since 2004, Mazeikiu has had approximately 90 per cent. of the market share in the supply of aircraft fuel in Lithuania and Latvia and 50 per cent. in Estonia.

As a result of the growing consumption of LPG, the consumption of petrol has been decreasing in Lithuania in recent years, although growth in the Lithuanian economy has begun to influence the petrol market in 2007. In the first three months of 2007, petrol consumption increased by more than 20 per cent. compared with the same period in 2006. A similar growth rate can be expected for the rest of 2007.

Since 2003, an annual growth in consumption in the diesel market has been recorded at 4-8 per cent. Growth resulted from increasing international and intra-country transportation, a boom in the construction sector, increased demand in the retail sector (arising from an increase in second-hand imported cars powered by diesel engines), as well as by the introduction of excise-free diesel fuel for the agriculture sector.

Market in Germany

The German market is thought to be a saturated market for oil products with the long-term forecast showing an annual average decline of 0.8 per cent. Total fuel consumption in Germany reached the level of 113,152,000 tonnes in 2006 (*source:* MWV-2006 Yearly Report).

Fuel Imports

In 2006, total fuel imports to Poland increased by 11 per cent. on average. Petrol imports amounted to 449,000 tonnes, diesel imports amounted to 2,828,000 tonnes, and light heating oil imports amounted to 457,000 tonnes (according to PKN ORLEN's and Nafta Polska' s own estimates).

Total Import of Fuels in 2005 and 2006

	Petrol	*Diesel oil*	*Light heating oil*	*Total*
		(thousands of tonnes)		
2005	602	2352	419	3373
2006	449	2828	457	3734
market growth	-25%	20%	9%	11%

By far the largest single source of motor fuel imports was Germany, followed by Slovakia, Belarus, Lithuania and the Czech Republic. In the case of light heating oil, as much as 60 per cent. of imports were from Lithuania and 40 per cent. were from Germany.

Sources of Fuel Imports to Poland in 2006 (according to PKN ORLEN's and ARE's estimates)

	Petrol	*Diesel oil*	*Light heating oil*
Germany	50%	38%	40%
Slovakia	37%	13%	n/a
Czech Republic	8%	n/a	n/a
Belarus	n/a	25%	n/a
Lithuania	4%	11%	60%
other	1%	13%	n/a

Retail Segment

Poland

The Polish retail market is not yet as competitive as retail markets in some Western European countries. The principal factor which differentiates competitors is the price of petrol at the place of sale. In Poland, approximately 50 per cent. of petrol stations are privately-operated. This unusually high proportion of individually-owned petrol stations results in the customer perceiving fuel quality as not being equal across the market, as there is a history of fuel quality problems mainly associated with small private operators. Development of the retail market in Poland is correlated with high gross domestic product growth in Poland. The biggest player, in terms of number of retail sites owned, is PKN ORLEN followed by Lotos and by other multinational players including BP, Shell and Statoil. Total retail market consumption in Poland equalled 15.3 billion litres in 2006 representing a 5.6 per cent. increase as compared with 2005. The growth is mainly driven by diesel consumption (representing an increase of 16 per cent. compared with 2005). LPG growth has increased by 2 per cent. compared with 2005 while petrol consumption was lower than in 2005 by 4 per cent. Lower petrol sales have been partly offset by increased LPG sales.

Retail fuel stations in Poland	*2006*
PKN ORLEN Group, of which	1,932
PKN ORLEN — Dealer owned/dealer operated (“DoDo”)	345
PKN ORLEN — Dealer owned/franchise operated (“DoFo”)	158
Lotos Group	404
Multinationals of which:	1,022
BP	322
Statoil	230
Shell	288
Jet	83
Hypermarkets	84
Others	4,355
Total	7,797

The Polish retail market is vital for the PKN ORLEN Group in terms of fuel consumption and number of petrol stations.

2006 was the second year of implementation by PKN ORLEN of its Polish Retail Sales Development Programme, which is due to be completed in 2009. Its key features include strengthening PKN ORLEN’s market standing in Poland and gaining a minimum 30 per cent. share in the retail segment by 2009, as well as improving operational performance and building a more effective business organisation.

Service stations: As at the end of 2006, the PKN ORLEN Group operated 1,932 service stations in Poland (out of 7,713), including stations operated as part of the ORLEN brand and under the CPN and Petrochemia Płock logos. PKN ORLEN’s Polish petrol stations network is divided into two segments: the premium brand network (ORLEN), which was created for customers demanding petrol quality and service of the highest standards and the economy brand (BLISKA) network targeted at a group of customers who expect quality at an attractive price and are interested in the basic product offering of the retail outlet. At 30 May 2007, 737 ORLEN stations are similar to the stations owned by the major international players in terms of size, product quality, environmental standards, technology and service. The efficiency in terms of average sales volume is lower than the average of those of the major international players. However, the average site profitability is higher than the major multinational stations operators. By the end of 2006, PKN ORLEN launched 176 BLISKA service stations. PKN ORLEN believes that BLISKA will help strengthen PKN ORLEN’s market standing and improve its share in the domestic retail market. By the end of 2009, PKN ORLEN expects to operate a network of approximately 1,000 BLISKA service stations. After the rebranding, PKN ORLEN recorded on average up to a 30 per cent. increase in sales on BLISKA sites.

As at the end of 2006, PKN ORLEN operated 726 service stations under the ORLEN brand, offering premium quality products and services. Following a range of marketing and organisational efforts, ORLEN was able to generate positive indicators in all business segments of the ORLEN network. Improved sales of the VERVA premium fuels, the Flota and VITAY loyalty programmes, launch of the retail outlet modification, and expansion of the non-fuel offering resulted in a positive perception of ORLEN service stations among customers, demonstrated by visible growth of high-end customers on the premium stations and improved

profitability. The sales of the premium fuels exceeded PKN ORLEN's initial expectations. Currently, sale of the premium fuels represents close to 20 per cent. in total volume sold at the premium sites.

As the number of customers increased, the total sales generated by PKN ORLEN's proprietary service stations in 2006 evidenced growth for the first time since 2004, reaching a record high increase of 15 per cent. compared to the levels of 2005 and 2004.

Number of PKN ORLEN service stations

	Number of Stations	
Poland	*FY2005*	*FY2006*
Company Owned Dealer Operated ("CoDo")	1,367	1,429
DoFo	92	158
DoDo	465	345
Total	1,924	1,932

Volume of sales: In 2006, PKN ORLEN sold almost 4.2 billion litres of motor fuel in the retail network in Poland (an increase of 15 per cent. compared with 2005). In 2006, the average sales of all motor fuels in proprietary stations in Poland totalled 2.1 million litres, an increase of 1 per cent. compared with 2005. Throughout 2006, the new enriched VERVA 98 and VERVA ON fuels were on sale in Poland. The expansion of the products being offered by the addition of premium products was well received by customers, as demonstrated by sales performance and marketing research confirming high customer awareness of the VERVA line. In 2006, the sales of VERVA fuels by PKN ORLEN service stations grew significantly reaching 18.6 per cent. of volume by December 2006.

Market share: At the beginning of 2006, PKN ORLEN's share of the retail market in Poland was estimated on the basis of the sales generated by the top 100 largest retail operators, accounting for some 70 per cent. of the retail market. PKN ORLEN estimates that its share of the Polish market increased from 37.4 per cent. as at the end of January 2006 to approximately 39 per cent. as at the end of 2006.

Germany

The German market is one of the biggest in terms of both fuel consumption and number of retail sites. The market is saturated and fuel consumption, as well as the number of retail sites, is declining. The major players are Aral, Shell, Esso, Total and Agip. ORLEN Deutschland (as at 1 January 2007) had 469 retail sites out of a total number of 14,659 retail stations in the German market. ORLEN Deutschland operates in Germany under two leading brands: ORLEN (90 service stations) as a premium brand and STAR (351 stations) as an economy brand. Additionally, ORLEN Deutschland operates 28 supermarket-anchored stations.

Service stations: At the beginning of 2006, the PKN ORLEN Group started to implement its new optimisation and growth strategy geared towards improving the profitability of its business by undertaking a range of activities. Under the programme, 13 unprofitable service stations were closed down and 22 ORLEN branded stations were rebranded into the STAR brand. As part of network development, at the end of 2006 ORLEN Deutschland purchased 58 service stations from Deutsche BP.

Currently, it is planned, that by 2009 ORLEN Deutschland will take over approximately a further 250 stations in northern Germany, thus reaching a 10 per cent. market share in the region. The proposed scenarios of restructuring and expansion of the network of service stations currently owned by ORLEN Deutschland cannot exclude the possibility of profitable divestment in response to any economically attractive offers.

Volume of sales: In 2006, ORLEN Deutschland sold over 1.5 billion litres of motor fuel (representing an increase of 2 per cent. compared with 2005) in its German network. The average yearly sales of motor fuel in the ORLEN Deutschland network reached 3.2 million litres per station and, following the previous year's trend, increased by some 100,000 litres. The higher volume is attributable to the STAR budget network which is rapidly growing and expanding its customer base.

Market share: Based on PKN ORLEN's own estimates, ORLEN Deutschland and STAR outlets had in aggregate approximately 3 per cent. share of the retail fuel market in Germany.

The Czech Republic

The total retail market consumption in the Czech Republic equalled 4.6 billion litres in 2006 representing a 2.5 per cent. increase as compared with 2005. The major players in the Czech Republic are OMV, Benzina and Shell (each with more than a 10 per cent. of the market share in sales), but Cepro (Euro Oil), ARAL, the local Papoil and private players (including local family businesses) are also significant players with a market share of at least 5 per cent. Slovnaft has an approximately 2 per cent. market share and covers mainly the eastern part of the Czech Republic.

Service stations: In October 2006, the PKN ORLEN Group adopted a new strategy for the Czech retail business. The main features include the split of the network into two brands to realign the product offering with the demands of various groups of customers. The new BENZINA PLUS premium segment service stations are expected to offer top quality services and a wide range of non-fuel products. The other segment, namely BENZINA stations – which are similar to the budget segments operated in Poland and Germany – are expected to offer reliable quality fuel at competitive prices. In 2007, the PKN ORLEN Group plans to modernise 70 service stations in the Czech Republic and upgrade them to the requirements of the BENZINA PLUS segment standard.

The adopted strategy also envisages changes to the service stations owned by Kaučuk a.s. and Paramo a.s., subsidiaries of Unipetrol. Depending on the findings of market research studies, these service stations will either be divested or realigned with the BENZINA brand requirements. Specific actions aimed at further strengthening the business brand are scheduled to take place in 2008-2009.

As at the end of 2006, the PKN ORLEN Group operated 327 (out of around 2,600) service stations under the BENZINA brand in the Czech Republic.

Volume of sales: In 2006, PKN ORLEN sold over 0.5 billion litres of motor fuel (a 20 per cent. increase as compared with 2005) in the Czech network. The average sales of motor fuel in the Czech BENZINA network increased from 1.5 million litres in 2005 to 1.7 million litres in 2006. On 25 October 2006, the PKN ORLEN Group launched BENZINA PLUS fuel, the highest-quality petrol sold in the European offering of the ORLEN Group in Europe, known as VERVA 100. This fuel product, aimed at strengthening the competitive position of the network in the premium segment, is expected to support the presence of the BENZINA PLUS brand in the Czech market and is expected to become a differentiating factor between the premium and budget offering.

Market share: In 2006, through the Czech BENZINA network of service stations, PKN ORLEN had 11.8 per cent. of the retail market in the Czech Republic.

Lithuania

Total retail market consumption in Lithuania was 1.8 billion litres in 2006. There were 780 retail sites in Lithuania (being the aggregate owned by all market participants) as at the end of 2006 with consumption of fuel at a level of approximately 1.2 billion litres. The main players are Statoil, Lukoil and Neste. Ventus, a subsidiary of Mazeikiu, owns 25 sites and operated 9 franchised sites, which represent approximately 3 per cent. of the market share.

At the end of 2006, PKN ORLEN's indirect subsidiary Ventus operated 34 service stations in Lithuania (out of around 780). Ventus operates 25 directly owned filling stations and 9 filling stations operated on a franchise basis. Ventus, which was established in 1997, is a subsidiary of Mazeikiu and operates as a retailer of oil products. In 2000, Ventus merged with UAB Uotas. In 2004, a single brand of VENTUS was created and rolled out. Filling stations were modernised and upgraded to enhance compliance with security, environmental and customer servicing standards. Shops operating within the chain of filling stations received a new separate brand of VENTUS PLUS.

Non-Fuel Sales

The value of non-fuel products sold in all service stations of the PKN ORLEN Group in 2006 totalled EUR 461 million, representing a 7 per cent. increase compared with the 2005 figure as shown in the following table.

Non-Fuel Sales	*FY2005*	*FY2006*
Poland (EUR m)	217	242
Germany (EUR m)	143	137
Czech Republic (EUR m)	69	82
Total (EUR m)	429	461

Margins

Since 2004, the unit margin has been stable and changes have mainly resulted from customer migrations from one fuel grade to another (petrol to LPG or petrol to diesel). The margin has decreased in some highly populated urban areas due to fierce price competition between hypermarkets and international distributors (oil companies) with customer value propositions built on price. PKN ORLEN is less exposed than some of its competitors to price wars in urban areas because of the distribution of its station network evenly across the country. Unit margin squeezes in some urban areas can be made up in unit margin gains in other areas where PKN ORLEN competes only with privately owned petrol stations.

In 2006, the PKN ORLEN Group achieved a total margin of approximately EUR 490 million, including the total operational margin generated by the Polish business of PLN 1,392 million (EUR 357 million) representing an increase of 17 per cent. compared with 2005 figures. The retail margin on the sales of petrol, diesel and LPG in Poland totalled PLN 1,096 million (EUR 281 million), an increase of PLN 160.9 million (EUR 39.5 million) compared with 2005. The sales margin on non-fuel products and services improved in the same period from PLN 252 million (EUR 64.6 million) to PLN 297 million (EUR 76.2 million).

Retail fuel margins in Germany and the Czech Republic stood at EUR 73.8 million (a 3.3 per cent. increase compared with 2005) and EUR 38.5 million (a 18.1 per cent. increase compared with 2005), respectively. Sales margins on non-fuel products and services in the German and Czech markets were EUR 16.8 million and EUR 6 million, respectively, representing a EUR 5.2 million and EUR 3.5 million increase, respectively.

Card Programmes

The Flota programme is intended for corporate customers, expecting a simple, user-friendly and profitable fuel purchasing and vehicle servicing programme. Flota cards enable cashless purchases in PKN ORLEN service stations in Poland. In 2006, PKN ORLEN adopted a development strategy for the Flota Programme for 2006 – 2009, which envisaged an increase of up to 20 per cent. of sales to corporate customers as a proportion of total retail sales of the Company. In 2006, the total volume of sales under the Flota Programme increased by 40 per cent. in 2005. In 2006, the sales of fuel with the Flota card reached 622 million litres, up by 177.2 million litres on 2005's figure.

The Vitay Programme is a loyalty programme geared towards individuals in Poland. Under the VITAY programme, customers collect points, which may then be exchanged for gifts or fuel. The customers earn points for each litre of fuel and promotional products and services purchased. The number of Vitay cards granted as at the end of 2006 exceeded 6.3 million.

Petrochemical Segment

Introduction

The petrochemical sector of the PKN ORLEN Group is made up of the PKN ORLEN production plant in Płock and the installations of BOP. The main petrochemical products of the PKN ORLEN Group are polypropylene, aromas, ethylene and propylene. PKN ORLEN's petrochemical sector is focused on the production of olefins carried out through the polyolefin installations of BOP, founded by PKN ORLEN together with an affiliate of the petrochemical world leader, Basell.

The PKN ORLEN Group's petrochemical sector also includes ANWIL, the leading Polish producer of nitrogen fertilisers and PVC. Since mid 2005, ANWIL has participated in a joint venture with its partners from Korea, focusing on the production and sale of polyethylene terephtalate (a raw material used for the production of plastic bottles for soft drinks).

In addition, by joining the petrochemical operations of Unipetrol, PKN ORLEN's economies of scale have been considerably increased, not only on a national scale, but also in the Central and Eastern European region. Based on its own estimates, Chemopetrol a.s., which belongs to the Unipetrol Group, is the biggest producer of petrochemicals in the Czech market in terms of sales. It is also one of the largest suppliers of petrochemical products and semi-finished products to the Central European market and Spolana is one of the main manufacturers of chemical products in the Czech Republic, producing PVC. Approximately 85 per cent. of Spolana's products are intended for export (mainly to European Union countries).

Outputs

As a result of the upgrade of the Olefin II production plant completed in Płock in 2005, PKN ORLEN was able to increase the total output of petrochemical products in Płock in 2006. The upgraded installations of the Olefin II plant provide the annual output capacity of 700,000 tonnes of ethylene and 380,000 tonnes of propylene. In 2006, the bulk of the monomer Olefin II output fed BOP polyolefin plants and ANWIL's PVC installations in Włocławek.

Output of the selected petrochemical products in PKN ORLEN in 2005 – 2006

	2005	*2006*	*Change*
	(thousands of tonnes)		
Ethylene	245	593	142.0%
Propylene	220	403	83.2%
Butadiene	41	61	48.4%
Benzene	65	114	75.4%
Toluene	79	117	48.1%
Paraxylene	28	31	10.7%
Phenol	44	45	2.3%
Acetone	28	28	0.0%
Glycol & cooling agents	101	127	25.7%
Solvents	15	19	26.77%
Ethylene oxide	14	16	14.3%

The annual capacity of BOP amounts to 400,000 tonnes of PP produced on the basis of the Spheripol technology and 320,000 tonnes of polyethylene HDPE, of increased density, produced on the basis of Hostalen licensed technology. Alongside the LDPE installation capacity, the total annual production capacity of the plants is approximately 820,000 tonnes of polyolefins. Polyolefins are also produced by Chemopetrol a.s. In 2006, Chemopetrol a.s. produced 287,000 tonnes of polyethylene (as compared to 292,000 tonnes in 2005) and 205,000 of polypropylene (205,000 tonnes also in 2005).

Output of selected petrochemical products in BOP in 2005 – 2006

Selected petrochemical products	*2005*	*2006*
	(thousands of tonnes)	
LDPE	119	120
HDPE	28	237
Polypropylene	146	321.1

The polyolefins produced by PKN ORLEN Group companies are distributed using the BOP logistic platform – one of the largest and most modern facilities of this kind in Europe. The products from Płock are extensively used in both the consumer and industrial market, in the production of packaging, film, fabrics and textiles, as well as auto parts and pipes.

Sales of selected petrochemical products in BOP in 2005 – 2006

	2005	*2006*
	(thousands of tonnes)	
LDPE	119	125
HDPE	28	237
Polypropylene	146	295

In 2006, PKN ORLEN decided to construct PX and PTA installations in order to make use of the reserve of petrol resulting from an increased level of crude oil processing after 2009 (approximately up to 16.5 million tonnes of crude oil processed p.a.). The centre is to open in the first quarter of 2009. In April 2006, a contract was signed with Mitsubishi Chemical Engineering Corporation for the licence and project for a production technology of PTA. The construction of the installation will start at ANWIL in Włocławek, Poland in 2007. The installation is to have a production capacity of 600,000 tonnes per year and is due to open in 2010.

The PX installation nominal capacity is planned to amount to 400,000 tonnes per year. The aim of the investment is to produce 400,000 tonnes per year of PX to be processed into 600,000 tonnes per year of PTA as a base raw material for the production of polyesters and polyethylene terephthalate.

Chemical Segment

The chemical segment of the PKN ORLEN Group is made up of ANWIL in Włocławek, Poland and Spolana in Neratovice, Czech Republic.

ANWIL is a producer of ammonium nitrate, CANWIL – calcium ammonium nitrate, ammonia, PVC, soda lye, caustic soda and plasticised and hard types technical PVC compound products. In 2006, total revenues exceeding PLN 1,863,000,000 (EUR 478,000,000) and net profit was approximately PLN 188,000,000

(EUR 48,000,000). This represented domestic sales of 71 per cent. and export sales of 29 per cent. It operates in Polish and foreign markets.

Spolana is mainly engaged in the production of suspension PVC and PVC compounds (plasticised and hard types), caprolactam as an initial raw material for polyamide fibres and construction plastics, inorganic compounds (sodium hydroxide, liquid chlorine, hydrochloric acid, sulphuric acid, sodium hypochlorite and ammonium sulphate). In 2006, more than 85 per cent. of Spolana's production was exported. The volume of Spolana's revenues (approximately 6 billion CZK (EUR 212 million)) makes Spolana one of the key players in the Czech chemical industry).

Output

Following the acquisition of Spolana by PKN ORLEN's subsidiary, ANWIL, in 2006, the output and offering of the chemical segment of the PKN ORLEN Group has significantly increased. The acquisition created the largest production and trading complex in Central and Eastern Europe offering 430,000 tonnes of PVC annually. The following tables show the output of chemical products by ANWIL and Spolana, respectively.

Output of the principal chemical products in 2005 – 2006 of ANWIL

Substance	*2005*	*2006*	*Change %*
	(tonnes)		
PVC	215,355	275,160	27.8%
PVC processed (compounds)	66,391	72,884	9.8%
Sodium hydroxide	89,621	173,150	93.2%
Ammonia	431,720	421,720	(2.3%)

Output of the principal chemical products in 2005 – 2006 of Spolana

Substance	*2005*	*2006*	*Change %*
	(tonnes)		
PVC	119,022	121,069	1.7%
Sodium hydroxide	107,035	114,462	6.9%
PVC processed (compound sheets)	3,336	4,206	26.1%
Caprolactam	47,103	47,437	0.7%
Ammonium sulphate	207,748	209,825	1.0%

PVC

PVC is mainly used in construction, including in the production of pipes, joinery, cable insulation, floor and wall coverings. In 2006, suspension PVC was the single largest product as a proportion of sales revenues in the chemical segment of the PKN ORLEN Group. The rapid increase in the consumption of suspension PVC in Eastern and Central Europe, including Poland, is believed to be a reflection of the on-going economic growth and increased trade involving the new European Union members. In 2006, ANWIL's share in the Polish suspension PVC market amounted to 47 per cent., representing a 6 per cent. increase compared with 2005.

In 2006, the growing market for PVC compounds and panels as well as PVC-based dry blends helped the PKN ORLEN Group achieve some of the best results in the sector in terms of sales. The PKN ORLEN Group focuses on active sales in Central and Eastern Europe. In 2006, ANWIL's nitrogen plant had a 47 per cent. share in the Polish domestic PVC compounds market, representing a 6 per cent. increase compared with 2005.

Sodium hydroxide

The PKN ORLEN Group produces and sells sodium hydroxide both as soda lye and as granulated caustic soda, used mainly as a raw material (sodium carrier) in a variety of syntheses in the production of surface active ionic agents in the pharmaceutical industry (in the production of aspirin, salicylic acid, sulfaniloamids, among others), for aluminium extraction in bauxite processing, for extracting water-glass from silica, in the production of fats and soaps, and in a number of other organic and non-organic syntheses. In 2006, an upgraded membrane-process chlorine and sodium hydroxide installation was commissioned at ANWIL. After the completion of the upgraded membrane-process chlorine and sodium hydroxide installation, PKN ORLEN Group joined a small number of companies in Central Europe producing those products based on this technology. The new installation is more effective and environmentally friendly and produces higher quality

sodium hydroxide. In 2006, the share of ANWIL in the Polish sodium hydroxide market was 37 per cent., an increase of over 5 per cent. on 2005.

Nitrogenous fertilisers

In 2006, ANWIL was among the largest producers of nitrogen-based fertilisers in Poland, such as ammonium nitrate and calcium ammonium nitrate sold under the trade name of CANWIL. In 2006, ANWIL had a 21 per cent. share in the Polish nitrogen market, an increase of some 1 per cent. compared with 2005.

Investment projects

The largest investment project in the chemical segment, completed in 2006, was the acquisition by ANWIL of a controlling interest in Spolana for CZK 640,382,956 (EUR 56.42 million). The acquisition of the Czech company strengthened the market position of the chemical segment of the PKN ORLEN Group, particularly in the production and sale of PVC. The utilisation of the existing potential of both companies to maximise the benefits of uniform management of similar production assets will be one of the most important tasks for ANWIL over the next few years.

In 2006, the chlorine and soda lye production technology was changed from a diaphragm-based technology into a membrane-based technology. The total cost of the project amounted to PLN 220 million (EUR 56.42 million). A number of other investment projects, among others in PVC, CANWIL and ammonia, were completed, reducing production costs, improving product quality and rendering product distribution much more effective. The total investment in 2006 in the production assets of ANWIL amounted to some PLN 125 million (EUR 32.06 million).

Business Strategy

The strategy of the PKN ORLEN Group has a medium term outlook. The current business strategy relates to 2006-2009. Short term goals are built into yearly budgets.

PKN ORLEN's strategy is derived from the Company's mission statement: ''Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality. All our operations adhere to ''best practice'' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment''.

In January 2006, the Company updated its ''Value Creation Strategy for 2006 – 2009''. It now covers all aspects of the Company's operations and is based on three pillars:

Pillar I – efficiency enhancement

Pillar I of the strategy involved a number of widening and intensifying processes initiated in 2005. The Company focused its activities in this area on:

- intensifying its pro-effectiveness measures;
- continuing to pursue effective integration with Unipetrol;
- implementing a recovery programme for ORLEN Deutschland; and
- pursuing further changes in the area of corporate culture.

As part of its policy of furthering the integration of the ORLEN Group, in 2006 the Company implemented the second stage of the process of integration with Unipetrol by restructuring the Unipetrol Group under the ''Partnership'' programme (e.g. by selling non-strategic assets, optimising legal structures, and improving corporate governance and the segment management model) and implementing a two brand strategy.

Mazeikiu, which the Company acquired in December 2006, was also subject to integration processes. In this case, the Company pursued a ''One Company'' strategy (i.e. a common management and strategy for key companies) consisting of two elements: creation of a Lithuanian/Polish team and the introduction of segment management. These objectives are being pursued through the introduction of operational streamlining and an investment programme, as well as by exploiting existing synergies within the PKN ORLEN Group. As part of its growth strategy the Company continued to implement the OPTIMA cost optimisation programme. In 2006, the savings generated via OPTIMA exceeded the annual plan by 20 per cent., reaching almost PLN 300 million.

In order to support the investment policies that the Company is implementing, which require substantial commitments of capital, the Company has continued to pursue its policy of disinvestment with the aim of retaining in the PKN ORLEN Group only those companies that are associated with its basic operations.

In 2006, the Company also continued the process of restructuring the retail segment, including further reconstruction and deployment of a two brand strategy (''premium'' and ''economy''), which is enabling the Company to achieve a higher level of customer satisfaction.

Pillar II – strengthening its position in home markets

PKN ORLEN, as the leader in the Polish and Czech refining and petrochemical markets, is implementing an extensive investment programme aimed at expanding its efficiency and the quality parameters of products and semi-products. By fulfilling all the mandatory technical, quality and environmental standards the Company aims to set an example for other companies, thus pursuing a strategy of quality leadership.

Pillar III – unlimited growth

The main element of the third pillar of the Company's strategy is non-organic growth via mergers and acquisitions. The Company is therefore actively seeking potential targets for takeovers, especially in Central and Eastern Europe. The Company is mainly interested in increasing its activity in the field of crude oil exploration and extraction alongside diversifying sources and supply routes in order to increase its independence with respect to raw materials.

The acquisition of Mazeikiu resulted in the PKN ORLEN Group becoming one of the largest downstream companies in Central Europe. PKN ORLEN Group therefore has a presence in a region characterised by a significant potential for growth and development.

PKN ORLEN is aiming to reach the following financial goals in 2009, assuming the level of macro-economic conditions recorded in 2004:

- EBITDA PLN 10 billion;
- ROACE ratio forecast at a minimum level of 18.5 per cent.; and
- financial gearing at an approximate level of 30-40 per cent.

On 12 June 2007, PKN ORLEN announced the assumed revised total capital expenditure (''CAPEX'') for the PKN ORLEN Group in years 2007-2012 of PLN 21.18 billion. Assumptions include an estimated capital expenditure for the Mazeikiu Capital Group (''MN'') of PLN 4.57 billion. The yearly breakdown of the CAPEX plan for the PKN ORLEN Capital Group is as follows:

CAPEX in the PKN ORLEN Group in PLN billion	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*
Total	3.63	4.69	4.74	3.42	2.84	1.86

The CAPEX plan in the PKN ORLEN Group for the years 2007-2012 assumes that the annual average level of CAPEX will amount to PLN 3.53 billion.

The breakdown of the forecast annual average level of CAPEX for the segmental operations of the PKN ORLEN Group are as follows:

CAPEX in the PKN ORLEN Group in PLN billion	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*sum 2007-2012*	*annual average*
Petrochemicals	0.54	1.28	1.94	1.19	0.54	0.39	5.87	0.98
Refining	1.40	1.73	1.30	0.75	0.67	0.16	6.0	1.0
Chemicals	0.16	0.23	0.22	0.33	0.34	0.24	1.51	0.25
Retail	0.73	0.58	0.53	0.43	0.58	0.4	3.26	0.54
Crude oil trade and Upstream	0.05	0.29	0.29	0.29	0.29	0.29	1.49	0.25
Others (including: Supporting production, Logistics, Oil, Wholesale, Corporate Center)	0.74	0.59	0.47	0.43	0.43	0.38	3.04	0.51
Total	3.63	4.69	4.74	3.42	2.84	1.86	21.18	3.53

With regards to the major elements of the CAPEX plan for the PKN ORLEN Group in years 2007- 2012, the following initiatives in the segmental breakdown should be considered amongst others:

Petrochemicals

- Construction of the paraxylene (PX) / terephthalic acid (PTA) plants;
- Intensification of the unit of ethylene oxide and butadiene;

Refining

- Development of the refining complex in Mazeikiu;
- Increasing the capacity of the diesel unit;
- Construction of the hydrogen production plant.

Chemicals

- Modernisation of the polyvinyl chloride (PVC) production lines – including the production capacity increase;
- Construction of the cyclohexanone unit;
- Construction of the butylen polyterephthalate (PBT) production unit – further processing of terephthalic acid (PTA);

Retail

- Development of the retail network in Poland, Germany and Lithuania;

Crude oil trade and Upstream

- In accordance with the current upstream strategy;

Others (including: Supporting Production, Logistics, Oil, Wholesale Corporate Center)

- Preparing the storage depots for biocomponents dosage;
- Development of the pipeline network (Wroclaw); and
- Investing in the heat and power generating plant which would provide compliance with the future regulations relating to gas emissions as well as unit renovation.

Recent Developments

Acquisition of Mazeikiu

Pursuant to the Yukos Agreement, on 15 December 2006, PKN ORLEN purchased from Yukos International 379,918,411 ordinary shares of Mazeikiu, representing 53.70 per cent. of Mazeikiu's share capital, for the aggregate price of USD 1,492,000,000. In addition, pursuant to the Lithuanian Government Agreement, on 15 December 2006, PKN ORLEN purchased 216,915,941 shares of Mazeikiu from the Lithuanian Government.

Under Lithuanian law, PKN ORLEN was obliged to make a mandatory Tender Offer for all the remaining shares in Mazeikiu held by other investors. As a result of the Tender Offer and the subsequent squeeze out process, only 991,796 shares remain quoted on the market as at 21 May 2007.

On 23 May 2007, PKN ORLEN filed a petition with a Lithuanian court requesting the issuance of an order pursuant to which all remaining shares in Mazeikiu held by minority shareholders shall be transferred to PKN ORLEN at a price of LTL 10.25 per share.

Pursuant to the shareholders' agreement which came into force on 15 December 2006, PKN ORLEN maintains full operational control over Mazeikiu. The Lithuanian Government is entitled to appoint one of the nine members of Mazeikiu's supervisory board and one of the seven members of Mazeikiu's management board. In addition, the Lithuanian Government is entitled to request annulment of the resolutions of Mazeikiu's corporate authorities if such resolutions present a threat to the national security or the energy security policy of the Republic of Lithuania. The Lithuanian Government is entitled to request that PKN ORLEN sell all its shares of Mazeikiu in any of the following circumstances: (a) Mazeikiu incurs a loss in each of any five consecutive financial years; (b) assets exceeding U.S.$200,000,000 are seized in connection with enforcement proceedings following a final and non-appealable court decision; or (c) more than 50 per cent. of voting rights in PKN ORLEN are acquired by an entity which, in the Lithuanian Government's reasonable opinion, presents a threat to the national security of the Republic of Lithuania. Any disposal of shares of

Mazeikiu by PKN ORLEN and/or the Lithuanian Government will be subject to the other party's right of first refusal. The shareholders' agreement is due to expire upon the disposal by the Lithuanian Government of any of its 70,750,000 shares in Mazeikiu.

Pursuant to the Put Option Agreement, the Lithuanian Government is entitled to sell to PKN ORLEN 70,750,000 ordinary shares of Mazeikiu, with the nominal value of LTL 1 each, representing, as of 9 June 2006, approximately 10.0006 per cent. of Mazeikiu's share capital. The put option will remain in force for a period of five years. The aggregate price for all shares under the Put Option Agreement amounts to U.S.$277,835,250. However, should the Lithuanian Government exercise the put option within the period of three years from the sale of the 30.6615 per cent. stake to PKN ORLEN under the Lithuanian Government Agreement dated 9 June 2006, the aggregate price for all the shares under the put option would amount to U.S.$284,450,375.

The acquisition of Mazeikiu expanded PKN ORLEN's refining activity. The rationale behind the transaction was to acquire a fully integrated supply chain, as well as positioning the PKN ORLEN Group to take advantage of the Brent/Urals differential. Additionally, the acquisition of Mazeikiu is expected to help the PKN ORLEN Group to expand its regional position and optimise operations in the PKN ORLEN Group's core areas, as well as to provide the opportunity to leverage the core expertise of the PKN ORLEN Group. PKN ORLEN also believes that the acquisition of Mazeikiu is a platform for future growth of the PKN ORLEN Group.

On 12 October 2006, a fire at the oil refinery destroyed the VDU that was used in the manufacturing of light oil products and the heat exchanger train servicing the VDU and the Visbreaker Unit. The first stage of the recovery plan was completed in February 2007 with the commissioning and start-up of the refurbished vacuum distillation tower. Mazeikiu has its property and business interruption losses insured in the international insurance market via the broker AON Limited, London. Property is insured at the reinstatement value. Mazeikiu's civil liability is also insured in the international insurance market. The fire is under investigation by Mazeikiu's insurance companies and the amounts that will be payable by way of compensation for losses are unknown. So far, there have been no changes in the PKN ORLEN Group's insurance policies in the aftermath of the fire at the Mazeikiu. The only impact of the fire has been on Mazeikiu's scope of cover. The property and the gross margin of Mazeikiu have been incorporated into the PKN ORLEN and Unipetrol insurance programme.

Pursuant to the VCP, the targeted EBITDA of Mazeikiu, under a variable macro scenario, in 2012 amounts to U.S.$700 million (compared with U.S.$727 million under a constant macro scenario). CAPEX planned for Mazeikiu in the years 2007-2012 amounts to U.S.$1.6 billion.

The VCP will be realised through the following three phases:

- restoration of the production capacity of Mazeikiu decreased by the fire and the crude oil supply disruption via pipeline that started on 29 July 2006;
- operational efficiency improvement across all of Mazeikiu's business segments. PKN ORLEN has already started implementation of this phase; and
- value growth through modernisation and implementation of the new investment programme. Preparation for the implementation of the new investment programme started in 2007. The implementation will be continued in 2008 with the majority of works completed by the end of 2011.

*Contribution to EBITDA growth of Mazeikiu by 2012 (in comparison with 2007)**

Source	*EBITDA Contribution (million)*	*CAPEX Requirement (million)*
1 Restoring Production Capacity	USD 200	USD 300
2 Operational Efficiency Improvement	USD 250	USD 550
3 New Investment Programme	USD 200	USD 750
	USD 650	USD 1,600

* Assuming Constant Macro Economic conditions.

Restructuring of the southern assets

A restructuring and consolidation project was approved by PKN ORLEN in July 2005 and relates to the following companies:

- Rafineria Jedlicze;
- Rafineria Trzebinia;
- ORLEN Oil; and
- Paramo a.s. (Unipetrol subsidiary).

The objective of the project is to secure the value of assets owned by PKN ORLEN by optimising the production structure in the companies. The optimisation is planned to take place by way of the reorganisation and restructuring, as well as the combination of selected assets and capital consolidation. The project is also intended to protect the assets of these companies against changes in tax law, which may lead to discontinuation of crude oil processing in the south of Poland.

The restructuring process has the following major objectives:

- modernisation of existing crude oil distillation unit in Rafineria Jedlicze with a view to processing local output crude;
- construction of organic solvent installation in Rafineria Jedlicze; and
- restructuring of distribution system in ORLEN Oil.

Process of restructuring IKS Solino

In November 2006, an agreement was concluded between IKS Solino and its labour unions with the participation of PKN ORLEN and the State Treasury of Poland. The agreement provided that operations of the SPU will be sustained only in the event of its economic profitability.

In PKN ORLEN's view, a sale of the SPU to an external investor might guarantee long-term development of the unit and therefore sustain existing job positions and the creation of new ones. If the SPU is sold, it is expected that the vast majority of employees will keep their positions. The small number of employees affected by the restructuring process will be able to benefit from a shield programme that is currently being negotiated with the labour unions of IKS Solino.

Transfer of shares in Spolana between companies of the PKN ORLEN Group

In 2006, ANWIL purchased shares in Spolana from Unipetrol. After the purchase, the PKN ORLEN Group gained 95.18 per cent. of the votes at the General Meetings of Shareholders of Spolana. The purchase was followed by a mandatory tender offer as a result of which ANWIL acquired 95.7 per cent. of votes at the General Meetings of Spolana.

Subsidiaries

The following chart sets out details of the Company's subsidiaries and affiliates as at 31 March 2007:

Name of company	*Country*	*Range of activity*	*Share of PKN ORLEN Group's total voting rights (in full %)*
Etylobenzen Płock sp. z o.o.	Poland	Organic chemicals production, wholesale of chemical products	51%*
ORLEN PetroProfit sp. z o.o.	Poland	Liquid fuels trading	100%
ORLEN Deutschland AG	Germany	Fuel trading	100%
ORLEN Oil sp. z o.o.	Poland	Refinery and petrochemical products trading	100%
ORLEN Holding Malta Ltd.	Malta	Investment in the shares	100%
ORLEN Gaz sp. z o.o.	Poland	Liquid gas trading	100%
ORLEN Morena sp. z o.o.	Poland	Fuel trading	100%
ORLEN PetroCentrum sp. z o.o.	Poland	Liquid fuels trading	100%
ORLEN Administracja sp. z o.o.	Poland	Administration services	100%
ORLEN Medica sp. z o.o.	Poland	Medical services	100%
ORLEN Powiernik sp. z o.o.	Poland	Services to PKN ORLEN (including trust activities)	100%
ORLEN EKO sp. z o.o.	Poland	Recycling	100%
ORLEN Ochrona sp. z o.o.	Poland	Security services	100%
ORLEN Budonaft sp z o.o.	Poland	Construction and renovation of the petrol stations	100%
WISŁA Płock S.A.	Poland	Activity in sports field	100%
ORLEN Prewencja sp. z o.o.	Poland	Installation, repairs and maintenance of the machinery, technical examinations, fire precautions	100%
ORLEN Upstream sp. z o.o.	Poland	Oil mining, petroleum gas mining, exploitation	100%
ORLEN Księgowość Sp. z o.o.	Poland	Accountancy service	100%
ORLEN KolTrans sp. z o.o.	Poland	Railway services	100%
ORLEN Transport Szczecin sp. z o.o.	Poland	Transport services	100%
ORLEN Asfalt sp. z o.o.	Poland	Manufacturing and processing products from the refining of crude oil	100%
ORLEN PetroZachód sp. z o.o.	Poland	Liquid fuels trading	100%
ORLEN Petrogaz Wroclaw	Poland	Liquid fuels trading	100%
ORLEN Centrum Serwisowe sp. z o.o.	Poland	Renovation of the petrol stations	99%
ORLEN Transport Kraków sp. z o.o.	Poland	Transport services	98%
ORLEN Transport Płock sp. z o.o.	Poland	Transport services	98%
ORLEN Transport Słupsk sp. z o.o.	Poland	Transport services	97%
ORLEN Transport Nowa Sól sp. z o.o	Poland	Transport services	97%
ORLEN Transport Olsztyn sp. z o.o.	Poland	Transport services	95%
ORLEN Laboratorium sp. z o.o.	Poland	Laboratory services	95%
ORLEN Transport Kęd. Koźle sp. z o.o.	Poland	Transport services	94%
ORLEN PetroTank sp. z o.o.	Poland	Liquid fuels trading	90%
AB Mazeikiu Nafta	Lithuania	Refining and products marketing	90%

* As of 23 April 2007 PKN ORLEN signed a purchase agreement for a further 49%

Name of company	*Country*	*Range of activity*	*Share of PKN ORLEN Group's total voting rights (in full %)*
Zakłady Azotowe "ANWIL" S.A.	Poland	Chemicals production and trading	85%
BHT Dromtech S.A. w upadłości	Poland	Cisterns and containers production	81%
Rafineria Trzebinia S.A.	Poland	Refining and products marketing	77%
Petrotel sp. z o.o.	Poland	Telecom services	75%
Rafineria Nafty Jedlicze S.A.	Poland	Refining and products marketing	75%
Inowrocławskie Kopalnie Soli "Solino" S.A.	Poland	Production of industrial brine	71%
Unipetrol a.s.	Czech Republic	Crude oil processing, fuels distribution, petrochemicals production	63%
Ship Service S.A.	Poland	Ship loading and refuelling	61%
ORLEN Automatyka sp. z o.o.	Poland	Renovation works	52%
Petromor sp. z o.o.	Poland	Providing storage services	51%
ORLEN Projekt S.A.	Poland	Providing technological and construction designs	51%
ORLEN Wir sp. z o.o.	Poland	Renovation works	51%
Petrolot sp. z o.o.	Poland	Liquid fuels trading	51%
Basell ORLEN Polyolefins sp. z o.o.	Poland	Petrochemicals production	50%
Płocki Park Przemysłowo-Technologiczny S.A	Poland	Consultancy services, construction works, engineering	50%
Motell sp. z o.o.	Poland	Gastronomy and hotel services	35%
Niezależny Operator Międzystrefowy sp. z o.o.	Poland	Telecom services	35%
Poilen sp. z o.o.	Poland	Designing, delivery and installation of heat equipment, renovation works	25%
Chemiepetrol sp. z o.o.	Poland	Trading in chemicals	20%
Polkomtel S.A.	Poland	Telecom services	19.61%

The following companies and their subsidiaries, described in more detail below, are the most important strategically for the PKN ORLEN Group in terms of turnover, assets or more generally to the business of the PKN ORLEN Group:

- Mazeikiu;
- Unipetrol;
- BOP;
- ANWIL;
- ORLEN Deutschland;
- Rafineria Trzebinia;
- ORLEN Oil;
- ORLEN Asfalt;
- Rafineria Jedlicze; and
- IKS Solino.

Mazeikiu

As at 29 May 2007, PKN ORLEN currently owns approximately 90 per cent. of the shares in Mazeikiu which has its registered office in Juodeikiai, Lithuania. Mazeikiu owns the only crude oil refinery in the Baltic States and as a consequence has a dominant position in the Lithuanian, Latvian and Estonian markets. The refinery in Mazeikiu has a capacity of approximately 10 million tonnes per year with current utilisation of this capacity being approximately 81.3 per cent.

Logistics facilities of Mazeikiu consist of:

- a sea terminal in Butinge;
- four storage bases;
- pipelines with a total length of approximately 500 kilometres; and
- two pumping stations near Birzai and Joniskis.

Mazeikiu uses three main channels for the sale of fuel products, these being the sale of fuel products in the Lithuanian market, export of fuel products to Central and Eastern European countries and export of fuel products to Western European countries as well as to the United States of America. Approximately 1.6 million tonnes of fuel products are sold annually in the local Lithuanian market, whereas about 1.7 million tonnes per year are exported by land to the Latvian, Polish, Ukrainian and Estonian markets. Products exported from Mazeikiu are also shipped by rail to four terminals in Estonia, nine in Latvia, four in Poland and 16 on the Ukrainian-Belarussian border. Exports of fuel products by sea to Western Europe and the United States of America amount to approximately 4.7 million tonnes per year. Exports to Western Europe and the United States of America by sea pass through a terminal owned by AB Klaipedos Nafta (which is majority owned by the Lithuanian government) on terms settled on a case by case basis.

In 2004, Mazeikiu exported 80 per cent. of the volume of its crude oil products (and almost 73 per cent. of these exports were to Western Europe and the United States of America). Mazeikiu sold similar quantities abroad in 2005. As a consequence of the fire at Mazeikiu's refinery in October 2006 (see ''Recent Developments'' above) and the suspension of crude oil deliveries to Mazeikiu through the Druzhba pipeline (see ''Operations'' below), the 2006 trading and export data relating to Mazeikiu are not representative of its normal business or operations.

Unipetrol

PKN ORLEN currently owns 62.99 per cent. of the shares in Unipetrol which has its registered office in Prague, Czech Republic. The Unipetrol Group operates in the petrochemical business in the Czech Republic. Specifically, the Unipetrol Group is active in production and sale of refinery products, chemicals, petrochemicals, commodity, polymers, fertilisers and speciality chemicals. It also operates its own transport services, as well as research and development. Unipetrol became part of the PKN ORLEN Group in 2005. Unipetrol is involved primarily in crude oil processing, fuel distribution and petrochemical production. The Unipetrol Group has a dominant position in these sectors in the Czech and Central European markets, in terms of revenues and production volumes. In 2006, Unipetrol recorded revenues amounting to CZK 95 billion (EUR 3.34 billion) and a net profit of CZK 1.7 billion (EUR 60 million). Unipetrol Group employed almost 5,000 people at the end of last year. Unipetrol holds stakes in three refineries (Litvinov, Kralupy and Paramo) that in 2006 processed a total of 4.3 million tonnes of crude oil. In 2006, Unipetrol Group also reached the level of CZK 43.6 billion (EUR 1.54 billion) sales revenue from exports and capital expenditure of CZK 3.5 billion (EUR 124 million).

BOP

PKN ORLEN owns 50 per cent. of the shares of BOP which has its registered office in Płock, Poland. BOP is a joint venture set up by PKN ORLEN and Basell, an affiliate of the world's largest producer of polypropylene and a leading producer of polyethylene. BOP produces and sells polyethylene and polypropylene in Poland. PKN ORLEN facilitates the operation of the production facilities and provides knowledge of the local market. In producing polyolefins Basell utilises polypropylene Spheripol technology and Hostalen licensed technology. Basell provides advanced production experience and access to the international sales channels in this sector. In November 2005, BOP officially launched two new installations for the production of polyethylene and polypropylene. These production units are worth approximately EUR 500 million and are two of the world's most modern installations producing polyolefins. Currently, BOP is the owner of installations producing polypropylene and installations producing HDPE.

Annual production at the installations amounts to 400,000 tonnes per year of PP based on Spheripol technology and 320,000 tonnes per year of HDPE using Hostalen technology. With the production capacity of its installation producing LDPE, the annual capacity of BOP's installations and the handling capacity of the logistics platform amounts to 720,000 tonnes per year. The installations producing polyethylene and polypropylene are among the largest petrochemical plants in the industry.

BOP is the only Polish producer of polyolefins. BOPS, a wholly owned subsidiary of BOP distributes BOP's products from BOP's logistics platform. BOPS has well-developed customer services channels and provides a developed local sales network and full technical maintenance for its customers in Poland.

ANWIL S.A.

PKN ORLEN owns 84.79 per cent. of the shares of ANWIL S.A. which has its registered office in Włocławek, Poland. ANWIL operates in the chemical sector in Poland being the sole producer of suspension PVC in Poland and one of the largest producers in Central and Eastern Europe. ANWIL is also Poland's largest producer of nitrogenous fertilisers. In 2006, ANWIL continued to strengthen its market position by re-opening its chlorine and soda lye production plant following a programme of expansion and modernisation. As a result of the investment it made, ANWIL obtained a complete, modern production line for PVC with state of the art technology, which enabled the production of PVC, one of ANWIL's core activities, to be upgraded and the associated production costs to be lowered. The new facility's capacity is approximately 195,000 tonnes of chlorine per annum. ANWIL currently has modern equipment and production licences, which enable ANWIL to produce approximately 300,000 tonnes of PVC each year (compared to 200,000 tonnes annually prior to the modernisation referred to above).

In the fourth quarter of 2006, ANWIL bought 81.78 per cent. of the shares in a Czech company, Spolana from its former holding company, Unipetrol for approximately CZK 640 million (EUR 23.5 million). This investment is expected to strengthen the PVC and nitrogenous fertiliser production sector, increasing ANWIL's PVC production capacity and significantly increasing ANWIL's nitrogen fertiliser production capacity. In 2007, production and sale of PVC and PVC compounds are expected to be integrated to satisfy market needs in both Poland and the Czech Republic. As a result of the acquisition of Spolana, ANWIL may offer products such as ammonium sulphate (a nitrogenous fertiliser used in agriculture and horticulture) and caprolactam (which is used, among others, for manufacturing textile fibres, carpets and construction resins used in the motorisation, electronics and food industries), which are not produced by ANWIL itself. Spolana is the fourth largest supplier (by volume of sales of chemical products) in the Czech Republic.

ORLEN Deutschland

PKN ORLEN holds 100 per cent. of the shares in ORLEN Deutschland, which has its registered office in Elmshorn and manages PKN ORLEN's retail network in Germany. ORLEN Deutschland was set up following PKN ORLEN's investment in a network of 494 fuel stations in northern and eastern Germany in December 2002. As a result of this acquisition, PKN ORLEN estimates to have approximately 3 per cent. of the overall German fuel market and about 7 per cent. of the fuel market in the northern part of Germany.

As at 31 May 2007 ORLEN Deutschland manages a network of 501 fuel stations, operating mainly under the ORLEN and STAR names.

In October 2005, a restructuring and further development plan for ORLEN Deutschland was prepared and approved. The key measures of the plan are:

- improvement of the cost structure in all areas of operation;
- maintenance of sales volumes despite the shrinking fuel market in Germany;
- closing or restructuring of loss-making stations; and
- possible acquisition of additional petrol stations or networks — provided ORLEN Deutschland achieves positive financial results.

Measures undertaken under ORLEN Deutschland's restructuring plan in 2006 included:

- closure of 24 loss-making fuel stations;
- maintenance of sales volumes despite the shrinking fuel market in Germany and the smaller number of stations; and
- acquisition of 58 stations from Deutsche BP, located in northern Germany, for EUR 7.6 million.

The acquisitions from Deutsche BP were funded by ORLEN Deutschland from its own resources with the support of existing lines of credit. It is planned that by 2009, ORLEN Deutschland will have acquired approximately 250 facilities in northern Germany, resulting in a 10 per cent. share of the market in that area.

Rafineria Trzebinia

PKN ORLEN holds 77 per cent. of the shares of Rafineria Trzebinia which has its registered office in Trzebinia, Poland. In mid-2005, Rafineria Trzebinia suspended processing crude oil. According to its strategy, Rafineria Trzebinia began operating in the segment of production of liquid biofuels, i.e. fuels with a biocomponent content of more than 5 per cent. In 2004, Rafineria Trzebinia launched Poland's most up-to-date and comprehensive installation for the production of biodiesel, with a current production capacity of 100,000 tonnes of FAME per year and 11,500 tonnes of pharmaceutical glycerine per year. The installation is based on technology for producing FAME from plant oils, with the use of methanol and a catalyst in the form of potassium hydroxide. The installation is capable of processing primarily rapeseed oil, but also various types of other plant oils, e.g. soya oil, sunflower oil, palm oil, and waste plant oils (so-called ''used frying oils'').

In 2005, Rafineria Trzebinia launched the production and distribution of a product called ''ON Bio'', which is a mixture of diesel oil of mineral origin and FAME. Initially, the product was sold to road transport firms. In July 2005, this product started to be distributed at fuel stations in the Polish retail market. Since then, ON Bio has continued to be available at fuel stations. In June 2006, Rafineria Trzebinia received the Teraz Polska quality emblem introduced by the National Chamber of Commerce, ''Teraz Polska'' Foundation and Polish Centre for Research and Certification for this product. Rafineria Trzebinia's presence in the PKN ORLEN Group is important because of PKN ORLEN's obligation to meet the ''National Target Ratio'' set out in the Act on Biofuels from 2008, which makes it mandatory for the market participants to market a specific volume of biocomponents in the Polish retail market.

In 2006, Rafineria Trzebinia began working to increase its biodiesel production capacity. The first stage, which began at the end of 2006, was aimed at increasing capacity by an initial 20 per cent., and at the second stage the investment was to develop capacity to 200,000 tonnes of FAME per year.

In accordance with its business strategy, in 2006 Rafineria Trzebinia continued its production of biofuels. Rafineria Trzebinia is at present the only entity in Poland which produces methyl esters of higher fatty acids of the highest quality. However, the entry into force of the regulation of the Minister of Finance of 22 December 2006, which amended the regulation on the excise duty relief, has resulted in a significant decrease in profitability of the production and sales of biofuels on the Polish market. On 2 January 2007, Rafineria Trzebinia temporarily discontinued its production and sales of ON Bio biofuel with 20 per cent. content of FAME until new governmental provisions justifying the relaunching of the production of that biofuel enter into force. At present it is unclear when any such new governmental provisions will be implemented. Rafineria Trzebinia has also suspended works over the investment programme in that area. With the discontinued production of biofuels, Rafineria Trzebinia lost over 50 per cent. of its revenues from sales and the potential to generate the related profits.

In 2005, a paraffin hydrorefining installation was set up by Rafineria Trzebinia. In terms of chemical purity, the high quality paraffins produced and sold meet rigorous European standards. The final products are used in the production of high quality candles sold on European markets, and the paraffin may also be used in the food, pharmaceutical and cosmetic industries. Fabryka Parafin Naftowax sp. z o.o., a subsidiary of Rafineria Trzebinia, operates the installation.

ORLEN Oil

PKN ORLEN has a direct holding of 51.7 per cent. of the shares in ORLEN Oil (together with holdings of other PKN ORLEN Group companies this percentage increases to 100 per cent.). ORLEN Oil has its registered office in Cracow, Poland, and is a producer and distributor of lubricants in Poland. ORLEN Oil's product range includes the newest generation of automotive engine and gear oils (which are produced in accordance with European and American quality requirements set out by the Association des Constructeurs Européens de l'Automobile and the American Petroleum Institute), industrial and technological oils, plastic greases, automotive liquids, cosmetics and chemistry, solvents and base oils.

The high quality of products offered by ORLEN Oil is confirmed by 41 certificates of high quality issued by well-known car manufacturers (including Mercedes-Benz, Volkswagen and Volvo) and industrial machinery manufacturers (including Flender, Denison and Siemens), and the numerous awards and accolades ORLEN Oil received in 2005 at industrial fairs and exhibitions.

ORLEN Asfalt

PKN ORLEN has a direct holding of 82.46 per cent. of the shares of ORLEN Asfalt (together with holdings of other PKN ORLEN Group companies this percentage increases to 100 per cent.). ORLEN Asfalt has its

registered office in Płock, Poland and is a company specialising in the producing and selling of road and industrial asphalts. ORLEN Asfalt currently offers road asphalts, modified Orbiton (a proprietary brand of asphalt owned by ORLEN Asfalt), several types of BITREX (a proprietary brand of bitumen owned by ORLEN Asfalt), industrial asphalts and asphalt glues and other products. ORLEN Asfalt production and trade centres are located in Płock and Trzebinia. ORLEN Asfalt is authorised, on an exclusive basis, to offer and distribute in Poland asphalts originating from the Czech company Paramo a.s., which, in turn, offers and distributes asphalts originating from ORLEN Asfalt in the Czech Republic and in Slovakia.

In October 2006, ORLEN Asfalt set up a modern modified asphalts production facility in Płock. Asphalts are marketed under the Orbiton name in response to the domestic market's requirements and plans for the development of road infrastructure jointly financed by the European Union. The facility is expected to produce 70,000 tonnes of asphalt per year. The new asphalt production facility complements PKN ORLEN's production line. In its first year of operation, the asphalt modification plant fulfilled its planned production capacity.

Rafineria Jedlicze

PKN ORLEN holds 75 per cent. of the shares of Rafineria Jedlicze which has its registered office in Jedlicze, Poland, and is a large producer of furnace oils in Poland. Rafineria Jedlicze is involved in regenerating and buying spent oils and producing oil bases from regenerated oils, producing furnace oils, including light furnace oil ''Ekoterm Plus'' for PKN ORLEN, and in the production and sale of fuels. It has specialised in the regeneration of spent oils for almost 40 years, as well as desulphurising diesel oil for customers since 2005. Rafineria Jedlicze is currently constructing a modern facility, which is expected to produce a wide range of organic solvents by using catalytic hydrogen processes.

IKS Solino

PKN ORLEN holds 70.54 per cent. of the shares in IKS Solino which has its registered office in Inowrocław, Poland, and is a logistics operator in Poland specialising in the storage of crude oil and fuels. It is also an exporter of highly processed salt products to the European market. IKS Solino processes vacuum salt and stores crude oil and liquid fuels underground in industrial salt workings. IKS Solino also produces brine at its fully automated borehole mines in Góra and Mogilno. Following the construction of an underground oil and fuel store (to increase storage capacity), the current capacity of the store in Góra, Poland is 4,343,000 tonnes (including 3,502,000 tonnes for the storage of oil and 841,000 tonnes for fuels). The store in Góra consists of seven storage facilities for crude oil and three storage facilities for fuels. The quantity and capacity of the storage caverns makes the underground store in Góra one of the largest in Europe. IKS Solino is also planning to build further underground storage facilities in another salt deposit.

Litigation

Proceedings against Rafineria Trzebinia for the period of May-September 2004

On 15 October 2004, the Head of the Customs Office in Cracow instituted tax proceedings to determine an excise tax liability relating to Rafineria Trzebinia for the period between May and August 2004. As a result of the proceedings, the excise tax liability of Rafineria Trzebinia was settled at approximately PLN 60 million (EUR 15 million). In the course of further proceedings, the excise tax liability for the period of May – September 2004 was set by the Head of the Customs Office at a total amount of some PLN 100 million (EUR 26 million). Rafineria Trzebinia appealed against the decision and an application for a stay of its execution pending conclusion of the case before the body of the second instance was filed. The stay of execution was granted.

The case relating to the excise tax liability of Rafineria Trzebinia is still pending before the Voivodeship Administrative Court and as a result the outcome of the dispute is unknown. Rafineria Trzebinia, based on the advice of the tax advisors, believes that it is likely that the outcome of the proceedings will be favourable to it.

Inspection proceedings against Rafineria Trzebinia for years 2002-2005

Inspection proceedings are pending before the Fiscal Control Office in Cracow regarding the accuracy of assessment and payment of excise tax and goods and services tax (''VAT'') by Rafineria Trzebinia in 2002 and 2005. The inspection proceedings completion date was extended until 29 June 2007.

Rafineria Trzebinia, based on the advice of the tax advisors, believes that it is likely that the outcome of the proceedings will be favourable to it.

Proceedings of the energy regulatory authority at Rafineria Trzebinia

On 24 March 2006, proceedings were instituted against Rafineria Trzebinia to impose a penalty following an alleged violation of the terms of a concession to produce liquid fuels. The merits of the case relate to the applicability of the provisions of Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport and Directive 2003/17/EC of the European Parliament and of the Council of 3 March 2003 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels within Poland and in particular whether such provisions were applicable as at 1 May 2004 when Poland became a member of the European Union whilst there was no regulation of the Minister of Economy relating to the quality standards for biofuels at that time.

On 8 September 2006, the Chairman of the Energy Regulatory Authority issued a decision imposing a fine of PLN 1,000,000 (EUR 300,000) for an alleged violation by Rafineria Trzebinia of the terms of the concession to produce liquid fuels. Rafineria Trzebinia lodged an appeal with the Regional Court in Warsaw, the Competition and Consumer Protection Court, against this decision, requesting a reversal of the decision in its entirety, or, in the alternative, for an amendment to the decision and a ruling as to the merits of the case. Rafineria Trzebinia also requested that the Competition and Consumer Protection Court refer the case to the European Court of Justice in Luxembourg for a preliminary ruling regarding the application of Community law under Article 234 of the European Union Treaty. On 2 April 2007, the Competition and Consumer Protection Court in Warsaw gave consideration to Rafineria Trzebinia's appeal and reversed the decision of the Chairman of the Energy Regulatory Office in respect of a fine imposed on Rafineria Trzebinia for an alleged violation of the terms of the concession to produce liquid fuels.

As at today's date, Rafineria Trzebinia has not received notice of any appeal by the Chairman of the Energy Regulatory Office against the above-mentioned ruling.

Claims and court proceedings – Tankpol

Pursuant to an agreement dated 20 December 2002, Tankpol (currently, Tankpol – R. Mosio i wspólnicy spółka jawna) transferred to PKN ORLEN the ownership of 40 per cent. of the shares in Petrotank in exchange for PKN ORLEN writing-off the obligations due by Tankpol to PKN ORLEN.

In a claim dated 11 August 2003, Tankpol demanded that PKN ORLEN transfer ownership of 324 shares in Petrotank and compensation of PLN 198,000 (EUR 31,000). On 22 January 2004, Tankpol modified its suit demanding compensation of PLN 36,384,000 (EUR 9,328,000) with interest from the date of submission of the claim until the payment date. If PKN ORLEN refuses to compensate, Tankpol demanded that the court require PKN ORLEN to transfer ownership of 253 shares in Petrotank to Tankpol.

PKN ORLEN and Tankpol were two shareholders in Petrotank. Tankpol incurred certain debts from Petrotank and was not able to repay them to Petrotank. The parties agreed that Petrotank would transfer Tankpol's debt to PKN ORLEN for PKN ORLEN to enforce this receivable against Tankpol. As security for repayment, Tankpol transferred all of its shares (transfer for security, przewłaszczenie na zabezpieczenie) in Petrotank to PKN ORLEN.

PKN ORLEN and Tankpol agreed that the debt could be settled by transferring the value of the shares as security, if Tankpol did not repay the debt in cash. Given Tankpol did not repay the debt in cash, PKN ORLEN decided to keep the shares in Petrotank, however the value of the shares was not expressly agreed. PKN ORLEN and Tankpol provided a mechanism of two independent valuations based on which the value of the shares in Petrotank would be established pursuant to a formula set forth in the agreement. If the value of the shares in Petrotank transferred to PKN ORLEN was higher than the value of the receivable, then PKN ORLEN should return to Tankpol such number of shares in excess of the receivable value.

The dispute concerns, among other issues, the value of shares in Petrotank. Tankpol presented its valuation, which PKN ORLEN believes was incorrect and excessive. Therefore, PKN ORLEN refused to accept this valuation (PKN ORLEN provided its own valuation). Tankpol sued PKN ORLEN for the return of a number of shares in Petrotank. At the same time, it alleged that PKN ORLEN breached the contract and demanded the payment of compensation, instead of the transfer of shares. The claim was for the payment of compensation (equal to the alleged value of the shares that should have been transferred to Tankpol) or (if the first claim was dismissed) for the transfer of the appropriate number of shares in Petrotank. The "compensation" relates to the claim for PKN ORLEN to pay Tankpol money.

On 22 March 2005, the District Court (Sąd Okręgowy) dismissed the claim in its entirety.

On 31 March 2006, the Court of Appeal required PKN ORLEN to transfer ownership of 26 shares in Petrotank to Tankpol. The Court of Appeal determined that PKN had validly executed the transfer of ownership agreement dated 20 December 2002.

The judgement of the Court of Appeal was subject to further appeal to the Supreme Court. On 22 June 2006, Tankpol submitted a petition for an annulment.

On 28 August 2006, PKN ORLEN responded to the petition for annulment submitted by Tankpol.

On 14 August 2006, the Supreme Court held that the case should be further examined by the Court of Appeal in Warsaw because the valuation of the shares as determined by Tankpol should be taken into consideration (which the Court of Appeal had omitted to do).

On 6 March 2007, a hearing took place in the Court of Appeal in Warsaw and a judgement was made on 15 March 2007. The Court of Appeal dismissed Tankpol's claim for financial compensation and the case was sent back to the District Court in Warsaw for a re-trial.

Disposal of shares in NOM

PKN ORLEN has sued PSE for PLN 111,510,300 (EUR 29 million) before the arbitration court at the Polish Chamber of Commerce. The amount claimed is compensation for PSE's failure to recognise the Company's rights under a put option granted to the Company pursuant to an Agreement of 8 June 2000 on Fulfilment of the Conditions of Consolidation and Development of Telecommunication Investments. Under this Agreement, the Company had a right to demand that PSE buy all the shares of NOM owned by the Company for a pre-determined price. The performance of the Agreement in the scope of PSE's recognition of the said put option right was guaranteed by a contractual penalty payable to the Company in the amount of the equivalent of the price of NOM shares to be supposedly bought by PSE according to the Agreement.

However, upon the Company's execution of this put option, PSE refused to buy NOM's shares, invoking a lack of consent of PSE's shareholders' meeting for such a transaction. The Company believes that the argument invoked by PSE was just an illegal excuse used to evade recognition of the put option right and that, in fact, PSE did not fulfil its obligations under the Agreement. Therefore, PKN was entitled to demand that PSE pay the respective contractual penalty, which as at the execution of the put option right was PLN 111,510,300 (EUR 29 million).

The claim was filed with the arbitration court on 5 August 2005. During the proceedings, the witnesses proposed by both parties were interrogated before the court and the court admitted written evidence submitted by the parties. By 31 January 2007, the parties had filed a summary of their positions. After consideration of the said positions, the arbitration court decided to re-open the proceedings.

Power transfer fee in settlements with ZEP S.A.

There is a dispute between ZEP S.A. as an applicant and PKN ORLEN as respondent relating to the so-called system charge (opłata systemowa) for the period from 5 July 2001 to 30 June 2002. The court issued an order for the payment of liabilities in respect of this system charge of PLN 46,232,000 (EUR 12 million) by PKN ORLEN to ZEP S.A. The proceedings were stayed in June 2005 until the conclusion of a suit instituted by the Polish power grid company, PSE, against ZEP S.A., in which PKN ORLEN is an intervening third party. These proceedings are still pending.

On 8 March 2007, the first hearing in this case instituted by PSE took place. The next hearing was postponed for an indefinite period of time.

Arbitration proceedings concerning Polkomtel S.A.'s shares

On 10 March 2006, an agreement was concluded between KGHM Polska Miedź S.A., PKN ORLEN, PSE and Węglokoks S.A. as purchasers and TDC Mobile International A/S as a seller in respect of an offer and conditional sale of shares in Polkomtel S.A. (the "Polkomtel Agreement").

Pursuant to the Polkomtel Agreement, PKN ORLEN may acquire 980,486 shares in Polkomtel S.A., representing 4.78 per cent. of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share. If the transaction is settled, PKN ORLEN will hold a 24.4 per cent. stake in the share capital of Polkomtel S.A. Currently, the case is being disputed before the International Court of Arbitration in Vienna. On 10 March 2006, Vodafone Americas Inc. (as a shareholder in Polkomtel S.A.) filed a law suit before the International Court of Arbitration in Vienna, against TDC Mobile International A/S, Polkomtel S.A., KGHM Polska Miedź S.A., PKN ORLEN, PSE and Węglokoks S.A. TDC Mobile International A/S offered its shares in Polkomtel S.A. to be bought by PKN ORLEN and the other shareholders in Polkomtel S.A. (including

Vodafone Americas Inc.) in accordance with the call option regulated by Polkomtel S.A.'s articles of association. Vodafone Americas Inc. wishes the arbitral tribunal to issue a declaratory award that TDS Mobile International A/S could not have proposed the price for the above-mentioned shares without prior negotiations involving all the shareholders or an opinion of an expert auditor setting the same share purchase price for every buying shareholder.

In the event the arbitral tribunal rules in favour of Vodafone Americas Inc., the whole sale procedure would have to be repeated. PKN ORLEN should not be deprived of its right to acquire the above-mentioned portion of the shares currently owned by TDC Mobile International A/S.

It is currently PKN ORLEN's intent to dispose of its shareholding in Polkomtel pending conclusion of these arbitration proceedings. PKN ORLEN considers the stake in Polkomtel as a non-core asset and accordingly PKN ORLEN would consider a sale of Polkomtel following a satisfactory resolution of the arbitration process.

Anti-trust proceedings of PKN ORLEN

As at 30 May 2007, PKN ORLEN is a party to two anti-trust proceedings:

- On 21 March 2005, anti-trust proceedings were instituted *ex officio* following the suspicion of an anti-competitive agreement between PKN ORLEN S.A. in Płock and Grupa Lotos S.A. in Gdańsk in the domestic market sales of U95 petrol. The hearing of evidence is under way. The deadline for conclusion of the anti-trust proceedings was extended to 31 August 2006. As at 30 May 2007, the proceedings were still pending.
- On 21 March 2005, the Chairman of the Office for Competition and Consumer Protection submitted to PKN ORLEN a request to provide information regarding monoethylene glycol and motor radiator fluid for 2000-2004. Under a decision of 29 December 2006, the Chairman of the Office for Competition and Consumer Protection found the setting of the price of non-freeze motor radiator fluid manufactured by PKN ORLEN out of line with the increased price of glycol, the key component of the fluid, as anti-competitive and an abuse of PKN ORLEN's dominant position in the domestic market of glycol by preventing the development of conditions necessary for the creation or development of competition. The Chairman of the Office for the Protection of Competition and Consumers required PKN ORLEN to abandon such practices and imposed a penalty in the amount of PLN 14 million. PKN ORLEN appealed against the decision to the Regional Court in Warsaw, the Competition and Consumer Protection Court. The Court has not as yet set a date for an appeal hearing.

Anti-trust proceedings of Unipetrol

Unipetrol, together with Kaučuk a.s., appealed against the decision of the European Commission made in late 2006, imposing on Unipetrol and Kaučuk a.s. a fine of EUR 17.5 million for participation in a cartel in the styrene-butadiene synthetic rubber business. According to the European Commission, cartel agreements on prices and exchange of sensitive information between competitors were agreed at meetings of the European Synthetic Rubber Association in 1999 – 2002. Unipetrol's and Kaučuk a.s.'s appeal was brought before the European Court of First Instance in Luxembourg. In view of the fact that no suspension of the initial European Commission's decision was possible, Unipetrol and Kaučuk a.s., have each paid one half of the fine.

Goldenfrazil Limited versus members of the Supervisory Board of Unipetrol

On 26 February 2007, Goldenfrazil Limited with its registered office in Nicosia, Cyprus, submitted a request pursuant to Section 182(1)(c) of the Czech Commercial Code to the Supervisory Board of Unipetrol, asserting rights to damages in the amount of CZK 351,877,163 (EUR 12.8 million) which Goldenfrazil Limited alleges Unipetrol has against the members of Unipetrol's Board of Directors (the ''Goldenfrazil Claim''). Goldenfrazil Limited claims that Unipetrol suffered damage as a result of the failure of Unipetrol's Board of Directors to comply with their obligations to act with due managerial care, and their obligations to prevent damage in connection with the sale by Unipetrol to ANWIL of shares in Spolana pursuant to the Share Purchase Agreement dated 27 October 2006 (''Spolana Share Purchase Agreement'').

The Supervisory Board of Unipetrol has defended Goldenfrazil's claim on the basis it has no merit. Goldenfrazil Limited has nevertheless filed the suit as mentioned above.

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

In 2003-2004, PKN ORLEN concluded several conditional agreements with each of Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V., in each case providing (in limited

circumstances) for the transfer of certain assets of the Unipetrol Group companies after PKN ORLEN's successful acquisition of 62.99 per cent. of the share capital of Unipetrol.

In January 2006, PKN ORLEN received a copy of a suit for payment of a contractual penalty of EUR 77,266,500 plus interest, filed by Agrofert Holding a.s. before the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague. This suit is now pending.

In February 2006, PKN ORLEN terminated (as such term is understood under the Czech Commercial Code) the agreements concluded with Agrofert Holding a.s. to the extent not otherwise discharged. The rescission was caused by a breach of contract by Agrofert Holding a.s. because it allowed DEZA a.s. to exercise a call option for shares in Agrobohemie a.s. and Synthesia a.s. (formerly ALIACHEM a.s.).

In May 2006, PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and also the Czech Chamber of Agriculture in Prague a copy of a second suit for payment of a contractual penalty, filed by Agrofert Holding a.s. The value of the subject of the dispute, as in the case of the first proceedings that Agrofert Holding a.s. instituted, is EUR 77,266,500 plus interest. The arbitration proceedings instituted by this action are currently pending.

In July 2006, PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague a copy of a third suit for payment of a contractual penalty, filed by Agrofert Holding a.s. The value of the subject of the dispute is CZK 409,102,494 (EUR 14 million) plus interest. The arbitration proceedings instituted by this action are currently pending.

In October 2006, PKN ORLEN received from the Arbitration Court at the Czech Chamber of Commerce and the Czech Chamber of Agriculture in Prague a copy of a fourth action filed by Agrofert Holding a.s. for payment of compensation for losses resulting from acts of unfair competition and other matters. The value of the subject of the dispute is CZK 17,352,550,000 (EUR 700 million) plus interest. The arbitration proceedings instituted by this action are currently pending.

With respect to the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V., as at 30 May 2007 the parties were working towards reaching an amicable settlement of the dispute.

Risk connected with agreements with DEZA a.s.

In August and September 2005, Unipetrol received letters from Deza a.s. demanding the conclusion of an agreement for the purchase of shares in Agrobohemie a.s. and Aliachem a.s. (now Synthesia a.s.). Unipetrol and Deza a.s. each own 50 per cent. of the shares in Agrobohemie a.s. The shareholding structure in Synthesia a.s. is as follows: Agrobohemie a.s. owns 55.01 per cent., Unipetrol owns 38.79 per cent. and Deza a.s. owns 4.67 per cent. of the shares.

The letters from Deza a.s. referred to agreements for transfer of shares for consideration concluded by Unipetrol and Deza a.s. with respect to shares in Agrobohemie a.s. and Synthesia a.s., on 12 October 2000 and 15 August 2001, respectively. According to Unipetrol a.s., there were serious legal defects in the documents, which additionally were not consistent with good practice. Unipetrol offered to modify the transaction documents. Deza a.s. rejected this approach and on 26 January 2006 filed an action against Unipetrol for the payment of contractual penalties, arguing that Unipetrol had failed to discharge its obligation to sign the share transfer agreements. Based on the above-mentioned agreements, Deza a.s. calculated penalties of CZK 1.5 million (EUR 53,000) per day. On 22 August 2006, Deza a.s. filed a claim for the execution of the share transfer agreements and for damages, arguing that in both cases Unipetrol had failed to discharge its obligation to sign the share transfer agreements. In 2006, Unipetrol and Deza a.s. commenced negotiations to reach a potential out-of-court settlement with regard to both proceedings. The negotiations are ongoing. This situation could have a material adverse effect on the value of Unipetrol's shares in Agrobohemie a.s. and Synthesia a.s.

Management and Employees

Management of the PKN ORLEN Group – Management Board and Supervisory Board

Management Board of the Company

Members of the Company's Management Board, as of 1 June 2007, are as follows:

Name	*Position*	*Function*	*Date of appointment*
Piotr Kownacki	President	Chief Executive Officer	18 January 2007*
Cezary Filipowicz	Vice-President	Upstream & Crude Procurement	2 January 2006
Wojciech Heydel	Vice-President	Sales	1 November 2004
Paweł Szymański	Vice-President	Chief Financial Officer	19 April 2007**
Krystian Pater	Member	Production	15 March 2007
Krzysztof Szwedowski	Member	Organisation	31 March 2006

Note:

* Vice President of the Management Board of the Company since 23 October 2006 until 18 January 2007; President of the Management Board of the Company and Chief Executive Officer since 18 January 2007.

** Member of the Management Board of the Company and Chief Financial Officer since 18 October 2004 until 19 April 2007; Vice President of the Management Board of the Company and Chief Financial Officer since 19 April 2007.

Piotr Kownacki (52)

President of the Management Board of the Company and Chief Executive Officer since 18 January 2007 and Vice President of the Management Board of the Company since 23 October 2006 until 18 January 2007

Mr. Piotr Kownacki graduated from the Law and Administration Faculty of Warsaw University in 1978. Between 1983 and 1989, he worked in the press office of Sejm (lower chamber of the Polish Parliament) and as the adjudicating counsellor at the Office of the Constitutional Tribunal. He held the position of director of the Office of the Government Plenipotentiary for the Reform of Local Government Structures and in 1991 was appointed Undersecretary of State in the Office of the Council of Ministers. Between 1991 and 1999 and from 2001 until 2006, Mr. Piotr Kownacki was a Vice-President of the Supreme Chamber of Control. He subsequently held the position of Vice-President of Bank Ochrony Środowiska S.A. Since 7 February 2007, Mr. Piotr Kownacki has been the President and Chief Executive Officer of Mazeikiu. Mr. Piotr Kownacki has been the Chairman of the Supervisory Board of Unipetrol since 5 March 2007.

In the Company, Mr. Piotr Kownacki is responsible for supervision of the following areas: strategy of the Company, human resources, public relations, audit and the Unipetrol Group. He also directly supervises the Production Deputy Managing Director.

Cezary Stanisław Filipowicz (53)

Vice-President of the Management Board of the Company since 2 January 2006

Mr. Cezary Stanisław Filipowicz graduated from the Faculty of Geology of Warsaw University and the Faculty of Biology of Gdańsk University. He completed one academic year between 1978 and 1979 in geological studies at Basingstoke Technical College in Great Britain. Between 1980 and 1993, he held the positions of assistant, senior assistant and the tutor of clastic sedimentology at the Faculty of Geology of Warsaw University. Between 1986 and 1992, he was the visiting scholar at Kansas University in Lawrence, USA, TEMPUS Programme Coordinator at the Faculty of Geology of Warsaw University and visiting professor at Ohio State University in Columbus, USA, under the Fulbright scholarship. He has a PhD in Geology.

Mr. Cezary Stanisław Filipowicz held management positions at Przedsiębiorstwo Usług Geologicznych za Granicą "GEOPOL" (*Geological Services Company Abroad "GEOPOL"*) between 1993 and 2001 and between 2000 and 2001 at Międzynarodowe Towarzystwo Naftowe Golden Gate S.A. (*International Petroleum Association "Golden Gate" S.A.*). He was a member of the ISPA Steering Committee and the Political Office at the Ministry of the Environment. Between 2001 and 2002, he served as the General Ecologist at Bank Ochrony Środowiska S.A.

Mr. Cezary Stanisław Filipowicz is the general director of Międzynarodowe Przedsiębiorstwo Rurociągowe SARMATIA sp. z o.o. (*International Pipeline Company "SARMATIA" sp. z o.o.*) and the director of O.S.A. "Ukrtransnafta" Representative Office in Poland.

Mr. Cezary Stanislaw Filipowicz was appointed to the Management Board of Mazeikiu on 23 May 2007. In the Company, Mr. Cezary Stanislaw Filipowicz supervises the upstream, crude oil trading and mergers and acquisitions areas.

Wojciech Heydel (47)

Vice-President of the Management Board of the Company since 1 November 2004

Mr. Wojciech Heydel graduated from the Silesian Technical University in Katowice with a degree in Road Transportation. He completed the Executive Program at the University in Michigan, USA. Mr. Wojciech Heydel started his professional career in the Institute of Petroleum Processing in Krakow, Poland.

Between 1990 and 2004, Mr. Wojciech Heydel worked at BP Polska sp. z o.o. taking several positions including head of lubricants, LPG and retail sales. Between 1998-1999 and between 2003-2004, Mr. Heydel served as the President of the Management Board in BP Polska sp. z.o.o. Between 2000-2003, he was seconded to the BP plc executive office as executive assistant and fuel supply manager for Central Europe.

On 18 October 2004, he was elected by PKN ORLEN's supervisory board as Vice President responsible for retail sales and marketing, starting on 1 November 2004.

Currently, his areas of responsibilities are as follows: wholesale operations, retail sales, marketing, planning and sales analysis, logistics and alternative energy sources.

Paweł Szymański (35)

Vice President of the Management Board of the Company and Chief Financial Officer since 19 April 2007; Member of the Management Board of the Company and Chief Financial Officer since 18 October 2004 until 19 April 2007

Mr. Paweł Szymański graduated from the Warsaw School of Economics in 1996, from the Banking Faculty with a Master's degree in Finance and Banking. He obtained a Polish stockbroker licence in 1994, a Financial Services Authority licence in 1997 and a Series 7 licence in the USA in 2002. Between 1994 and 1996, he worked as a capital market analyst in Wood & Company SA in Warsaw, Poland. Between 1997 and 2000, he was a capital market analyst and the Deputy Director at Schroder Securities UK Ltd in London. Until 2003, he held the position of the Director of Europe, the Middle East and Africa Markets and Chief of the Team for Analysis of the Polish Capital Markets in Schroder Salomon Smith Barney Ltd (investment banking arm of Citigroup) in London. Between 2003 and 2004, Mr. Paweł Szymański served as the President of the Management Board of the Brokerage House of Bank Handlowy w Warszawie S.A. In 2004, he was Vice-President of the Brokerage Houses Chamber and the President of the Citiclub. On 14 December 2006, Paweł Szymański was appointed to the Management Board of Mazeikiu. Mr. Paweł Szymański has been a member of the Supervisory Board of Unipetrol since 8 June 2005.

In the Company, Mr. Paweł Szymański supervises the following areas: planning, taxes, controlling, treasury, IR, cost management and margin optimisation.

Krystian Pater (42)

Member of the Management Board of the Company since 15 March 2007

Mr. Krystian Pater graduated from the Faculty of Chemistry of the Nicolaus Copernicus University in Toruń in 1987. He completed post-graduate studies in chemical engineering at the Warsaw University of Technology in 1990 and in fuel sector management and company value management at the Warsaw School of Economics in 1996. Mr. Krystian Pater has worked at PKN ORLEN S.A. since 1993. Since January 2005, he has held the position of Executive Director of the Company responsible for Refinery Production. Since January 2005, he has represented the Company in the Management Boards of Unipetrol Rafinerie a.s. and Chemopetrol a.s. Since 14 December 2006, Mr. Krystian Pater has been a member of the Management Board of Mazeikiu. Mr. Krystian Pater has been a member of the Supervisory Board of Unipetrol since 26 April 2007.

In the Company, Mr. Krystian Pater supervises the following areas: refining, chemical, lube oil and petrochemical production, energy, R&D and assets development and maintenance.

Krzysztof Szwedowski (42)

Member of the Management Board of the Company since 31 March 2006

Mr. Krzysztof Szwedowski graduated from the Faculty of Law of Nicolaus Copernicus University in Toruń in 1990. He is a qualified Polish advocate. Between 1990 and 1993, Mr. Krzysztof Szwedowski completed

professional legal training at the Regional Public Prosecutor's Office in Bydgoszcz and served as an assessor at the District Prosecutor's Office in Bydgoszcz. Between 1993 and 2001, Mr. Krzysztof Szwedowski worked at the State Protection Office, where, since 1998, he held the position of the Deputy Chief. He was a member of the Secret Information Protection Committee of the Office of the Prime Minister from 1999 until 2001. Between 2001 and March 2006, Mr. Krzysztof Szwedowski held the position of Vice-President of the Supreme Chamber of Control and then became an adviser to the President of the Supreme Chamber of Control.

In the Company, Mr. Krzysztof Szwedowski supervises the following areas: organisation, IT, procurement, legal department, internal control and security, the PKN ORLEN Group (excluding Unipetrol), as well as regulations monitoring and management.

No potential conflicts exist between any duties to PKN ORLEN of the persons on the Management Board, as listed above, and their private interests or other duties in respect of their management roles.

Supervisory Board of the Company

Members of the Company's Supervisory Board, as of 1 June 2007, are as follows:

Name	*Function*	*Date of appointment*
Małgorzata Izabela Ślepowrońska	Chairman	31 May 2007
Robert Czapla	Member	31 May 2007
Marek Drac – Tatoń	Member	31 May 2007
Raimondo Eggink	Member	31 May 2007
Zbigniew Macioszek	Member	31 May 2007
Agata Janina Mikołajczyk	Member	31 May 2007
Krzysztof Rajczewski	Member	31 May 2007
Jerzy Woźnicki	Member	31 May 2007

Małgorzata Izabela Ślepowronska (34)

Chairman of the Supervisory Board of the Company since 31 May 2007

Ms. Małgorzata Izabela Ślepowronska graduated from Nicolas Copernicus University in Toruń (Poland). She also completed postgraduate studies in Informatics at the Warsaw University of Technology and the School for Director's Proxies for Quality (so called ISO). She has a master's degree in studies for managers at the Management Faculty of Warsaw University and an MBA (in IT) from the Leon Kozminski Academy of Entrepreneurship and Management. Since 2006, she has participated in doctoral studies at the Department of Management of Enterprise and Finance at the Warsaw School of Economics. She completed training for candidates to the supervisory boards' of companies with the State Treasury's shareholding. She has a certificate in Service Level Agreements and a certificate in marketing research issued by the Polish-American Institute of Management. She has participated in courses in IT, infrastructure management, project management and others.

Since 2006, she has been a director of the IT Department of the Chemical Group CIECH S.A. (Grupa Chemiczna CIECH S.A.). Since 2007, she has been the President of the Management Board of CHEMIA.COM. S.A. Between 1997 and 2006, she worked in ZEP Sp. z o.o. as an Administrator of the Integrated Informatics System, Manager of a company outlet, Marketing Specialist, Management Board Proxy for Quality (ISO), Office of the Marketing and Management Department's Supervisor, Supervisor of the Marketing and Management Department, Director of Business Development, Vice President of the Management Board and Development and Sales Director. She is also a member of the Supervisory Board of Polskie Linie Lotnicze LOT S.A. and IZCH Soda Mątwy S.A..

Robert Czapla (37)

Member of the Supervisory Board of the Company since 30 November 2006

Mr. Robert Czapla graduated from the Faculty of Economics of Warsaw University in 1994. He also completed post-graduate studies in Corporate Finance and Accountancy at the University of Białystok. Between 1994 and 1999, he worked as a treasury commissary at the Treasury Chamber. Between 1999 and 2003, he held the position of the Deputy Director of Przedsiębiorstwo Państwowej Komunikacji Samochodowej (*State Passenger Transport Company*) in Łomża, Poland. In 2003, Mr. Robert Czapla became a director of Zarząd Transportu Miejskiego (*City Transport Management*) in Warsaw in charge of public transport in the agglomeration of Warsaw. He supervised the construction of the Warsaw underground and acted as ordering manager in procurement procedures. Between April 2004 and February 2007, Mr.

Robert Czapla was Vice-President of the Supervisory Board of Miejskie Przedsiębiorstwo Taksówkowe sp. z o.o. (*City Taxi Corporation sp. z o.o.*). Since March 2007 he has been a member of the Supervisory Board of Polski Holding Farmaceutyczny S.A. (*Polish Pharmaceutical Holding S.A.*).

Marek Drac – Tatoń (37)

Member of the Supervisory Board of the Company since 11 September 2006

Mr. Marek Drac-Tatoń holds a PhD in economics from Szczecin University. He is a statutory auditor. Between 1998 and 2000, he held the position of the President of the Management Board of Polska Korporacja Inwestycyjna sp. z o.o. (*Polish Investment Corporation sp. z o.o.*). Between 2001 and 2003, Mr. Marek Drac-Tatoń was responsible for financial advisory and reviewing financial statements at Kancelaria Biegłych Rewidentów CDP Sp. z o.o. (*Office of Statutory Auditors CDP sp. z.o.o.*). From 2003 until April 2006, he was a director of a financial insurance office in Polskie Towarzystwo Ubezpieczeń S.A. (*Polish Insurance Company S.A.*). Since April 2006, he has held the position of the president of the Management Board of Nafta Polska. Mr. Marek Drac-Tatoń was the member of the Management Board of ZPJ Silwana S.A. He also worked for the consulting company Ernst & Young.

Raimondo Eggink (35)

Member of the Supervisory Board of the Company since 5 August 2004

Mr. Raimondo Eggink graduated in 1994 with a degree in theoretic mathematics at the Jagiellonian University in Cracow. He has been a licensed investment adviser since 1995. In 2000, he was awarded the CFA (Chartered Financial Analyst) charter by the AIMR (currently CFA Institute). He has been a member of the management board of the CFA Society of Poland since 2004.

In 1995, Mr. Raimondo Eggink worked for ING Bank N.V., Warsaw branch where he organised the FX/Polish zloty options trading desk. Between 1995 and 1996, he worked for Bank Śląski S.A./ING BSK Asset Management S.A., where he was engaged in founding Poland's first asset management company. Between 1995 and 1997, he held the position of Executive Vice President of the Polish Association of Stockbrokers and Investment Advisers. Starting in 1997, Mr. Raimondo Eggink was a member of the management board and a portfolio manager with ABN AMRO Asset Management (Polska) S.A. where he subsequently held the positions of chief investment officer, general manager and finally liquidator (in the period 2001-2007). Since 2002, he has run a consultancy and training business, primarily for financial institutions.

Mr. Raimondo Eggink has been a member of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange S.A.) since 2002, Netia S.A. since 2006 and HOOP S.A since 2004. He was also a member of the Supervisory Boards of, amongst others, Stomil Olsztyn S.A. between 2002 and 2003, Wilbo S.A. between 2003 and 2005, Mostostal Płock S.A. between 2003 and 2006, Swarzędz Meble S.A. between 2004 and 2005 and Zachodni Fundusz Inwestycyjny NFI S.A in 2006.

Zbigniew Macioszek (49)

Member of the Supervisory Board of the Company since 31 January 2006

Mr. Zbigniew Macioszek graduated from Baruch College, City University of New York, BBA in 1992 with a degree in Finance & Investment. Between 1994 and 1995, he worked as an assistant project manager for National Investments Funds in the Department of National Investment Funds of the Ministry of Privatisation where he took part in the evaluation and selection of candidates for the managing firms and participated in the creation of 15 funds. Between 1995 and 1997, he held the position of the Deputy Director for Enterprises at BRE/Investment Bank Austria Management sp. z o.o. where he was involved in all aspects of management of a portfolio companies. Between 1997 and 2000, Mr. Zbigniew Macioszek was a senior analyst at Central European Rating Agency S.A. (currently Fitch Ratings). Between 2000 and 2004, he worked as an independent financial consultant.

Mr. Zbigniew Macioszek served as a member of the supervisory boards of several Polish companies, including, without limitation, PKS Olkusz S.A. (between 2005 and 2007), Polskie Górnictwo Naftowe i Gazownictwo S.A. (between 2004 and 2005), Warszawska Fabryka Pomp S.A. (between 2003 and 2004), Zakłady Chemiczne Luboń S.A. (between 1996 and 1998), Zakłady Tworzyw Sztucznych Izo-Erg S.A. (between 1995 and 1997) and Zabrzańskie Zakłady Naprawcze Przemysłu Węglowego S.A. (between 1995 and 1997).

Agata Janina Mikołajczyk (52)

Member of the Supervisory Board of the Company since 31 May 2007

Ms. Agata Janina Mikołajczyk graduated from the Law Faculty at Warsaw University. Since 1997, she has been a legal advisor. She has completed postgraduate studies at the Warsaw School of Economics.

Between 1978 and 1992, she was a senior specialist in the Law Department of the Polish Ministry of Health. Between 1992 and 1996, she was a proxy for the director responsible for agreements and public procurement at the Capital Board of City Development in Warsaw. Between 1996 and 2003, she was an advisor of the President and then a Director of the Department of Polish Public Procurement. Between 2003 and 2006, she worked as a Deputy Director of the Department of Public Procurement (coordinator in the City of Warsaw) in the Office of the City of Warsaw. Since 2006, she has been an advisor to the President of the Management Board of Ciech S.A., and a coordinator of the Law Department of Ciech S.A.

Between 2004 and February 2007, she was a member of the Supervisory Board of the Municipal Water Supply and Sewerage Enterprise (*Miejskie Przedsiębiorstwo Wodociągów i Kanalizacji*). Since December 2006 she has been a member of the Supervisory Board of IZCH Soda Mątwy S.A.

Since January 2007, she has been a member of the Supervisory Board of Elektrociepłownie Kujawskie sp. z o.o. She has also been a member of the Supervisory Boards of CHEMIA.COM S.A. and Telewizja Polska S.A. (as a representative of the Polish State Treasury).

Since 1996, she has been an arbiter registered on the list of the President of the Polish Public Procurement Office. Since 1998, she has been a Member of the Principal Committee for judging in cases regarding infringements of public financial discipline performed by the Ministry of Finance. She is an author and co-author of publications of the Polish Public Procurement Office in the domain of public procurement, including the Arbiters Team Jurisdiction.

Krzysztof Rajczewski (47)

Member of the Supervisory Board of the Company since 30 November 2006

Mr. Krzysztof Rajczewski graduated from the Faculty of Production and Trading Economics of the Academy of Economics in Poznań and from the Faculty of Law of Adam Mickiewicz University in Poznań. He is the legal advisor. Between 1997 and 1999, he worked as a director of the Department of Controlling and Public Procurement at the Ministry of Economy and held the function of the adviser to the Minister of Economy. In 2001 and 2002, he was also a director of the Poznań branch of Bank Ochrony Środowiska S.A. and between 1999 and 2001, a director of the Office of the Management Board of Polskie Sieci Elektroenergetyczne S.A. He is a former member and vice-president of the Supervisory Boards of numerous commercial companies including, without limitation, Autostrada Wielkopolska S.A. and STOMIL Poznań S.A.

Jerzy Woźnicki (60)

Member of the Supervisory Board of the Company since 31 May 2007

Mr. Jerzy Woźnicki is a professor in Technical Science. He works in the Faculty of Electronics and Information Technology of Warsaw University of Technology. He is employed as a full professor at the Pultusk Academy of Humanities (Poland) at the Faculty of Political Science. His scope of research activity covers electronics and issues connected with the knowledge society and the knowledge-based economy. Between 1984 and 1987, he was Vice-Director in the Institute of Microelectronics and Optoelectronics and, since 1987, he has been the Head of the Image Processing Division. Between 1990 and 1996, he worked as the Dean of the Faculty of Electronics and Information Technology and Chairman of the University Senate Committee on University Organization. Between 1996 and 2002, he was the Rector of the Warsaw University of Technology. He has served in many prestigious positions, including, as a governmental expert designated by the Polish Government in UNESCO, as the President of the Conference of Rectors of Polish Universities of Technology and as President of the Conference of Rectors of Academic Schools in Poland. He was also the Deputy Chairman of the National Council of European Integration, a member of the Council Board for the Minister of Telecommunication and the Foundation Board of the Innovation Centre FIRE, a member of the Committee for Electronics and Telecommunications in the Polish Academy of Sciences. Additionally, he was a member of the Presidential Board on the Polish Committee for Optoelectronics and a member of the Committee for the Advancement of Human Knowledge in the Polish Academy of Sciences. He was a leader of the Polish Presidential Team convened to prepare a project on the law on higher education. He was a member of the Presidential Board of the Polish Section SPIE, a member of the Scientific Council for the Institute of Vacuum Technology, member and then coordinator in the Program of Reforms of Higher Education and Research in the Institute of Public Affairs.

He has obtained many honours and awards, including many awards of the Minister of National Education, a Knight Cross of the French Legion of Honor, and Commander Cross and Knight Cross of the Order of the Rebirth of Poland.

Currently, Mr. Jerzy Woźnicki is the President of the Polish Rectors Foundation and Director of the Institute of Knowledge Society, the President of the Organization and Legislation Committee of the Conferences of Rectors of Polish Universities of Technology and member of the Conference of Rectors of Academic Schools in Poland. He also chaired the Committee "Poland in a United Europe" at the Presidential Board of the Polish Academy of Sciences. Between 10 September 1999 and 20 January 2005, he was Deputy Chairman. Since 20 January 2005 he has been a Chairman of the Supervisory Board of Bank Pekao S.A.

No potential conflicts exist between any duties to PKN ORLEN of the persons on the Supervisory Board, as listed above, and their private interests or other duties in respect of their management roles.

Employment, Regulation, Environmental Matters, Taxation, Insurance and Debt Profile

Employment

As at 31 December 2006, PKN ORLEN had 4,780 employees (compared to 5,369 in 2005) and 24,113 employees in the whole PKN ORLEN Group (compared to 20,805 in 2005). The employment level in PKN ORLEN has decreased as a result of attrition and restructuring actions. Conversely, employment in the PKN ORLEN Group has increased as a result of the acquisition of Unipetrol in 2005 and Mazeikiu in 2006.

There are 10 trade unions active in PKN ORLEN. The level of trade union membership in PKN ORLEN is at 55.4 per cent. Apart from the trade unions active in PKN ORLEN, there are 20 separate trade union organisations in the PKN ORLEN Group. The level of union membership in the PKN ORLEN Group is at 47 per cent. PKN ORLEN actively co-operates with the trade unions and, in particular, there are regular information meetings with the trade unions' leaders or targeted meetings regarding, for example, restructuring issues, co-operation in common project teams related to major changes in internal labour regulations, opinion exchanges in strategic issues related to PKN ORLEN and its employees. At this moment there is no pending conflict that could evolve into a critical form of social protest.

In accordance with the European Union regulations there is an employee council created of joint union representation (three major trade unions) in PKN ORLEN. Employee councils of trade union representatives or other employees also operate in PKN ORLEN Group subsidiaries. There is a project under discussion to create a European company council.

Currently, there is no collective agreement in PKN ORLEN. A new collective agreement is being negotiated and is expected to regulate the salary and motivation system, the standard employee-employer relationship, as well as partnership between employer and trade unions. The new collective agreement is expected to constitute a framework for other collective agreements in the PKN ORLEN Group. All major employee issues are regulated in specific official social agreements with trade unions.

Regulation

The main regulatory bodies relevant to the activities of the PKN ORLEN are the Energy Regulatory Office, the Ministry of the Economy, the Office of Competition and Consumer Protection, the Ministry of the Treasury, the Ministry of the Environment, the Inspection of the Environmental Protection and the Office of Technical Inspection.

The PKN ORLEN Group is required to hold a licence for producing, storing and trading in fuels, as well as for producing and trading in electric energy and central heating. PKN ORLEN is obliged to carry out its activities on conditions determined in the licences, provide periodic information on its business activity, undergo controls on compliance of its business activity with the terms and conditions of the licences and make permanent payments on account of its licences.

Currently, the PKN ORLEN Group holds all valid concessions and permissions, enabling the PKN ORLEN Group to perform its activities. There are no identified issues that create risk of suspension, revocation or modification of existing licences or permits. According to the PKN ORLEN Group's internal rules, each company in the PKN ORLEN Group is responsible for monitoring the validity of the licences or permits necessary to operate its business.

The PKN ORLEN Group is required to comply with the regulations concerning protection of competition. In particular, PKN ORLEN has to notify the regulator of any intention to increase its own market share/ concentration in the Polish fuel market. Additionally, PKN ORLEN is obliged to submit to inspection and

obtain permits for the use of all technical devices posing risk to human life and health, property and environment.

Environmental Matters

The PKN ORLEN Group of companies, which operate IPPC installations, operate on the basis of an integrated permit issued by a competent authority. The IPPC permit proves that installations comply with the "Best Available Techniques" standards. The PKN ORLEN Group's installations meet all requirements required under Polish environmental law regulations. The only company within the PKN ORLEN Group that needs to execute an adaptation plan with respect to environment protection is ORLEN Eko, which is responsible for thermal neutralisation of hazardous waste and other waste generated by technological installations of the production plant in Płock and by other entities. ORLEN Eko operates a plant for the incineration of hazardous waste. The incineration plant does not comply with environmental standards, although ORLEN Eko holds the IPPC permit issued by the Governor of the Province of Mazovia. Additionally, ORLEN Eko is carrying out an investment project provided for in the adjustment programme involving modernisation of a waste incineration plant. This project is being carried out according to a technical and financial schedule agreed with the Governor (*Wojewoda*) of the Province of Mazovia. According to the schedule the new incinerators are expected to be constructed and launched in June 2008. Financing of the incinerators is supported with a total of EUR 5,000,000 from European Union funds.

Two of the PKN ORLEN Group companies' installations, the refinery and the power plant in Płock, have the biggest share of carbon dioxide emissions of all the companies within the PKN ORLEN Group. Both installations are included within NAP 1 and the NAP 2. There were no problems with NAP 1 (covering the period of 2005-2007). Both installations slightly exceed carbon dioxide emission limits. As far as the NAP 2 is concerned, the Polish government has not yet finalised the allocation of the carbon dioxide emission limits for installations. As a result, the potential consequences of that allocation cannot be estimated at the current time.

The PKN ORLEN Group faces material change to the regulatory environment resulting from implementation of the National Emissions Reduction Plan, which requires significant decreases in sulphur dioxide and nitrogen oxide emissions. Major changes to the regulatory environment are also expected to result from the implementation of the NAP 2 for the period 2008-2012. Additionally, REACH entered into force in June 2007. The unified approach is aimed to manage, in the structured mode, almost one hundred thousand new and existing chemicals. All chemical companies in the European Union must adapt to this legislation. Substantial amounts of additional paper work are expected to be required in the next three years from chemical companies in order to register the chemical substances they produce, import or use. In order to prepare the PKN ORLEN Group for the REACH requirements, an internal task force group has given particular tasks to particular people. Currently, the stocktaking of relevant substances is underway. In light of the preliminary cost estimates, it is expected that the implementation costs of the REACH requirements by the PKN ORLEN Group will amount roughly to U.S.$1-3 million. Thus far, no critical problems in implementing the REACH requirements have been identified.

PKN ORLEN is obliged to fulfil requirements regarding the protection of the natural environment. In particular, PKN ORLEN is required to obtain permissions for utilisation, prepare reports on the influence of PKN ORLEN's activity on the environment and monitor PKN ORLEN's impact on the environment.

PKN ORLEN has a pro-ecological policy and is gradually increasing the contents of biocomponents in the fuels which it produces and simultaneously continues to adhere to the highest international quality standards for fuels introduced into the market. The Polish Act on Biofuels obliges fuel producers to introduce an increasing number of biocomponents year on year in accordance with the relevant Polish national target ratio (the "National Target Ratio"). The obligation to introduce greater numbers of biocomponents has an impact on the components of the production and logistics chain due to the fact that additional capital expenditures are required for building biocomponents dispensing facilities at pipelines extremities and at warehousing bases.

Pursuant to the Act on Biofuels, from January 2008 fines of up to PLN 862 million (EUR 225 million) may be imposed on fuel producers for non-compliance with the National Target Ratio. Fluctuations of prices of biocomponents in situations of natural disasters, such as drought, constitute another threat.

Effective implementation of the Act on Biofuels is only possible if tax regulations are amended at the same time, in particular, the Act on Excise Tax dated 23 January 2004. However, on 1 January 2007 the Minister of Finance issued a decree dated 22 December 2006 amending the decree on the exemption from excise tax

which resulted in a fall in profitability of esters' production and a decrease in profitability of the Polish biofuel market in general.

The limitations put on the level of tax exemption caused stagnation of the biofuel market (i.e. methyl esters), which could result in the failure to meet the National Target Ratio relating to the use of biocomponents in future years. This situation may result in substantial fines being imposed as of 2008 and potential increases in prices of liquid fuels.

PKN ORLEN is obliged to modernise the tanks located at PKN ORLEN's petrol stations in Poland by the end of 2007. Due to European Union environmental protection requirements, all such tanks need to be double-skinned.

Taxation

PKN ORLEN Group companies, conducting their business activity in Poland, are subject to value added tax, excise tax and corporate income tax. The most significant tax charge in the core business companies of the PKN ORLEN Group is excise tax. Taxable goods are energy products (especially fuel or other goods made from crude oil). Excise duty on petrol is expressed as a defined amount, depending on the kind of product. Excise tax is a significant economic cost for the PKN ORLEN Group. Excise tax rates are described as one of the following: percentage of tax base, amount per unit of excise tax goods, percentage of maximum retail price or amount per unit of excise tax goods and percentage of maximum retail price. In practice, tax rates described in decrees issued by the Minister of Finance are applied, whereas maximum tax rates were defined in the Act on Excise Tax dated 23 January 2004.

There are no significant tax benefits or exemptions available to the PKN ORLEN Group. PKN ORLEN benefited from investment allowance concerning corporate income tax a few years ago.

Companies in the PKN ORLEN Group do not create tax capital groups. Trade relationships between related entities are on an arm's length basis.

Every company within the PKN ORLEN Group develops its own tax policy in order to minimise tax payments using external tax advisors.

Insurance

The PKN ORLEN Group's assets are insured. The insurance cover for principal assets is arranged by PKN ORLEN and its subsidiary ORLEN Insurance Ltd. Under a common insurance programme of PKN ORLEN, BOP, Chemopetrol a.s., Kaučuk a.s., Unipetrol and Mazeikiu, PKN ORLEN Group holds an all risks insurance policy, business interruption insurance policy, machinery breakdown and loss of profit following machinery breakdown in the plant in Płock insurance policy. PKN ORLEN holds an all risks insurance policy with third party liability insurance for regional structures in Poland. Additionally, PKN ORLEN, Unipetrol and Mazeikiu hold an excess third party liability insurance policy and a directors and officers' liability insurance policy. The PKN ORLEN Group is insured against terrorism risk and holds the following insurance policies: electronic equipment insurance, all risks insurance for pipeline from Płock to Ostrów Wielkopolski and car fleet insurance.

Debt Profile

Multi-currency debts financing agreement

On 22 December 2005, PKN ORLEN as a debtor and ABN Amro Bank N.V., BNP Paribas, Bank BPH S.A., Bank Polska Kasa Opieki S.A., The Bank of Tokyo-Mitsubishi Ltd., CALYON S.A., Citibank International Plc., ING Bank Śląski S.A., Kredyt Bank S.A., PKO Bank Polski S.A., Société Générale S.A. Oddział w Polsce as creditors entered into a Multi-currency Debt Financing Agreement structured as a club-deal type, in the amount of EUR 1,000,000,000. Debt financing was made available for five years from the execution of the agreement with a possible additional one year extension. PKN ORLEN's obligations under the agreement are not secured by the pledge over its assets. Funds made available under the Multi-currency Debt Financing Agreement will be used for the repayment of current indebtedness of PKN ORLEN and for financing of its activity.

Bond issue programme

On 27 November 2006, PKN ORLEN as an issuer and Bank BPH S.A. as issue agent, payment agent, documentation agent, programme co-organiser and dealer, and Bank Polska Kasa Opieki S.A., BRE Bank S.A., ING Bank Śląski S.A., PKO Bank Polski S.A., Société Générale S.A. Oddział w Polsce, as agents, programme co-organisers and dealers entered into an Agreement for a Bond Issue Programme

("Programme"). Pursuant to the Programme, PKN ORLEN may repeatedly issue dematerialised bearer bonds under the Polish Law on Bonds of 29 June 1995. PKN ORLEN may issue zero-coupon bonds that do not pay interest, but are issued at a discount, with a payment at maturity of a period not shorter than seven days and not longer than three hundred and sixty-five days. PKN ORLEN may also issue coupon bonds that pay interest at fixed or variable interest rates and with a payment maturity period longer than one year, but not longer than seven years. PKN ORLEN's debt limit connected with the Programme amounts to PLN 2,000,000,000 (EUR 522 million) or the equivalent of this amount in other currencies.

According to the financial statements of PKN ORLEN for the 3rd quarter of 2006, the total value of liabilities of PKN ORLEN amounted to PLN 7,049 million (EUR 1.84 billion); with long-term liabilities amounting to PLN 2,282 million (EUR 596 million) and short-term liabilities amounting to PLN 4,767 million (EUR 1.24 billion). The total credit liabilities of PKN ORLEN amounted to PLN 1,502 million (EUR 392 million), with long-term credit liabilities accounting for PLN 1,405 million (EUR 367 million) and short-term credit liabilities accounting for PLN 97 million (EUR 25 million).

Financing of acquisition of Mazeikiu

On 29 November 2006, PKN ORLEN as a borrower and a syndicate of ABN AMRO Bank N.V., Bank Handlowy w Warszawie S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, ING Bank N.V./ING Bank Śląski S.A., KBC BANK NV/Kredyt Bank S.A., Société Générale S.A. Oddział w Polsce and UniCredit Group entered into a five-year revolving credit facility for up to EUR 800 million (the "Revolving Facility"). The term of the Revolving Facility may be extended for one more year.

On 29 November 2006, PKN ORLEN as a borrower and a syndicate of ABN AMRO Bank N.V., Bank Handlowy w Warszawie S.A., BNP Paribas, ING Bank N.V./ING Bank Śląski S.A., Société Générale S.A. Oddział w Polsce and UniCredit Group entered into a 12-month EUR 800 million bridge credit facility ("Bridge Facility").

The Revolving Facility and Bridge Facility, along with its own funds, provided PKN ORLEN with the financial sources necessary for the acquisition of Mazeikiu. These sources of funding also provided financing for the purchase of shares owned by minority shareholders of Mazeikiu and can support the potential acquisition by PKN ORLEN of 70,750,000 shares of Mazeikiu held by the Lithuanian Government (approximately 10 per cent. of the share capital of Mazeikiu in the future).

Condensed consolidated financial statements for the period of 3 months ending 31 March 2007 prepared in accordance with IFRS – Interest-bearing loans and borrowings

	31 March 2007	*31 December 2006*
	(unaudited)	
	(in PLN thousand)	
Bank loans	9,880,151	9,893,499
Borrowings	2,714	2,885
Debt securities*	1,352,226	592,721
Total	11,235,091	10,489,105
including:		
short-term	4,258,000	4,277,912
long-term	6,977,091	6,211,193

Note:

* including as at 31 March 2007 liability of PLN 752,894,000 (EUR 197 million) concerning PKN ORLEN's bond issue. The Bond issue programme was described in the regulatory announcement no. 75/2006 dated 27 November 2006.

The value of interest-bearing loans and borrowings drawn by the PKN ORLEN Group increased during the three months ending 31 March 2007 by PLN 745,986,000 (EUR 197 million) net. The change in indebtedness level is described in detail on page F-260.

Taxation

The following is a general description of certain Polish and Swedish tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds whether in those countries or elsewhere. Prospective purchasers of Bonds should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Poland and Sweden of acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Investors should also note that the appointment by an investor in Bonds, or any person through which an investor holds Bonds, of a custodian, collection agent or similar person in relation to such Bonds in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Poland

The following summary is based upon the tax laws of Poland as in effect on the date of this Prospectus with respect to payments under the Guarantee to a foreign legal entity, which does not conduct business in Poland through a permanent establishment, and is subject to any change that may come into effect after such date.

Generally, Polish withholding tax of 20 per cent. may apply to payments made by the Guarantor under the Guarantee to non-residents of Poland, if these payments are classified by the tax authorities as interest discount or ‘‘similar payments as resulting from guarantee or suretyship’’ referred to in Polish tax regulations. Withholding tax may, however, be reduced by an appropriate double taxation treaty to which Poland is a party and the ‘‘interest’’ article of which provides for full or partial exemption from withholding tax on interest payments. As of January 2001, the benefit of a preferential rate of withholding tax provided for pursuant to double taxation treaties is obtainable only after delivery to the Guarantor by the recipient of payments under the Guarantee of a certificate relating to its residence for tax purposes. Such certificate should be issued by the competent tax authority of the country in which such recipient is a tax resident. Treaties providing for full exemption from withholding tax on interest payments are currently in effect between Poland and Finland, France, Norway, Spain, Sweden and the U.S. Most double taxation treaties exempt “similar payments as resulting from guarantee or suretyship” from withholding tax. Therefore, it is advisable that any such payment be preceded by a thorough analysis of the respective double taxation treaty with the country in which the recipient of guarantee payments has its residence.

Sweden

Under existing Swedish tax laws all payments in respect of the Bonds will be made without deduction for, or on account of, withholding taxes. Under Swedish tax rules, there will be no Swedish tax implications for Bondholders that have no relationship with the Kingdom of Sweden other than the holding of the Bonds.

With few exceptions, Swedish resident investors will be taxable on interest and gains, if any, while losses, if any, will be tax deductible. Preliminary income tax is withheld on payments of interest to Swedish resident individuals and estates after Swedish resident individuals.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other counties). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required, save as provided in Condition 7 of the Bonds, to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Subscription and Sale

ABN AMRO Bank N.V, BNP PARIBAS, Citigroup Global Markets Limited and Société Générale (the ''Joint Bookrunners'') and Bank Austria Creditanstalt AG and ING Bank N.V. (the ''Joint Lead Managers'' and together with the Joint Bookrunners, the ''Managers'') have, pursuant to a Subscription Agreement dated ● 2007, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Bonds at ● per cent. of their principal amount less a selling concession of ● per cent. of such principal amount plus accrued interest, if any. The Issuer has agreed to pay to the Managers a combined management and underwriting commission of ● per cent. of such principal amount. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The yield of the Bonds is ● on an annual basis. The yield is calculated as at ● 2007 on the basis of the issue price. It is not an indication of future yield.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented, warranted and agreed that:

1. it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the ''FSMA'') received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor and
2. it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Poland

Unless the prospectus for the Bonds has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland or the admission of securities to trading on an EU regulated market in Poland, or the relevant competent authority in an EU member state and Poland has received a certificate of such approval with a copy of the prospectus and translation of its summary as required under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Journal of Laws of 2005, No. 184 item 1539) (the ''Act on Public Offering'') the Bonds may not be publicly offered in Poland or admitted to trading on an EU regulated market in Poland. Pursuant to the Act on Public Offering ''public offering'' means communication in any form and any means, made within the Republic of Poland and addressed to at least 100 persons, or to an unspecified addressee, which contains sufficient information on the securities to be

offered and terms and conditions of the acquisition, so as to enable an investor to decide to purchase these securities.

Each of the Managers has represented, warranted and agreed that it will not admit any Bonds to trading on the regulated market in Poland nor offer any Bonds in Poland as part of its initial distribution in the event that any such offer would constitute a ‘‘public offering’’ in Poland as defined above.

General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses, distributes or publishes this Prospectus or any other offering material relating to the Bonds. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or possess, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

General Information

1. Application has been made to the Luxembourg Stock Exchange for the Bonds to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.

2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds and the guarantee relating to the Bonds. The issue of the Bonds was authorised by a resolution of the Board of Directors of the Issuer passed on 25 June 2007 and the giving of the guarantee relating to the Bonds by the Guarantor was authorised by a resolution of the Board of Directors of the Guarantor passed on 21 May 2007.

3. There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since its date of incorporation. The Issuer has been dormant since its date of incorporation. There has been no significant change in the financial or trading position of the Guarantor or of the PKN ORLEN Group since 31 March 2007 and no material adverse change in the financial position or prospects of the Guarantor or of the PKN ORLEN Group since 31 December 2006.

4. Except as disclosed in the Risk Factors Section of this Prospectus, and under ''Litigation'' on pages 63 to 67 inclusive, neither the Issuer nor the Guarantor is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the PKN ORLEN Group.

5. Each Bearer Bond and Coupon will bear the following legend: ''Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code''.

6. The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of ●. The International Securities Identification Number (ISIN) for the Bonds is ●.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

7. There are no material contracts entered into in the ordinary course of the Issuer's or Guarantor's business, which could result in any member of the PKN ORLEN Group being under an obligation or entitlement that is material to the Issuer's or Guarantor's ability to meet its obligations to Bondholders in respect of the Bonds.

8. Where information in this Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Guarantor is aware and is able to ascertain from the information published by such third parties no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

9. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of the Issuer and the Guarantor:

   (a) the Trust Deed (which includes the form of the Global Bonds, the Definitive Bonds and the Coupons);

   (b) the Memorandum and Articles of Association of the Issuer and the Guarantor;

   (c) the published annual report and audited consolidated accounts of the Guarantor for the two financial years ended 31 December 2006;

   (d) the annual report and accounts of the Issuer for the period 14 December 2005 to 30 June 2006;

   (e) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus;

   (f) a copy of the Subscription Agreement; and

(g) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

The Prospectus will be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

10. KPMG Audyt Sp. z.o.o., whose registered office is at ul. Chlodna 51, 00-867 Warsaw Independent Public Accountants, entered in the register of entities authorised to audit financial statements in Poland under number 458, have audited and issued unqualified audit opinions on the consolidated financial statements of the Guarantor for the two years ended 31 December 2006 and 31 December 2005. Björn Aspling, Box 285, 791 26 Falun, Sweden (authorised auditor), working with Ernst & Young, Box 285, 791 26 Falun, Sweden, have audited and issued an unqualified audit report on the accounts of the Issuer for the period 14 December 2005 to 30 June 2006.

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Financial Statements of the Guarantor

Audited Consolidated Financial Statements of the Guarantor as at and for the year ended 31 December 2006

Opinion of the Independent Auditor ..... F – 2
Report of the Independent Auditor ..... F – 6
Selected Financial Data ..... F – 30
Consolidated Balance Sheet ..... F – 31
Consolidated Income Statement ..... F – 32
Consolidated Statement of Cash Flows ..... F – 33
Statement of Changes in Consolidated Equity ..... F – 34
Notes to Consolidated Financial Statements ..... F – 36

Audited Consolidated Financial Statements of the Guarantor as at and for the year ended 31 December 2005

Opinion of the Independent Auditor ..... F – 113
Report of the Independent Auditor ..... F – 116
Selected Financial Data ..... F – 140
Consolidated Balance Sheet ..... F – 141
Consolidated Profit and Loss ..... F – 142
Consolidated Statement of Cash Flows ..... F – 143
Statement of Changes in Consolidated Equity ..... F – 144
Notes to Consolidated Financial Statements ..... F – 145

Unaudited Consolidated and Unconsolidated Financial Statements of the Guarantor as at and for the three month period ended 31 March 2007

Independent Auditors' Review Report on the Interim Condensed Consolidated Financial Statements of the Guarantor for the period from 1 January 2007 to 31 March 2007 ..... F – 226
Selected Financial Data ..... F – 227
Consolidated Balance Sheet ..... F – 228
Consolidated Income Statement ..... F – 228
Consolidated Statement of Cash Flows ..... F – 230
Statement of Changes in Consolidated Equity ..... F – 231
Unconsolidated Condensed Balance Sheet ..... F – 233
Unconsolidated Condensed Income Statement ..... F – 234
Unconsolidated Condensed Statement of Cash Flows ..... F – 235
Statement of Changes in Unconsolidated Equity ..... F – 236
Notes to Condensed Consolidated Financial Statements ..... F – 238

KPMG

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

KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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.

KPMG Audyt Sp. z o.o., a Polish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

KPMG Audyt Sp. z o.o. jest polską spółką z ograniczoną odpowiedzialnością i członkiem sieci KPMG składającej się z niezależnych spółek członkowskich stowarzyszonych z KPMG International, podmiotem prawa szwajcarskiego.

Spółka zarejestrowana w Sądzie Rejonowym dla m.st. Warszawy w Warszawie, XII Wydział Gospodarczy Krajowego Rejestru Sądowego.

KRS 0000104753
Kapitał zakładowy 125 000 PLN
NIP 526-10-24-841
REGON 010609471

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

Contents

1	General	3
1.1	Identification of the Group	3
1.2	Information about companies comprising the Group	3
1.3	Auditor information	8
1.4	Legal status	8
1.5	Prior period consolidated financial statements	12
1.6	Audit scope and responsibilities	12
1.7	Information on audits of the financial statements of the consolidated companies	13
2	Financial analysis of the Group	18
2.1	Summary of the consolidated financial statements	18
2.2	Selected financial ratios	20
2.3	Interpretation of selected financial ratios	20
3	Detailed report	21
3.1	Accounting principles	21
3.2	Basis of preparation of the consolidated financial statements	21
3.3	Method of consolidation	21
3.4	Goodwill arising on consolidation	21
3.5	Consolidation of equity and calculation of minority interest	22
3.6	Consolidation eliminations	22
3.7	Notes to the consolidated financial statements	22
3.8	Report of the Management Board of the Parent Company on the Group's activities	22
3.9	Information on the opinion of the independent auditor	23

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 Asfalt 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)
- Česka 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 Tirdcniecibas 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.
- Olren 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-Ukraina 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 Spolka 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 Spolka 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) PLN '000	Percentage of share capital (%)
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
- Potr 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 Chalupec from the position of the President of the PKN ORLEN S.A. Management Board, effective from 18 January 2007. Mr Igor Chalupec 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 Asfalt 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 Woivodship 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 Wirtschaftprüfungs-gesellschaft	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

Entity's name	Authorised auditor	Type of auditor's opinion
		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 Wirtschaftprüfungsgesellschaft 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
Non-current assets				
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%
Total non-current assets	27,660,798	60.9%	20,885,532	62.5%
Current assets				
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%
Total current assets	17,758,286	39.1%	12,518,779	37.5%
TOTAL ASSETS	45,419,084	100.0%	33,404,311	100.0%

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
Equity				
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%
Total equity	21,582,563	47.4%	19,312,989	57.8%
Liabilities				
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%
Total long-term liabilities	8,958,143	19.7%	5,553,853	16.6%
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%
Total short-term liabilities	14,878,378	32.8%	8,537,469	25.6%
Total libilities	23,836,521	52.6%	14,091,322	42.2%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	45,419,084	100.0%	33,404,311	100.0%

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
Net sales revenues				
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	
Total sales revenues	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%
Gross profit on sales	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%
Profit from operations	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%
Net financial revenues and expenses	(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%
Profit before tax	2,729,347	5.2%	5,339,221	13.0%
Income tax expense	(669,149)	-1.2%	(701,445)	-1.7%
Net profit for the period	2,060,198	3.9%	4,637,776	11.3%

2.2 Selected financial ratios

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

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.

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."

.....
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
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	2006	2005	2006	2005
Data in respect of consolidated financial statement				
I. Total sales revenues	52 867 189	41 188 267	13 558 818	10 563 532
II. Profit from operations	2 576 607	4 947 620	660 821	1 268 913
III. Profit before tax	2 729 347	5 339 221	699 994	1 369 347
IV. Net profit attributable to equity holders of the parent	1 985 966	4 578 456	509 340	1 174 234
V. Net cash provided by operating activities	3 693 189	3 663 889	947 190	939 676
VI. Net cash used in investing activities	(6 746 198)	(2 503 176)	(1 730 194)	(641 988)
VII. Net cash provided by / (used in) financing activities	4 277 568	(764 433)	1 097 066	(196 054)
VIII. Net change in cash and cash equivalents	1 224 559	396 280	314 062	101 634
	as of 31 December 2006	**as of 31 December 2005**	**as of 31 December 2006**	**as of 31 December 2005**
IX. Non-current assets	27 660 798	20 885 532	7 219 878	5 451 433
X. Current assets	17 758 286	12 518 779	4 635 176	3 267 587
XI. Total Assets	45 419 084	33 404 311	11 855 054	8 719 020
XII. Long-term liabilities	8 958 143	5 553 853	2 338 208	1 449 638
XIII. Short-term liabilities	14 878 378	8 537 469	3 883 477	2 228 406
XIV. Equity	21 582 563	19 312 989	5 633 369	5 040 976
XV. Share capital *	1 057 635	1 057 635	276 058	276 058
XVI. Equity attributable to equity holders of the parent	18 850 940	16 671 837	4 920 375	4 351 597
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	50,46	45,15	13,17	11,79

* Share capital after revaluation in accordance with IAS 29.

The above data for 2006 and 2005 were translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 31 December 2006 - 3,8312 PLN/EUR

- specific items in profit and loss and 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 2006) – 3,8991 PLN/EUR.

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED BALANCE SHEET
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Note	31 December 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	25 199 681	18 510 754
Intangible assets	8	619 783	513 167
Goodwill	7	143 704	115 447
Long-term financial investments	9	570 932	550 984
Investments in associates	10	716 303	1 025 077
Loans (granted)		5 272	7 145
Deferred tax assets	31	165 928	62 131
Investment property	6	34 925	11 557
Perpetual usufruct of land		87 722	76 172
Other non-current assets	11	116 548	13 098
Total non-current assets		**27 660 798**	**20 885 532**
Current assets			
Inventory	12	7 398 856	6 113 237
Trade and other receivables	13	6 293 672	4 777 638
Income tax receivable		253 041	49 567
Short-term investments	14	7 424	104 938
Short-term prepayments	15	121 358	145 853
Cash and cash equivalents	16	2 351 320	1 126 803
Other financial assets	17	302 007	111 899
Non-current assets clasiffied as held for sale	18	1 030 608	88 844
Total current assets		**17 758 286**	**12 518 779**
Total assets *		**45 419 084**	**33 404 311**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity			
Nominal share capital	23	534 636	534 636
Share capital revaluation adjustment	23	522 999	522 999
Share capital	23	**1 057 635**	**1 057 635**
Nominal share premium		1 058 450	1 058 450
Share premium revaluation adjustment	23	168 803	168 803
Share premium		**1 227 253**	**1 227 253**
Hedging reserve		**8 506**	**57 334**
Foreign exchange differences on subsidiaries from consolidation		**22 003**	**(156 014)**
Retained earnings:		**16 535 543**	**14 485 629**
incl. net profit atributable to equity holders of the parent **		**1 985 966**	**4 578 456**
accumulated profit from previous years		-	1 741 958
Total equity (attributed to equity holders of the parent)		**18 850 940**	**16 671 837**
Minority interest	24	2 731 623	2 641 152
Total equity		**21 582 563**	**19 312 989**
Long-term liabilities			
Interest-bearing loans and borrowings	19	6 211 193	3 405 978
Provisions	20	814 192	956 991
Deferred tax liabilities	31	1 765 761	1 020 159
Other long-term liabilities	21	166 997	170 725
Total long-term liabilities		**8 958 143**	**5 553 853**
Short-term liabilities			
Trade and other liabilities and accrued expenses	22	8 221 395	6 684 050
Provisions	20	734 027	683 273
Income tax liability		106 261	35 711
Interest-bearing loans and borrowings	19	4 277 912	1 110 819
Deferred income		27 060	19 265
Other short-term financial liabilities		1 315 767	4 351
Liabilities related to non-current assets held for sale		195 956	-
Total short-term liabilities		**14 878 378**	**8 537 469**
Total liabilities and shareholders' equity *		**45 419 084**	**33 404 311**

* increase of assets and liabilities due to a to acquisition of Mazeikiu Group
** including in 2005 the excess of fair value over the acquisition cost of shares of Unipetrol a.s. in the amount of PLN 1,893,688 thousand

The accompanying notes are an integral part of these unconsolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED INCOME STATEMENT
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Note	for the year ended 31 December 2006	for the year ended 31 December 2005
Operating activities			
Net sale revenues			
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
Total sales revenues		**52 867 189**	**41 188 267**
Cost of finished goods sold		(32 160 515)	(22 510 985)
Cost of merchandise and raw materials sold		(13 711 215)	(11 567 863)
Cost of finished goods, merchandise and raw materials sold	28	(45 871 730)	(34 078 848)
Gross profit on sales		**6 995 459**	**7 109 419**
Distribution expenses		(2 641 239)	(2 391 290)
General and administrative expenses		(1 170 927)	(1 039 333)
Other operating revenues	29	612 956	2 330 291
Other operating expenses	29	(1 221 477)	(1 090 863)
Profit on the sale of all or part of shares of related parties		1 835	29 396
Profit from operations		**2 576 607**	**4 947 620**
Financial revenues	30	602 877	669 028
Financial expenses	30	(670 838)	(480 195)
Net financial revenues and expenses		**(67 961)**	**188 833**
Share in profit from investments accounted for under equity method		220 701	202 768
Profit before tax		**2 729 347**	**5 339 221**
Income tax expense	31	(669 149)	(701 445)
Net profit		**2 060 198**	**4 637 776**
incl.			
Minority interest		74 232	59 320
Net profit attributable to equity holders of the parent		**1 985 966**	**4 578 456**

The accompanying notes are an integral part of these unconsolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Note	for the year ended 31 December 2006	for the year ended 31 December 2005
Cash flows - operating activities			
Net profit		**2 060 198**	**4 637 776**
Adjustments for:			
Share in profit from investments accounted for under equity method		(220 701)	(202 768)
Depreciation		2 108 127	1 779 944
Interest and dividend, net		190 981	103 365
Income tax expense		669 149	701 445
Profit on investing activities		(125 696)	(126 145)
(Increase) in receivables	25	(837 741)	(357 935)
(Increase) in inventories	25	(312 738)	(1 805 325)
Increase in liabilities and accruals	25	657 719	1 335 831
Increase in provisions	25	(38 003)	586 996
Other*		323 863	(2 196 107)
Income tax paid		(781 969)	(793 188)
Net cash provided by operating activities		**3 693 189**	**3 663 889**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 924 642)	(2 026 495)
Proceeds from the sale of property, plant and equipment and intangible assets		269 546	144 906
Proceeds from the sale of shares		145 147	83 001
Acquisition of shares **		(5 836 507)	(1 607 203)
Acquisition of short-term securities		(338 922)	(159 250)
Proceeds from the sale of short-term securities		436 882	1 172 897
Interest and dividends received		538 215	145 806
Loans repaid/(granted)		4 172	(5 648)
Acquisition of liabilities of the Unipetrol Group		-	(241 174)
Other		(40 089)	(10 016)
Net cash used in investing activities		**(6 746 198)**	**(2 503 176)**
Cash flow - financing activities			
Proceeds from long and short-term borrowings and loans		9 604 293	2 628 670
Repayment of long and short-term borrowings and loans		(5 098 967)	(2 270 894)
Interest paid		(204 369)	(168 222)
Dividends paid		-	(911 020)
Other		(23 389)	(42 967)
Net cash provided by / (used in) financing activities		**4 277 568**	**(764 433)**
Net change in cash and cash equivalents		**1 224 559**	**396 280**
Effect of exchange rate changes		(42)	1 025
Cash and cash equivalents, beginning of the period		**1 126 803**	**729 498**
Cash and cash equivalents, end of the period	16	**2 351 320**	**1 126 803**
incl. cash and cash equivalents not available for use		69 440	100 535

* including in 2005 the excess of fair value over the acquisition cost of shares of Unipetrol a.s. in the amount of PLN (1,893,688) thousand
** including in 2006 the amount of PLN (5,729,186) thousand related to acquisition of Mazeikiu decreased by the amount of cash and cash equivalents taken over and in 2005 the amount of PLN (1,582,169) thousand related to acquisition of Unipetrol Group decreased by the amount of cash and cash equivalents taken over.

POLSKI KONCERN NAFTOWY ORLEN S.A.
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2006	**534 636**	**522 999**	**1 058 450**	**168 803**	**57 334**	**(156 014)**	**14 485 629**	**2 641 152**	**19 312 989**
Foreign exchange differences on consolidation	-	-	-	-	-	178 017	-	103 860	281 877
Net profit	-	-	-	-	-	-	1 985 966	74 232	2 060 198
Increase in cash flow hedge accounting	-	-	-	-	28 945	-	-	-	28 945
Deferred tax on increase in cash flow hedge accounting	-	-	-	-	(5 498)	-	-	-	(5 498)
Decrease in cash flow hedge accounting	-	-	-	-	(89 151)	-	-	-	(89 151)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	16 876	-	-	-	16 876
Change in minority interest	-	-	-	-	-	-	63 267	(85 736)	(22 469)
Other	-	-	-	-	-	-	681	(1 885)	(1 204)
31 December 2006	**534 636**	**522 999**	**1 058 450**	**168 803**	**8 506**	**22 003**	**16 535 543**	**2 731 623**	**21 582 563**

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2005	**534 636**	**522 999**	**1 058 450**	**168 803**	**87 648**	**(9 444)**	**10 810 516**	**457 706**	**13 631 314**
Dividend	-	-	-	-	-	-	(911 020)	-	(911 020)
Foreign exchange differences on consolidation	-	-	-	-	-	(146 570)	-	-	(146 570)
Net profit	-	-	-	-	-	-	4 578 456	59 320	4 637 776
Decrease in cash flow hedge accounting	-	-	-	-	(37 546)	-	-	-	(37 546)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	7 232	-	-	-	7 232
Change in minority interest	-	-	-	-	-	-	-	2 124 126	2 124 126
Other	-	-	-	-	-	-	7 677	-	7 677
31 December 2005	**534 636**	**522 999**	**1 058 450**	**168 803**	**57 334**	**(156 014)**	**14 485 629**	**2 641 152**	**19 312 989**

The accompanying notes are an integral part of these unconsolidated financial statements

The statement of profits and losses recognized directly in equity regarding 2006 and 2005

	2006	2005
Increase/(Decrease) in valuation of financial instruments, net	23 447	(30 314)
Foreign exchange differences on subsidiaries from consolidation	178 017	(146 570)
Other	(1 204)	7 677
Profit/(loss) attributable to equity holders of the Parent recognized directly in equity	200 260	(169 207)
Net profit for the period	2 060 198	4 637 776
Profit recognized in current period and in equity, total	**2 260 458**	**4 468 569**

1. Principle activity of the group

The Parent Company of the Polski Koncern Naftowy ORLEN Capital Group ("Group", "Capital Group") is Polski Koncern Naftowy ORLEN S.A. ("Company", "PKN ORLEN", "Parent"), seated in Płock , 7 Chemikow Street.

The Company was formed 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 Parent was registered as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" S.A. in the District Court in Plock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spolka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spolka 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 Spolka Akcyjna.

According to the Articles of Association dated 22 November 2006, the Parent Company's activity includes:

- 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 a commission and as a consignee, including in particular: the trade of 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,
- 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,
- operation of petrol stations, bars, restaurants and hotels,
- capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade,
- providing services in respect of the clearance of electronic fuel cards,
- crude oil exploration,
- natural gas exploration.

The Capital Group consists among others of:

- The Capital Group of UNIPETROL, operating in chemical sector in Czech Republic, concentrating on activities related to crude oil processing, fuels distribution, fertilizers production and petrochemical production,
- The Capital Group of AB Mazeikiu Nafta ("Mazeikiu Group") operating in refinery sector in Lithuanian Republic, concentrating on activities related to crude oil processing, fuels distribution,
- The Capital Group of Rafineria Trzebinia S.A., producing mainly fuels, lubricants, industrial oils and paraffin,
- The Capital Group of Rafineria Nafty Jedlicze S.A., producing motor fuels, oils and re-processing of used oils,
- The Capital Group of Anwil S.A., the major client for ethylene from Parent Company, producing mainly nitric fertilizers and PVC,
- ORLEN Asfalt Sp. z o.o., producing and processing of crude oil refining products,
- A German company, ORLEN Deutshland AG, concentrated on liquid fuels trading,
- Inowroclawskie Kopalnie Soli "Solino" S.A., mining and processing of salt as well as storing crude oil and fuels,
- The Capital Group of SHIP-SERVICE S.A., ship servicing in sea harbors, loading and storing of goods,
- ORLEN Upstream Sp. z o.o., concentrated on obtaining the access to the crude oil resources
- The Capital Group of ORLEN Holding Malta providing with insurance services in range insurance of property of the PKN ORLEN Group.
- Companies engaged in trading and distribution of refinery products.

The Parent Company jointly controls:

- The Capital Group of Basell ORLEN Polyolefins Sp. z o.o. ("BOP"), producer and seller of polyolefins.
- Plocki Park Przemysłowo-Technologiczny, dealing with consulting, management and control in range of economic activity, holding management and management as well as the purchase and sale of real estate on one's own account.

Until the second public offering, completed in July 2000, the Group was primarily controlled, directly or indirectly, by the Polish State Treasury with minority shareholding of employees and others. The State Treasury supervised the Group through its control of the Group's majority shareholder, Nafta Polska S.A. As at 31 December 2006 Nafta Polska S.A. owned directly or indirectly 17.32% of the Company's shares, the Polish State Treasury 10.20%, Bank of New York (as a depositary) held 5.59% shares and other shareholders owned 66.89% of the Company's shares. On 22 January 2007 the Bank of New York decreased its share in the share capital and number of voting rights on the general meeting of PKN ORLEN to the level of 4.95%.

The composition of the Management Board

The composition of the Management Board of the Company as at 31 December 2006 was as follows:

Igor Chalupec - President of the Management Board, General Director
Cezary Filipowicz – Vice-President of the Management Board of Crude Extraction and Trade
Wojciech Heydel - Vice-President of the Management Board of Sales
Piotr Kownacki – Vice-President of the Management Board of Audit and Regulation
Jan Maciejewicz - Vice-President of the Management Board of 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 of Organization and the Capital Group

During the year 2006 the following changes in the Management Board of PKN ORLEN S.A. took place:

On 21 December 2005 the Supervisory Board of PKN ORLEN S.A., after a motion of the Minister of State Treasury, appointed Mr Cezary Stanisław Filipowicz to the position of the 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, dismissed Mr Dariusz Witkowski from the position of the Member of the Management Board and appointed Mr Krzysztof Szwedowski to the position of the Member of the Management Board of PKN ORLEN S.A., effective 31 March 2006.

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

The following changes to the composition of the Management Board took place after 31 December 2006:

On 18 January 2007 the Supervisory Board of PKN ORLEN S.A., with the majority of votes, dismissed Mr Igor Chalupiec from the position of the President of the Management Board, effective from 18 January 2006. Mr. Igor Chalupec held position of the President of the Management Board from 1 October 2004.
At the same time, the Supervisory Board of PKN ORLEN S.A. has appointed Mr. Piotr Kownacki, the Vice President till that day, responsible for Audit and Regulations of PKN ORLEN S.A. Management Board, for 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., with the majority of votes, dismissed Mr Jan Maciejewicz, on his request, from the position of the Vice-President of the Management Board of Cost Management as well as on request of the President of the Management Board, unanimously, Mr Cezary Smorszczewski from the position of the Vice-President of the Management Board of Capital Investment. Simultaneously, the Supervisory Board of PKN ORLEN S.A., on request of the President of the Management Board, appointed Mr Krystian Pater to the Member of the Management Board of PKN ORLEN S.A.

The Management Board of PKN ORLEN as at the day of publication of the financial statement is as follows:

Piotr Kownacki - President of the Management Board, General Director
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

The Supervisory Board

The composition of Supervisory Board as at 31 December 2006 was as following:

Zbigniew Macioszek - Chairman of the Supervisory Board
Wojciech Pawlak - Deputy Chairman of the Supervisory Board
Konstanty Brochwicz - Donimirski – Member of the Supervisory Board
Robert Czapla – Member of the Supervisory Board
Marek Drac - Tatoń - Member of the Supervisory Board
Raimondo Eggink - Member of the Supervisory Board
Krzysztof Rajczewski – Member of the Supervisory Board
Wiesław Rozłucki - Member of the Supervisory Board
Ryszard Sowiński – Secretary of the Supervisory Board

During the year 2006 the following changes in the Supervisory Board of PKN ORLEN S.A. took place:

On 31 January 2006 the Extraordinary General Shareholders Meeting of PKN ORLEN S.A. dismissed Mr Jacek Bartkiewicz from the position of Chairman of the Supervisory Board and from the Supervisory Board of PKN ORLEN S.A. In addition, the Extraordinary General Shareholders Meeting of PKN ORLEN S.A. dismissed from the positions of Members of the Supervisory Board: Mr Maciej Gierej, Mr Krzysztof Obłój, Mrs Małgorzata Okońska-Zaremba, Mr Adam Sęk and Mr Ireneusz Wesołowski. Simultaneously, the Extraordinary General Shareholders Meeting of PKN ORLEN S.A. appointed to the Supervisory Board of PKN ORLEN S.A.: Mr Dariusz Dąbski to the position of the Chairman of the Supervisory Board of PKN ORLEN S.A., Mr Maciej Mataczyński to the position of independent Member of the Supervisory Board of PKN ORLEN S.A. and Mr Zbigniew Macioszek and Mr Wojciech Pawlak to the positions of Members of the Supervisory Board of PKN ORLEN S.A.

On 28 March 2006 the Management Board of PKN ORLEN S.A. was informed by the Minister of State Treasury that, due to resignation of Mr Adam Maciej Pawłowicz (a representative of the Ministry of State Treasury), he dismissed him from his position in the Supervisory Board of PKN ORLEN S.A. effective 28 March 2006.

On 26 June 2006 the Management Board of PKN ORLEN S.A. was informed on the resignation of Mr Dariusz Dąbski from the position of the Chairman of the Supervisory Board. Mr Dariusz Dąbski was the Chairman of the Supervisory Board from 31 January 2006.

On 27 June 2006 the Ordinary General Shareholders Meeting of PKN ORLEN S.A. dismissed Mr Andrzej Olechowski from the position of the Member of the Supervisory Board of PKN ORLEN S.A. Simultaneously, the Ordinary General Shareholders Meeting of PKN ORLEN S.A. appointed Mr Maciej Mataczyński, the Member of the Supervisory Board of PKN ORLEN S.A., to the position of the Chairman of the Supervisory Board of PKN ORLEN S.A. as well as Mr Ryszard Sowiński to the Supervisory Board of PKN ORLEN S.A. and Mr Wiesław Rozłucki to the position of independent Member of the Supervisory Board of PKN ORLEN S.A..

On 11 September 2006 the Management Board of PKN ORLEN S.A. was informed by the Minister of State Treasury that, he appointed, on behalf of the shareholder – State Treasury Mr Marek Drac-Tatoń to the Supervisory Board of PKN ORLEN S.A.

On 9 November 2006 Mr. Maciej Mataczyński resigned from the position of the Chairman of the Supervisory Board of PKN ORLEN S.A. with effect from 9 November 2006.

On 30 November 2006 the Extraordinary General Shareholders Meeting of PKN ORLEN S.A. appointed Mr Zbigniew Macioszek, the Member of the Supervisory Board of PKN ORLEN S.A., to the position of the Chairman of the Supervisory Board of PKN ORLEN S.A. and Mr Robert Czapla, Mr Konstanty Brochwicz-Donimirski and Krzysztof Rajczewski to the position of Members of the Supervisory Board of PKN ORLEN S.A.

2. Principles of presentation

Information on principles adopted for preparation of financial statement for 2006

From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory unconsolidated financial statements in accordance with IFRSs approved by the European Commission.

In preparation of these consolidated financial statements the Group applied International Financial Reporting Standards adopted by the European Union (IFRSs) in force as at 31 December 2006.

The consolidated financial statements are compliant with all IFRS requirements adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2006 and 31 December 2005, results of its operations and cash flows for the year ended 31 December 2006 and 31 December 2005.

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

Statement of the Management Board

Under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities, the Management Board of PKN ORLEN hereby honestly and sincerely declares, that to the best of their knowledge, the foregoing consolidated financial statements and comparative data were prepared in compliance with the Group accounting principles in force and that they reflect true and fair view on financial status and financial result of PKN ORLEN Group and that the yearly report of the Management Board presents true overview of development, achievement and business situation of PKN ORLEN Group, including basic risks and exposures.

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards adopted by the European Union and in the scope required under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal no. 209, item 1744). The statements cover the period from 1 January to 31 December 2006 and the comparative period from 1 January to 31 December 2005.

The Management Board of PKN ORLEN declares that the entity, authorized to audit and conducting the audit of consolidated financial statement, 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 of the domestic law.
In compliance with principles of corporate governance (as adopted by the Management Board of PKN ORLEN S.A.) the auditor was selected by the Supervisory Board by means of resolution No 485/2005 of 21 January 2005 on the selection of an auditor. The Supervisory Board made the selection in order to ensure complete independence and objectivity of the selection itself as well as fulfillment of tasks by the auditor.

Reorganization of the Group

In connection with the Polish Government's Restructuring and Privatization Program for the Polish Oil Sector Companies, the Polish State Treasury, through its holding in Nafta Polska S.A. reorganized the Polish oil sector in the years 1997 - 1999. The existing Group is a result of this reorganization of several significant operating companies, which were all under the common control of Nafta Polska S.A. and the Polish State Treasury.

In particular, this reorganization included the following significant transactions:

- before the merger of Centrala Produktow Naftowych "CPN" S.A. ("CPN") with Petrochemia Plock:
  - separation of Dyrekcja Eksploatacji Cystern Sp. z o.o. from CPN – the entity dealing with operating of railway tanks for crude oil products transportation,
  - sales of shares in Naftobazy Sp. z o.o by CPN – operator of large warehouse facilities used to store crude oil products.
- acquisition of refineries: Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A.,
- merger of Petrochemia Plock S.A. with Centrala Produktow Naftowych "CPN" S.A. – the main distributor in the area of retail sales of fuels in Poland.

To the extent of the Polish State Treasury's control over the restructured Polish oil sector companies, these transactions were presented as if they were under common control using the pooling of interests' method according to International Accounting Standard No 22 "Business Combinations" (IAS 22).

Entities included in consolidated financial statements

These consolidated financial statements for the periods ended 31 December 2006 and 31 December 2005 include following entities within the Group located in Poland, Germany, Czech Republic, Lithuania and Malta:

	Share in total voting rights[1)]	
	31 December 2006	31 December 2005
	(in full %)	
PKN ORLEN S.A.	Parent Company	
ORLEN Deutschland AG	100%	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o.	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o.	100%	100%
ORLEN Transport Szczecin Sp. z o.o.	100%	100%
ORLEN ASFALT Sp. z o.o. (formerly Bitrex Sp. z o.o.)	100% / (95,99%) [5)]	100%
ORLEN Petroprofit Sp. z o.o. Group	100%	100%
including:		
Petro-oil Lubelskie Centrum Sprzedaży Sp. z o.o.	76%	76%
Petrooktan Sp z o.o.	-	51%
ORLEN Morena Sp. z o.o.	100%	100%
Raf Trans Sp. z o.o.	-	99%
ORLEN Transport Kraków Sp. z o.o.	98%	98%
ORLEN Transport Płock Sp. z o.o.	98%	98%
ORLEN Transport Nowa Sól Sp. z o.o.	97%	97%
Zakład Budowy Aparatury S.A.	-	97%
ORLEN Transport Słupsk Sp. z o.o.	97%	97%
ORLEN Laboratorium Sp. z o.o.	95%	95%
including:		
RAF-LAB Sp. z o.o.	-	100%
ORLEN Transport Olsztyn Sp. z o.o.	95%	95%
ORLEN– Oil Sp. z o.o. Capital Group	100% / (88,87%) [5)]	96%
Orlen Oil Cesko s.r.o.	100%	100%
Platinum Oil Mazowsze Sp. z o.o.	100%	99%
ORLEN Petro – Tank Sp. z o.o.	90%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	94%	94%
Petrotel Sp. z o.o.	75%	75%
Anwil S.A. Group	84%	84%
including:		
Przedsiębiorstwo Inwestycyjno – Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiębiorstwo Produkcyjno – Handlowo – Usługowe Pro – Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Spolana a.s.	82% / (100%) [5)]	-

Rafineria Trzebinia S.A. Group	77%	77%
including:		
Energomedia Sp. z o.o.	100%	100%
Euronaft Trzebinia Sp. z o.o.	100%	100%
Fabryka Parafin Nafto Wax Sp. z o.o.	100%	100%
EkoNaft Sp. z o.o.	99%	99%
Rafineria Nafty Jedlicze S.A. Group	75%	75%
including:		
RAF – ENERGIA Sp. z o.o.	100%	100%
RAF – KOLTRANS Sp. z o.o.	100%	100%
RAF – REMAT Sp. z o.o.	96%	96%
RAF – EKOLOGIA Sp. z o.o.	93%	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	81%	81%
Inowrocławskie Kopalnie Soli „Solino" S.A.	71%	71%
Unipetrol a.s. Group [4)]	63%	63%
including:		
CHEMOPETROL a.s. including:	100%	100%
UNIPETROL - DOBRAVA a.s.	100%	100%
KAUCUK a.s.	100%	100%
UNIPETROL TRADE a.s. including:	100%	100%
CHEMAPOL (SCHWEIZ) AG	100%	100%
UNIPETROL AUSTRIA HmbH	100%	100%
ALIACHEM VERWALTUNGS GmbH	100%	100%
UNIPETROL DEUTSCHLAND GmbH :	100%	100%
ALIAPHARM GmbH FRANKFURT	100%	100%
UNIPETROL CHEMICALS IBERICA S.A.	100%	100%
UNIPETROL RAFINERIE a.s. including:	100%	100%
UNIRAF SLOVENSKO s.r.o.	100%	-
BENZINA a.s. including:	100%	100%
BENZINA Trade a.s.	100%	100%
PETROTRANS a.s.	100%	100%
SPOLANA a.s.	-	82%
PARAMO a.s.	50%	74%
Česka Rafinerska a.s. [3)]	51%	51%
Ship-Service S.A. Group[1)]	56%	56%
including:		
Bor – Farm Sp. z o.o.	-	100%
Ship Service Agro Sp. z o.o.	100%	100%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o.	100%	52%
ORLEN Petrogaz Wrocław Sp. z o.o.	100%	52%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt S.A.	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Basell Orlen Polyolefins Sp z o.o. Group [3)]	50%	50%
including:		
Basell Orlen Polyolefins Sprzedaż Sp. z o.o.	100%	100%
ORLEN Administracja Sp. z o.o. [4)]	100%	-
ORLEN EKO Sp. z o.o. [4)]	100%	-
Płocki Park Przemysłowo-Technologiczny S.A. [3) 4)]	50%	-
ORLEN Księgowość Sp. z o.o. [4)]	100%	-
ORLEN Prewencja Sp. z o.o. [4)]	100%	-
ORLEN Upstream Sp. z o.o. [4)]	100%	-
Etylobenzen Płock Sp. z o.o. [4)]	51%	-
ORLEN Holding Malta Ltd. Group [4)]	100%	-
including:		
ORLEN Insurance Ltd.	100%	-

Mazeikiu Group [4]	84% / (100%) [5]	-
including:		
UAB Juodeikių nafta	100%	-
UAB Uotas	100%	-
AB Ventus-Nafta	99%	-
UAB Mažeikių naftos prekybos namai Group:	100%	-
including:		
SIA Mažeiku Nafta Tirdzniecibas nams	100%	-
OU Mazeikiu Nafta Trading House	100%	-
Mazeikiu Nafta Trading House Sp. z o.o.	100%	-

[1] Share in total voting rights is equal to share in equity except for share in equity in Ship Service S.A. Group, where it accounts for 61%;
[2] The Group consolidated starting with II quarter 2005
[3] Entities consolidated using the proportionate method of consolidation
[4] The Group/Entity consolidated starting with IV quarter of 2006
[5] (%) share in consolidated financial data

3. Functional currency and presentation currency of financial statements and methods applied to translation of data denominated in foreign currencies

a. Functional currency and presentation currency

Functional currency of the Parent and presentation currency of the foregoing consolidated financial statements is Polish zloty.
Financial statements of foreign entities, for consolidation purposes, are translated into Polish zloty using the following procedures:

- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items in the income statement are translated at exchange rates at the dates of the transactions. All resulting exchange differences are recognized as a separate component of equity.

b. Methods applied to translation of data denominated in foreign currencies

The financial data denominated in EUR were translated in line with the following methods:

- particular assets and liabilities – at the closing rate for 31 December 2006 –3.8312 PLN / EUR, for 31 December 2005 –3.8598 PLN / EUR,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –3.8991 PLN / EUR; for the period from 1 January 2005 to 31 December 2005 the rate was 4.0233 PLN / EUR.

The financial data denominated in CZK were translated in line with the following methods:

- particular assets and liabilities – at the closing rate for 31 December 2006 –0.1393 PLN / CZK, for 31 December 2005 –0.1329 PLN / CZK;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –0.1380 PLN / CZK, for the period from 1 January 2005 to 31 December 2005 the rate was 0.1345 PLN / CZK.

The financial data denominated in USD were translated in line with the following methods:

- particular assets and liabilities – at the closing rate for 31 December 2006 –2,9105 PLN / USD,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –3.0898 PLN / USD.

4. Applied accounting principles

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

a. Accounting principles

Property, Plant and Equipment

Property, plant and equipment, excluding land and investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the item of property, plant and equipment into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, property, plant and equipment are depreciated and subject to impairment allowances.

Property, plant and equipment items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment allowances.

Property, plant and equipment acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment allowances.

The cost of current maintenance of property, plant and equipment is recorded in the financial result during the period when they are incurred.

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives.

Depreciation of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life.

The Group estimates the residual value of property, plant and equipment. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life. The residual value is not subject to depreciation and is reviewed periodically (once a year).

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

Buildings and constructions	10-70 years
Machinery and equipment	3-25 years
Vehicles and other	4-17 years

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analyzed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount by an appropriate allowance. The recoverable amount of property, plant and equipment reflects the higher of net selling price and value in use. Impairment allowances are recognized as other operating costs in the profit and loss.

Finance lease

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the criteria defined in IAS 17, “Leases”, are regarded as non-current assets and recognized at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar Group owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset’s economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are initially recognized as long-term receivables and stated at the net lease investment value.

Goodwill

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment allowances.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortized.

Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognizes immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

Intangible assets

Intangible assets are recognized if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognized at fair value as defined at the business combination date.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortization and impairment allowances. Intangible assets with a definite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by impairment allowances.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted standard economic useful lives for amortization of intangible assets are:

Acquired licenses, patents, and similar intangible assets	2-15 years
Acquired computer software	2-10 years

All intangible assets generated by the Group are not recognized as assets and are recorded in the profit and loss for the period when the related cost has been incurred except for intangible assets arising from development (or from the development phase of an internal project).

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.
Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.
The titles to perpetual usufruct of land obtained under an administrative decision are recognized by the Group at fair value as off balance sheet items.

Investment property

Investment property is initially recognized at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is subject to impairment allowance when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from allowances of the investment property are recognized in the profit and loss in the period when they are made.

Inventories

Inventories are measured at the lower of cost and net realizable value, considering any inventory allowances. The net realizable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.
Cost of usage is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.

Receivables

Trade and other receivables are recognized when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less allowances for doubtful receivables.
If there is objective evidence that an impairment loss has been incurred, the amount of difference between the asset's carrying amount and the present value of estimated future cash flows is recognized in profit and loss.

Cash and cash equivalents

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

Revenue from sale

Revenue from sale is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. Sale of goods and merchandise includes excise tax and fuel charges.
The net revenue from the sale of finished goods and merchandise is recognized after deducting value added tax (VAT), excise tax, fuel charges and discounts.
Revenue from the sale of finished goods and merchandise is recognized when the finished goods/merchandise are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjusts the sales revenue.

The revenue is measured at the fair value of the received or due payment.

Revenue from dividends

Dividends are recognized when the shareholder's right to receive payment is established.

Equity

Equity is stated in the accounting records by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.

The stated outstanding share capital contributions are recognized as outstanding share capital contributions. Own shares and outstanding share capital contributions decrease the Company's equity.
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 joint stock 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 by the Group as retained earnings.
Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.
The amounts arising at profit distribution, transfer from revaluation reserve (the difference between the fair value and the acquisition cost, net of deferred tax, of assets available for sale 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), the undistributed result for prior periods and the current period net profit are presented in the financial statements as retained earnings.

Interest-bearing loans and borrowings

Interest-bearing bank loans and borrowings are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognized at amortized cost using the effective interest rate method. The difference between the net proceeds and the buyout amount is recognized as financial revenue or cost over the term of the loan or borrowing.

External financing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

Retirement benefits and jubilee bonuses

Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present value of those liabilities 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 liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period ended at the last day of the reporting year. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the profit and loss.

Foreign currency transactions

Transactions denominated in foreign currencies are recognized after their translation to the functional currency, at each balance sheet date in the following way:

a) foreign currency monetary items shall be translated using the closing rate;
b) 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
c) 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.

Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognized as financial income or expenses in the profit and loss. The foreign exchange differences are stated in the profit and loss in the net amount.

Financial instruments

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Group intends and has the ability to hold to the maturity date, except for the Group's own receivables and loans. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.
All other financial assets, which are not borrowings or receivables of the Group, are classified as financial assets available for sale.

Financial investments held to maturity are part of non-current assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets measured at fair value through profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognized at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market value as at the balance sheet date. The change in fair value of those financial assets is recognized as financial income or expenses in the profit and loss.

Financial assets held to maturity are measured at amortized cost using the effective interest rate.
Financial assets available for sale are recognized at fair value, without deduction of the transaction costs, and considering their market value at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment allowances, if they have been valued at historical cost.

Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decrease in the value of financial assets available for sale due to impairment allowances is charged to financial expenses in the profit and loss.

Granted loans are recognized at amortized cost.

Derivatives which are not designated as hedging instruments are classified as financial assets or liabilities at fair value are stated at fair value, considering its changes, through profit and loss.

Derivatives treated as cash flow hedging instruments are carried at fair value with changes in value accounted for in the following way:
- the portion determined to be an effective hedge is recognized directly in equity through the statement of changes in equity;
- the portion determined to be an ineffective hedge is recognized in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognized in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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;
- is not the hybrid (combined) instrument.

The hybrid (combined) instrument is not measured at fair value and changes in fair value are not recognized in the net profit or loss (i.e. derivative that is embedded in a financial asset or financial liability at fair value through profit and loss is not separated).

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

The Group recognizes financial asset on its balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The financial asset is derecognized when the contractual rights to economic benefits and risk related to this financial asset were executed, expired or the Group transferred the contractual rights and risks.

Derivatives used by the Group in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.
When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognized asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognized asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion of the gain or loss is recognized in the profit and loss.
The gain or loss from the re-measurement of the derivative instruments at fair value that do not comply with the hedge accounting criteria are recognized directly in the profit and loss.

The Group discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such a case, total gain or loss on the hedging instrument, previously recognized in equity, is recognized in equity until the forecast transaction takes place. If the Group no longer expects the forecast transaction to take place, the total net gain or loss recognized in equity is presented in the financial result of the current period.

Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.
Deferred tax assets are recognized for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.
Deferred tax liabilities are recognized for all positive temporary tax differences.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.

Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

Non-current assets held for sale/disposal

Non-current assets held for sale are those which comply with the following criteria:

- a decision was declared by the Company's Management Board for the disposal;
- 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 could be settled within 12 months following the sale 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.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.
Assets held for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

Provisions

The Group shall recognize a provision when it has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 recognized as external financing costs.

Environmental provisions

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

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognized as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

Liabilities

Trade and other liabilities are stated at the amount due, and financial liabilities, which contractual settlement is to be made by way of issue of non-monetary financial assets or due to exchange for financial instruments, are recognized at fair value.

Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

Contingent receivables are not recognized in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Operating segments

The scope of financial information in the Group segment reporting is defined based on requirements of IAS 14.

The Group adopted a business segments as the primary reporting format i.e. as the dominant source of risks and benefits related to sale of goods and services. A secondary reporting format is geographical segments that are associated with activity conducted in different geographical areas.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity (result from operating activity) and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The segment result is determined at the level of profit from operations. The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made.

For the purpose of this report, the excess of fair value of the acquired net assets over the acquisition cost was allocated to particular business segments results proportionally to the value of segment assets of the Unipetrol Group.

The operations of the Group are divided into three main segments: Refining Segment, Petrochemical Segment and Chemical Segment.
- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products,
- The Petrochemical Segment encompasses production and sales of petrochemicals,
- The Chemical Segment encompasses production and sales of fertilizers and PVC.

Other operations include mainly support functions in PKN ORLEN, transportation, service and maintenance activities and construction conducted by other subsidiaries of PKN ORLEN S.A..

Segment revenues and assets were defined before inter-segment adjustments. Sales prices in inter-segment transactions are similar to market prices. Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated expenses of the Group, reconciling total segment results to profit from operations.

The Company's Management Board estimates

The preparation of financial statements in accordance with IFRSs requires that the Company's Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and costs. 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 Company's Management Board bases its estimates on opinions of independent experts.

Actual results may differ from the estimated values.

The estimations and related assumptions are verified on a regular basis. Changes in accounting estimates are recognized 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.

Application of the accounting principles

The above principles are applicable for comparative data.

Impact of new Standards and interpretations on the Group's financial statements

Until 31 December 2006 the following new Standards, changes and interpretations to International Financial Reporting Standards were published:
- IFRS 7 "Financial Instruments: Disclosure" – in force from 1 January 2007
- IFRS 8 "Operating Segments" – in force from 1 January 2009
- IAS 1 "Presentation of Financial Statements" – in force from 1 January 2007
- IFRIC 11 – "Group and Treasury Share Transactions" – in force from 1 March 2007
- IFRIC 12 – "Service Concession Arrangements" – in force from 1 January 2008.

Acceptance of IFRS 8, IFRIC 11 and IFRIC 12 by the European Union is pending.
The Group assessed the impact of application of the above interpretations and changes and determined that the changes in IFRS 7, IFRS 8 and IAS 1 might have impact on the presentation of financial statements when applied. According to a preliminary assessment, the most significant influence on the presentation of financial statements would have application of IFRS 8 "Operating Segments". Commencing 1 January 2009, following acceptance of IFRS 8 by European Union, the Group will publish segment data based on management segments.

According to a preliminary assessment, the application of IFRIC 11 and IFRIC 12 would not have a significant influence on the financial statements.

b. Principles of consolidation

Subsidiaries

The Group's consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority interest is presented in equity. Net profit attributable to minority shareholders is presented in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

Investments in associates

Investments in associated companies (overall investments ranging from 20% to 50% in a company's share capital) where the Group exercises significant influence on the financial and operating policies, yet does not have control over them, are accounted for using the equity method. Assessment of the value of investments in associates is performed when there are indications that the asset has been impaired or the impairment allowances recognized in prior years are no longer required.

Investments in jointly controlled entities

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, after deduction of an impact of mutual transactions and settlements, is presented line by line with similar items in the consolidated financial statements.

Adjustments from consolidation

Intragroup balances and transactions and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements proportionally to the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements in the same manner as unrealized gains, until there are indications of impairment.

5. Property, plant and equipment

	31 December 2006	31 December 2005
Land	773 450	726 499
Buildings and constructions	8 839 615	8 067 518
Machinery and equipment	13 629 257	8 116 051
Vehicles and other	875 065	600 048
Construction in progress	1 082 294	1 000 638
Total property, plant and equipment	**25 199 681**	**18 510 754**

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2006	792 255	11 273 174	15 600 629	1 256 077	1 051 702	29 973 837
Increase	39 441	1 023 318	956 284	263 775	1 818 520	4 101 338
Reclassification	-	(32 032)	30 464	1 568	-	-
Decrease	(16 277)	(673 199)	(1 580 885)	(156 947)	(2 079 242)*	(4 506 550)
Increase due to acquisition of Mazeikiu Group	6 700	673 012	6 260 954	203 627	330 615	7 474 908
Foreign exchange differences on Unipetrol Group and Orlen Deutschland	15 857	143 806	357 999	17 147	9 728	544 537
31 December 2006	**837 976**	**12 408 079**	**21 625 445**	**1 585 247**	**1 131 323**	**37 588 070**
1 January 2005	383 008	7 221 806	6 333 928	835 812	2 002 973	16 777 527
Increase	52 746	1 006 949	1 741 177	162 076	1 969 368	4 932 316
Reclassification	-	3 082	(3 749)	667	-	-
Decrease	(31 010)	(136 082)	(289 002)	(80 143)	(3 076 701)	(3 612 938)
Increase due to acquisition of Unipetrol Group	377 794	3 155 815	7 796 749	337 055	155 877	11 823 290
Foreign exchange differences on Orlen Deutschland	9 717	21 604	21 526	610	185	53 642
31 December 2005	**792 255**	**11 273 174**	**15 600 629**	**1 256 077**	**1 051 702**	**29 973 837**
Accumulated depreciation and impairment allowances						
1 January 2006	65 756	3 205 656	7 484 578	656 029	51 064	11 463 083
Depreciation	716	572 156	1 317 523	144 430	-	2 034 825
Other increases	411	6 592	42 020	25 878	-	74 901
Impairment allowances	(3 421)	(89 837)	(215 372)	(1 543)	(2 523)	(312 696)
Reclassification	-	5 727	(4 896)	(831)	-	-
Decrease	(23)	(185 275)	(814 909)	(122 971)	-	(1 123 178)
Foreign exchange differences on Unipetrol Group and Orlen Deutschland **	1 087	53 445	187 244	9 190	488	251 454
31 December 2006	**64 526**	**3 568 464**	**7 996 188**	**710 182**	**49 029**	**12 388 389**
1 January 2005	40 430	1 673 026	3 117 547	421 756	46 526	5 299 285
Depreciation	908	563 350	1 028 977	118 193	-	1 711 428
Other increases	450	14 175	15 547	11 601	-	41 773
Impairment allowances	24 012	181 664	389 718	4 746	(7 151)	592 989
Reclassification	-	1 892	(2 436)	544	-	-
Decrease	(71)	(98 013)	(273 142)	(83 536)	-	(454 762)
Increase due to acquisition of Unipetrol Group	-	864 124	3 197 088	182 264	11 689	4 255 165
Foreign exchange differences on Orlen Deutschland	27	5 438	11 279	461	-	17 205
31 December 2005	**65 756**	**3 205 656**	**7 484 578**	**656 029**	**51 064**	**11 463 083**
Net book value						
1 January 2006	**726 499**	**8 067 518**	**8 116 051**	**600 048**	**1 000 638**	**18 510 754**
31 December 2006	**773 450**	**8 839 615**	**13 629 257**	**875 065**	**1 082 294**	**25 199 681**
1 January 2005	**342 578**	**5 548 780**	**3 216 381**	**414 056**	**1 956 447**	**11 478 242**
31 December 2005	**726 499**	**8 067 518**	**8 116 051**	**600 048**	**1 000 638**	**18 510 754**

* including in 2006 e.g. transfers to specific groups of property, plant and equipment that amounted to PLN 1,956,133 thousand
** including foreign exchange differences related to impairment allowances in the amount of PLN 26,783 thousand.

Impairment allowances for property, plant and equipment as at 31 December 2006 and 31 December 2005 amounted to PLN 571,795 thousand and PLN 857,708 thousand respectively.

In 2006 the Group reviewed economic useful lives of property, plant and equipment applied afore. Should the rates from previous years be applied, depreciation expense would be higher by PLN 28,498 thousand. The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2006 amounted to PLN 1,749,347 thousand and as at 31 December 2005 amounted to PLN 1,257,894 thousand.
Impairment allowances disclosed in property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded its recoverable amount. The impairment allowances are charged to other operating expenses. The impairment allowances relate primarily to liquid fuels warehouse bases and petrol stations.
Property, plant and equipment of PLN 1,263,602 thousand and PLN 1,314,215 thousand were used as a pledge for the Group's liabilities as at 31 December 2006 and 31 December 2005, respectively.

6. Investment property

The following changes were recognized in investment property in 2006 and 2005:

	2006	2005
Investment property, beginning of period	11 557	9 122
Property, plant and equipment reclassified	20 943	-
Increase due to entities consolidated for the first time	4 331	-
Purchase of land for resale	-	104
Property, plant and equipment reclassified	(1 445)	-
Fair value of investment property adjustment	(357)	2 331
Sale of land	(104)	-
	---	---
Investment property, end of period	**34 925**	**11 557**
	=======	=======

Investment property of the Group comprise: social-office buildings, partially designated for rent, with a carrying amount of PLN 34,737 thousand as at 31 December 2006 and PLN 11,453 thousand as at 31 December 2005, as well as land in the amount of PLN 188 thousand as at 31 December 2006 and PLN 104 thousand as at 31 December 2005.
Direct operating expenses arising from investment property accounted for PLN 4,943 thousand and PLN 1,016 thousand as at 31 December 2006 and 31 December 2005, respectively, including direct operating expenses that generated rental income of PLN 4,463 thousand and PLN 1,016 thousand, respectively.
The fair value of investment property was assessed and disclosed on the basis of the expertise prepared by an independent asset surveyor, authorized for valuation of investment property and experienced in valuation of investment property of a similar location and qualified within the same category. By virtue of characteristics of the investment property, revenue approach was applied to assess the fair value. Due to variability of revenues in foreseeable future, calculation was based on discounted cash flows method, using 5-year period forecasts. The discount rate reflected 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 objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for objects similarly located, in the same technical condition and standard and designated for similar purposes.

7. Goodwill

Goodwill on consolidation	31 December 2006	31 December 2005
Orlen PetroTank Sp. z o.o.	11 298	11 298
ShipService S.A.	3 145	3 145
PetroProfit Sp. z o.o.	1 175	1 175
Orlen Petrozachód Sp. z o.o.	9 886	-
Goodwill on Mazeikiu Group companies	1 301	-
Other	658	2 012
Total goodwill on consolidation	**27 463**	**17 630**

Goodwill on business combination	31 December 2006	31 December 2005
Basell ORLEN Polyolefins Sp. z o.o.	51 146	51 146
Goodwill on Unipetrol Group companies	34 472	35 617
Spolana a.s.	8 218	-
Orlen Deutschland AG	9 256	10 413
Mazeikiu Elektrine	12 509	-
Other	640	641
Total goodwill on business combination	**116 241**	**97 817**
Total	**143 704**	**115 447**

The changes of goodwill in 2006 and 2005 were as follows:

	2006	2005
Goodwill on consolidation, beginning of the period	**17 630**	**20 501**
Additions during the period 1 January - 31 December	**316 292**	**629**
Orlen Petrozachód Sp. z o.o.	9 886	-
Mazeikiu Group **	305 105	-
Goodwill on Mazeikiu Group companies *	1 301	-
Other		629
Disposals during the period 1 January - 31 December	**(306 459)**	**(3 500)**
Mazeikiu Group **	(305 105)	
Ship Service S.A.	-	(3 500)
Other	(1 354)	-
Goodwill on consolidation, end of the period	**27 463**	**17 630**

	2006	2005
Goodwill on business combination, beginning of the period	**97 817**	**51 667**
Additions during the period 1 January - 31 December	**20 727**	**46 150**
Mazeikiu Elektrine	12 509	-
Spolana a.s.	8 218	-
Goodwill on Unipetrol Group companies	-	35 617
Orlen Deutschland AG	-	10 413
Other	-	120
Disposals during the period 1 January - 31 December	**(3 932)**	**-**
Goodwill on Unipetrol Group companies	(2 833)	-
Orlen Deutschland AG	(1 099)	-
Effect of exchange rate changes	1 629	-
Goodwill on business combination, end of the period	**116 241**	**97 817**

* goodwill on consolidation on Mazeikiu Group
** goodwill on acquisition of Mazeikiu shares. More information in note 37 a 5

8. Intangible assets

	31 December 2006	31 December 2005
Acquired licenses, patents and similar intangible assets	460 148	459 161
Acquired computer software	30 287	24 482
Other *	129 348	29 524
Total intangible assets	**619 783**	**513 167**

* including as at 31 December 2006 the valuation of acquired CO_2 emission rights of Mazeikiu Group amounting of PLN 88,771 thousand

The changes of intangible assets were as follows:

	Acquired computer software	Acquired licenses, patents and similar intangible assets	Other	Total
Gross book value				
1 January 2006	134 077	771 210	54 468	959 755
Increase	11 082	48 559	18 556	78 197
Decrease	(6 598)	(55 249)	(23 153)	(85 000)
Increase due to acquisition of Mazeikiu Group	8 491	1 337	102 916	112 744
Foreign exchange differences on Unipetrol Group and Orlen Deutschland	4 657	14 373	2 219	21 249
31 December 2006	**151 709**	**780 230**	**155 006**	**1 086 945**
1 January 2005	34 940	439 241	5 542	479 723
Increase	4 545	23 952	9 950	38 447
Decrease	(2 818)	(1 300)	(1 767)	(5 885)
Increase due to acquisition of Unipetrol Group	97 410	309 317	40 743	447 470
				-
31 December 2005	**134 077**	**771 210**	**54 468**	**959 755**
Accumulated depreciation and impairment allowances				
1 January 2006	109 595	312 049	24 944	446 588
Depreciation	13 717	49 623	4 627	67 967
Other increases	223	3 990	4 149	8 362
Impairment allowances	-	(33 844)	19	(33 825)
Decrease	(6 144)	(16 633)	(9 019)	(31 796)
Foreign exchange differences on Unipetrol Group and Orlen Deutschland *	4 031	4 897	938	9 866
31 grudnia 2006	**121 422**	**320 082**	**25 658**	**467 162**
1 January 2005	20 337	162 572	2 237	185 146
Depreciation	12 689	46 182	3 272	62 143
Other increases	1 766	3 798	1 516	7 080
Impairment allowances	987	32 596	584	34 167
Decrease	(4 397)	(2 124)	(351)	(6 872)
Increase due to acquisition of Unipetrol Group	78 213	69 025	17 686	164 924
31 December 2005	**109 595**	**312 049**	**24 944**	**446 588**
Net book value				
1 January 2006	**24 482**	**459 161**	**29 524**	**513 167**
31 grudnia 2006	**30 287**	**460 148**	**129 348**	**619 783**
1 January 2005	**14 603**	**276 669**	**3 305**	**294 577**
31 December 2005	**24 482**	**459 161**	**29 524**	**513 167**

* Including foreign exchange differences related to impairment allowances in the amount of PLN 1,331 thousand.

Impairment allowances for intangible assets as at 31 December 2006 and 31 December 2005 amounted to PLN 1,832 thousand and PLN 34,326 thousand, respectively.

In 2006 the Group reviewed economic useful lives of intangible assets applied afore. Should the rates from previous years be applied, adjustment to depreciation expense would not be material. The gross book value of all fully depreciated intangible assets still in use as at 31 December 2006 amounted to PLN 218,819 thousand and as at 31 December 2005 amounted to PLN 154,110 thousand.
The titles to perpetual usufruct of land obtained under an administrative decision were recognized by the Group at fair value as off balance sheet items in the amount of PLN 1,042,248 thousand as at the balance sheet date.

As at 31 December 2006 and 31 December 2005 the Group possessed concessions for public services due to which annual concession fees recognized in the profit and loss in a given period are paid.
The Group possesses concessions for the following activities:

- the trade of electrical energy for the period 05.11.1998 – 15.07.2009
- transportation and distribution of electrical energy for the period 05.11.1998 – 15.07.2009
- manufacturing and trade of heating energy for the period 05.11.1998 – 15.04.2013
- transportation and distribution of heat energy for the period 05.11.1998 – 25.02.2010
- manufacturing of electrical energy for the period 05.11.1998 – 15.10.2010

9. Financial assets

a) Significant shares in other parties

	Seat	31 December 2006	31 December 2005	Group's interest in capital/ voting rights as at 31 December 2006	Group's interest in capital/ voting rights as at 31 December 2005	Principal activity
Agrobohemie a.s.*	Czech Republic-Prague	263 201	251 169	50.00%	50.00%	wholesale
Synthesia a.s. (former Aliachem a.s.)*	Czech Republic-Pardubice	245 794	234 442	38.90%	38.90%	production of chemicals
Telewizja Familijna **	Poland - Warsaw	26 004	26 004	11.96%/ 9.61%	11.96%/ 9.61%	radio and television related activity
SK Eurochem Sp. z o.o.	Poland - Włocławek	25 203	25 203	17.37%	17.37%	production of chemicals
Naftoport Sp. z o.o.	Poland - Gdańsk	31 026	39 502	14.10%	17.95%	construction, operation and maintenance of loading station for liquid fuels
Other		23 150	47 089			
Total		**614 378**	**623 409**			
Impairment allowance for Telewizja Familijna **		(26 004)	(26 004)			
Other impairment allowances		(17 442)	(46 421)			
Total impairment allowances		**(43 446)**	**(72 425)**			
Net value of significant shares in other parties		**570 932**	**550 984**			

b) Investments held to maturity

	31 December 2006	31 December 2005
Telewizja Familijna S.A. bonds **	26 000	26 000
Impairment allowance**	(26 000)	(26 000)
Net value of investments held to maturity	-	-
Total net value of financial assets	**570 932**	**550 984**

* Share value in CZK does not change. Change during the period is due to translation of value of shares expressed in CZK into PLN.
** On 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was declared; book value of shares and bonds as at 31 December 2006 and 31 December 2005 was fully covered by a relevant allowance.

10. Investments accounted for using equity method

As at 31 December 2006 and 31 December 2005 the Group's investments accounted for using equity method were as follows:

	Book value as at		Group's interest in capital/ voting rights	Group's interest in capital/ voting rights	Principal activity
	31 December 2006	31 December 2005	as at 31 December 2006	as at 31 December 2005	
Polkomtel S.A.	687 694	929 035	19.61%	19.61%	rendering mobile telecommunication services
Niezależny Operator Międzystrefowy Sp. z o.o.*	18 033	18 033	35.00%	35.00%	rendering telecommunication services
Płocki Park Przemysłowo-Technologiczny S.A.	-	12 730	-	50.00%	business activity advisory
Other	10 576	65 279			
Total	**716 303**	**1 025 077**			

* Detailed information in Note 35 q

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2006 and 31 December 2005, revenues, financial expenses and profit for 2006 and 2005 in Polkomtel S.A. are described below:

Polkomtel S.A.

	31 December 2006	31 December 2005
Current assets	1 091 960	1 208 938
Non-current assets	6 588 996	6 388 196
Short-term liabilities	2 121 991	830 621
Long-term liabilities	842 176	862 068
Total sales revenues	7 359 014	6 495 963
Profit from operations	1 475 544	1 358 557
Financial expenses	(143 826)	(124 367)
Profit before tax	1 403 347	1 310 746
Income tax expense	(281 677)	(243 641)
Net profit	1 121 670	1 067 105

11. Other non-current assets

	31 December 2006	31 December 2005
Advances for construction in progress	83 467	-
Long term loans granted	22 002	-
Receivalbes due to sale of property, plant and equipment	8 561	5 816
Warranty deposits	-	2 532
Other	2 518	4 750
Total	**116 548**	**13 098**

12. Inventories

	31 December 2006	31 December 2005
Raw materials	3 706 674	3 200 388
Work in progress	752 141	714 968
Finished goods	2 495 637	1 840 782
Merchandise	444 404	357 099
Total inventory, net	**7 398 856**	**6 113 237**

The value of inventories valued at net realizable value amounted to PLN 1,388,299 thousand as at 31 December 2006 and PLN 846,202 thousand as at 31 December 2005. The inventory allowances to net realizable value amounted to PLN 74,151 thousand in 2006 and PLN 66,006 thousand in 2005.

As at 31 December 2006 and 31 December 2005 inventories of PLN 185,094 thousand and PLN 157,414 thousand, respectively, were used as a pledge for the Group's liabilities.

Starting from 2002, mandatory reserves are established based on the schedule in accordance with the Minister of Economy Decree (the decree of 19 December 2005 currently in force, Official Journal no 266. item 2240) to arrive at the end of 2008 at the level equal to 76 days of average daily production, import and intra-Community acquisitions less export and intra-Community supplies (in addition the relevant economy Minister is obliged to establish the reserves of liquid fuels in the amount equal to consumption of fuels in 14 days on average in a given year).
The detailed methods of calculation and formation of the mandatory reserves of liquid fuels are contained in the Minister of Economy Decree of 12 May 2006 (Official Journal no 92 item 642).
The new act on reserves of crude oil, refinery products and natural gas and the principles of proceeding in the event of threat to national liquid fuels security and disturbance on the oil market has been signed by the President of the Republic of Poland in March 2007. The act introduces additional provisions in force for the International Energy Agency (IEA). Poland is to become a member of IEA in 2007.
The new act introduced additional provisions such as:

- building up mandatory reserves by additional 10% with regard to the so-called inaccessible reserves,
- changes to methods of calculation of reserves, from quantities sold in the country to net imports of crude oil,
- building up a 30-days reserves of LPG.

Upon consideration of the above one may expect an increase in the cost of maintaining of reserves.

The value of mandatory reserves held by the Company as at 31 December 2006 and 31 December 2005 amounted to PLN 2,701,606 thousand and PLN 1,953,479 thousand, respectively.

13. Trade and other receivables

	31 December 2006	31 December 2005
Trade receivables	4 725 256	4 006 631
Excise tax and fuel charge receivables	215 777	158 649
Taxation, duty and social security receivables	549 676	374 303
Receivables from sale of property, plant and equipment	17 865	55 120
Prepayments for construction in progress	106 473	25 320
Receivables due to insurance compensations of Mazeikiu Group	566 412	-
Other receivables	112 213	157 615
Total trade and other receivables, net	**6 293 672**	**4 777 638**
Receivables allowances	591 275	581 077
Total trade and other receivables, gross	**6 884 947**	**5 358 715**

Trade and other receivables include PLN 3,303,455 thousand of amounts denominated in foreign currencies as at 31 December 2006 and PLN 1,905,490 thousand as at 31 December 2005. Trade receivables result primarily from the sales of finished goods and sales of merchandise.
Concentration of credit risk relating to trade receivables is limited due to a large number of customers with specified trade credit limits and their dispersion across many different industries principally in Poland, Germany, Czech Republic and Lithuania.
The assumed repayment period of receivables involved with the usual course of sales operations is 14 to 30 days.
Maximum trade credit limit risk amounted to PLN 5,528,219 thousand. The Management Board believes that the risk of doubtful receivables is reflected by the relevant allowance.
As at 31 December 2006 and 31 December 2005 transfers of rights to receivables as a security for the Group's liabilities amounted to PLN 469,587 and PLN 450,880 thousand, respectively, including due to collateral for the investment loan granted to IKS Solino in the form of endorsement of receivables due from PKN ORLEN S.A. for the lease of the underground warehouse of crude oil and liquid fuels in the amount of PLN 115,925 thousand as at 31 December 2006 and PLN 117,133 thousand as at 31 December 2005.

The receivables allowances:

	2006	2005
Receivables allowances, beginning of period	581 077	474 177
Allowance made during the period	167 280	413 289
Allowance reversed during the period	(120 136)	(258 187)
Allowance used during the period	(46 031)	(45 326)
Effect of exchange rate changes	9 085	(2 876)
Receivables allowances, end of period	**591 275**	**581 077**

14. Short-term investments

Short-term investments as at 31 December 2006 and 31 December 2005 included government bonds and bills, debt securities and other short-term investments of PLN 7,424 thousand and PLN 104,938 thousand, respectively, including:

	31 December 2006	31 December 2005
Financial instruments at fair value through profit and loss	48	89 465
Held to maturity	7 376	12 969
Available for sale	-	2 504
Total	**7 424**	**104 938**

15. Prepayments

	31 December 2006	31 December 2005
Leases	8 741	16 323
Insurances	60 816	67 883
Research and development	4 879	7 379
Payments due to perpetual usufruct of land	727	1 078
Other prepayments	17 548	27 353
Interperiod settlements of commissionary services	11 016	2 453
Other*	17 631	23 384
Total	**121 358**	**145 853**

* other prepayments include tax on means of transportation, toll fees and other.

16. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash on hand and in bank	2 246 710	1 031 657
Other cash (incl. cash in transit)	104 608	95 134
Other monetary assets	2	12
Total	**2 351 320**	**1 126 803**
Incl. cash and cash equivalents not available for use	69 440	100 535

Total cash and cash equivalents denominated in foreign currencies amounted to PLN 1,800,982 thousand as at 31 December 2006 and to PLN 735,429 thousand as at 31 December 2005.

Taking into account cooperation of the Group mainly with well-established Polish and international banks, the risk relating to depositing cash and cash equivalents is considerably limited.

Since 2001 the cash pooling system has been introduced in the Capital Group. The system comprised of 29 companies of Capital Group as at 31 December 2006. The accumulation of cash denominated in Polish zloty in cash pooling system is assisted by three banks, whereas accumulation of cash denominated in foreign currencies is assisted by one bank. Due to the application of the system the Group records considerable financial benefits.

Cash and cash equivalents not available for use as at 31 December 2006 and 31 December 2005 amounted to PLN 69,440 thousand and PLN 100,535 thousand, respectively (they relate mainly to amounts blocked on bank accounts in relation to credits granted).

17. Other financial assets

	31 December 2006	31 December 2005
Derivatives valuation	55 446	103 620
Short term bonds held as bank loan collateral	239 534	-
Other	7 027	8 279
Total	**302 007**	**111 899**

18. Assets classified as held for sale

As at 31 December 2006 and 31 December 2005 following assets were classified as held for sale by the PKN ORLEN Group:

	31 December 2006	31 December 2005
Assets of Kaucuk [1]	1 009 846	-
Shares in AW S.A. Holand II B.V.	-	72 469
Shares in Celio [2]	10 912	10 410
Shares in "Krystynka" [3]	2 262	-
Other assets held for sale [4]	7 588	5 965
Total	**1 030 608**	**88 844**

[1] As at 31 December 2006 UNIPETROL held 6,236,000 shares constituting 100% stake in share capital of Kaucuk. The company's activity includes production of plastic and synthetic rubber. It is part of petrochemical segment. Assets of Kaucuk valued at fair value less liabilities and cost of sales have been classified as held for sale. The sale agreement was signed on 30 January 2007.

[2] The share of UNIPETROL Group in CELIO, constituting 51.06 % stake in the share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and not by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be completed in the first half of 2007. The change in the value of shares results from change in exchange rates.

[3] Shares of ORLEN Medica in Sanatorium Uzdrowiskowe "Krystyna" constituting 98.54% stake in the share capital. The shares have been classified as held for sale after the resolution of the Management Board of ORLEN Medica dated 20 December 2006 about the beginning of a disinvestment process. The shares have been valued at cost, fair value amounts to PLN 5,891 thousand.

[4] Other assets held for sale comprise other items of property, plant and equipment: buildings and constructions, land, machinery and equipment, vehicles and other.

19. Interest-bearing loans and borrowings

	Note	31 December 2006	31 December 2005
Bank loans	(a)	9 893 499	3 956 721
Borrowings	(b)	2 885	13 065
Debt securities	(c)	592 721	547 011
Total		**10 489 105**	**4 516 797**
Including:			
short-term		4 277 912	1 110 819
long-term		6 211 193	3 405 978

Maturities of principal installments as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	4 277 912	1 110 819
Between 1 and 5 years	5 625 832	2 664 921
Above 5 years	585 361	741 057
	10 489 105	**4 516 797**

The value of interest-bearing loans and borrowings drawn by the Group and debt securities issued increased in 2006 by 5,972,308 thousand net.

The change in indebtedness level resulted primarily from:

- drawing of foreign loans translated to PLN:

  EUR 800,000 thousand (PLN 3,053,200 thousand) of a short term consortium multi currency bridge loan (BNP Paribas acting as Agent)

  USD 348,269 thousand (PLN 1,069,912 thousand) of a consortium multi currency loan (BTM acting as Agent) – in 2006 there was a translation of portion of USD 215,910 thousand to EUR 181,061 thousand

  USD 300,000 thousand (PLN 861,844 thousand) of a consortium multi currency loan (BNP Paribas acting as Agent)

  EUR 230,000 thousand (PLN 877,795) of a long term consortium multi currency revolving loan (BNP Paribas acting as Agent)

  EUR 171,596 thousand (PLN 663,098 thousand) of a consortium multi currency loan (BTM acting as Agent)

  EUR 16,210 thousand (PLN 63,203 thousand) in consortium of banks (Societe Generale acting as Agent)

  USD 2,473 thousand (PLN 7,198 thousand) in Bank Pekao S.A.
- drawings of loans by Unipetrol Group in the amount of CZK 19,078,646 thousand (PLN 2,632,853 thousand)
- increase of indebtedness in Unipetrol Group due to valuation of debt securities in the amount of CZK 393,117 thousand (PLN 54,250 thousand)
- drawing of loans by ORLEN Deutschland A.G. in the amount of EUR 40,018 thousand (PLN 156,033 thousand)
- drawings of loans by Mazeikiu Group in the amount of USD 470,236 thousand (PLN 1,368,621 thousand)

- drawing of loans in PLN:

  PLN 128,176 thousand in PKO BP S.A.

  PLN 32,477 thousand in BH w Warszawie S.A.

  PLN 19,455 thousand in Bank Pekao S.A.

  PLN 23,856 thousand in MILLENNIUM Bank S.A.

  PLN 14,344 thousand in Bank Ochrony Środowiska S.A.

  PLN 11,797 thousand in ING Bank Śląski S.A.

  PLN 5,281 thousand in BPH S.A.

  PLN 2,861 thousand in HVB Bank a.s.

Interest-bearing loans and borrowings (continued)

PLN 1,282 thousand in Fortis Bank S.A.
PLN 115 thousand in Wojewódzki Fundusz Ochrony Śrotowiska
PLN 61,863 thousand resulting from foreign exchange differences in PKN ORLEN S.A.
PLN 27,624 thousand resulting from foreign exchange differences in Unipetrol Group

- repayment of foreign currency loans translated to PLN:
  USD 218,269 thousand (PLN 695,993 thousand) of a consortium double currency loan (ING acting as Agent)
  EUR 171,596 thousand (PLN 663,098 thousand) of a consortium double currency loan (ING acting as Agent)
  EUR 11,190 thousand (PLN 44,034 thousand) in consortium of banks (Societe Generale acting as Agent)
  USD 2,358 thousand (PLN 7,476 thousand) of a consortium multi currency loan (BTM acting as Agent)
  CHF 2,225 thousand (PLN 5,633 thousand) in BPH S.A.
  USD 109 thousand (PLN 343 thousand) in BRE Bank S.A.
- repayment of loans by Unipetrol Group in the amount of CZK 22,887,138 thousand (PLN 3,158,425 thousand)
- repayment of loans by ORLEN Deutschland A.G. in the amount of EUR 74,327 thousand (PLN 289,809 thousand)
- decrease of indebtedness in Unipetrol Group due to repayment of interest of debenture bonds in the amount of CZK 254,081 thousand (PLN 35,063 thousand)

- repayment of loans and borrowings in PLN
  PLN 131,060 thousand in PKO BP S.A
  PLN 46,558 thousand in BH w Warszawie S.A.
  PLN 33,291 thousand in Bank Pekao S.A.
  PLN 17,113 thousand in BPH S.A.
  PLN 15,398 thousand in Bank Ochrony Środowiska S.A.
  PLN 10,295 thousand Narodowy Fundusz Ochrony Środowiska
  PLN 8,358 thousand in HVB Bank a.s.
  PLN 1,500 thousand in BGŻ S.A.
  PLN 1,315 thousand in BRE BANK S.A.
  PLN 45 thousand resulting from foreign exchange differences in ORLEN Deutschland A.G.
  PLN 23 thousand resulting from foreign exchange differences in Ship Service S.A.

a. Bank loans by currency (PLN thousand)

		31 December 2006	31 December 2005
PLN	(1)	504 704	510 743
USD	(2)	2 645 573	730 065
CHF	(3)	1 177	6 738
EUR	(4)	6 009 960	1 451 030
CZK	(5)	732 085	1 258 145
		---	---
		9 893 499	**3 956 721**
		========	========

As at 31 December 2006 and 31 December 2005 the level of flat interest rates and loan margins relating to bank loans with floating rates based interest were as follows:

PLN (1)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	504 704	
T/N WIBOR		0,06% - 0,70%
1M WIBOR		0,06% - 3,60%
3M WIBOR		0,55% - 1,90%
Total PLN	**504 704**	
USD (2)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	883 741	4,20% - 7,00%
Floating rate	1 761 832	
1M LIBOR		0,50% - 1,35%
6M LIBOR		0,15% - 0,90%
Total USD	**2 645 573**	
CHF (3)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	1 177	
3M LIBOR		to 1,00%
Total CHF	**1 177**	
EUR (4)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	186 731	2,60% - 6,40%
Floating rate	5 823 229	
1M EURIBOR		0,50% - 0,75%
3M EURIBOR		0,50% - 3,80%
6M EURIBOR		0,12% - 1,62%
Total EUR	**6 009 960**	
CZK(5)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	732 085	
T/N PRIBOR		to 0,60%
1T PRIBOR		to 0,50%
14D PRIBOR		to 0,35%
1M PRIBOR		0,25% - 0,95%
3M PRIBOR		0,50% - 1,20%
6M PRIBOR		to 0,80%
Total CZK	**732 085**	

Total	**9 893 499**	
	=========	

Bank loans by currency (PLN thousand) (continued)

PLN (1)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	510 743	
T/N WIBOR		0,06% - 1,00%
1M WIBOR		0,07% - 3,00%
3M WIBOR		0,55% - 3,00%
Total PLN	**510 743**	
USD (2)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	730 065	
1M LIBOR		0,40% - 1,35%
3M LIBOR		0,40% - 2,70%
6M LIBOR		to 0,15%
Total USD	**730 065**	
CHF (3)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	6 738	
3M LIBOR		to 1,00%
Total CHF	**6 738**	
EUR (4)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	88 962	2,60% - 7,30%
Floating rate	1 362 068	
1M LIBOR		to 1,00%
1M EURIBOR		0,40% - 1,00%
3M EURIBOR		0,40% - 1,50%
6M EURIBOR		0,30% - 1,35%
Total EUR	**1 451 030**	
CZK (5)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	7 978	2,00% - 3,27%
Floating rate	1 250 167	
1D PRIBOR		to 0,30%
1W PRIBOR		to 0,30%
2W PRIBOR		0,25% - 0,70%
1M PRIBOR		0,45% - 0,90%
3M PRIBOR		0,60% - 0,80%
6M PRIBOR		0,48% - 0,90%
Total CZK	**1 258 145**	

Total	**3 956 721**	
	=========	

As at 31 December 2006 and 31 December 2005 interest rates for specific bases were as follows:

	31 December 2006	31 December 2005
T/N Wibor	4,11%	4,60%
1M Wibor	4,12%	4,60%
3M Wibor	4,20%	4,60%
1 M Euribor	2,4070%	2,4070%
3 M Euribor	2,4870%	2,4870%
6 M Euribor	2,6370%	2,6370%
1M Libor (USD)	5,3218%	4,3900%
3M Libor (USD)	5,3600%	4,5362%
6M Libor (USD)	5,3700%	4,7000%
1M Libor (EUR)	3,6335%	2,4021%
3M Libor (CHF)	2,1000%	1,0100%
Rediscount Interest rates of National Bank of Poland	4,25%	4,75%

As at 31 December 2006 and 31 December 2005 bank loans and borrowings of PLN 1,042,949 thousand and PLN 1,362,086 thousand, respectively, were pledged on the Group's assets.

b. Interest bearing loans

	31 December 2006	31 December 2005
Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej	115	-
Narodowy Fundusz Ochrony Środowiska	2 770	13 065
Total	2 885	13 065

Loans' floating interest rates amounted to 1.70%-3.00% and 1.90%-3.20% as at 31 December 2006 and 31 December 2005, respectively.

c. Debt securities

Debt securitities by kind	Flat rate bonds *	Zero coupons bonds
Face value **	278 600	181 090
Fair value measurement in relation to bonds quoted at the Stock Exchange in Prague	415 262	-
Discount in relation to zero coupons bonds	-	(3 631)
Book value	415 262	177 459
Interests terms	12,53	-
End of holding period	28.12.2013	01.04.2007
Type of surety	Unsecured	Unsecured

* Interest calculated on flat rate bonds are recognized in the amount of PLN 53,313 thousand as current liabilities.
** including forex difference in relation to 31 December 2005 from flat rate bonds in the amount of PLN 12,800 thousand and from zero coupons bonds in the amount of PLN 8,320 thousand.

As at 31 December 2006 the liabilities related to debt securities issued by the Group amounted to PLN 592,721 thousand.
The Group monitors opportunities to obtain loans and borrowings based on more favorable terms due to changes in market conditions.
The Group utilizes loans both in PLN and foreign currencies, subject mainly to floating interest rates.
As at 31 December 2006 and 31 December 2005, in accordance with agreements concluded with banks, the Group had unutilized amount of bank loans and borrowings at floating rate of PLN 5,066,919 thousand and PLN 3,896,154 thousand respectively.

19. Provisions

Long-term provisions

	31 December 2006	31 December 2005
Land reclamation provision	345 957	487 164
Retirement benefits and jubilee bonuses	190 264	197 219
Business risk provision	120 385	133 920
Shield programmes provision	99 428	68 718
Other provisions	58 158	69 970
Total	**814 192**	**956 991**

Short-term provisions

	31 December 2006	31 December 2005
Land reclamation provision	108 790	71 143
Retirement benefits and jubilee bonuses	25 550	19 186
Business risk provision	458 079	392 186
Shield programmes provision	24 492	130 500
Other provisions	117 116	70 258
Total	**734 027**	**683 273**

The Group has legal obligation to reclaim contaminated land in area of production plant in Płock, petrol stations and warehouse bases. In the period 2000-2006 an assessment of the contaminated objects and estimation of future expenditures on land reclamation were conducted by independent expert. The amount of the land reclamation provision was reassessed by the Management Board on the basis of analyses of independent expert. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities constituting basis of creating the provision.
The change in the average level of costs necessary to remove contamination has impacted the land reclamation provision in the amount of PLN 159,518 thousand. The main reason causing the change of the land reclamation provision is the decrease of soil requiring reclamation. Other valuation assumptions of independent expert remained unchanged (the statistical analysis of reclamation costs incurred to date).

In 2006 the Group changed the assumptions for calculation of retirement benefits and jubilee bonuses provision. Should the prior year's assumptions be taken into account, the provision would have been higher by PLN 25,819 thousand.

The changes in provisions in particular periods were as follows:

Change in long-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2006	487 164	197 219	133 920	68 718	69 970	956 991
Provision made during the period	12 301	18 397	7 892	30 710 *	23 594	92 894
Additions due to acquisition of Mazeikiu	7 145	-	-	-	-	7 145
Provision used during the period	(3 019)	(1 170)	-	-	(2 116)	(6 305)
Provision reversed during the period	(160 427)**	(24 475)	(20 686)	-	(34 640)	(240 228)
Effect of exchange rate changes	2 793	293	(741)	-	1 350	3 695
31 December 2006	**345 957**	**190 264**	**120 385**	**99 428**	**58 158**	**814 192**

* shield programmes provision reclassified from short to long term portion
** incl. the amount of PLN 59,299 thousand of land reclamation provision reclassified from long to short term portion

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	373 209	178 381	38 933	25 464	26 305	642 292
Provision made during the period	123 268	31 425	133 087	43 254	57 171	388 205
Provision used during the period	(1 689)	(4 451)	-	-	(1 690)	(7 830)
Provision reversed during the period	(7 624)	(8 059)	(32 299)	-	(11 253)	(59 235)
Effect of exchange rate changes	-	(77)	(5 801)	-	(563)	(6 441)
31 December 2005	**487 164**	**197 219**	**133 920**	**68 718**	**69 970**	**956 991**

Change in short-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2006	71 143	19 186	392 186	130 500	70 258	683 273
Provision made during the period	68 408 **	-	72 455	-	92 761 ***	233 624
Additions due to acquisition of Mazeikiu	5 332	22 716	13 284	-	-	41 332
Provision used during the period	(15 920)	(15 830)	(11 171)	(75 298)	(25 411)	(143 630)
Provision reversed during the period	(20 206)	(522)	(8 778)	(30 710)*	(21 740)	(81 956)
Effect of exchange rate changes	33	-	103	-	1 248	1 384
31 December 2006	**108 790**	**25 550**	**458 079**	**24 492**	**117 116**	**734 027**

* shield programmes provision reclassified from short to long term portion
** incl. the amount of PLN 59,299 thousand of land reclamation provision reclassified from long to short term portion
*** including provision relating to change in customer loyalty program VITAY of PLN 43,534 thousand

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	128 493	19 065	49 049	44 536	42 299	283 442
Provision made during the period	14 254	16 853	431 715*	122 746	63 805	649 373
Provision used during the period	(17 710)	(16 037)	(734)	(36 782)	(10 956)	(82 219)
Provision reversed during the period	(53 754)	(695)	(86 941)	-	(24 888)	(166 278)
Effect of exchange rate changes	(140)	-	(903)	-	(2)	(1 045)
31 December 2005	**71 143**	**19 186**	**392 186**	**130 500**	**70 258**	**683 273**

* including provision for the potential negative financial impact of execution of the agreements concerning the disposal of portion of assets and liabilities of Unipetrol Group

Long-term and short-term provisions, total

31 December 2006	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
Long-term provisions	345 957	190 264	120 385	99 428	58 158	814 192
Short-term provisions	108 790	25 550	458 079	24 492	117 116	734 027
Total	**454 747**	**215 814**	**578 464**	**123 920**	**175 274**	**1 548 219**

31 December 2005	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
Long-term provisions	487 164	197 219	133 920	68 718	69 970	956 991
Short-term provisions	71 143	19 186	392 186	130 500	70 258	683 273
Total	**558 307**	**216 405**	**526 106**	**199 218**	**140 228**	**1 640 264**

21. Other long-term liabilities

	31 December 2006	31 December 2005
Finance lease liabilities	60 506	70 693
Donations received	50 072	55 036
Waranties granted	13 328	8 331
Long term employee benefits	11 281	-
Hedge liability	7 800	23 715
Other	24 010	12 950
Total	**166 997**	**170 725**

22. Trade and other liabilities and accrued expenses

Trade and other liabilities comprised of the following:

	31 December 2006	31 December 2005
Trade liabilities	4 841 643	3 912 336
Liabilities due to acquisition of property, plant and equipment	427 422	347 973
Unused holidays accrual	39 421	29 669
Payroll liabilities	57 117	53 762
Loyalty programme VITAY *	23 534	61 858
Dividends liabilities	414	3 503
Excise tax and fuel charge liabilities	906 447	1 022 520
Other taxation, duty and social security liabilities	1 047 044	581 572
Liabilities due to prepayments for delieveries	89 954	44 298
Liabilities due to uninvoiced services	61 713	27 969
Environmental fees liabilities	10 446	9 566
Provison for liabilities relating to acquisition of Mazeikiu	29 510	-
Payroll liabilities	80 681	54 501
Special funds	17 607	17 023
Other financial liabilities	6 925	4 144
Provision for price reduction	63 803	3 034
Liabilities due to reimbursement of excise tax cost to supliers providing tax warehouse services	372 211	389 385
Other liabilities and accrued expenses	145 503	120 937
Total	**8 221 395**	**6 684 050**

* The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for fuel or VITAY gifts.
From June 2006 fuel prize is available for customers in the form of discount of fuel price which is not current expense of Vitay program but decrease fuel sales.
The provision is created for the unrealized amount of points registered on customer's accounts. It is recognized in the period when the points were granted to customers. As a result of changes regarding the substance of gifts, separate provisions are created for fuel and non-fuel gifts.
The provision 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. The provision is equal to 75% of the value of unrealized points (75% being a ratio for points' realizability).

Trade and other liabilities and accrued expenses denominated in foreign currencies amounted to PLN 5,900,952 thousand as at 31 December 2006 and PLN 3,712,599 thousand as at 31 December 2005. The carrying amount of short-term trade liabilities is equal to its fair value by virtue of its short-term characteristics.

23. Shareholders' equity

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2006 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2006 and 31 December 2005 consisted of the following series of shares:

Share series	Number of shares issued as at 31 December 2006	Number of shares issued as at 31 December 2005	Number of shares authorized as at 31 December 2006	Number of shares authorized as at 31 December 2005
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 2006 and 2005 there was no additional issue of shares.

In Poland, each new issuance of shares is labeled as a new series of shares. All of the above series involve the exact same rights.
The balance of the hedging reserve results from valuation of derivatives meeting the criteria for hedge accounting (for cash flow hedges).
The shareholder structure as at 31 December 2006 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17.32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10.20%
Bank of New York (as a depositary)	23 919 466	23 919 466	29 899 333	5.59%
Other	286 079 399	286 079 399	357 599 249	66.89%
Total	**427 709 061**	**427 709 061**	**534 636 327**	**100.00%**

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

24. Minority interests

Minority interests represent part of the net assets of subsidiaries that is not owned, directly or indirectly, by the Group.

Minority interests by company:

	31 December 2006	31 December 2005
Anwil Group	277 887	214 641
Rafineria Trzebinia Group	105 101	96 301
Rafineria Nafty Jedlicze Group	43 979	44 184
Inowrocławskie Kopalnie Soli "Solino" S.A.	26 851	24 008
Petrolot Sp. z o.o.	24 932	30 834
Orlen Oil Sp. z o.o.	26 354	19 302
ORLEN PetroZachód Sp. z o.o.	-	11 506
Unipetrol Group	2 079 741	2 044 120
Spolana a.s.	50 004	59 190
Paramo a.s.	55 686	55 467
Other	41 088	41 599
Total	**2 731 623**	**2 641 152**

25. Explanation of differences between changes in the balance sheet positions and changes presented in the cash flow statement

	2006	2005
Balance sheet change in other non-current assets and trade and other receivables	(1 619 484)	(2 201 159)
Change in Group structure	907 706	1 881 651
Change in advances for the Construction in Progress	81 153	(10 541)
Receivables classified as assets held for sale	(289 856)	-
Other	82 740	(27 886)
Change in receivables in the cash flow statement	**(837 741)**	**(357 935)**

	2006	2005
Balance sheet change in other long-term liabilities and trade and other liabilities and accrued expenses	1 533 617	3 374 108
Change in Group structure	(1 088 321)	(2 064 205)
Liabilities classified as the liabilities directly connected to the assets classified as held for sale	211 627	-
Other	796	25 928
Change in liabilities and accrued expenses in the cash flow statement	**657 719**	**1 335 831**

	2006	2005
Balance sheet change in inventories	(1 285 619)	(2 912 255)
Change in Group structure	1 082 965	1 133 660
Inventories classified to the assets held for sale	(168 824)	-
Other	58 740	(26 730)
Change in inventories in the cash flow statement	**(312 738)**	**(1 805 325)**

	2006	2005
Balance sheet change in provisions	(92 045)	714 530
Change in Group structure	(25 761)	(147 218)
Change in deferred tax liabilities relating to fair value adjustment of non-current assets	10 684	6 136
Provisions classified as the liabilities directly connected with assets held for sale	71 233	-
Recognition in income statement of deferred tax change recorded in equity in the prior period	-	5 037
Other	(2 114)	8 511
Change in provisions in the cash flow statement	**(38 003)**	**586 996**

Sale of shares in subsidiaries and associates

In 2006 the Group sold shares in 4 subsidiaries and associates.

The cumulative impact on the financial statement of these transactions amounted to	2006
Proceeds from sales of shares	21 235
Sales price	25 904
Net assets of entities sold	20 222
Result	5 682
Net Cash and Cash equivalents proceeds	15 553

In 2005 the Group sold shares in 8 subsidiaries and associates.

The cumulative impact on the financial statement of these transactions amounted to	2005
Proceeds from sales of shares	79 356
Sales price	77 376
Net assets of entities sold	34 398
Result	42 978
Net Cash and Cash equivalents proceeds	36 378

26. Segment data

Revenues, expenses and financial result by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Sales to external customers	40 066 040	33 520 927	9 354 088	5 003 059	2 381 069	1 747 013	938 214	813 528			52 739 411	41 084 527
Transactions with other segments	12 664 027	8 243 623	4 383 203	2 084 567	84 764	138 424	1 059 936	876 569	(18 191 930)	(11 343 183)	-	-
Settlement of hedging transactions	21 100	-	106 678	103 740	-	-	-	-			127 778	103 740
Total sales revenues	52 751 167	41 764 550	13 843 969	7 191 366	2 465 833	1 885 437	1 998 150	1 690 097	(18 191 930)	(11 343 183)	52 867 189	41 188 267
Total operating expenses	(50 433 982)	(38 518 411)	(12 744 995)	(6 460 484)	(2 263 806)	(1 758 857)	(1 959 043)	(1 710 174)	18 189 051	11 343 103	(49 212 775)	(37 104 823)
Other operating revenues	303 389	282 144	148 079	70 475	36 738	26 609	86 092	42 006			574 298	421 234
Other operating expenses	(567 058)	(504 389)	(405 258)	(92 039)	(14 795)	(4 311)	(117 256)	(119 066)	92		(1 104 275)	(719 805)
The excess of the fair value of acquired net assets over the acquisition price	-	753 141	-	934 112	-	136 755	-	249 713	-	(281 304)	-	1 792 417
Segment result	2 053 516	3 777 035	841 795	1 643 430	223 970	285 633	7 943	152 576	(2 787)	(281 384)	3 124 437	5 577 290
Unallocated revenues of the Group											38 658	14 120
Unallocated excess of the fair value of acquired net assets over the acquisition price											-	102 520
Unallocated expenses of the Group											(588 323)	(775 706)
Profit (loss) on the sale of all or part of shares of subsidiaries											1 835	29 396
Profit from operations											2 576 607	4 947 620
Financial revenues											602 877	669 028
Financial expenses											(670 838)	(480 195)
Share in profit from investments accounted for under equity method	(325)	985	-	-	1 098	(7 477)	219 928	209 260			220 701	202 768
Profit before tax											2 729 347	5 339 221
Income tax expense											(669 149)	(701 445)
Net profit											2 060 198	4 637 776

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Segment assets	28 743 044	16 890 756	8 153 089	9 492 755	2 460 579	2 348 817	4 584 588	3 698 874	(1 948 696)	(1 752 436)	41 992 604	30 678 766
Investments accounted for under equity method	(4 364)	13 960	18 968	-	8 805	7 312	692 894	1 003 805			716 303	1 025 077
Assets clasiffied as held for sale *	2 626	1 776	1 009 846	-	4 255	4 006	122	183			1 016 849	5 965
Unallocated assets clasiffied as held for sale *											13 759	82 879
Unallocated assets of the Group											1 679 569	1 611 624
Total consolidated assets											45 419 084	33 404 311
Segment liabilities	7 263 561	5 456 289	841 841	834 951	405 929	405 273	790 198	1 075 895	(1 833 366)	(1 599 824)	7 468 163	6 172 584
Liabilities related to assets clasiffied as held for sale	-	-	195 956	-	-	-	-	-	-		195 956	-
Unallocated liabilities of the Group											16 172 402	7 918 738
Total consolidated liabilities											23 836 521	14 091 322

*- assets in the Refining Segment classified as held for sale concern: fuel stations, real estate and movables

- assets in the Petrochemical Segment classified as held for sale concern assets of Kaucuk a.s.

- assets in the Chemical Segment classified as held for sale concern: real estate, movables and shares

- other operations Segment includes other assets classified as held for sale

- unallocated assets classified as held for sale concern: shares in Sanatorium Uzdrowiskowe “Krystynka” Sp. z o.o. of PLN 2,262 thousand, shares in Celio a..s. of PLN 10,410 thousand and shares in Agro Azoty II of PLN 507 thousand in 2006 and shares in AW S.A. Holland II B.V. of PLN 72,469 thousand and in Celio a.s. of PLN 10,410 thousand in 2005.

All of the Group’s assets as at 31 December 2006 and 31 December 2005 are located in Poland, Germany, Lithuania, Latvia, Estonia, Czech Republic, Malta, Switzerland, Austria and Spain, where also all capital expenditures were incurred in the years ended 31 December 2006 and 31 December 2005.

Other information by business segments – continued

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Cost incurred to acquire property, plant and equipment and intangible assets	1 165 156	995 443	320 223	386 544	174 338	294 766	218 363	158 726	1 878 080	1 835 479
Unallocated cost incurred to acquire property, plant and equipment and intangible assets									63 556	42 444
Total cost incurred to acquire property, plant and equipment and intangible assets									1 941 636	1 877 923
Segment depreciation	925 828	846 528	757 547	486 860	183 135	196 275	212 519	216 636	2 079 029	1 746 299
Depreciation of unallocated assets									29 098	33 645
Total depreciation									2 108 127	1 779 944
Non-cash expenses other than depreciation	409 459	335 881	298 576	78 255	4 770	4 019	53 228	145 134	766 033	563 289

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Additions of impairment allowances	(385 462)	(152 598)	(298 576)	(43 713)	(12 743)	(1 375)	(38 295)	(16 946)	(735 076)	(214 632)
Unallocated allowances									(39 175)	(5 937)
Total additions of impairment allowances									(774 251)	(220 569)
Reversal of impairment allowances	93 431	120 986	61 481	36 870	14 931	15 895	14 056	17 031	183 899	190 782
Unallocated reversal of impairment allowances									12 717	8 277
Reversal of impairment allowances									196 616	199 059

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:

- receivables allowances;
- inventories allowances;
- property, plant and equipment allowances.

Allowances and reversals were performed in conjunction with occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment.

Allowances made in the Refining Segment concerned primarily impairment of petrol stations and warehouse bases. Allowances for idle assets and obsolete raw materials were recognized in other activities segment.

Impairment allowances include also impairment of goodwill on acquisition of Mazeikiu in the amount of PLN 305,105 thousand, including:

- PLN 274,207 thousand in Refining Segment;
- PLN 23,838 thousand in Other operations;
- PLN 7,060 thousand in unallocated segment.

Geographical segments

The below table presents the Group's sales revenues by geographical segments for the periods ended 31 December 2006 and 31 December 2005.

	Revenues from sale by geographical area	
	for the year ended	
	31 December 2006	31 December 2005
Poland	28 438 380	21 149 179
Germany	11 790 349	9 904 008
Czech Republic	7 209 880	6 719 902
Other countries	5 428 580	3 415 178
Total revenues from sale by geographical area	52 867 189	41 188 267

27. Financial instruments

a. Transactions within derivatives of the Parent Company

According to market risk management policy approved by the Management Board of PKN ORLEN S.A., the reduction of the volatility of cash flows and potential losses resulting from events which could have a negative impact on the Company's result is the Company's major goal in terms of market risk management. Market risk management includes identification, measurement and definition of risk mitigation, taking into consideration fluctuation of exchange rates, interest rates and prices of goods.

According to market risk management policy revised in January 2006 the Company started to hedge its net operating exposure in EUR and USD systematically. Financial instruments used to hedge the above mentioned exposures have been currency forwards. The principles of cash flow hedge accounting were not applied to the instruments acquired and settled in the same quarter. In other cases, cash flow hedge accounting was applied to this group of financial instruments. The cash flows resulting from the settlement of the instruments hedging the net operating exposure in EUR and USD amounted to PLN 126.6 million in 2006.

In May and June 2006 PKN ORLEN S.A. had concluded share purchase agreements with Yukos International B.V. and the Government of the Republic of Lithuania with regard to purchase of shares in AB Mazeikiu Nafta. In conjunction with the fact that a significant part of financing of the transaction was to be arranged by means of bank loans denominated in EUR, from August 2006 the Company has been entering into EUR forward puts in order to accumulate USD required to settle the purchase price for the shares in Mazeikiu. In addition, in December 2006 the Company acquired USD in exchange for PLN. For both of the above transactions currency forwards had been used to minimize exchange rates fluctuations. In October 2006, part of the instruments was rolled over with a gain of PLN 52.8 million. In November and December 2006, due to the weakening of USD, the final settlement of instruments resulted in a loss of PLN 156.9 million. The principles of cash flow hedge accounting were not applied to the above described instruments.

The Company values derivatives at fair value using financial instruments valuation models that utilize widely available data from active markets. The transactions can only be concluded with reliable partners that were authorized to participate in transactions as a result of procedures obliging in the Company and within limits granted. In accordance with market risk management policy, conclusion of transactions for speculation is unallowable in PKN ORLEN S.A. All the concluded hedge transactions are reflected in the physical transactions and hedge risk resulting directly from relevant actual transactions or belong to the group of probable transactions.

Swap hedging transactions:

	Financial assets – hedging transactions - derivatives	Financial liabilities – hedging transactions - derivatives
Fair value as at 31 December 2005	**96 840**	-
Increase	-	-
Decrease	**96 840**	**-**
sale, release, repayment	96 840	-
Fair value as at 31 December 2006	**-**	**-**

Final settlement of the EUR/PLN currency-interest rate swap transactions acquired in 2003 and used as hedging transactions for revenues from petrochemical business was made in September and November 2006.

Forward hedging transactions:

	Financial assets – hedging transactions - derivatives	Financial liabilities – hedging transactions - derivatives
Fair value as at 31 December 2005	**-**	-
Increase	37 241	8 504
valuation	37 241	8 504
Decrease	**-**	**-**
Fair value as at 31 December 2006	**37 241**	**8 504**

As at the end of December 2006 the Company's portfolio comprised 116 currency forwards acquired in 2006, including 32 forwards concerning purchase of USD currency in the amount of USD 97.5 million, 41 forwards concerning sales of USD currency in the amount of USD 169.2 million and 43 forwards concerning sales of EUR currency in the amount of EUR 250.1 million. The joint existence of both purchase and sale forward transactions in USD resulted from the corrections to the portfolio of hedging transactions that reflected anticipated changes to the net operating exposure in USD. The principles of cash flows hedge accounting have been applied to these instruments.

b. Transactions within derivatives of subsidiaries and jointly controlled entities

Chemopetrol, a subsidiary, has acquired interest rate swaps in order to hedge against the interest rate risk.

The below table presents information on interest rate swaps as of 31 December 2006:

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value in CZK as at 31 December 2006
Chemopetrol	CITIBANK N.A.	Interest rate swap	06.09.00	15.02.01-15.08.08	USD 10,351 thousand	fix 6,70 - 6M USD LIBOR	CZK (5,314) thousand
Chemopetrol	CITIBANK N.A.	Interest rate swap	06.09.00	15.02.01-15.08.08	USD 10,351 thousand	fix 6,35 - 6M USD LIBOR	CZK (4,035) thousand

Principles of hedge accounting have been applied with regard to the above described instruments.

Chemopetrol has also acquired a cross currency swap for speculation purposes. The below table presents information on cross currency swaps as of 31 December 2006:

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value in CZK as at 31 December 2006
Chemopetrol	Česká spořitelna, a.s.	Cross currency swap	15.04.05	15.07.05-15.07.11	EUR 25,600 thousand - CZK 768,000 thousand	6M EURIBOR - 6M PRIBOR	CZK 51,892 thousand

Interest paid by the Chemopetrol Group in 2006 amounted to CZK 28,553 thousand. Principles of hedge accounting have not been applied with regard to the above described instruments

Basell ORLEN Polyolefins Sp. z o.o. (“BOP”), a jointly controlled entity, has acquired an interest rate swap denominated in EUR in order to hedge against interest charge cash outflows risk related to external financing of BOP.

The below table presents information on interest rate swap as of 31 December 2006 (the data represent 100% value of the transaction):

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value as at 31 December 2006
Basell Orlen Polyolefins Sp. z o.o.	Rabobank	Depreciated interest rate swap (BOP is charged with a fixed interest rate)	21.12.2006	Until 31.12.2011	EUR 260 mio as of 31.12.2006, subsequently depreciated)	EURIBOR 6M	Liability of PLN (15,601) thousand

c. Financial instruments by class:

	31 December 2006	31 December 2005
1. Financial assets at fair value through profit and loss	22 668	96 962
2. Financial assets held to maturity	250 071	19 638
3. Financial assets available for sale	1 638 232	223 748
4. Loans and receivables, including:	4 748 393	4 077 160
-loans granted	5 272	15 409
-trade receivables	4 743 121	4 061 751
5. Cash and cash equivalents	2 351 320	1 126 803
6. Financial liabilities at fair value through profit and loss	8 525	40
7. Trade liabilities	5 269 065	4 260 309
8. Interest-bearing loans and borrowings	10 489 105	4 516 797

The value of long-term financial assets stated at cost less impairment charges as at 31 December 2006 amounted to PLN 24,790 thousand and as at 31 December 2005 to PLN 24,833 thousand and included mainly shares and stakes not quoted in an active market.
The Group recognized derivative transactions with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.

The value of financial assets available for sale stated at fair value as at 31 December 2006 and 31 December 2005 includes, among others, hedging derivatives of PKN ORLEN.

d. Interest rate risk

The Group's financial liabilities are held to maturity. The effective interest rate is similar to nominal interest rate (loan margins and commissions are at relatively low level). Cash flow surpluses are deposited primarily in treasury securities i.e. State Treasury bills and/or bonds.

The Group uses bank loan financing. The fluctuation of interest rates impacts both financial expenses and financial revenues. An increase in interest rates results in an increase in the Group's financial expenses, in particular interest on loans and borrowings, as well as it contributes to an increase in interest from deposited cash.

e. Credit risk

The Group has implemented credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types. 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. In addition, trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt enforcement procedures implemented as described by the obliging procedures.
By virtue of the above, the Management Board of the Company believes that no significant credit risk exists, receivables considered difficult to recover have been covered by an allowance.

f. Currency risk

The main sources of currency risk influencing the Group are: purchases of raw materials, sales of refinery and petrochemical products, real and capital investments indexed to currencies other than the Group companies' functional currency or denominated in currencies other than the Group companies' functional currencies, as well as loans, borrowings and cash in foreign currency.

In 2006 the Company hedged its net EUR exposure with currency swaps and currency forwards stabilizing cash flows from sales of petrochemicals dependent on EUR/PLN exchange rate. In addition, the Company hedged its net operating exposure in USD with currency forwards stabilizing cash flows from sales of refinery products and purchases of REBCO crude oil dependent on USD/PLN exchange rate.

Pursuant to the fact that a significant part of share purchase of Mazeikiu was financed by bank loans denominated on EUR, the Parent Company had acquired EUR currency forward puts to accumulate USD required to settle the purchase price for the shares in Mazeikiu. For the above transactions currency forwards had been used to minimize exchange rates fluctuations.

28. Cost by kind

	for the year ended 31 December 2006	for the year ended 31 December 2005
Materials and energy	28 877 679	20 742 180
Cost of merchandise and materials sold	13 711 215	11 567 863
External services*	2 983 160	2 337 672
Payroll, social security and other employee benefits	1 512 016	1 267 120
Depreciation	2 108 127	1 779 944
Taxes and charges	300 302	284 154
Other	1 533 377	1 376 928
	51 025 876	**39 355 861**
Change in inventory and prepayments	6 149	(598 839)
Cost of products and services for own use	(126 652)	(156 688)
Operating cost	**50 905 373**	**38 600 334**
Distribution expenses	(2 641 239)	(2 391 290)
General and administrative expenses	(1 170 927)	(1 039 333)
Other operating expenses	(1 221 477)	(1 090 863)
Cost of finished goods, merchandise and raw materials sold	**45 871 730**	**34 078 848**

* including PLN 14,633 thousand in 2006 and PLN 13,012 thousand in 2005 of research and development cost

29. Other operating revenues and expenses

Other operating income

	for the year ended 31 December 2006	for the year ended 31 December 2005
Profit on sale of non-financial non-current assets	25 754	11 657
Provision reversal	174 405	52 944
Reversal of impairment allowances of assets	196 616	199 059
Proceeds from perpetual usufruct of land	5 563	-
Penalties and compensations earned	29 133	14 682
Revenue from sale of investments	51 617	712
Other *	129 868	2 051 237
Total	**612 956**	**2 330 291**

* including in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the cost of PLN 1,893,688 thousand

Allowance reversed for:

	for the year ended 31 December 2006	for the year ended 31 December 2005
Receivables	116 705	128 214
Inventories	29 001	4 118
Property, plant and equipment and intangible assets	50 910	66 727
Total	**196 616**	**199 059**

Other operating expenses

	for the year ended 31 December 2006	for the year ended 31 December 2005
Loss on sale of non-financial non-current assets	16 315	19 281
Revaluation of non-financial non-current assets	288 732	40 180
Creation of provisions	129 812	701 740
Impairment allowances	485 519	180 389
Donations	8 750	6 204
Nonculpable shortages in current assets	13 756	16 894
Fair value measurement of Kaucuk	230 448	-
Other	48 145	126 175
Total	**1 221 477**	**1 090 863**

Impairment allowances for:

	for the year ended 31 December 2006	for the year ended 31 December 2005
Receivables	152 004	165 060
Inventories	28 156	12 511
Property, plant and equipment and intangible assets *	305 359	2 818
Total	**485 519**	**180 389**

* incl. impairment of goodwill on acquisition of shares in Mazeikiu in the amount of PLN 305,105 thousand

30. Net financial income and expenses

	for the year ended 31 December 2006	for the year ended 31 December 2005
Interest paid	(255 270)	(203 612)
Negative foreign exchange differences surplus	(187 601)	(181 654)
Interest received	78 642	123 972
Positive foreign exchange differences surplus	381 561	172 434
Gains on trade in shares and other securities	6 826	7 069
Dividends received	10 662	8 899
Premium earned on the acquisition of liabilities of Unipetrol Group	8 755	245 696
Decrease in receivables allowances	14 100	17 998
Increase in receivables allowances	(13 804)	(28 436)
Settlement and valuation of financial instruments *	(79 232)	32 402
Other	(32 600)	(5 935)
Total	**(67 961)**	**188 833**

* incl. in 2006 PLN (104,154) thousand settlement of financial instruments hedging future payments with regard to the acquisition of Mazeikiu

31. Income tax

	for the year ended 31 December 2006	for the year ended 31 December 2005
Current tax	(783 704)	(713 999)
Deferred tax	114 555	12 554
Total	**(669 149)**	**(701 445)**

The difference between reported income tax expense in the profit and loss statement and the amount calculated based on profit before tax results from the following items:

	for the year ended 31 December 2006	for the year ended 31 December 2005
Profit before tax	**2 729 347**	**5 339 221**
Corporate income tax for 2006 and 2005 by the valid tax rate (19% in Poland)	518 576	1 014 452
Difference between Polish and German (40%) tax rates	(5 139)	36 750
Difference between Polish and Czech (24%) tax rates	(8 779)	(8 851)
Increase in income tax expense due to return of the investment relief granted to Unipetrol a.s.	27 816	-
Taxation on the excess of the fair value of acquired net assets over cost	-	(360 038)
Business risk provision	13 277	83 244
Impairment of goodwill	57 970	-
Fair value measurement of Kaucuk	55 308	-
Valuation of financial instruments	1 911	(5 037)
The excess of tax depreciation	3 858	(34 316)
Subventions received	-	7 600
Valuation of entities accounted under the equity method	(41 933)	(39 759)
Penalties and compensations paid	16 886	513
Other	29 398	6 887
CORPORATE INCOME TAX	**669 149**	**701 445**
Effective tax rate	25%	13%

Effective tax rate in 2006 is mainly an effect of fair value measurement of Kaucuk and goodwill impairment due to acquisition of Mazeikiu. Effective tax rate in 2005 is an effect of the excess of fair value of the net identifiable assets, liabilities and contingent liabilities over the acquisition cost of Unipetrol a.s. shares.

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell ORLEN Polyolefins Sp. z o.o capital group which is also a tax capital group comprising Basell ORLEN Polyolefins Sp. z o.o. and Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.

As the companies in the Group are separate taxpayers, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheet presents deferred tax assets of PLN 165,928 thousand as at 31 December 2006 and PLN 62,131 thousand, as at 31 December 2005 and deferred tax liabilities of PLN 1,765,761 thousand as at 31 December 2006 and PLN 1,020,159 thousand as at 31 December 2005.

The net deferred tax liability as at 31 December 2006 and 31 December 2005 comprised of the following:

	31 December 2006	31 December 2005
Deferred tax assets:		
Land reclamation provision	78 650	88 674
Receivables allowances	26 344	10 942
Retirement benefits and jubilee bonuses	46 967	23 704
Expenses for loyalty programme prizes	12 601	11 753
Impairment of non-current assets	-	78 773
Financial instruments	11 498	(19 419)
Valuation of non-current financial assets	18 633	37 091
Impairment of property, plant and equipment and intangible assets	30 796	1 218
Other provisions	47 193	18 859
Valuation of property, plant and equipment	78 923	-
Unrealised negative foreign exchange differences	59 321	-
Bonds valuation	25 337	-
Impairment allowance for inventories valued at net realisable value	17 920	845
Wages and salaries, unpaid	18 354	15 887
Accrued expenses	24 530	11 154
Other	87 589	43 930
Total deferred tax assets	**584 656**	**323 411**
Deferred tax liabilities:		
Investment relief *	104 680	137 155
Difference between carrying amount and tax base of property, plant and equipment	1 057 234	978 068
Unrealised positive foreign exchange differences	-	49 214
Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o.	42 870	42 870
Valuation of assets	901 275	-
Finance lease treated as operational for tax purposes	26 606	26 296
Other	51 824	47 836
Total deferred tax liabilities	**2 184 489**	**1 281 439**
Deferred tax liabilities, net	**1 599 833**	**958 028**

* According to the Polish tax regulations, taxpayers were entitled to deduct qualified investment expenditures in a given tax year from the taxable income (investment relief). In addition, taxable income could have been further reduced in the following year by 50% of previous year's deduction (investment premium). This was described in detail in Note 35 c.

32. Leases

a) The Group as a lessee

- operating lease

Lease agreements and other agreements of an operating nature regard mainly the lease of tanks, facility, buildings, cars, tractors, semi trailers, vehicle tanks, forklifts and computer equipment. The minimum lease payments recognized as costs of 2006 amounted to PLN 61,216 thousand and PLN 30,233 thousand in 2005.

Future minimum lease payments under non-cancelable operating lease agreements as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	58 387	21 215
Between 1 and 5 years	150 573	247 844
Above 5 years	-	-
Total minimum lease payments	**208 960**	**269 059**

- finance lease

Finance lease agreements regard mainly the lease of cars, computer equipment, vehicle tanks, wagons, buildings, tractors, semi trailers and forklifts.
Future minimum lease payments under non-cancelable operating lease agreements as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	26 811	33 454
Between 1 and 5 years	49 458	81 804
Above 5 years	2 175	48 231
Total minimum lease payments	**78 444**	**163 489**

As at 31 December 2006 carrying amount of property, plant and equipment under finance lease amounted to PLN 155,587 thousand, including PLN 97 thousand with regard to buildings and constructions, PLN 54,118 thousand with regard to machinery and equipment, PLN 100,476 thousand with regard to vehicles and PLN 896 thousand with regard to other property, plant and equipment.
As at 31 December 2005 carrying amount of property, plant and equipment under finance lease amounted to PLN 150,369 thousand, including PLN 101 thousand with regard to buildings and constructions, PLN 59,569 thousand with regard to machinery and equipment, PLN 89,798 thousand with regard to vehicles and PLN 901 thousand with regard to other property, plant and equipment.

b) The Group as a lessor

- **operating lease**

Operating lease agreements regard the lease of machinery, equipment, buildings and cars. The minimum lease payments amounted to PLN 37,348 thousand in 2006 and PLN 16,683 thousand in 2005.

Gross investment in the lease due as at 31 December 2006 and 31 December 2005 for future periods were as follows:

	31 December 2006	31 December 2005
Up to 1 year	597	3 566
Between 1 and 5 years	2 975	13 588
Above 5 years	4 288	18 066
Total gross investments in the lease	**7 861**	**35 220**

- **finance lease**

Finance lease agreements regard the lease of distributors and steering devices owned by the Parent Company. The agreements were concluded for a definite period. The lease term is for the major part of the economic life of the asset. After expiration of a lease agreement a lessee can purchase the object of the lease on mutually agreed conditions.

The lease agreements were concluded for an indefinite period hence there is no possibility to define future minimum lease payments. Gross investments in the lease due as at 31 December 2006 and 31 December 2005 for future periods were as follows:

	31 December 2006	31 December 2005
Up to 1 year	310	878
Between 1 and 5 years	52	301
Above 5 years	-	-
Total gross investments in the lease	**362**	**1 179**

Unearned finance income as at 31 December 2006 amounted to PLN 168 thousand and as at 31 December 2005 to PLN 109 thousand.

As at 31 December 2006 and 31 December 2005 the Group companies did not record contingent rents recognized in the profit and loss and allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the Group.

33. Commitments resulting from investment expenditures

Investments expenditures in 2006 accounted for PLN 2,057,058 thousand, including PLN 172,722 thousand of environmental protection related investments. Planned investment expenditure in the Group in the period of 12 months from the balance sheet date amounts to PLN 3,478,083 thousand, including PLN 496,781 thousand of environmental protection related investments. As at 31 December 2006 future liabilities resulting from signed contracts amounted to PLN 1,157,896 thousand.

34. Related party transactions

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

In 2006 and 2005 the Group companies did not grant any advances, loans, guarantees and commitments, or other agreements obliging Management Board, Supervisory Board and their relatives, to render services to the Company and related parties.
As at 31 December 2006 and 31 December 2005 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the years ended 31 December 2006 and 31 December 2005 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

b. Transactions with related parties concluded through the supervising persons of the Company and supervising persons of the Companies from the Capital Group

In 2006 the Company obtained statements on transactions with related parties extended in scope in regard of the amended IAS 24 “Related Party Disclosures” from the supervising persons of the Company and supervising persons of the Companies from the Capital Group.

	Sale	Purchase	Receivables	Liabilities
Legal persons *	79 901	210 999	5 069	40 085
Natural persons	300	-	-	-

* Transactions in the period of performing duties as supervising persons in the Company.

c. Transactions with related parties concluded through the managing persons of the Company and managing persons of the companies from the Capital Group

In 2006 the managing persons of the Company and managing persons of the companies from the Capital Group did not conclude any significant transactions with related parties in regard of IAS 24 “Related Party Disclosures”.

d. Transactions with related parties concluded through the key management personnel of the Company and key management personnel of the companies from the Capital Group

	Sale	Purchase	Receivables	Liabilities
Legal persons*	603	22	11	-
Natural persons	56	-	-	-

* Transactions in the period of performing duties as key management personnel

e. Transactions with related parties, not consolidated with the full method, were concluded on market conditions and are presented below:

	Companies consolidated with the equity method
Sale	
2006	28 369
2005	26 616
Purchase	
2006	160 652
2005	192 300
Short term receivables	
31 December 2005	3 748
31 December 2005	4 532
Short term liabilities	
31 December 2005	26 137
31 December 2006	18 256

The above transactions with related parties relate to sale and purchase of petrochemicals, and purchase of repair, transport and other services.

35. Contingent liabilities and risks

a. Guarantees and sureties of PKN ORLEN Group in 2006

	31 December 2005	Increase/ Decrease	31 December 2006	Expiration of guarantee/ surety
guarantee of payment for the benefit of Lithuanian Bank in relation to mandatory trade offering for shares attributable to minority shareholders of Mazeikiu Group (released at 29 January 2007)	-	1 283 452	1 283 452	29.01.2007
guarantees issued by PKN ORLEN Group for the benefits of legal persons	44 530	18 030	62 560	03.10.2009
customs guarantees issued by Unipetrol a.s. and the Parent Company as collateral of liabilities to Customs Office due to import of merchandise	14 755	(9 923)	4 832	03.03.2008
collateral for factoring with recourse and for customers' liabilities related to the PayLink Card Agreement issued by ORLEN Oil Sp. z o.o. and ORLEN PetroTank Sp. z o.o.	14 607	(10 515)	4 092	30.09.2007
bid guarantees issued by PKN ORLEN Group for the benefit of legal persons	2 011	(1 092)	919	12.02.2007
guarantee issued by Anwil S.A. for the benefit of UHDE GmbH related to the change in chlorine production technology investment	3 926	(3 926)	-	09.08.2006
Other*	2 211	694	2 905	31.12.2008
Total guarantees and sureties:	**82 040**	**1 276 720**	**1 358 760**	

* including guarantee of the loan for construction of a sewage-treatment plant for the city of Inowrocław in the amount of PLN 700 thousand as at 31 December 2005.

Contingent liabilities of Mazeikiu Group are presented in accordance with IFRS 3 "Business Combinations" as balance sheet liabilities arose at the day of acquisition.

b. Other contingent liabilities of PKN ORLEN Group in 2006

	31 December 2005	Increases/ Decreases	31 December 2006
excise tax guarantees (including collaterals submitted on behalf of PKN ORLEN Group and third parties in respect of movements of harmonized excise goods kept on warehouse under the excise tax suspension procedure)*	966 379	94 305	1 060 684
letter of credits	14 491	27 591	42 082
legal cases related to real estates with undefined legal status	15 518	7 635	23 153
anti trust proceeding of the Office for Competition and Consumers' Protection in respect of setting the price formula of anti-freeze engine coolant and glycol (detailed information in note 35 h)	-	14 000	14 000
legal cases	24 174	(14 176)	9 998
Total other contingent liabilities:	**1 020 562**	**129 355**	**1 149 917**
Total contingent liabilities (guarantees and sureties and other contingent liabilities)	**1 102 602**	**1 406 075**	**2 508 677**

*including as at 31 December 2006 excise tax guarantee of PKN Orlen S.A. in the amount of PLN 854,235 thousand related to products in production plant in Płock, tax warehouses and warehouse-bases (owned and belonging to third parties) as well as bank guarantees of PKN ORLEN S.A. in the amount of 103,000 thousand submitted on behalf of Operator Logistyczny Paliw Płynnych (former NAFTOBAZY Sp. z o.o.) as excise tax guarantees.

c. Investment relief

In accordance with tax regulations, in force in previous years, Group companies reduced the taxable income for the purposes of corporate income tax by the following titles:

- investment expenditures incurred in a given tax year (investment relief)
- 50% of the previous year's investment relief (investment premium).

During the period 2002-2003 Group companies reduced the taxable income by investment relief and investment premium in the following amounts:

Year of deduction	Investment relief	Investment premium
2002	14 234	49 222
2003	-	6 923
	---	---
Total	**14 234**	**56 145**

Despite the fact that the investment relieves and investment premiums are of contingent nature, the Group companies do not identify a risk that its right to the deductions might be denied by the tax authorities. The Group companies do not also identify a risk of losing the right to relieves and premiums due to breach of conditions which in effect oblige to return the amounts deducted.

As at the date of preparation of these financial statements Unipetrol Group companies have utilized PLN 40,451 thousand of investment relieves.
As at the date of preparation of these financial statements Mazeikiu Group companies have utilized PLN 54,276 thousand of investment relieves.

d. Excise tax contingent liability of Rafineria Trzebinia S.A.

On 15 October 2004, the Head of the Customs Office in Kraków had decided to institute tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all necessary expert opinions confirming correctness of the applied classification of goods taxed with 0 PLN rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter by the second instance authority.

On 5 May 2005, in reply to its motion to suspend execution of a decision until the date of settling the matter, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.

On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined Rafineria Trzebinia S.A.'s appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.

On 28 July 2005 the Head of the Customs Office, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total amount of about PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary opinions confirming correctness of the applied classification of goods taxable with 0 PLN rate, which according to the Management Board guarantees a positive outcome of the proceedings.

On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and filed a motion to suspend execution of the decisions until the case is decided by the second instance authority. On 11 August 2005, the Head of the Customs Office in Kraków, having examined the appeal of Rafineria Trzebinia S.A. of 8 August 2005, suspended execution of the decision in respect of setting the excise tax liability for the period of May-August 2004 at about PLN 100 million. On 14 November 2005 the Head of the Customs Office in Kraków had decided to refuse to accept evidence from the hearings of witnesses using argument that it does not constitute any significant circumstances in respect of the case. In addition, the Customs Office declined to accept corrections to excise tax declarations submitted by Rafineria Trzebinia S.A. for the period May-September 2004, resulting from the change in excise tax rate for technological oils from 60 PLN/Mg to 0 PLN. The Office declined acceptance based on the fact that there were proceedings in progress in respect of the case.

On 30 December 2005 the Head of the Customs Office in Kraków issued a decision keeping the first instance authority's decision in force. Rafineria Trzebinia S.A. prepared a complaint to the Woivodship Administrative Court against the decision of the Head of the Customs Office in Kraków together with a motion to suspend execution of the decision. The complaint and a motion to suspend execution of the decision were submitted to the Woivodship Administrative Court in Kraków on 3 February 2006. On 14 February 2006 the Head of Customs Office in Kraków issued a decision on suspending execution of the decision until the case is decided by Woivodship Administrative Court.

Until the present moment the case regarding company's excise tax liability is in progress in front of Woivodship Administrative Court and the outcome is unknown.

On 19 March 2007 Rafineria Trzebinia S.A. received a notification from the Tax Chamber in Kraków in respect of a compulsory entry made in the mortgage register by the District Court in Chrzanów for the benefit of State Treasury. The mortgage register entry regarded both real estate owned and used under perpetual usufruct by Rafineria Trzebinia. The real estates pledge for the excise tax liability for the period May-September 2004 as determined by the decisions issued by the Head of the Customs Office in Kraków.

The Management Board, based on the opinions of recognized tax advisors, states that in connection with the excise tax for technological oils proceedings in progress, there is a high probability of positive outcome, based on the evidence and arguments raised by Rafineria Trzebinia S.A.. As a result Rafineria Trzebinia S.A. did not create a provision related to the case in the unconsolidated financial statement for the period ended 31 December 2006.

Submission of a certificate issued by tax authorities with regard to absence of outstanding liabilities related to taxes and charges stands as one of conditions required to obtain a permit to maintain tax consignment warehouse. At the present condition, Rafineria Trzebinia S.A. is unable to submit such certificate and as a result, in the beginning of 2007, the Management Board of Rafineria Trzebinia S.A. has decided that the sole solution to receive the permit for prolongation of tax consignment warehouse maintenance is to repay disputable liabilities.
On 6 March 2007, the Management Board of Rafineria Trzebinia S.A. filed a motion to the Customs Office in Kraków with regard to spread the payment of the disputable liabilities imposed based on decisions of the Head of the Customs Office in Kraków into installments

On 5 April 2007, a decision of the Head of the Customs Office in Kraków was received by Rafineria Trzebinia. The Head of Customs Office refused to accept the motion of the taxpayer, refusing to spread the tax liability into installments. On 6 April 2007, the Management Board of Rafineria Trzebinia S.A. appealed against the decision of the authority to the Head of the Tax Chamber in Kraków. Until the authorization date of the consolidated financial statements, the outcome of the appeal as well as its potential impact on the financial statements are not known.

Acting under the authorization from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003. On 30 November 2006 Rafineria Trzebinia S.A. received a control protocol related to the above period. On 14 December 2006 the Plenipotentiary of Rafineria Trzebinia S.A. raised reservations to the content of the protocol. The reservations regarded formal faults related to the protocol as well as to control proceedings. On 28 December 2006 the Head of Tax Control Office submitted the response to reservations raised by the Plenipotentiary of Rafineria Trzebinia S.A.

Termination date of control proceedings was extended to 29 June 2007.

On 12 May 2006 Rafineria Trzebinia S.A. received a decision of the Head of Tax Control Office in Kraków regarding institution of control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of value added tax and excise tax for the period from 1 January 2004 to 30 April 2004. On 15 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a control protocol related to the above described period. On 29 January 2007 the Plenipotentiary of Company raised reservations and considerations to this protocol which included, among other matters, lack of legal basis for the control proceedings related to the specified period in conjunction with the decision of the Head of Customs Office in Kraków dated 17 September 2004 that waived the proceedings on determination of excise tax liability for January, February and March 2004 due to lack of legal substance. In addition the Plenipotentiary raised reservations in respect of lack of legal opinion on the matter subject to control in the control protocol.

In a letter dated 6 February 2007, the Tax Control Inspector representing the Tax Control Office in Kraków presented the office's position in respect of reservations to the control protocol for the period January-April 2004 that had been raised by the Plenipotentiary.

Termination date of control proceedings was extended to 29 June 2007.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in the unconsolidated financial statement for the period ended 31 December 2006.

On 22 October 2006 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Małopolska regarding institution of control proceedings with respect to excise tax liability for the period of January, February and April – August 2005. The termination date of the above proceedings is 30 April 2007.

On 26 February 2007 the Head of Tax Office in Małopolska, seated in Kraków, had decided to institute tax control proceedings with regard to setting of value added tax (VAT) liability for March 2005.
The above proceedings concern intracommunity supplies of finished goods and merchandise.

On 10 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Kraków regarding institution of control proceedings with respect to excise tax liability for the period of November-December 2004. The proceedings concern deducting of input excise tax on purchased components with excise tax paid by the party not being an excise tax taxpayer, from the output excise tax.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in the unconsolidated financial statement for the period ended 31 December 2006.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 459,962 thousand as at 31 December 2006. The share of PKN ORLEN in total voting rights at the General Meeting of Shareholders of Rafineria Trzebinia amounted to 77.15%.

e. The proceedings of the Energy Regulatory Office in Rafineria Trzebinia S.A.

On 24 March 2006 Rafineria Trzebinia S.A. received a notice from the Chairman of the Energy Regulatory Office regarding official institution of proceedings in respect of imposing a fine in connection with violating of concession obligations regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport and Directive 2003/17/EC of the European Parliament and of the Council of 3 March 2003 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels while on one hand effective 1 May 2004 Poland has become a member of the European Union whereas on the other hand no decrees of the Minister of Economy in respect of quality requirements for biofuels were available.
On 8 September 2006 the Chairman of the Energy Regulatory Office issued a decision imposing a fine of PLN 1 million in connection with alleged violating of concession regarding production of liquid fuels by Rafineria Trzebinia S.A. On 26 September 2006 the Management Board of Rafineria Trzebinia S.A. appealed via the Chairman of the Energy Regulatory Office to the Court of Competition and Consumer Protection, District Court in Warsaw, against the decision of the Chairman of the Energy Regulatory Office. The appeal regarded complete waiver of the decision. Unless waived, the Management Board of Rafineria Trzebinia appealed that the decision was changed in respect of the merit by waiver of the proceedings in front of the Chairman of the Energy Regulatory Office due lack of legal substance as Rafineria Trzebinia S.A. violated neither laws nor the concession obligations. The motion submitted by Rafineria Trzebinia included also a prejudicial query to the Court of Justice of the European Communities in Luxembourg via the Competition and Consumers Protection Court, regarding the application of the acquis communautaire based on article 234 of the ECT. The query was as follows: “Was Rafineria Trzebinia – a business entity registered in the Republic of Poland – entitled in 2006 to production of biofuels with a 20% fraction of biocontent in line with the standard EN 14214 and trade in biofuels in the Republic of Poland and other countries of the European Union, in accordance with the law of European Communities, in particular in accordance with the Directive 2003/30/EC of the European Parliament and of the Council on the promotion of the use of biofuels or other renewable fuels for transport, whereas the Republic of Poland did not implement the provisions of the above stated Directive within the period specified in the Directive?”. On 6 December 2006 the Chairman of the Energy Regulatory Office submitted a response to the appeal, claiming waiver of the appeal as it identified no basis to change the decision in respect of the fine. Among other matters, the Chairman of the Energy Regulatory Office stated that the violation of the acquis communautaire as described by Rafineria Trzebinia S.A. did not occur as the fine was imposed on the Company in relation to trade of fuels not meeting quality standards defined in the decree dated 19 October 2005 in the Republic of Poland, and in conjunction with this case the decision was effective solely in the Republic of Poland and consequently it could not violate acquis communautaire. In accordance with article 130 § 2 of Administrative Proceedings Code the payment of the fine is suspended until the appeal is resolved.

On 2 April 2007 the Competition and Consumers Protection Court in Warsaw pronounced a sentence giving consideration to Rafineria Trzebinia S.A.'s appeal and changing the decision of the Chairman of the Energy Regulatory Office in respect of the fine of PLN 1,000 thousand by waiver of proceedings. The decision is appealable in front of the Court of Appeals in Warsaw.

f. Standing of Rafineria Trzebinia S.A. in connection with its management's decision to temporarily discontinue production and sales of the biofuel containing 20% of FAME esters

The immediate reason for the decision to temporarily discontinue production and sales of the biofuel containing 20% of FAME esters was the Decree of the Minister of Finance reducing allowances to excise tax liabilities. As a consequence, the financial standing of Rafineria Trzebinia, an owner of modern biofuel production installations, deteriorated and the bank creditors of Rafineria Trzebinia demanded additional collateral on Rafineria Trzebinia's property.
The establishing of collateral must have been preceded by conclusion of agreements between Rafineria Trzebinia S.A. and PKN ORLEN and banks: Pekao S.A. and BPH S.A.
PKN ORLEN as a strategic investor has actively engaged in financial standing improvement process of Rafineria Trzebinia.
On 5 March 2007, an agreement was signed in Warsaw between Rafineria Trzebinia S.A., PKN ORLEN, Pekao S.A. bank and BPH S.A. bank. The agreement regarded restructuring of indebtedness of Rafineria Trzebinia S.A. to banks and PKN ORLEN.

The agreement defined conditions for repayment of bank loan liabilities of Rafineria Trzebinia S.A. due to Pekao S.A. and BPH S.A. banks as well as amounts due to PKN ORLEN. It has also provided that Rafineria Trzebinia S.A. has to present satisfactory legal and property collaterals that would secure repayment of financial liabilities to the banks and PKN ORLEN. According to the schedule contained in the agreement, on 29 March 2007 Rafineria Trzebinia S.A. has partially repaid its bank loan liabilities to PEKAO S.A. and BPH S.A. in the amounts of PLN 20,000 thousand and PLN 5,000 thousand, respectively.

The above described conditions of cooperation with the banks as well as the support granted by PKN ORLEN as a major shareholder would enable Rafineria Trzebinia to conduct usual business activities, implement stabilization strategies and rebuild positive customer relations. The afore actions will be performed until a stable tax laws that support alternative energy sources are implemented as well as a long-term biofuels promotion program, that is being prepared by the Ministry of Economy, is introduced.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 459,962 thousand as at 31 December 2006. The share of PKN ORLEN in total voting rights at the General Meeting of Shareholders of Rafineria Trzebinia amounted to 77.15%.

g. Power transfer fee in settlements with Zakład Energetyczny Płock S.A.

According to the paragraph 36 of the Decree of Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Official Journal No. 1 dated 15 January 2001), the method of settlement of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of system fee calculation has been allowed. Following the decision of the Chairman of the Energy Regulatory Office, the electricity sale agreement between Zakład Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN was signed. The agreement did not determine contentious issues concerning system fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. ZEP S.A. called on PKN ORLEN to compromise agreement, while the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against ZEP S.A. The Company's Management Board estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created a provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the court decision PKN ORLEN was obliged to pay a liability connected with the system fee to ZEP S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for the business risk was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN S.A. is an outside intervener, is decided. The amount of claim is updated by amount of interests.

On 3 August 2005 a complaint was filed against the above decision of stay of proceedings. On 12 December 2005 the Court of Appeal in Warsaw, I Civil Department, dismissed the complaint regarding the decision of stay of proceedings. The above described proceedings have not yet been ended. According to the decision of the Polish Constitutional Tribunal issued on 25 October 2006, suspended proceedings may again be opened.

On 8 March 2007 a first seating of the case where PKN ORLEN acts as an outside intervener took place. The parties were entitled to declare its positions in front of court. The next seating has been postponed for an indefinite period. The letter in proceedings on behalf of PKN ORLEN was sent to the court on 22 March 2007.

h. Anti-trust proceedings

As at the date of the preparation of the financial statements, the Company is a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") from 21 March 2005, an anti-trust proceedings were started in connection with an allegation that PKN ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdańsk which limited competition on the domestic sale market of universal petrol U95 through an unanimous decision to give up production and distribution of U95 and thus eliminating competition on the domestic U95 sale market as well as excluding the risk of the market take-over by the competitor. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by the Chairman of OCCP.
The proceedings to take evidence are pending. They have been prolonged due to motions filed by PKN ORLEN S.A. in order to limit access rights to evidence and due to relative decisions that were issued in this respect by the Chairman of OCCP and which were sued at the Consumer and Competition Court by Grupa Lotos S.A. On 22 February 2006 the proxy of PKN ORLEN S.A. filed complaint against the decision of Chairman of OCCP refusing taking into account one of the PKN ORLEN's motions concerning limitation of access rights to evidence by Grupa Lotos S.A. On 14 April 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 31 May 2006, and subsequently until 31 August 2006. As at the date of preparation of these financial statements the proceedings were not finalized. The decision on prolongation of the proceedings was also not delivered.
By virtue of the actual course of the proceedings, limited to court verification of decisions issued by the Chairman of OCCP, it is difficult to assess the risk that PKN ORLEN S.A. may be fined. However, in the light of lack of evidence that would indicate concluding of prohibited agreement, the Company assesses risk of fine as low.

On 21 March 2005, the Company received a letter in which the Chairman of OCCP requested information on monoethylene glycol market and radiator liquid market in the years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze "Petrygo" liquid to radiators and prices for monoethylene glycols. In these proceedings the Chairman of OCCP issued a decision of 19 July 2000 imposing a fine in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the negative decision of the Chairman of OCCP. On 13 August 2001 the Anti-Trust Court annulled fully the decision of the Chairman of OCCP, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the fine. Consequently, in 2001 due to this fact the provision was fully reversed in PKN ORLEN. On 4 October 2001 the Chairman of OCCP submitted an annulment to the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the Anti-trust Court dated 13 August 2001.
The case was conducted again by the District Court in Warsaw, the Consumer and Competition Court (former Anti-Trust Court), which at the seating on 21 July 2004 pronounced the judgment again revoking the appealed decision of the Chairman of OCCP.

Due to the letter from OCCP that had been received on 21 March 2005, PKN ORLEN S.A. answered the questions of OCCP on 11 April 2005. A response defining the adequate geographical market of monoethylene glycol was sent to OCCP on 6 May 2005. Upon the OCCP's request, additional information was provided on 18 May 2005, 7 December 2005 and 14 July 2006. On 5 October 2006 the Company submitted additional information concerning the method of calculation of base price of monoethylene glycol and explained the conditions concerning validity of price list for antifreeze liquid to radiators for packaging companies. On 19 October 2006 a notice from OCCP concerning conclusion of proceedings to take evidence was received. PKN ORLEN S.A. was given a fourteen-day period to get acquainted with the evidence gathered. On 3 November 2006, after getting acquainted with all gathered evidence, the Company submitted a motion to discontinue the proceedings or to issue a decision stating that no activities limiting competition described in art. 8 par. 1 and 2, point 5 and 6 of the Anti-trust Act occurred. The decision dated 29 December 2006 no. RWA-48/2006 was received on 16 January 2007. The Chairman of the Office for Competition and Consumers' Protection decided that PKN ORLEN violated laws by limiting competition and abusing dominant position on the domestic monoethylene glycols market. The violation regarded acting against the creation of the indispensable conditions for setting or development of the competition through unfair setting of the price formula of anti-freeze engine coolant Petrygo. The setting was acknowledged as inadequate to increase in price of monoethylene glycol (basis raw material for this coolant). The Chairman of OCCP ordered to abandon the practice and imposed a penalty in the amount of PLN 14,000 thousand.
On 29 January 2007 PKN ORLEN filed a cancellation to this decision to the District Court in Warsaw, Consumer and Competition Court. As at the present date, the date of the seating in respect of the cancellation has not yet been set.

The financial statements do not include provisions related to the above proceedings as in the view of the Management Board of PKN ORLEN S.A., upon receipt of independent legal opinions, a risk that the Company is charged with a fine is remote. However due to the actual status of proceedings related to PETRYGO the financial statement include contingent liability in the amount of PLN 14,000 thousand.

i. Compensation program for employees

On 27 March 2006 the Agreement on rules of cooperation of social partners in restructuring processes of Polski Koncern Naftowy ORLEN S.A. and on employees' rights connected with those processes, was signed. The agreement concerns employees of PKN ORLEN S.A. subject to restructuring and reorganization processes.
According to the Agreement, employee subject to the restructuring process is entitled to dissolve the employment contract by mutual consent due to reasons independent from employees and to receive a single money consideration of PLN 50 thousand increased by PLN 4 thousand for every started year of service with PKN ORLEN S.A. or its legal predecessors. In case of definite dismissal in accordance with "Particular principles of dissolution of employment contracts due to reasons independent from employees act" of 13 March 2003 (Official Journal no. 90, item 844 with later amendments), an employee is entitled to receive a consideration equal to 40% of the consideration in accordance with Voluntary Leave Program (VLP). In case of non-acceptance of new job or salary conditions, an employee is entitled to receive a consideration equal to 3-months' salary.

In addition, an employee taking part in Voluntary Leave Program has a possibility to participate in a selected training financed by the employer up to the limit of PLN 2 thousand.

Employees subject to the restructuring program, who agreed to change the workplace within the organizational structure of PKN ORLEN S.A., for such which is within the distance of more than 40 kilometers, are entitled to receive a relocation package comprising of: relocation bonus (PLN 8 thousand), refund of relocation costs, refund of real estate agency costs and refund of rent for the period of 12 months (maximum PLN 2 thousand monthly).

j. Shield programs

The Voluntary Leave Programme (VLP) was launched in PKN ORLEN S.A. to support the restructuring process conducted in the Company. VLP provides additional money considerations for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Due to the above, the Parent Company created a provision in the amount of PLN 236,000 thousand in accordance with the resolution of the Management Board no. 2537/05 dated 22 December 2005.
As at 31 December 2006 the shield programs provision amounted to PLN 123,921 thousand.

k. Claims and court proceedings – Tankpol Sp. z o.o.

In accordance with an agreement dated 20 December 2002, Tankpol Sp. z o.o.; presently Tankpol – R.Mosio i wspólnicy spółka jawna in Szczucin ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in connection to receivables due from Tankpol. In a law suit dated 11 August 2003 Tankpol demanded obligation of PKN ORLEN to transfer ownership of 324 shares in Petrotank and compensation of PLN 198 thousand. The demand was modified several times. Finally, in a note dated 22 January 2004, Tankpol modified its suit demanding compensation of PLN 36,384 thousand with interest from the date of law suit until the payment date. In case of PKN ORLEN's refusal to compensate, Tankpol demanded that the court obliged PKN ORLEN to transfer ownership of 253 shares in Petrotank to Tankpol.

On 22 March 2005 the District Court in Warsaw dismissed Tankpol's suit and adjudged PKN ORLEN with a compensation of relevant costs. On 4 May 2005 Tankpol appealed against the verdict, on 27 June 2005 PKN ORLEN submitted its response to the appeal. On 31 March 2006 the Court of Appeals changed the verdict of the District Court in Warsaw (which dismissed Tankpol's suit as a whole). The Court of Appeals pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in PetroTank to Tankpol. The Court of Appeals was convinced that PKN has appropriately executed the transfer of ownership agreement of 20 December 2002. The verdict of the Court of Appeals was legally binding and feasible, however both parties were entitled to submit an annulment to the Supreme Court. On 22 June 2006 Tankpol has submitted annulment from the verdict of the Court of Appeals. On 28 August 2006 PKN ORLEN responded to the annulment submitted by Tankpol. In its response PKN ORLEN disagreed with Tankpol's statement and claimed that it has appropriately executed the transfer of ownership agreement.

On 14 December 2006 the Supreme Court pronounced that it submitted the case for further examination to the Court of Appeals in Warsaw. According to justification of the verdict by Supreme Court, valuation of shares presented by Tankpol should be taken into consideration (whereas the Court of Appeals omitted the valuation in its verdict). On 6 March 2007 the seating in front of the Court of Appeals in Warsaw took place. The verdict was pronounced on 15 March 2007. The Court of Appeals dismissed Tankpol's claim in respect of money compensation. The case was revoked to repronouncement in front of District Court in Warsaw.

l. Polish tax regulations

Taxes in Poland are paid to the central government as well as, to a little extent, to local authorities. The notion of a "tax" has been defined in the Tax Order Act, as a civic-public, free of charge, compulsory, non-returnable money consideration for the benefit of the State Treasury, voivodship, or district, resulting from an act on taxation.
The current taxation system in Poland is based on the following taxes: personal income tax, corporate income tax, tax on goods and services (value added tax, VAT), excise tax and civil law activity tax (relating to e.g. establishing or changes in articles of association of a company, sale of shares or – in certain cases – sale of real estate). Business activities are also to a smaller extent influenced by inheritance and donation tax, tax on gambling as well as agricultural and forestry tax. Among local taxes the most important are: real estate tax, and tax on means of transportation.
Beside corporate income tax stated at 19% rate in 2006, majority of companies conducting business activity are taxpayers of the value added tax (VAT). The basic VAT rate amounts to 22%, reduced rates are 7%, 3% and 0%, whereas some goods and services are exempt from VAT.
Business activity involves also excise tax. Excise goods are precisely defined in the act. The goods comprise e.g. engine fuels, heating oil, natural gas, alcoholic beverages, tobacco products and electricity. By virtue of PKN ORLEN's business activity, excise tax is a significant economic cost for the Parent and group companies. Activities under excise tax include: production of harmonized excise tax goods, release of harmonized excise tax goods from a tax consignment warehouse, sale of excise tax goods on Polish territory, export and import of excise tax goods, intra Community supply and intra Community acquisition of excise goods, acquisition and possession of excise tax goods with an excise tax unsettled in the proper amount (which does not indicate excise tax to be a multiphase tax). Excise tax rates are described as one of the following: percentage of tax base, amount per unit of excise tax goods, percentage of maximum retail price or amount per unit of excise tax goods and percentage of maximum retail price. In practice, tax rates described in decrees issued by the Minister of Finance are applied, whereas maximum tax rates were defined in the excise tax act.
In the common view of entrepreneurs, Poland qualifies as a country with an exceptionally high level of tax risk. The tax law is often amended, which results in lack of clarity as well as inconsistencies and lack of certainty. In addition, frequent discrepancies in tax law interpretations provided within tax authorities and administrative judiciary are observed.
Tax system in Poland is judged as unstable, with highly formalized tax regulations combined with rigorous laws in respect of sanctions. Tax settlements and other regulated areas of activity (e.g. customs or currency exchange control) might be subject to a control from the relevant authorities, entitled to impose severe penalties and sanctions with interests. Tax settlements may be subject to a tax control over five years since the end of the calendar year when the tax liability reaches its maturity. Considering the above described rationales, activities of PKN ORLEN and other entities of the group, that conduct business activity in Poland, may be subject to a tax risk.

m. German tax regulations

The German tax system is similar to the Polish one, where beside direct income tax (corporate income tax), there are also indirect taxes such as value added tax and excise tax.
German tax system is more stable, where tax risks connected with business activity are mitigated by the taxpayer's entitlements.
Taxes in Germany may be imposed by state, federal and local authorities. Business activity is connected with the obligation to pay corporate income tax, personal income tax, social security charges, value added tax, excise tax, capital gains tax and real estate tax.
Calendar year is a fiscal year for the purpose of personal income tax. Tax rates amount from 15% up to 42%. Employers are obliged also to pay social security, health insurance and unemployment fund. Charges are co-financed by an employer and an employee. Due to the level of charges, employment costs are very high in Germany.
For the purposes of corporate income tax, companies seated in Germany or having the factual management headquarter in Germany are taxpayers on total income earned. Taxable income is calculated based on income on operating activity, which is increased and decreased by certain items. Basic corporate income tax rate amounts to 25%. Additionally, direct taxes are increased by the so-called solidarity charge (connected with the merger of two German states) amounting to 5.5% and tax on revenues, which is calculated considering so-called regional factor.
Value added tax is applied to goods and services. Basic rate amounts to 19% and reduced – 7%. The tax is based on the solutions applied in the EU. Similarly to VAT, excise tax regulations also reflect regulations applicable in the EU. This is the basis for imposing of excise tax on e.g. production and import of petrol or diesel oil in Germany.
Real estate tax is charged on all items of real estate (land and buildings) situated in Germany. There is also a tax on sale of real estate that amounts to 3.5%.
Tax regulations in Germany, similarly to other countries, might be subject to different interpretations from taxpayers and tax authorities. Expiration period for liabilities equals maximum 7 years. Regulations in respect of utilization of accumulated tax losses from prior years, which may be deducted from future income in a limited amount, are crucial for Orlen Deutschland A.G.'s activity in Germany.

n. Czech tax regulations

Group companies, conducting their business activity in the Czech Republic, are subject to value added tax, excise tax, corporate income tax, personal income tax and social security regulations. Corporate income tax rate, including capital gains tax equals 24% in 2006. Taxpayers can select a tax year that is different from the calendar year. Tax losses can be settled during the consecutive five years. Transactions between related parties must be based on market prices – tax authorities may assess the level of prices applied in intercompany transactions and impose severe fines, should the prices differ from the market level. Taxpayers might however request binding interpretation in respect of transfer pricing. Fee is charged for the issued interpretations.
Czech value added tax is based on EU standards. Supply of goods and rendering of services (including sale of rights) are subject to VAT. Taxpayer may, in most cases, deduct tax paid on purchases (input tax). Basic rate amounts to 19%, but some goods and services are subject to the reduced rate of 5% and some are exempt from VAT (e.g. insurance, financial, educational or healthcare services).
Legal entity conducting business activity may also be obliged to pay real estate tax, tax on sale of real estate (based on a 3% rate), tax on means on transportation used in business activity and excise tax. Similarly to other EU countries, petrol and diesel oils are subject to excise tax.
Tax regulations are frequently interpreted in a different manner. Tax authorities can adopt different interpretation of the tax law than the Group companies. Tax settlements may be subject to tax control over three years since the end of the calendar year when the taxpayer was obliged to submit the tax return. Should the tax authorities initiate the control before the end of the three year period, the expiration period is prolonged for the next three years. Maximum period of expiration may not exceed 10 years from the end of a given settlement period. For breaching of tax law leading to tax arrears, severe fines may be imposed, including even a possibility of suspension of business activity. Fines are also imposed when tax returns are submitted with any delay. Due to the above stated reasons business activity of Czech companies may be subject to tax risk.

o. Lithuanian tax regulations

Entities conducting business activity in Lithuania are subject to regulations in respect of corporate income tax, personal income tax, social security charges, value added tax (VAT), real estate tax, excise tax etc.
Companies registered in Lithuania are obliged to pay taxes on income and capital gains acquired both in Lithuania and abroad. The base rate of corporate income tax is 15% (whereas entities of a smaller size may be charged based on lower rates). Commencing 2007, capital gains on sale of shares that represent at least 25% of total voting rights and were held by at least 2 years prior to the sale are exempt from taxation. In the period 2006-2007 a temporary social tax has been introduced. The rate of the social tax was 4% and 3% in 2006 and 2007, respectively. The social tax base is analogous to tax base used for the purposes of corporate income tax.
The tax law in Lithuania is severe with regard to transactions with related parties seated both in Lithuania and abroad therefore maintaining of business relationships within market practice is crucial. When there is evidence that the transactions with related parties are inconsistent with market conditions, tax authorities may perform their own assessment of a tax base and a transactional value for taxation purposes.
There are two personal income tax rates: 15% and 27%. Depending on the type of income, personal income tax of natural persons may be transferred to the budget by companies (if it was acquired in these companies) or directly by the person that acquired such income.
The application of VAT is based on the Community laws, primarily in case of sale of goods and services. The base VAT rate is 18%, reduced rates are 9% and 5%, whereas some goods and services are exempt from VAT.
Commencing 2007, a real estate tax rate ranges from 0.3% to 1% (in 2006 it amounted to 1%). The rate is paid based on the cadastre value and applied to real estates located in Lithuania, owned either by Lithuanian or foreign companies.
Production, import and intra-Community acquisition of oil-derived products are subject to excise tax. The Lithuanian law in respect of excise tax reflects the regulations of the European Union. Lithuania was among the first EU countries that implemented an advanced system of electronic real-time monitoring of flow of goods subject to excise tax between tax consignment warehouses in Lithuania. Tax regulations in Lithuania may be subject to diverse interpretations by the taxpayers and tax authorities. Tax controls may regard the current reporting period as well as five prior years.

p. Maltese tax regulations

The tax system in Malta is based on the imputation rule combined with tax return which effectively means a low real tax rate and a high nominal tax rate. It should however be noted that Malta is currently under pressure of the European Union; EU considers tax regulations in Malta as detrimental to competition and will aim at its elimination.
The ‘captive insurance’ company is in principle subject to a corporate income tax with a 35% rate, however in the event of business activities related to insuring of risks abroad of Malta, the application of imputation rule combined with a tax credit may lead to effective decrease of tax rate even to 4.7%, provided that the dividend is paid to the shareholders. The revenues on technical reserves may be included as tax deductible costs in determination of taxable income.

VAT is another typical tax related to establishment and conduct of insurance activities in Malta. VAT regulations applicable in the European Union provide that insurance services are exempt from VAT which indicated also that input VAT on goods and services cannot be deducted.
The Maltese VAT system is based on the Community's regulations. VAT is in principle applied to sale of goods and services. The basic VAT rate amounts to 18%, reduced rate is 5%, whereas some goods and services are exempt from VAT.
Malta provides additional tax relieves applicable for the company that include deduction of 200% of expenses related to occupied office space and 200% expenses related to employee salaries paid in the course of first ten years of business activity.
Malta has implemented the European 'Parent-Subsidiary' Directive. Pursuant to the provisions of the Directive, upon completion of certain conditions, dividends paid to companies seated in the European Union are exempt from withholding tax. The practical application of the above rule in Maltese taxation system, which is based on imputation rule and tax return, is however unclear. The issue of simultaneous application of the two above systems as well as the agreement between Poland and Malta with regard to avoidance of double taxation requires further analyses.

q. Disposal of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezależny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,500 thousand and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the agreement dated 8 June 2000 regulating the cooperation between shareholders of NOM.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce ("PCC") in Warsaw, regarding the determination of the invalidity of the sale of shares agreement.
On 26 April 2005 the Company received a verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw. The verdict of the arbitration court is unfavorable for PKN ORLEN. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable were changed. The Company provided an allowance for the receivable in the amount of PLN 111,500 thousand presented in the financial statements for the year 2004.
On 20 May 2005 the Company issued a complaint to the District Court in Warsaw regarding waiving of the above verdict of the Court of Arbitration together with a motion to suspend execution of the verdict. On 26 June 2005 the District Court issued a decision to dismiss the motion to suspend execution.
On 6 April 2006 the District Court in Warsaw, XX Commercial Department, issued a verdict in respect of PKN ORLEN's complaint against the verdict of Court of Arbitration of the Polish Chamber of Commerce in Warsaw, dated 14 April 2005, in the case against PSE S.A. regarding sale of shares in NOM. The District Court dismissed PKN ORLEN's complaint and adjudged the return of proceeding's expenses of PLN 7 thousand for the benefit of PSE.
On 27 April 2006 PKN's attorney received the justification of a verdict from the District Court. Upon analysis of the justification, PKN decided not to appeal against the verdict. The verdict is legally binding.

On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111,500 thousand.
On 8 August 2005 PKN ORLEN received a letter from PSE where PSE stated it was not bound to settle the penalty.
On 15 September 2005 PKN ORLEN filed at the Court of Arbitration of PCC in Warsaw a suit for adjudication of the contractual penalty of PLN 33,453 thousand. On 7 August 2006 PKN ORLEN changed the suit by the letter submitted to the Court of Arbitration of PCC, demanding contractual penalty of PLN 111,511 thousand with interest.
According to the declaration of the Court of Arbitration of 7 December 2005, PKN ORLEN submitted a letter with motions of evidence and the statement regarding eventual suspension of the proceedings. PKN ORLEN's attorney received analogous letter from PSE. On the seatings dated 31 August 2006 and 1 September 2006 the Court of Arbitration acquainted with testimonies of both parties' witnesses.
On the following seatings dated 29 November 2006 and 14 December 2006 The Court acquainted with testimonies of both parties' witnesses.
At the seating dated 14 December 2006 the Court obliged both sides to prepare and submit letters with recapitulation of stands. The letter was submitted by PKN ORLEN.

As of 31 December 2006, shares in NOM were presented in the foregoing consolidated financial statements as investments in associates in the net amount of PLN 18 million, after recognition of an impairment of shares allowance based on independent expert's valuation.

r. Collateral with regard to shares in Basell ORLEN Polyolefins Sp. z o.o. („BOP")

Under the share pledge agreement of 19 December 2003 PKN ORLEN pledged all own shares of BOP, i.e. 907,398 shares of nominal value of PLN 500 per each, representing 50% of share capital of BOP and having 50% of voting rights at the Shareholders' Meeting. The pledge was for the benefit of Kredyt Bank S.A., seated in Warsaw, operating as a Pledge Agent. The condition for the pledge to be effective included its registration in a collateral register held by the registry court, which was completed on 23 January 2004.
Collateral set by the pledge agreement of 19 December 2003 secured repayment of current and future claims by BOP, to which Pledge Agent is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.
On 18 December 2006 Basell ORLEN Polyolefins has concluded a new bank loan agreement. No collateral in the form of shares in BOP owned by PKN ORLEN is required with regard to the new agreement. Pursuant to that fact a procedure has been started in January 2007 to remove the pledge from the collateral register. The respective removal has been made based upon a decision issued on 7 March 2007.
The new bank loan agreement is pledged on the assets of BOP therefore the carrying amount of assets pledged for the purposes of bank loan agreement has been included in the total amount of pledged assets and presented in notes 5, 12 and 13 to the foregoing consolidated financial statement.

s. Risk connected with the disposal of a portion of assets and liabilities related to purchase of Unipetrol shares

In 2003-2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.
In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.
Agrofert Holding a.s. agreed that PKN ORLEN S.A. disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

On 25 January 2006 PKN ORLEN received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500 with interests. The court proceeding in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress.

On 20 February 2006 the Management Board of PKN ORLEN has decided to withdraw (in the understanding of Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s. and Synthesia a.s. (formerly: ALIACHEM a.s.) shares.

On 9 May 2006 the Company's attorney received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a second law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute, similarly to the first one commenced by Agrofert Holding a.s., amounts to EUR 77,266,500 with interests. The arbitration proceedings initiated by this law suit are currently in progress.

On 5 July 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a third law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute amounts to CZK 409,102,494 (approximately EUR 14 million) plus interests.
The arbitration proceedings initiated by this law suit are currently in progress.

On 13 December 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a fourth law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of compensation of loss related to unfair competition, illegal violation of reputation of Agrofert Holding a.s.
The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interests. The amount claimed by Agrofert Holding a.s. is currently analyzed by the Company's legal advisors, and the arbitration proceedings are at the initial stage i.e. organizational matters are being conducted.

As at the date of preparation of these financial statements, the parties are conducting mediations aimed at amicable settlement of the dispute in respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V. The Management Board of the Company hopes that, as a consequence of series of mediation meetings, the Company and ConocoPhillips will soon finalize the mediation process with favorable outcome to both parties.

The foregoing financial statements include the provision to cover the potential negative financial effects related to execution of the agreements.

t. Risk connected with agreements with DEZA a.s.

In August and September 2005 Unipetrol a.s. received letters from Deza a.s., requesting execution of the agreements regarding sale of shares in Agrobohemie a.s. and Aliachem a.s. (presently Synthesia a.s.) Unipetrol a.s. and Deza a.s. each own 50% shares in Agrobohemie a.s. The shareholder structure in Synthesia a.s. is as follows: Agrobohemie a.s. owns 55.01% shares, Unipetrol a.s. – 38.79% and Deza a.s. – 4.67%. The remainder of 1.53% is owned by minority shareholders of Synthesia a.s.
Letters received from Deza regarded the agreements for future payable assignment of shares, concluded between Unipetrol a.s. and Deza a.s. in relation to shares in Agrobohemie a.s. and Synthesia a.s. on 12 October 2000 and 15 August 2001, respectively. The Management Board of Unipetrol a.s., having thoroughly analyzed concluded agreements and received letters, has determined that these documents contain vital legal faults as well as are incompliant with best market practice. In conjunction with this fact the Management Board of Unipetrol a.s. has proposed that Deza a.s. modified the transaction documents in order to ensure its compliance with binding Czech law as well as market standards and practices. In spite of endeavors of Unipetrol a.s., Deza a.s. has rejected proposals of the Management Board of Unipetrol a.s. and on 26 January 2006 it issued a law suit in respect of settlement of contractual penalties arguing that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In accordance with the above mentioned agreements, Deza a.s. has calculated the amount of the penalty in the amount of CZK 1.5 million per day. On 22 August 2006 Deza a.s. issued a law suit in respect of execution of the agreements concerning assignment of shares and a law suit in respect of damages arguing in both cases that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In the second half of 2006 Unipetrol a.s. and Deza a.s. commenced negotiations in order to achieve potential compromise in both cases aside court proceedings. Until the date of preparation of these consolidated financial statements the negotiations have not been finished and no agreement has been signed related to this cases. In spite of endeavors of Unipetrol a.s. related to conclusion of an agreement acceptable by both parties, probability of concluding of such an agreement is difficult to predict.
In relation to the fact that no compromise agreement has been signed between Unipetrol a.s. and Deza a.s., it may be suspected that the court proceedings presently in progress will be continued. The completion date for these proceedings as well as final decisions related to nullity of agreements, payment of contractual penalties or indemnities for the benefit of Deza a.s. are difficult to be defined. Court proceedings in the Czech Republic usually last a few years depending on circumstances.
In addition, Unipetrol a.s. has currently no access to any business information connected with future development of Agrobohemie a.s. and Synthesia a.s. and is unable to manage, control or influence the financial and operating standing of both entities due to the fact that they are controlled by Deza a.s. The feasibility of sale of shares by Unipetrol a.s. to any third party entities is limited in this situation.
The above described circumstances may have significant negative impact on value of shares of Unipetrol a.s. in Agrobohemie a.s. and Synthesia a.s. By virtue of uncertainties in relation to future outcome of court proceedings as well as due to difficulties in determination of the fair value of shares, neither impairment allowance in respect of the value of shares was recognized nor was provision for contractual penalties created in the financial statements.

Due to loss of significant influence of Unipetrol Group on associated companies: Synthesia a.s., Agrobohemie a.s. as of 30 September 2005, these assets were accounted for using the equity method and included in the consolidated balance sheet of Unipetrol a.s. as at 31 December 2006 as long-term financial investments of PLN 508,995 thousand (translated from CZK using the exchange rate applicable for 31 December 2006).

36. Employment structure

Average employment by groups was as follows:

	for the year ended 31 December 2006	for the year ended 31 December 2005
Blue-collar workers	14 488	11 643
White-collar workers	11 050	9 532
	25 538	**21 175**

Employment level as of 31 December 2006 24,113 persons and 31 December 2005 amounted to 20,805 persons.

37. Description of factor and events, especially of a non-usual nature, with significant impact on financial results

The following significant events impacting financial positions of the foregoing consolidated financial statements occurred in 2006:

a. Share purchase of Mazeikiu Group

1. Share purchase agreements of Mazeikiu

On 26 May 2006, PKN ORLEN, as the buyer, and Yukos International UK B.V., a private limited liability company seated in the Netherlands ('Yukos International'), as the seller, concluded a share sale and purchase agreement (the 'Yukos Agreement') related to the purchase by PKN ORLEN of a 53.7022% stake in AB Mazeikiu Nafta, a public company with its seat in Lithuania ("Mazeikiu"). On 18 May 2006, PKN ORLEN unilaterally signed the Yukos Agreement and delivered it to the other party. Yukos International counter-signed the Yukos Agreement on 26 May 2006 after the New York Bankruptcy Court had revoked the temporary restraining order previously imposed on Yukos International with respect to selling any Mazeikiu shares.

In addition, on 19 May 2006 PKN ORLEN S.A. unilaterally signed and delivered the following documents to the Government of the Republic of Lithuania (the 'GOL'): (a) a share sale and purchase agreement (the 'GOL Agreement') related to purchase of an additional 30.6615% shares of Mazeikiu by PKN ORLEN from the GOL; and (b) a put option agreement related to the 10.0006% shares of Mazeikiu (the 'Put Option Agreement') that would remain property of GOL subsequent to the sale of the 30.6615% stake to PKN ORLEN S.A. The GOL Agreement and the Put Option Agreement has been counter-signed by the GOL on 9 June 2006, upon approval of the Lithuanian Parliament.

1.1. Main provisions of share purchase agreements of Mazeikiu

Share purchase agreement with Yukos International UK B.V.

Pursuant to the Yukos Agreement, PKN ORLEN S.A. purchased 379,918,411 ordinary shares of Mazeikiu, with a nominal value of LTL1 each, representing approximately 53.7022% of Mazeikiu's share capital, for the aggregate price of USD 1,492,000,000. The execution of the Yukos Agreement was subject to certain suspending clauses, i.e. (a) the receipt of all relevant consents, including in particular the European Commission's concentration clearance, and (b) the GOL's withdrawal from exercise of its right of first refusal with respect to the shares being purchased by PKN ORLEN from Yukos International. The agreement provided, that should any of the conditions precedent would not be fulfilled by 30 September 2006, each of the parties would be entitled to terminate the Yukos Agreement. However, each of the parties would have been entitled to claim for extension of the termination date to 31 March 2007 if the only condition not met by 30 September 2006 was the consent of the European Commission.

Upon the acquisition of shares of Mazeikiu from Yukos International, PKN ORLEN S.A. has become a party to certain agreements related to the two previous privatizations of Mazeikiu conducted in 1999 and 2002, in particular, the 1999 and 2002 privatization agreements and the shareholders' agreement between the GOL and Yukos International. All agreements related to the previous privatizations of Mazeikiu, including both privatization agreements and the existing shareholders' agreement that were assigned to PKN ORLEN S.A. were terminated immediately upon the closing of the transaction with Yukos International, and the parties thereto were fully discharged from any and all liabilities under these agreements.

In the period between signing of the Yukos Agreement and the transaction closing date, Yukos International represented that Mazeikiu and its subsidiaries will conduct operations within the ordinary course of business and do not take any action which would materially adversely affect the parties' ability to accomplish the transaction.

Share purchase agreement with the Government of the Republic of Lithuania

Pursuant to the Agreement with the Government of the Republic of Lithuania, PKN ORLEN S.A. purchased an additional 216,915,941 ordinary Mazeikiu shares with the nominal value of LTL1 each, representing approximately 30.6615% of Mazeikiu's share capital, for the aggregate price of USD 851,828,900.31. The execution of the GOL Agreement was subject to certain suspending clauses, i.e. (a) the acquisition by PKN ORLEN S.A. of 53.7022% of Mazeikiu's shares from Yukos International; and (b) the receipt of the European Commission's concentration clearance. The agreement provided, that should any of the conditions precedent would not be fulfilled by 30 September 2006, neither of the parties would be obliged to execute the GOL Agreement. However, both parties would have remained bound by the GOL Agreement until 31 March 2007 if the only condition not met by 30 September 2006 would have been the consent of the European Commission. On 29 September PKN ORLEN issued a letter to the Government of the Republic of Lithuania and informed about automatic prolongation of the agreement until 31 March 2007.

Furthermore, the previously existing shareholders' agreement was replaced by the new shareholders' agreement between PKN ORLEN S.A. and the GOL as of the closing date of the transaction with Yukos International. Pursuant to the new shareholders' agreement, PKN ORLEN S.A. maintains full operational control over Mazeikiu. The GOL is entitled to appoint one of the nine members of Mazeikiu's Supervisory Board and one of the seven members of Mazeikiu's Management Board. In addition, the GOL is entitled to request annulment of the resolutions of Mazeikiu's corporate authorities if such resolutions present a threat to the national security or the energy security policy of the Republic of Lithuania. The GOL is entitled to request that PKN ORLEN S.A. sold all its shares of Mazeikiu in any of the following circumstances: (a) Mazeikiu incurs a loss in each of any five consecutive financial years; (b) Mazeikiu's assets with a value exceeding USD 200,000,000 are seized in connection with an enforcement proceedings following a final and non-appealable court decision; (c) over 50% of voting rights in PKN ORLEN S.A. are acquired by an entity that, in the GOL's reasonable opinion, presents a threat to the national security of the Republic of Lithuania. Every disposal of shares of Mazeikiu by PKN ORLEN S.A. and/or the GOL will be subject to the other party's right of first refusal. The new shareholders' agreement will expire upon the disposal by the GOL of any of its 70,750,000 shares of Mazeikiu.

Pursuant to the Put Option Agreement, the GOL is entitled to sell to PKN ORLEN S.A. 70,750,000 ordinary Mazeikiu shares, with the nominal value of LTL 1 each, representing approximately 10.0006% of Mazeikiu's share capital. The put option will remain in force in the period of five years upon the sale of the 30.6615% stake related to the GOL Agreement. The aggregate price for all shares under Put Option Agreement amounts to USD 277,835 thousand. However, should the GOL exercise the put option within the period of three years from the sale of the 30.6615% stake to PKN ORLEN S.A., the aggregate price for all shares under put option would amount to USD 284,450 thousand.

All transaction documents are governed by the English law.

1.2. Mandatory tender offering for the remaining shares

Upon the acquisition of Mazeikiu shares from Yukos International, PKN ORLEN S.A. was obliged under the Lithuanian law to announce a mandatory tender offering for the remaining shares of Mazeikiu within 30 days from the date of acquisition of the Mazeikiu shares from Yukos International. The price per share offered in the mandatory tender offering must not be lower than the highest price paid by ORLEN S.A. for the Mazeikiu shares during the 12-month period preceding the announcement of the tender offer.

1.3. The receipt of the European Commission's and other anti-trust bodies consents for the transaction

On 29 September 2006 PKN ORLEN filed official motion to the European Commission in order to obtain consent for concentration of PKN ORLEN Capital Group's and Mazeikiu Nafta's assets as a result of share purchase agreement. The decision of the European Commission was expected in first half of November. As a result, on 30 September the agreement on prolongation of term of withdrawal from the agreement with Yukos until 31 December 2006, was signed. On 7 November 2006 PKN ORLEN S.A. obtained the European Commission's clearance for the acquisition of a controlling stake in AB Mazeikiu Nafta ("Mazeikiu").
Based on the analyses of AB Mazeikiu Nafta export activities it was determined that precedent to execution of the Yukos Agreement, aside from European Commission's clearance, obtaining of relevant consent from the Ukrainian Anti-Trust Committee as well as consent of anti-trust bodies of United States of America was required. The same provisions of the Yukos Agreement apply to the above consents as to the European Commission's consent. The motion to the Ukrainian Anti-Trust Committee was filed on 16 August 2006. On 21 August 2006 the Ukrainian Anti-Trust Committee agreed on share purchase transaction for Mazeikiu Nafta. In case of USA, motions were filed by PKN ORLEN and Yukos on 15 September 2006. Before statutory deadline, on 25 September 2006, the U.S. Federal Trade Commission has concluded its review of the planned acquisition by PKN ORLEN of a control over Mazeikiu. Early termination of the required waiting period for the possible objections of the U.S. anti-trust authorities means the receipt of the clearance under the Hart Scott-Rodino Antitrust Improvements Act of 1976 for the purchase by PKN ORLEN S.A. of the controlling stake in Mazeikiu.

1.4. Significant events after signing the share purchase agreements of Mazeikiu

On 12 July 2006, the Government of the Republic of Lithuania irrevocably elected not to exercise its right of first refusal with respect to the 53.7022% shares of Mazeikiu, governed by the Yukos Agreement. The GOL also expressed its irrevocable consent for the transaction between Yukos and PKN ORLEN S.A.

At the end of July 2006 the crude oil deliveries to Mazeikiu were stopped by Russian operator of crude oil pipeline system "Druzhba". The interruption in deliveries was caused by the technical breakdown in section Unecha-Polotsk. Till now the crude oil deliveries to Mazeikiu were not resumed through oil pipeline system "Druzhba". At the same time the crude oil is continuously delivered by sea transport.

On 12 October 2006, a fire accident occurred in the oil refinery belonging to AB Mazeikiu Nafta, leading to damage to a vacuum distillation unit.

2. Purchase of shares from Yukos International and the Government of Republic of Lithuania

On 15 December 2006, though brokerage of the Vilnius Stock Exchange, the share sale and purchase transaction was settled. PKN ORLEN S.A. purchased 379,918,411 shares of Mazeikiu from Yukos International. This determined that PKN ORLEN S.A. formally acquired ownership of 379,918,411 shares of Mazeikiu at that date. Thereby the last of the conditions precedent determined in the agreement dated 9 June 2006 between PKN ORLEN S.A. and the Government of the Republic of Lithuania related to sale of shares of Mazeikiu, was fulfilled. In conjunction, on 15 December 2006, without brokerage of the Vilnius Stock Exchange, the share sale and purchase transaction was settled – PKN ORLEN S.A. purchased 216,915,941 shares of Mazeikiu from the Government of the Republic of Lithuania.
Pursuant to settlement of transactions with Yukos International and the Government of the Republic of Lithuania, on 15 December 2006 PKN ORLEN S.A. has become a holder of a total number of 596,834,352 shares of Mazeikiu. The nominal value of one share of Mazeikiu is LTL 1 (which is equal to PLN 1.10 in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006). The shares held in Mazeikiu by PKN ORLEN S.A. constitute 84.36% of the share capital of Mazeikiu and entitle to 596,834,352 voting rights at the General Meeting of Shareholders (GM), which is equal to 84.36% of total voting rights at GM in Mazeikiu. The purchase price of shares acquired from Yukos International amounted to USD 1,492,000,000 (i.e. PLN 4,315,610 thousand in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006) whereas the purchase price of shares acquired from the Government of the Republic of Lithuania amounted to USD 851,829 thousand (i.e. 2,463,915 thousand in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006). The book value of shares of Mazeikiu acquired by PKN ORLEN S.A. was recognized in the accounting books of PKN ORLEN S.A. at cost including acquisition costs.
The share purchase of Mazeikiu was financed by means of revolving bank loan, bridge bank loan and cash owned of PKN ORLEN S.A. The purchase is of a long-term capital investment nature.
Yukos International is a holding company controlled by Stichting Administratiekantoor Yukos International fund.

In conjunction with the settlement of the purchase of Mazeikiu shares from Yukos International by PKN ORLEN S.A., the Shareholders Agreement dated 9 June 2006 between PKN ORLEN S.A. and the Government of the Republic of Lithuania came into force on 15 December 2006.
The Extraordinary Meeting of Shareholders of Mazeikiu held on 14 December 2006 changed the composition of Supervisory Board of Mazeikiu. Six persons nominated by PKN ORLEN S.A. – Mr Marek Moroz, Mr Czesław Bugaj, Mr Marcin Wasilewski, Mr Piotr Kearney, Mr Wojciech Wróblewski and Mr Rafał Zwierz – have been appointed members of the Supervisory Board of Mazeikiu. The Board elected Mr Marek Moroz for the position of its Chairman. Presently the Board is composed of nine members. The remaining three persons were nominated by the Government of the Republic of Lithuania.
During the meeting held on 14 December 2006 the Supervisory Board of Mazeikiu has made changes to the composition of the Management Board of Mazeikiu. Four representatives of Yukos International UK B.V. have been replaced by four persons nominated by PKN ORLEN S.A. The Supervisory Board appointed Mr Jan Maciejewicz and Mr Paweł Szymański to the Management Board of Mazeikiu, and again appointed Mr Krystian Pater and Mr Paul Nelson English (holding the position of General Director of Mazeikiu at that time). In addition, on 15 December 2006 the Supervisory Board of Mazeikiu appointed two other persons nominated by PKN ORLEN S.A.: Mr Igor Chalupec and Mr Piotr Kownacki to the Management Board. The Management Board is composed of seven members, which includes also a representative of the Government of the Republic of Lithuania. At the meeting held on 15 December 2006 the Management Board has elected Mr Igor Chalupec for the position of President of the Management Board.

3. Purchase of additional shares in Mazeikiu by PKN ORLEN S.A.

3.1. Mandatory tender offering for shares in Mazeikiu

In accordance with Lithuanian law, exceeding of the 40% voting rights at the General Meeting of Shareholders of Mazeikiu obliged PKN ORLEN S.A. to announce mandatory tender offering ('MTO') for all remaining shares in Mazeikiu attributable to investors other than PKN ORLEN S.A. Until receipt of relevant clearance with regard to the documentation related to MTO from the Stock Exchange Commission in Lithuania, PKN ORLEN S.A. was not able to execute its voting rights at the General Meeting of Shareholders, that were attributable to all shares held in Mazeikiu. Until that moment, however not longer than for the period of 100 days, the Government of the Republic of Lithuania assumed an obligation to execute voting rights attributable to shares held in Mazeikiu in conformity with instructions issued by PKN ORLEN S.A. Documentation related to MTO received clearance of the Stock Exchange Commission in Lithuania on 22 December 2006.
Prior to commencement of the subscription process under MTO, a merger of Mazeikiu with AB Mazeikiu Elektrine was registered on 28 December 2006. In consequence of the merger, 1,366,992 new shares of Mazeikiu were issued for the minority shareholders of AB Mazeikiu Elektrine. As a result of the new issue of shares, total number of shares of Mazeikiu is equal to 708,821,122.
Mandatory Tender Offering has been conducted in the period from 2 to 15 January 2007. Pursuant to the settlement of MTO, PKN ORLEN S.A. purchased 35,879,247 shares of Mazeikiu. The Company holds 632,713,599 shares which is equal to 89.2628% stake in share capital of Mazeikiu.

3.2. Constant call offer at the Vilniaus Stock Exchange

Due to the fact that MTO did not comprise the above mentioned new issue of shares, as well as in order to improve the preparatory process to squeeze out procedure related to shares of Mazeikiu attributable to minority shareholders other than the Government of the Republic of Lithuania, PKN ORLEN S.A. made a constant call offer at the Vilniaus Stock Exchange for shares of Mazeikiu at each day in the period from 26 January to 19 February 2007. The purchase price for shares was equal to the purchase price used for the purposes of MTO i.e. LTL 10.25 per share. In the described period PKN ORLEN purchased 1,895,952 shares of Mazeikiu and as at 19 February 2007 held 634,609,551 shares, constituting a 89.5303% stake in Mazeikiu. Except for 70,750,000 shares owned by the Government of the Republic of Lithuania, 3,461,571 shares representing 0.4884% stake in share capital are quoted at the market.

3.3. Squeeze out procedure related to shares in Mazeikiu held by minority shareholders

Acting under agreement with the Government of the Republic of Lithuania, on 20 February 2007 PKN ORLEN commenced a squeeze out procedure related to shares of Mazeikiu held by minority shareholders. The squeeze out will be conducted in accordance with the Lithuanian law. The provisions of the cooperation between PKN ORLEN and the Government of the Republic of Lithuania are included in the agreement dated 25 January 2007. At the first phase of the process, which will be effected until 21 May 2007, the shareholders of Mazeikiu are entitled to sell shares through broker house SEB Vilniaus Bankas. The price was set at LTL 10.25.
Unless the first phase leads to buyout of all shares held by minority shareholders, PKN ORLEN will put forward a motion to the court in Lithuania to issue a decision in accordance with the Lithuanian law related to squeeze out procedure. In effect of the decision all shares held by minority shareholders other than the Government of the Republic of Lithuania will become property of PKN ORLEN for a price equal to LTL 10.25 per share. The procedure will result in acquisition of all shares in Mazeikiu, except for shares held by the Government of the Republic of Lithuania.

4. Changes in the Management Board of Mazeikiu

In conjunction with the resignation of Mr Igor Chalupec from the position of the President of the Management Board of PKN ORLEN on 31 January 2007, the Supervisory Board of Mazeikiu dismissed Mr Igor Chalupec and at the same time appointed Mr Dariusz Formela to the Management Board. On 7 February 2007 the Management Board of Mazeikiu has elected Mr Piotr Kownacki for the position of President of the Management Board. On 16 March 2007 Mr. Jan Maciejewicz resigned from the position of Member of the Management Board. In accordance with the Lithuanian law, the resignation came into force after a lapse of 14 days. Until 17 April 2007, one vacancy in the composition of the Management Board of Mazeikiu existed.

5. Settlement of acquisition of Mazeikiu

On 15 December 2006 the Company purchased 596,834,352 ordinary shares of AB Mažeikių Nafta („Mažeikių"), which constituted 84.36% of all issued shares of Mažeikių. The purchase was realized on the basis of two agreements concluded by PKN ORLEN: the share sale and purchase agreement with Yukos International UK B.V dated 26 May 2006 on purchase of 379,918,411 shares, that stood for 53.7022% of all issued shares and share sale and purchase agreement with the Government of Republic of Lithuania dated 19 May 2006 on purchase of 216,915,941 shares, that stood for 30.6615% of all issued shares. On 28 December 2006 Mažeikių merged with Mažeikių Elektrine. The share of PKN ORLEN declined by 0.16 percentage points.
In relation to conclusion of the put option agreement in respect of 70,750,000 shares in Mazeikiu owned by the Government of the Republic of Lithuania by PKN ORLEN S.A. as well as due to mandatory tender offer regarding shares held by minority shareholders, the settlement of the business combination for the purposes of the foregoing consolidated financial statements has been performed in accordance with IAS 32 'Financial instruments: Disclosure and Presentation' paragraphs 22-23 – financial liabilities were disclosed and minority interest were not disclosed. The share of PKN ORLEN in Mazeikiu Group was assumed at 100% for the purposes of these financial statements.

Mažeikių Group is composed of group of companies operating in the refining sector in the Republic of Lithuania, mainly involved in crude oil processing, distribution of fuels and crude oil derived products. In all those activities Mažeikių is a representative of the industry sector in the Republic of Lithuania and Central Europe. Mažeikių Group consists mainly of the following companies:

- AB Mažeikių Nafta – Crude oil refining, transportation services of crude oil and crude oil derivate products, service and loading of tanker ships, sale of refined products.
- AB Ventus-Nafta – Retail sale of crude oil products.
- UAB Mažeikių naftos prekybos namai – Sale and marketing of products of AB Mažeikių Nafta in Lithuania.
- SIA Mažeikių Nafta Tirdzniecibas nams – Wholesale trade of crude oil products in Latvia.
- OU Mazeikiu Nafta Trading House – Wholesale trade of crude oil products in Estonia
- Mažeikių Nafta Trading House Sp. z.o.o. – Wholesale trade of crude oil products in Poland
- UAB Juodeikių nafta – Loading of truck vehicles with crude oil; entity under liquidation proceedings.
- UAB Uotas – Lease of gas stations, entity under liquidation proceedings.
- UAB Naftelf – Sale of aviation fuels (joint venture with 'Corelf')

The acquisition of Mažeikių was accounted under the purchase method in accordance with IFRS 3 'Business combinations'. In consequence of the fact that the cost of business combination (purchase price increased by any costs directly attributable to the combination) exceeded the share of PKN Orlen in the fair value of net identifiable assets, liabilities and contingent liabilities, the Company recognized goodwill in the balance sheet as of 31 December 2006.

As a result of purchase of Mažeikių shares, the following categories of assets, liabilities and contingent liabilities were acquired and the transaction was settled in accordance with the purchase method in the following way:

Fair value of assets and liabilities by main categories:	
Cash and cash equivalents	1 030 556
Propery, plant and equipment	7 474 909
Intangible assets *	112 741
Inventories	1 082 965
Receivables	980 329
Other assets	462 982
Provisions	(25 761)
Long-term liabilities	(1 359 934)
Short-term liabilities	(1 097 009)
Other liabilities	(910 155)
Net assets of Mażeikiu Nafta at fair value	7 751 623
Share of PKN ORLEN in net assets of Mazeikiu Nafta	7 751 623
Cost od business combination**	8 056 728
Goodwill	305 105
Impact of the net cash flow (i.e. excluding financial liabilities)	(6 759 742)
Acquired cash and cash equivalents	1 030 556
Net cash outflow until 31 December 2006, related to purchase of Mazeikiu Group, net of acquired cash and cash equivalents.	(5 729 186)

* including acquired CO2 emission rights in the amount of PLN 88,771 thousand
** including the financial liability of PLN 1,296,986 thousand recognized in connection with the put option agreement concluded between the Government of the Republic of Lithuania and PKN ORLEN and mandatory tender offer regarding shares held by minority shareholders and PLN 24,047 thousand related to costs of advisory services, business trips etc. directly attributable to the combination

In conjunction with acquisition of assets and liabilities of Mažeikių Group, the process of their valuation to fair value is pending. The Group recognized an effect of the valuation of the acquired net assets. For the purposes of the foregoing consolidated financial statements the Company performed an impairment test of goodwill on consolidation of Mazeikiu Group. The Company analyzed and assessed the risk related to the resumption date of crude oil deliveries. An impairment loss of goodwill amounted to PLN 305,105 thousand. The impairment charge was recognized in the profit and loss of 2006 as other operating revenues.

In conjunction with the fact that the transaction was closed on 15 December 2006, the consolidated balance sheet of Mažeikių Group as at 31 December 2006 as if at acquisition date has been included in the consolidated balance sheet of PKN ORLEN Group. Due to insignificant impact, the consolidated income statement of Mažeikių Group for the period from 15 December 2006 to 31 December 2006 has not been included in the consolidated income statement of PKN ORLEN Group for 2006.

The condensed consolidated income statement of Mažeikių Group for the period from 15 December to 31 December 2006, without the effect of fair value and impairment of goodwill in the amount of PLN 305,105 thousand, is presented below:

Total sales revenues	273 847
Cost of finished goods, merchandise and materials sold	(275 391)
Gross loss on sales	(1 544)
Distribution expenses	(11 898)
General and administrative expenses	(6 552)
Other operating revenues and expenses, net	19 303
Loss on operations	(691)
Financial revenues	2 957
Financial expenses	(5 317)
Loss before tax	(3 051)
Income tax expense	(3 446)
Net loss	(6 497)

In accordance with IFRS 3 'Business combinations', consolidated revenues and financial result of PKN ORLEN Group, including consolidated financial data of Mažeikių Group for the period from 1 January 2006 to 31 December 2006, calculated as if the acquisition date coincided with the beginning of the period, were presented below:

Consolidated pro forma results for 2006, excluding the impact of fair value valuation and impairment of goodwill of PLN 305,105 thousand:

Total sales revenues	66 153 159
Other operating revenues	658 324
Financial revenues	724 428
Net result	1 905 044

Until 31 December 2006, actual acquisition expenses directly attributable to the combination amounted to PLN 24,047 thousand .

38. Supplementary information

a. Restructuring of the southern assets

The restructuring and consolidation project embraces the following companies:
- Rafineria Nafty Jedlicze S.A.
- Rafineria Trzebinia S.A.
- Orlen Oil Sp. z o.o.
- Paramo a.s., where Unipetrol a.s. is the majority shareholder.

The objective of the project is to secure the value of assets engaged by PKN ORLEN S.A. by optimizing production structure in the above companies by matters of reorganization and restructuring of the possessed assets as well as combination of selected assets and capital consolidation of the companies. The project is also intended to protect assets of those companies against changes in the tax law, which may lead to discontinuation of crude oil processing in the southern Poland.

The company realizes restructuring project approved in July 2005 by PKN ORLEN's Management Board.
The project for the southern assets designed by Investekspert aims at:
- consolidation of activity related to oil and lubricant production in Orlen Oil Sp. z o.o.,
- targeted discontinuation of crude oil processing in the southern Poland and grouping assets relating to this activity within a separate business,

The business advisor for the restructuring and consolidation project submitted recommendations in respect of suggested action plan. In June 2006 the Management Board of PKN ORLEN S.A. has accepted the major assumptions of restructuring process:
- modernization of existing DRW installation (crude oil distillation unit) in Rafineria Nafty Jedlicze S.A. for the purposes of processing of local output crude;
- construction of organic solvent installation in Rafineria Nafty Jedlicze S.A. in case a rebate on supplies of local (Sanok region) crude oil is negotiated;

- restructuring of distribution system in ORLEN Oil Sp. z o.o.

The sale process is also being carried out in respect of subsidiaries of Rafineria Nafty Jedlicze S.A. which operations were determined as non-core activity of those entities.

On 3 January 2007 the Management Board of Rafineria Trzebinia S.A. decided to temporarily discontinue production and sales of the biofuel ON BIO containing 20% FAME esters ('ON BIO').

The decision was made in conjunction with the fact that on 1 January 2007 the Decree of the Minister of Finance dated 22 December 2006 on changes to exemptions to excise tax liabilities (Official Journal 2006 No. 243, item 1766) came into force. The Decree unexpectedly deteriorated circumstances of production and sales of biofuels.

Pursuant to a detailed economic analysis, Rafineria Trzebinia S.A. estimated that the net loss in January 2007 would amount to approximately PLN 2.5-3 million as a result of changes introduced by the Decree. The production of ON BIO has been discontinued until new regulations justifying resumption of the production are introduced.

In consequence of the present status Rafineria Trzebinia S.A. will focus on trading and marketing activities and sale of FAME esters on foreign markets.

The announced changes in the tax regulations caused the necessity for the renegotiation of contracts for the supply of raw materials used in ON BIO production.

Rafineria Trzebinia S.A. has also decided to suspend investment projects concerning significant increase in the present biofuel production capacity.

b. Polkomtel S.A.

On 10 March 2006 an agreement was concluded between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as buyers and TDC Mobile International A/S as a seller in respect of "Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A." ("The Agreement"). The conclusion of the above agreement was preceded by conclusion by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as shareholders of Polkomtel S.A. the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A.". The conclusion of the Agreement was performed in conjunction with the execution by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. of the entitlement to acquire shares under the offer of TDC Mobile International A/S.

Pursuant to the Agreement, PKN ORLEN may acquire 980,486 shares in Polkomtel S.A., representing 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share. In case KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. purchased the shares as a result of the Agreement, these parties, together with currently owned shares, would hold over 75% shares in Polkomtel S.A. After the transaction is settled, PKN ORLEN would hold 24.4% stake in the share capital of Polkomtel S.A.

The Agreement was concluded under a suspending clause regarding termination or abatement of the pledge in respect of shares under the Agreement, established by verdict of the District Court in Warsaw on 24 February 2006, or any other pledge (or similar measure) established by other judgmental body that would disallow sale of shares under the Agreement in Polkomtel S.A. by TDC Mobile International A/S.

As a result of complaint filed by TDC Mobile International the Court of Appeals in Warsaw changed the decision of the District Court in Warsaw. The Court of Appeals declared that the execution of pledge depended on submission by Vodafone Americas Inc. a bail of Euro 43 million. Vodafone Americas Inc transferred the bail to the Court's bank account, which determines the decision on the pledge effective.

On 10 march 2006 Vodafone Americas Inc. filed a law suit to International Court of Arbitration by Federal Chamber of Commerce in Vienna, against six legal entities defining TDC Mobile International A/S as a Principle Respondent, Polkomtel S.A as a First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as Second to Fifth Auxiliary Respondents. In the above mentioned law suit Vodafone Americas Inc., among other things, questioned the method of calculation of the price offered by TDC International A/S to other shareholders. On 29 May 2006 TDC Mobile International A/S, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. filed a joint response to the law suit. Polkomtel S.A. filed its response to the law suit on 26 April 2006. Appointed arbitrators issued several procedure-oriented rulings concerning further proceedings. Proceedings came into phase, when letters concerning this case were exchanged. On 7 March 2007 the seating in front of the Court of Arbitration in Vienna took place. During the seating plenipotentiaries of all sides represented their standings in this case. This resulted for example in modification of claim from Vodafone America. The verdict should be announced in a few nearest weeks.

On 10 May 2006 the Ordinary General Meeting of Shareholders of Polkomtel S.A. was held. The shareholders decided to pay dividend from the retained net profits for the years preceding 2005 and the net profit of 2005. Total amount of dividend amounted to PLN 2,352,375 thousand (representing PLN 114.75 per share) and was paid to shareholders proportionally to their ownership of the share capital of Polkomtel S.A. The amount of the dividend attributable to PKN ORLEN S.A. amounted to PLN 461,269 thousand. The Ordinary General Meeting of Shareholders of Polkomtel S.A. has set the dividend date at 10 May 2006 whereas the dividend payment date was set at 17 July 2006. According to resolution of the Ordinary General Meeting, PKN ORLEN received a dividend of PLN 373,629 thousand.

Share of Polkomtel in the consolidated financial result of the Group in the twelve-month period of 2006 amounted to PLN 219,929 thousand and PLN 209,259 thousand in the twelve-month period of 2005.

c. CO_2 emission rights

In the financial statements, the Group recognized the CO_2 emission rights that were granted free of charge based on the binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention On Climate Change, adopted by the European Union. Emission rights granted free of charge are recognized in the balance sheet as intangible assets. The Group has recognized emission rights granted for the period of 3 years, as a difference between deferred income related to receipt of free of charge emission rights and its fair value at the date rights were granted.
Sale of emission rights is recognized as profit or loss in other operating revenues / expenses in the reporting period when the rights were sold. Profit / loss on sales of emission rights is determined as a difference between the net sales revenues and its carrying amount.

Information on granted emission rights and its balance sheet presentation	Quantity (Mg)	Value (in PLN thousand)
Emission rights acquired by the Group in 2005 for the 3-year accounting period	35 333 094	2 933 634
Actual use of emission rights in 2005	10 309 223	855 288
Actual use of emission rights in 2006	10 459 646	867 848
Emissions planned in 2007	11 880 281	984 251

As at 31 December 2006 the net value of granted emission rights in the consolidated balance sheet of the Group, being the difference between granted emission rights and deferred income related to receipt of rights free of charge, amounted to nil.

As at the date of preparation of these condensed consolidated financial statements the decisions relating to settlement of CO_2 emission rights usage in 2006 were made.

In the period covered by these financial statements unused emission rights were sold:

Period, in which CO_2 emission rights were sold	Quantity (Mg)	Value (in PLN thousand)	Income from sold rights
I quarter 2006	275 000	23 245	26 401
II quarter 2006	165 000	13 947	17 897
III quarter 2006	10 000	818	634
IV quartet 2006	284 951	25 165	7 782

In the period ended 31 December 2006, the income from sales of CO2 emission rights of PLN 52,714 thousand was recognized.

As at 31 December 2006 the Group showed **CO_2** emission rights as a result of acquisition of Mazeikiu Group of PLN 88,770 thousand. CO2 emissions planned for 2007 amounted to 2,048,333 tonnes and their value amounted to PLN 50,265 thousand.

d. Assignment of competencies in connection with changes in the composition of the Management Board of PKN ORLEN S.A.

In relation to changes in the Management Board of PKN Orlen S.A. the Management Board of PKN ORLEN S.A. participative duties between Member of the Board in resolution dated at 20 March 2007
Based on the decision of the Management Board the assignment of competencies as at the day of publication of the financial statements is the following:
Mr Piotr Kownacki – President of the Board, Chief Executive Officer, supervises the areas of Human Resources, Strategy, Management Board Service, Public Relation, Audit and Unipetrol Group.

Mr Cezary Filipowicz – Vice-President of the Board, Upstream & Crude Procurement supervises the performance of the following areas: Upstream, Crude Oil Trading and Merger & Acquisition.
Mr Wojciech Heydel – Vice-President of the Board, Sales, supervises the performance of the following areas: Wholesale Operations, Retail Sales, Marketing, Planning & Sales Analysis, Logistic and Alternative Energy Sources.
Mr Paweł Szymański – Member of the Board, Chief Financial Officer supervises the performance of the following Offices: Planning and Controlling, Finance Management, Taxes, Cost Management, Margin Management and Investment Relation
Mr Krzysztof Szwedowski – Member of the Board, Organization, supervises the performance of the following areas: Organization, IT, Procurement, Legal Department, Information Control & Security, ORLEN Group (excl. Unipetrol) as well as Regulations Monitoring & Management.
Mr Krystian Pater – Member of the Board, Head of Production, supervises the performance of the following areas: Refining, Chemical, Petrochemical and Oil Production, Energy, Technique, Research and Development and Assets Development

e. Restructuring process of IKS Solino Sp. z o.o.

In November 2006 an agreement was concluded between IKS SOLINO S.A. and its labor unions with the participation of PKN ORLEN S.A. and the State Treasury. The agreement provided that operations of the Salt Processing Unit (SPU) will be sustained only in the event of its economic profitability.
According to PKN ORLEN, sale of SPU to a branch investor might guarantee long-term development of the disposed unit and therefore sustaining of existing job positions and creation of new ones.
PKN ORLEN emphasized that the intention of the eventual sale transaction of the SPU is based upon concern about the future of its employees and sustaining of job positions. In the event of sale of the SPU the vast majority of employees will keep their job positions. The small number of people covered by the restructuring process will be enabled to benefit from a shield program that is currently negotiated with the labor unions of IKS SOLINO S.A.

f. Transfer of shares in Spolana a.s. between companies of PKN ORLEN Capital Group

In 2006 Zakłady Azotowe Anwil S.A. purchased shares of Spolana a.s. from Unipetrol A.S.. After transaction PKN ORLEN Group owned 95,18% of the Votes at the General Meeting of Spolana after Anwil purchased shares of Spolana. In Accordance to Czech law the Mandatory Tender Offer – MTO from minority shareholders. Spolana shares were valuated by independent expert for MTO needs with methodology compatible with guidance from Czech National Bank (“CNB”). The Management Board of Anwil S.A. proposed to minority shareholders of Spolana a.s. the prize for one share in the amount of CZK 162. After the process of MTO PKN ORLEN S.A. and Anwil S.A. own 95,7% of the Votes at the General Meeting of Spolana.

g. Jointly-controlled entities

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise - Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins and in Płocki Park Przemysłowo-Technologiczny S.A., activities of which consist in providing business and management advisory services, holding management as well as in real estate trading.

As at 31 December 2006 and for the year ended 31 December 2006, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

	31 December 2006
Current assets	521 338
Non-current assets	905 777
Short-term liabilities	382 964
Long-term liabilities	440 849

	for the year ended 31 December 2006
Revenues	1 368 557
Cost of finished goods, merchandise and raw materials sold	(1 197 793)
General and administration expense	(9 120)
Financial expense	(43 392)
Profit before tax	58 504
Income tax expense	(11 021)
Net profit	47 483

As at 31 December 2006 and for the year ended 31 December 2006, the Group share in assets, liabilities, revenues and costs of Płocki Park Przemysłowo-Technologiczny presented as follows

	31 December 2006
Current assets	16 318
Non- current assets	27 323
Short-term liabilities	17 516
Long-term liabilities	-

	for the year ended 31 December 2006
Revenues	591
Cost of finished goods, merchandise and raw materials sold	(159)
General and administration expense	(1 107)
Financial expense	(116)
Profit before tax	(215)
Income tax expense	-
Net profit	(215)

39. Significant events after balance sheet date

a. Changes in Management Board of PKN ORLEN S.A.

The Supervisory Board of PKN ORLEN S.A. at meeting on 18 January 2007 with majority of its votes had dismissed Mr Igor Chalupec from the position of the President of the PKN ORLEN Management Board which held from 1 October 2004.
At the same time, the Supervisory Board of PKN ORLEN has appointed Mr. Piotr Kownacki, the Vice President of the Company responsible for Audit and Regulations at that date, for the position of the President of the PKN ORLEN Management Board.
Mr Piotr Kownacki held position of Vice President of Management Board from 23 October 2006.

b. Squeeze out procedure related to shares in Mazeikiu held by minority shareholders

Acting under agreement with the Government of the Republic of Lithuania, on 20 February 2007 PKN ORLEN commenced a squeeze out procedure related to shares in Mazeikiu held by minority shareholders. The squeeze out procedure related to shares in Mazeikiu was described in note 37 a.

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

Differences as to data published in the condensed financial statements as at 1 March 2007, with the effect on net result and equity

	Net profit for 2006	Total Equity As at 31 December 2006
Data disclosed in the condensed financial statement for IV quarters 2006	2 405 783	21 935 725
Impairment of goodwill from acquisition of Mazeikiu	(305 105)	(305 105)
Increases of allowance for receivables	(27 759)	(27 759)
Other	(12 721)	(20 298)
Data disclosed in consolidated annual financial statements for 2006	2 060 198	21 582 563

41. Other

The consolidated financial statements were authorized by the Management Board of Parent Company in its seat on 18 April 2007.

KPMG

TRANSLATION

Polski Koncern Naftowy Orlen Spółka Akcyjna Group

Opinion and Report Of the Independent Auditor

Financial Year ended
31 December 2005

KPMG Audyt Sp. z o.o.
The opinion contains 2 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 2005

KPMG Audyt Sp. z o.o.
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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) seated in Płock, 7 Chemików Street, consisting of the consolidated balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 33,404,311 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 4,637,776 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 5,681,675 thousand, the consolidated cash flow statement for the year then ended with an net increase in cash amounting to PLN 396,280 thousand and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The Management of the Parent Company is responsible for the preparation and true and fair presentation of the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility, based on our audit, is to express an opinion on these financial statements. The financial statements of the Company for the financial year ended 31 December 2004, before the transition described in note 39 „First time adoption of International Financial Reporting Standards" of the supplementary notes, were audited by another auditor, whose report dated 5 May 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable assurance about whether the consolidated financial statements are fee of material misstatement. An audit includes examining, on a test basis, evidence and consolidation documentation supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles applied in the Group and significant estimates made by the management of the Parent Company, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

KPMG Audyt Sp. z o.o., a Polish limited liability company, is a member firm of KPMG International, a Swiss cooperative.

Spółka zarejestrowana w Sądzie Rejonowym dla m. st. Warszawy XIX Wydział Gospodarczy Krajowego Rejestru Sądowego

KRS 0000104753
NIP: 526-10-24-641
REGON 010030471

In our opinion, the accompanying consolidated financial statements of Group PKN Orlen S.A. Group present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and respective bylaws and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market and the provisions of law that apply to the consolidated financial statements, applicable to the Group.

As required under the Accounting Act dated 29 September 1994 we also report that 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 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.
51 Chłodna Street; 00-867 Warsaw
Certified Auditor No. 9451/7175
Leszek Dubicki,
Member of the Management Board

Warsaw, 27 April 2006

KPMG

TRANSLATION

Polski Koncern Naftowy Orlen Spółka Akcyjna Group

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

Financial Year ended
31 December 2005

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 2005

Contents

1	**General**	**3**
1.1	Identification of the Group	3
1.2	Information about companies included in the Group	3
1.3	Auditor information	7
1.4	Legal status	7
1.5	Prior period consolidated financial statements	11
1.6	Audit scope and responsibilities	12
1.7	Information on audits of the group reporting packages statements of consolidated companies	14
2	**Financial analysis of the Group**	**18**
2.1	Summary of the financial statements	18
2.2	Selected financial ratios	20
2.3	Interpretation of selected financial ratios	20
3	**Detailed report**	**22**
3.1	Accounting principles	22
3.2	Basis of preparation of the consolidated financial statements	22
3.3	Method of consolidation	23
3.4	Consolidation goodwill and its amortisation	23
3.5	Consolidation of equity and calculation of minority interest	23
3.6	Consolidation eliminations	23
3.7	Supplementary notes, comprising of significant accounting policies and other explanatory notes	23
3.8	Report of the Management Board of the Parent Company on the Group's activities	24
3.9	Information on the opinion of the independent auditor	24

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:	Regional Court in Warsaw, XXI Commercial Department
Date:	19 July 2001
Registration number:	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 included in the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2005 the following companies belonging to the Group were subject to consolidation:

Parent Company:

- PKN Orlen S.A.

Subsidiaries consolidated on the "full consolidation" basis:

- Orlen Deutschland AG
- Orlen Gaz Sp. z o.o.
- Orlen Petrogaz Wrocław 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 Transport Kraków Sp. z o.o.
- Orlen Transport Płock Sp. z o.o.
- Orlen Transport Słupsk Sp. z o.o.
- Orlen Transport Nowa Sól Sp. z o.o.
- Zakład Budowy Aparatury S.A.
- Orlen Laboratorium Sp. z o.o.
- Raf Lab Sp. z o.o.
- Orlen Transport Olsztyn Sp. z o.o.
- Orlen PetroTank Sp. z o.o.
- Orlen Transport Kędzierzyn Koźle Sp. z o.o.
- Petrotel Sp. z o.o.
- Orlen PetroProfit Sp. z o.o. Group
  - Orlen PetroProfit Sp. z o.o. (parent company)
  - Petrooktan Sp. z o.o. (full consolidation)
  - Petro-Oil LCS Sp. z o.o.(full consolidation)
- Orlen Asfalt Sp. z o.o.
- Rafineria Trzebinia S.A. Group
  - Rafineria Trzebinia S.A. (parent company)
  - Energomedia Sp. z o.o. (full consolidation)
  - Euronaft Sp. z o.o. (full consolidation)
  - Nafto Wax Sp. z o.o. (full consolidation)
  - Ekonaft Sp. z o.o. (full consolidation)
- Anwil S.A. Group
  - Anwil S.A. (parent company)
  - Remwil Sp. z o.o (full consolidation)
  - Pro-Lab Sp. z o.o (full consolidation)
  - Chemeko Sp. z o.o. (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)
- Rafineria Nafty Jedlicze S.A. Group
  - Rafineria Nafty Jedlicze S.A (parent company)
  - Konsorcjum Olejów przepracowanych S.A. (full consolidation)
  - Raf Ekologia Sp. z o.o. (full consolidation)
  - Raf Energia Sp. z o.o. (full consolidation)
  - Raf Koltrans Sp. z o.o. (full consolidation)
  - Raf Remat Sp. z o.o.(full consolidation)

- Inowrocławskie Kopalnie Soli „SOLINO" S.A.
- Ship – Service S.A. Group
  - Ship - Sernice S.A. (parent company)
  - Bor – Farm Sp. z o.o. (full consolidation)
    - Ship Service Agro Sp. z o.o. (full consolidation)
- Orlen Automatyka Sp. z o.o
- Orlen Petrozachód Sp. z o.o.
- Petrolot Sp. z o.o.
- Orlen Projekt S.A.
- Orlen Wir Sp. z o.o.
- RafTrans Sp. z o.o.
- Orlen Morena Sp. z o.o.
- Orlen Oil Sp. z o.o. Group
  - Orlen Oil Sp. z o.o. (parent company)
  - Platinum Oil Mazowsze Sp. z o.o.(full consolidation)
  - Orlen Oil Cesko s.r.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)
  - Petro-Oil Seewax Sp. z o.o. Sp. z o.o. (equity method)

- Unipetrol a.s. Group
  - Unipetrol a.s. (parent company)
  - Chemopetrol a.s. Group (full consolidation)
    - Chemopetrol a.s. (parent company)
    - Unipetrol Doprava a.s. (full consolidation)
  - Kaucuk a.s. (full consolidation)
  - Benzina a.s. Group (full consolidation)
    - Benzina a.s. (parent company)
    - Benzina Trade a.s. (full consolidation)
    - Petrotrans a.s. (full consolidation)
  - Paramo a.s. (full consolidation)
  - Unipetrol Trade a.s. Group (full consolidation)

- Unipetrol Trade a.s. (parent company)
- 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)
- Chemapol (Schweiz) AG (full consolidation)
- Unipetrol Austria HmbH (full consolidation)

- Unipetrol Rafinerie a.s. (full consolidation)
- Spolana a.s. (full consolidation)
- Ceska Rafinerska a.s.(propotional method)

Joint ventures consolidated on the "proportional consolidation" basis:

- Grupa Kapitałowa Basell Orlen Polyolefins Sp. z o.o.
  - Basell Orlen Polyolefins Sp. z o.o (parent company)
  - Basell Orlen Polyolefins Sprzedaż Sp. z o.o (full consolidation)

The following subsidiaries have been subject to consolidation for the first time during the year ended 31 December 2005, as a result of control established by the Parent Company:

- Unipetrol a.s. – subject to consolidation for the period from 31 May 2005 to 31 December 2005.

1.2.2 Entities excluded from consolidation

As at 31 December 2005 the following subsidiaries and joint ventures companies belonging to the Group have not been consolidated:

- B.H.T. Dromech S.A.
- Orlen Eko Sp. z o.o.
- Orlen Ochrona Sp. z o.o.
- Petromor Sp. z o.o.
- Samrelaks Mąchocice Sp. z o.o.
- Wisła Płock Sportowa S.A.
- Orlen Centrum Serwisowe Sp. z o.o.
- Płocki Park Przemysłowo – Technologiczny S.A.
- Orlen Administracja Sp. z o.o.
- Centrum Komercjalizacji Technologii Sp. z o.o.
- Centrum Edukacji Sp. z o.o.
- BUT sro
- HC Chemopetrol a.s.
- Chemicka Servisni a.s.

- Polymer Institute Brno, spol sro
- CS Zilina sro
- CS Smizany sro
- CS Milhost sro
- Paramo Trysk a.s.
- Mogul Servis a.s.
- Mogul Morava a.s.
- Mogul Tank Plus a.s.
- Mogul Slovakia sro
- Petra Slovakia sro
- Aliachem Benelux BV
- Unipetrol France S.A.
- Aliachem Italia S.r.l
- Unipetrol Polska Sp. z o.o.
- DP Mogul Ukrajina
- Mogul d.o.o
- Aliachem USA Inc
- Unipetrol (UK) Ltd
- Uniraf Slovensko s.r.o.
- NeraPharm spol sro
- Tiu Plast a.s.

1.3 Auditor information

KPMG Audyt Sp. z o.o.
51 Chłodna Street
00-867 Warsaw

KPMG Audyt Sp. z o.o. is registered as a company authorised to audit financial statements (number 458).

1.4 Legal status

1.4.1 Share capital

Polski Koncern Naftowy Orlen Spolka Akcyjna (the "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 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 Company changed its name to Polski Koncern Naftowy Spolka 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 Company changed its name to Polski Koncern Naftowy Orlen Spółka Akcyjna.

On 19 May 1999 the Ordinary General Meeting of Shareholders of the Company adopted a resolution on the merger of the Company with Centrala Produktow Naftowych "CPN" S.A. ("CPN") by incorporation of CPN in to the 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 Company amounted to PLN 534,636 thousand as at 31 December 2005 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 2005 amounts to PLN 1,057,635 thousand.

As at 31 December 2005, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of voting rights (%)	Nominal value of shares (Commercial register) PLN '000	Percentage of share capital (%)
Nafta Polska S.A.	74,076,299	17.3%	92,595,374.0	17.3%
State Treasury	43,633,897	10.2%	54,542,371.0	10.2%
Bank of New York (as a depositary)	48,467,578	11.3%	60,584,473.0	11.3%
Others	261,531,287	61.2%	326,914,108.0	61.2%
	427,709,061	100.0%	534,636,326.0	100.0%

1.4.2 Management of the Parent Company

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

At 31 December 2005, the Management Board of the Parent Company was comprised of the following members:

- Igor Chalupec – President of the Management Board
- Wojciech Heydel – Vice President of the Management Board
- Cezary Smorszczewski – Vice President of the Management Board
- Jan Maciejewicz – Vice President of the Management Board
- Paweł Szymański – Member of the Management Board
- Dariusz Witkowski – Member of the Management Board

During the year 2005 there were following changes in the composition of the Management Board of the Company:

1. In the period from 1 January 2005 to 29 June 2005 Management Board comprised the following members:

- Igor Chalupec – President of the Management Board
- Janusz Wiśniewski – Vice President of the Management Board
- Andrzej Macenowicz – Vice President of the Management Board
- Wojciech Heydel – Vice President of the Management Board
- Cezary Smorszczewski – Vice President of the Management Board
- Jan Maciejewicz – Vice President of the Management Board
- Paweł Szymański – Member of the Management Board

2. On 29 June 2005, due to the end of 3 year term of the Management Board of PKN Orlen S.A., mandates of all members of the Management Board expired. Hence, at the Supervisory Board Meeting of PKN Orlen S.A. held on 30 June 2005, there was an appointment of Management Board of PKN Orlen S.A. for next 3-year term. Management Board comprised:

- Igor Chalupec – President of the Management Board
- Wojciech Heydel – Vice President of the Management Board
- Cezary Smorszczewski – Vice President of the Management Board
- Jan Maciejewicz – Vice President of the Management Board
- Paweł Szymański – Member of the Management Board

3. On 19 July 2005 the Supervisory Board of PKN Orlen S.A., after proposal of the Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, appointed effective from 1 August 2005 Mr Dariusz Witkowski to the position of the Member of the Management Board of PKN Orlen S.A.

4. On 21 December 2005 the Supervisory Board of PKN Orlen S.A., after proposal of the Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, appointed effective from 2 January 2006 Mr Cezary Stanisław Filipowicz to the position of the Vice-President of the Management Board of PKN Orlen S.A.

The following changes to the composition of the Management Board took place in the period from 31 December 2005 to the date of issuing this opinion:

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

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 Deeds/Statutes include the following:

- Orlen Deutschland AG – trading
- Orlen Gaz Sp. z o.o. Group – 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 Transport Kraków Sp. z o.o. – transport services
- Orlen Transport Płock Sp. z o.o. – transport services
- Orlen Transport Słupsk Sp. z o.o. – transport services
- Orlen Transport Nowa Sól Sp. z o.o. – transport services
- Zakład Budowy Aparatury S.A. – production
- Orlen Laboratorium Sp. z o.o. – research and development
- Orlen Transport Olsztyn Sp. z o.o. – transport services
- Orlen PetroTank Sp. z o.o. – trading, services
- Orlen Transport Kędzierzyn Koźle Sp. z o.o. – transport services
- Petrotel Sp. z o.o. – services
- Grupa Kapitałowa Orlen PetroProfit Sp. z o.o. – trading, production

- Orlen Asfalt Sp. z o.o. – production
- Grupa Kapitałowa Rafineria Trzebinia S.A. – production, trading
- Grupa Kapitałowa Anwil S.A. – production, trading
- Grupa Kapitałowa Rafineria Nafty Jedlicze S.A. – production
- Inowrocławskie Kopalnie Soli „SOLINO" S.A. – production, services
- Grupa Kapitałowa Ship – Service S.A. – 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
- RafTrans Sp. z o.o. - services
- Orlen Morena Sp. z o.o. – trading
- Grupa Kapitałowa Orlen Oil Sp. z o.o. – production, trading
- Grupa Kapitałowa Unipetrol a.s – production, trading
- Grupa Kapitałowa Basell Orlen Polyolefins Sp. z o.o. – production, trading

1.5 Prior period consolidated financial statements

The consolidated financial statements for the period ended 31 December 2004 were audited by Ernst & Young Audit Sp. z o.o. and received unqualified opinion as at 19 April 2005 and amended unqualified opinion as at 5 May 2005 with the following emphasis of matters:

"In 2004 two acts amending the Accounting Act and affecting the accompanying amended consolidated financial statements became effective: the Act dated 12 December 2003 on amendments to the Act – Commercial Code and certain other acts and the Act dated 30 April 2004 amending the Accounting Act. Taking the above into consideration, the Company has introduced changes in applied accounting principles. This led to the increase in equity in the opening balance by the amount of PLN 35,998 thousand. Comparable data was also changed in order to take into account the changed accounting principles. The effect of those changes on 2 Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne" 3 Translation of the following expression in Polish: "sytuacja majątkowa i finansowa"
The Polish original should be referred to in matters of interpretation Translation of auditors' report originally issued in Polish the amended consolidated financial statements was presented in Note 63 of additional information and notes to the accompanying amended consolidated financial statements.

As presented in Note 47c to the accompanying amended consolidated financial statements, there is a tax inspection underway in Rafineria Trzebinia S.A. This inspection is being carried out by the Tax Inspection Office in Krakow and its scope covers verification of excise tax and value added tax calculations and payments for the years 2002 and 2003. The results of this tax inspection and its potential impact on the accompanying amended consolidated financial statements are unknown as of the date of this opinion. Additionally on 5 April 2005, as a result of the proceeding carried out by the Custom Office, Rafineria Trzebinia S.A. received decisions issued by the Director of Custom Office in Krakow in which additional excise tax

liability was set for the period May-June 2004 for the total amount of approximately PLN 60 million which were appealed by the company. On 5 May 2005 Rafineria Trzebinia S.A. received a decision of Custom Office in Krakow on suspending the execution of the above mentioned decisions. As presented in the above note, as at the date of this opinion the final results of the above proceedings and their potential impact, as well as any potential impact of extending the above proceedings to the other periods, on the accompanying amended consolidated financial statements are not known.

As presented in Notes 47c, 47n and 47o to the accompanying amended consolidated financial statements the Supervisory Boards of Rafineria Trzebinia S.A., Rafineria Nafty Jedlicze S.A. and ORLEN Oil Sp. z o.o. passed resolutions on performing tax reviews and forensic procedures. As presented in the above notes as at the date of this opinion the above procedures were not finalized and their potential impact on the accompanying amended consolidated financial statements is not known."

The above risks are described in Notes 33c, 33n and 33o of the accompanying consolidated financial statements for 2005 of PKN Orlen S.A. Group.

The consolidated financial statements for 2004 were approved at the General Meeting on 29 June 2005.

The closing balances as at 31 December 2004 have been properly implemented to the consolidation documentation as the opening balances of the audited year.

Due to the changes in the applied accounting policies, resulting from the adoption of the accounting policies that are in compliance with International Financial Reporting Standards as adopted by the European Union the related corresponding figures for 31 December 2005 have been restated by the Parent Company. Furthermore, in accordance with IFRS 1, the Parent Company has elected not to restate the corresponding figures in order to comply with IAS 32, IAS 39 and IFRS 4. The adjustments resulting from changes in accounting policies, in order to comply with IAS 32, IAS 39 and IFRS 4, have been made to the opening balance of equity as at 1 January 2005.

The consolidated financial statements for 2004 were submitted to the Registry Court on 8 July 2005 and were published in Monitor Polski B No. 1761on 17 November 2005.

1.6 Audit scope and responsibilities

This report of the independent auditor was prepared for the General Meeting of PKN Orlen S.A. seated in Płock, Chemików 7 street, and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2005, with total assets of and total liabilities and equity of PLN 33,404,311 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 4,637,776 thousand, the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 5,681,675 thousand, the consolidated cash flow statement for the year then ended with an net increase in cash amounting to PLN 396,280 thousand, and supplementary notes, comprising of significant accounting policies and other explanatory notes.

The consolidated financial statements have been audited on the basis of the decision of the Supervisory Board dated 21 January 2005 on the appointment of the auditor.

The consolidated financial statements have been audited in accordance with the contract dated 30 May 2005.

We conducted the 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 professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We have audited the consolidated financial statements in the Parent Company's head office during the period from 23 January 2006 to 27 April 2006.

The Management of the Parent Company is responsible for the preparation and true and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and respective bylaws and regulations and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

Our responsibility is to express an opinion, with a supplementing report, on these financial statements.

On 27 April 2006 the Management Board of the Parent Company submitted a statement 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 for the audited year.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled by the Management of the Parent Company.

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 group reporting packages statements of consolidated companies

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2005 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 audytor	Type of the auditor's opinion
ORLEN Deutschland AG	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Gaz Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Petrogaz Wrocław Sp. z o.o.	Zespół Biegłych Rewidentów "Faber"	Unqualified opinion with the following emphasis of matter: "Except for the fact that the basic indicators illustrating property and financial situation of the entity do not show the possible significant threat for going concern in the following year, the cummulated losses from prior periods and current loss have led to fall of the net equity to the level of 56% of share capital."
PetroCentrum Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Medica Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Budonaft Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with following emphasis of matter: "Financial situation of the Company relating to ability of debt repayment is difficult. Management Board in additional information accompanying the financial statements listed actions taken to improve the situation. However there is essential uncertainty regarding the outcome of these actions. If mentioned actions are not taken, the Company's ability to continue as a going concern would be threatened. We draw your attention to the fact, that the balance sheet as at 31 December 2005 presents negative net equity. Accroding to § 233 paragraph 1 of Polish Commercial Code Shareholders Meeting should decide on further Company's ability to continue as a going concern."
Orlen KolTrans 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 Transport Kraków Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "The 2001 and 2002 excise tax control proceeding is still in progress. The Company created the provision for the proper amount of PLN 7,191.6 thousand for the tax liability resulting from statements that were provided by the customers stating that purchased goods are to be used for the furnace fuel purposes questioned by the Custom Office. It is not possible to assess the outcome of the tax control. As a result of creating of the above mentioned provision the Company's net equity amounts to the level of 13% of the share capital. The 2005 net loss has exceeded both reserve and half of the share capitals. The Shareholders should decide on further Company's ability to continue as a going concern."
Orlen Transport Płock Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "Opening balances were not audited. Auditor's opinion concerns only current financial year."

Entity's name	Authorised audytor	Type of the auditor's opinion
Orlen Transport Słupsk Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Transport Nowa Sól Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Zakład Budowy Aparatury S.A.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Laboratorium Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opincin
Raf-Lab Sp. z o.o.	ZEFiR Sp. z o.o.	Qualified opinion: "In the profit and loss statement as at 31 December 2005 the company presented extinguished interests amounting to PLN 151 thousand both as financial income and expenses. As the result financial income and expenses were overstated by PLN 151 thousand."
PKN Transport Olsztyn Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen PetroTank Sp. z o.o.	KPMG Audyt Sp. z o.o.	Qualified opinion: "According to the Act of Environment Protection Law from 27 April 2001 the Company is required to reclamate contaminated land. As at 31 December 2005 the Company recognized provision for land reclamation in the amount of PLN 480 thousand. The Management Board has not provided us with sufficient evidence required for estimation of the possible land contamination provisions. In relation to above mentioned issue we were not able to assess whether it is necessary to provide with any adjustments regarding provisions for land reclamation presented in the balance sheet as at 31 December 2005. As at 31 December 2005 the Company presented fixed assets relating to 13 petrol stations including land as well as assets under construction amounting to net value of PLN 41 million. In our opinion there are indicators of possible impairment of these assets. The Management Board has not presented to us sufficient evidence relating to impairment of these stations that would confirm the possibility of gaining economic benefits in relation with further usage or sale of stations exceeding their carrying amount presented in the balance sheet. We are therefore not able to assess whether it is necessary to provide with any adjustments regarding the value of petrol stations' assets as at 31 December 2005."
PKN Transport Kędzierzyn Koźle Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "Loss on operating activity, unfavourable financial ratios (mainly profitability and liquidity) indicate potential risk for the Company's ability to continue as a going concern, provided that certain restructuring actions, described in the Management Report on Company's Operations for 2005, were not taken."
Petrotel Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen PetroProfit Sp. z o.o. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Asfalt Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Rafineria Trzebinia S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "As a result of tax procedure the parent company received the decision from tax authorities stating excise tax arrears for May - August and September 2004 amounting to approx. PLN 100 million. The Company is in course of the apeal proceeding and the final result is pending. In the consolidated financial statement the Group has not created any provisions for possible liabilities, which may occure in case of unfavourable verdict."
Anwil S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion

Entity's name	Authorised audytor	Type of the auditor's opinion
Rafineria Nafty Jedlicze S.A. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion with the following emphasis of matter: "According to the information from the parent company's Management Board, we understand that the Group will be a subject to restructuring proces approved by the partent company's Management Board according to: "The Plan of restructuring and consolidating of the southern assets of PKN Orlen S.A." document. According to information received from the parent company's Management Board the above mentioned project has not beed finally defined and approved. We have also been informed that the Management Board prepares detailed plan for the Group together with the external advisor. According to Management Board there have not been certain premises for stating reliable mid-term forcast that would take into account PKN Orlen intentions regarding future restructuring of the Group's assets and their usage."
Inowrocławskie Kopalnie Soli"SOLINO" S.A.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Ship Service S.A. Group	KPMG Audyt Sp. z o.o.	Qualified opinion: "Capital Group of Ship Service S.A. corrected equity opening balance regarding allowance for receivables from UAB Ship Service Klaipeda amounting to PLN 4,022.1 thousand and allowance for disputable receivables from the Tax Office regarding VAT settlements in the amount of PLN 1,573.6 thousand. Moreover Ship Service made other adjustments amounting to PLN 112.2 thousand corresponding with retained earnings. Allowances are estimates and their changes should not adjust prior periods. As a result of recording above mentioned adjustments the comparative data for 2004 have been misstated through the overstatement of net profit of the year 2004 by PLN 5,707.9 thousand in correspondence to retained earnings."
Ship Service S.A. Group	KPMG Audyt Sp. z o.o.	Additionally, the opinion included following emphases of matter: 1. "The main financing sources of Ship Service (the Parent Company) are both trade and bank credits. As at 31 December 2005 bank credits amounted to PLN 26,949 thousand of which the amount of PLN 24,555 thousand refers to short term credits. The nearest repayment in the amount of PLN 7,817 thousand in due on 31 March 2006. Currently the Parent Company negotiates new credit lines and and its scope with banks. However until the date of issuing this opinion neither of banks has made a decision concerning future financing of the Parent Company after it repays its short term credits. By virtue of losses incurred in 2004 and 2005 there is a significant uncertainty whether the Company will be further financed externally by the banks after expiration of the current credit agreements. This may lead to a threat of operating in the significantly unchanged range." 2. "In 2002 Ship Sevice received the decision from the Tax Control Office, which questioned 0% VAT rate on sales of petrol for inland vessels. In the appeal proceeding both Tax Chamber and District Administrative Court sustained the Tax Office's decision. Ship Service submited an annulment to the Supreme Administrative Court. Ship Service possesses legal opinions which confirm the chances for favourable settlement of dispute. In relation to these opinions the Company decided not to recognize provision for possible additional tax liability amounting to PLN 2,146 thousand. This amount is presented in the consolidated financial statement as contingent liability. We also draw attention to the fact that questioned 0% VAT rate for inland vessels purposes, was applied also after the period covered with control, i.e. since March 2002 till now. The Management Board did not estimate any additional charges for that period as Ship Service received opinions from its lawyers and from Department for Commercial Companies of II nd Tax Office District Mazowsze."

Entity's name	Authorised audytor	Type of the auditor's opinion
Orlen Automatyka Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
Petrozachód Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Petrolot Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Projekt S.A.	DGA Audyt Sp. z o.o.	Unqualified opinion
Orlen Wir Sp. z o.o.	DGA Audyt Sp. z o.o.	Unqualified opinion
RaF Trans Sp. z o.o.	Instytut Studiów Podatkowych Modzelewski i Wspólnicy AUDYT Sp. z o.o.	Unqualified opinion with following emphasis of matter: "Accumulated losses exceed half of Company's share capital. According to paragraph 233 of Polish Commercial Code Management Board is obliged to immediately call the Shareholders Meeting to decide of Company's ability to continue as a going concern. According to the resolution number 10/2005 from 14 December 2005 merger plan with Orlen Transport Kraków Sp. z o.o. - 100% shareholder of Raf-Trans, was approved. Accordingly, the Company's ability to continue as a going concern may be sustained."
Orlen Morena Sp. z o.o.	KPMG Audyt Sp. z o.o.	Unqualified opinion
Orlen Oil Sp. z o.o. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion
Unipetrol a.s. Group	KPMG Czech Republic	Unqualified opinion
Basell Orlen Polyolefins Sp. z o.o. Group	KPMG Audyt Sp. z o.o.	Unqualified opinion

The financial statements of other consolidated entities being part of the Group were exempt from the obligation to audit for the financial year ended 31 December 2005.

2 Financial analysis of the Group

2.1 Summary of the financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2005 PLN '000	% of total	31.12.2004 PLN '000	% of total
Non-current assets				
Property, plant and equipment	18,510,754	55.4%	11,478,242	55.0%
Goodwill	17,630	0.1%	20,501	0.1%
Intangible assets	610,984	1.8%	346,244	1.7%
Long-term financial assets	550,984	1.7%	47,929	0.2%
Investments in associates	1,025,077	3.1%	940,851	4.5%
Loans granted	7,145	0.0%	10,290	0.0%
Deferred tax assets	62,131	0.2%	19,673	0.1%
Investment property	11,557	0.0%	9,122	0.0%
Perpetual usufruct of land	76,172	0.2%	66,169	0.3%
Other non-current assets	13,098	0.0%	8,794	0.0%
Total non-current assets	20,885,532	62.5%	12,947,815	62.0%
Current assets				
Inventory	6,113,237	18.3%	3,200,982	15.3%
Trade and other receivables	4,777,638	14.3%	2,580,783	12.4%
Income tax receivable	49,567	0.2%	23,309	0.1%
Short-term investments	104,938	0.3%	1,123,616	5.4%
Short-term prepayments	145,853	0.4%	108,716	0.5%
Cash and cash equivalents	1,126,803	3.4%	729,498	3.6%
Other financial assets	111,899	0.3%	154,756	0.7%
Financial assets classified as held for sale	88,844	0.3%	0	0.0%
Total current assets	12,518,779	37.5%	7,921,660	38.0%
TOTAL ASSETS	33,404,311	100.0%	20,869,475	100.0%

EQUITY AND LIABILITIES	31.12.2005 PLN '000	% of total	31.12.2004 PLN '000	% of total
Equity				
Share capital	1,057,635	3.2%	1,057,635	5.1%
Share premium	1,227,253	3.7%	1,227,253	5.9%
Hedging reserve	60,075	0.2%	87,648	0.4%
Foreign exchange difference on subsidiaries from consolidation	(156,014)	-0.5%	(9,444)	0.0%
Retained earnings	14,507,562	43.4%	10,828,516	51.8%
Total equity (attributed to shareholders of the parent company)	16,696,511	50.0%	13,191,608	63.2%
Minority interest	2,616,478	7.8%	439,706	2.1%
Total equity	19,312,989	57.8%	13,631,314	65.3%
Liabilities				
Interest-bearing loans and borrowings	3,405,978	10.2%	2,083,536	9.9%
Provisions	956,991	2.9%	642,292	3.1%
Deferred tax liabilities	1,020,159	3.1%	458,512	2.2%
Other non-current liabilities	170,725	0.5%	53,371	0.3%
Total non-current liabilities	5,553,853	12.0%	3,184,340	15.5%
Trade and other liabilities and accrued expenses	6,684,050	20.0%	3,427,296	16.4%
Provisions	683,273	2.0%	283,442	1.4%
Income tax liability	35,711	0.1%	1,680	0.0%
Interest-bearing loans and borrowings	1,110,819	3.3%	247,627	1.2%
Deferred income	19,265	0.1%	19,106	0.1%
Other current financial liabilities	4,351	0.0%	21,299	0.1%
Total current liabilities	8,537,469	25.6%	4,000,450	19.2%
Total liblities	14,091,322	42.2%	7,184,790	34.5%
TOTAL EQUITY AND LIABILITIES	33,404,311	100.0%	20,816,104	100.0%

2.1.2 Consolidated profit and loss account

	1.01.2005 - 31.12.2005 PLN '000	% of total sales	1.01.2004 - 31.12.2004 PLN '000	% of total sales
Sales of goods	41,323,671		29,346,192	
Excise tax and other charges	(12,502,031)		(10,152,297)	
Revenues from sale of finished goods	28,821,640		19,193,895	
Revenue from sale of merchandise and raw materials	12,366,627		11,486,563	
Net sales revenue	41,188,267	100.0%	30,680,458	100.0%
Cost of sales	(34,078,848)	-82.7%	(24,605,322)	-80.2%
Gross profit on sales	7,109,419	17.3%	6,075,136	19.8%
Distribution expenses	(2,391,290)	-5.8%	(2,115,625)	-6.9%
General and administrative expenses	(1,039,333)	-2.5%	(855,341)	-2.8%
Other operating income	2,330,291	5.7%	331,144	1.1%
Other operating expenses	(1,090,863)	-2.7%	(767,951)	-2.5%
Profit on the sale of all or part of shares of related parties	29,396	0.1%	19,166	0.1%
Operating profit before financing costs	4,947,620	12.0%	2,686,529	8.8%
Financial income	669,028	1.6%	625,390	2.0%
Financial expenses	(480,195)	-1.2%	(366,568)	-1.2%
Net finance costs and revenues	188,833	0.5%	258,822	0.8%
Share in profit from investments accounted for under equity method	202,768	0.0%	193,094	0.6%
Profit before tax	5,339,221	13.0%	3,138,445	10.2%
Income tax expense	(701,445)	-1.7%	(600,849)	-2.0%
Profit for the period	4,637,776	11.3%	2,537,596	8.3%
Including:				
Minority interest	52,644	0.2%	55,369	0.2%
Net profit attributable to equity holders of the parent	4,585,132	11.1%	2,482,227	8.1%

2.2 Selected financial ratios

		2005	2004
1.	**Return on sales**		
	net profit x 100% / net revenues	11.3%	8.3%
2.	**Debtors turnover**		
	average trade receivables (gross) x 365 days / net revenues	26 days	27 days
3.	**Debt ratio**		
	liabilities and provisions for liabilities x 100% / total equity and liabilities	50.0%	36.8%
4.	**Current ratio**		
	current assets / current liabilities	1.5	2.0
5.	**Return on equity**		
	net profit x 100% / equity - net profit	31.6%	22.9%

- Current assets exclude receivables due in more than 12 months.
- Current liabilities are comprised of short-term provisions for liabilities, short-term liabilities, excluding liabilities due in more than 12 months, and other short-term accruals.
- Net revenues are comprised of the sale of finished products, merchandise and raw materials.
- Average trade receivables are comprised of the average of trade receivables to related and other parties at the beginning and at the end of the period, excluding allowances for receivables.

2.3 Interpretation of selected financial ratios

Return on sales

The increase of the return on sales ratio results mainly from the acquisition of Unipetrol Group a.s. (the excess of the fair value of acquired assets over cost in the amount of PLN 1.8 billion).

In 2005 the return on sales after elimination of the acquisition of Unipetrol Group a.s. effect (the excess of the fair value of acquired assets over cost) amounts to 6.6% that is 1.7 p.p. lower as compared to 2004. The decrease of 1.7 p.p. in the return on sales as compared to 2004 resulted from lower level of return on sales ratio recorded in the Unipetrol capital group.

Debtors turnover

The debtors turnover amounted to 26 days as at the end of 2005, which constitutes a negligible decrease in comparison to the end of 2004, when it accounted for 27 days.

Debt ratio

The debt ratio increased from 36.8% in 2004 to 50% in 2005. The change is involved with the rise in the indebtedness level of the Capital Group and the increase in the amount of minority interest, primarily due to purchase of the Unipetrol capital group.

Current ratio

The current ratio amounted to 1.5 as at the end of 2005. The decline by 0.5 is primarily attributable to the rise in short-term loans and borrowings.

Return on equity

The return on equity amounted to 31.6% in 2005 which is a 8.7 p.p. rise in comparison to 2004. The increase of the ratio resulted mainly from the acquisition of Unipetrol capital group in 2005 – the excess of the fair value of acquired assets over costs.

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 supplementary notes, comprising of significant accounting policies and other explanatory notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Considering 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 in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

The consolidated financial statements were prepared from the consolidation documentation including in particular:

- financial statements of the related entities,
- consolidation adjustments and eliminations, necessary to prepare the consolidated financial statements,
- calculation of fair value of net assets of subordinated entities,
- calculation of goodwill and its allowances and excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost,
- calculation of the minority interest,

- calculation of foreign exchange differences on the translation of the financial statements of subordinated entities.

3.3 Method of consolidation

The method of consolidation has been described in note 4b of the supplementary notes, comprising of significant accounting policies and other explanatory notes.

3.4 Consolidation goodwill and its amortisation

The method of calculating consolidation goodwill has been described in note 4a of the supplementary notes, comprising of significant accounting policies and other explanatory notes.

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 were determined by adding the equity balances of subsidiaries included in the consolidated financial statements, in the proportion reflecting the percentage share of the Parent Company in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only the portion of equity of the subsidiaries, resulting after control by the Parent Company, is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined as the percentage share of minority shareholders in 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 Supplementary notes, comprising of significant accounting policies and other explanatory notes

All information included in the supplementary notes, comprising of significant accounting policies and other explanatory notes to the consolidated financial statements is 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 Article 49 of the Accounting Act dated 29 September 1994 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 2005, we have issued an unqualified opinion.

.....
Certified Auditor No. 10268/7598
Monika Bartoszewicz

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

Warsaw, 27 April 2006

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	2005	2004	2005	2004
Data in respect of MSSF condensed consolidated financial statement				
I. Total sales revenues	41 188 267	30 680 458	10 237 434	7 625 695
II. Profit/(Loss) from operations	4 947 620	2 686 529	1 229 742	667 743
III. Profit before tax	5 339 221	3 138 445	1 327 075	780 067
IV. Net profit attributable to equity holders of the parent	4 585 132	2 482 227	1 139 645	616 963
V. Net cash provided by operating activities	3 663 889	3 636 845	910 668	903 946
VI. Net cash used in investing activities	(2 503 176)	(2 700 144)	(622 170)	(671 127)
VII. Net cash provided by / (used in) financing activities	(764 433)	(837 677)	(190 002)	(208 206)
VIII. Net change in cash and cash equivalents	396 280	99 024	98 496	24 613
	as of 31.12.2005	**as of 31.12.2004**	**as of 31.12.2005**	**as of 31.12.2004**
IX. Non-current assets	20 885 532	12 947 815	5 411 040	3 354 530
X. Current assets	12 518 779	7 921 660	3 243 375	2 052 350
XI. Total Assets	33 404 311	20 869 475	8 654 415	5 406 880
XII. Non-current liabilites	5 553 853	3 237 711	1 438 897	838 829
XIII. Current liabilities	8 537 469	4 000 450	2 211 894	1 036 440
XIV. Equity	19 312 989	13 631 314	5 003 624	3 531 611
XV. Share capital*	1 057 635	1 057 635	274 013	274 013
XVI. Equity attributable to equity holders of the parent	16 696 511	13 191 608	4 325 745	3 417 692
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	45,15	31,87	11,70	8,26

* Share capital after revaluation in accordance with IAS 29.

The above data for 2005 and 2004 were translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 31 December 2005 - 3.8598 PLN/EUR

- specific items in profit and loss and 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 2005) - 4.0233 PLN/EUR

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED BALANCE SHEET
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Notes	31 December 2005	31 December 2004
		(in thousand PLN)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	18 510 754	11 478 242
Goodwill	7	17 630	20 501
Intangible assets	8	610 984	346 244
Long-term financial investments	9	550 984	47 929
Investments in associates	10	1 025 077	940 851
Loans (granted)		7 145	10 290
Deferred tax assets	29	62 131	19 673
Investment property	6	11 557	9 122
Perpetual usufruct of land		76 172	66 169
Other non-current assets		13 098	8 794
Total non-current assets		**20 885 532**	**12 947 815**
Current assets			
Inventory	11	6 113 237	3 200 982
Trade and other receivables	12	4 777 638	2 580 783
Income tax receivable		49 567	23 309
Short-term investments	13	104 938	1 123 616
Short-term prepayments	14	145 853	108 716
Cash and cash equivalents	15	1 126 803	729 498
Other financial assets		111 899	154 756
Non-current assets clasiffied as held for sale	16	**88 844**	-
Total current assets		**12 518 779**	**7 921 660**
Total assets		**33 404 311**	**20 869 475**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Equity			
Share capital	21	534 636	534 636
Share capital revaluation adjustment	21	522 999	522 999
Share capital*	21	**1 057 635**	**1 057 635**
Nominal share premium	21	1 058 450	1 058 450
Share premium revaluation adjustment	21	168 803	168 803
Nominal share premium		**1 227 253**	**1 227 253**
Hedging reserve	21	60 075	87 648
Foreign exchange differences on subsidiaries from consolidation		(156 014)	(9 444)
Retained earnings	21	14 507 562	10 828 516
incl. net profit of the parent company		4 585 132	2 482 227
accumulated profit/loss from previous years - effects of changes in accounting policy		1 741 958	1 848 711
Total equity (attributed to shareholders of the parent company)		**16 696 511**	**13 191 608**
Minority interest	22	2 616 478	439 706
Total equity		**19 312 989**	**13 631 314**
Non-current liabilities			
Interest-bearing loans and borrowings	17	3 405 978	2 083 536
Provisions	18	956 991	642 292
Deferred tax liabilities	29	1 020 159	458 512
Other non-current liabilities		170 725	53 371
Total non-current liabilities		**5 553 853**	**3 237 711**
Current liabilities			
Trade and other liabilities and accrued expenses	19	6 684 050	3 427 296
Provisions	18	683 273	283 442
Income tax liability		35 711	1 680
Interest-bearing loans and borrowings	17	1 110 819	247 627
Deferred income	20	19 265	19 106
Other current financial liabilities		4 351	21 299
Total current liabilities		**8 537 469**	**4 000 450**
Total equity and liabilities		**33 404 311**	**20 869 475**

* Share capital after revaluation in accordance with IAS 29.

The accompanying notes are an integral part of these unconsolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED PROFIT AND LOSS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Notes	for the year ended 31 December 2005	for the year ended 31 December 2004
		(in thousand PLN)	
Operating activities			
Net sale revenues			
Sales of goods		41 323 671	29 346 192
Excise tax and other charges		(12 502 031)	(10 152 297)
Revenues from sale of finished goods		28 821 640	19 193 895
Revenues from sale of merchandise and raw materials		12 366 627	11 486 563
Total sales revenues		**41 188 267**	**30 680 458**
Cost of finished goods sold		(22 510 985)	(14 011 119)
Revenues from sale of merchandise and raw materials		(11 567 863)	(10 594 203)
Gross profit on sales		**7 109 419**	**6 075 136**
Distribution expenses		(2 391 290)	(2 115 625)
General and administrative expenses		(1 039 333)	(855 341)
Other operating revenues*	27	2 330 291	331 144
Other operating expenses	27	(1 090 863)	(767 951)
Profit on the sale of all or part of shares of related parties		29 396	19 166
Profit from operations		**4 947 620**	**2 686 529**
Financial revenues		669 028	625 390
Financial expenses		(480 195)	(366 568)
Net financial revenues and expenses	28	**188 833**	**258 822**
Share in profit from investments accounted for under equity method**		202 768	193 094
Profit before tax		**5 339 221**	**3 138 445**
Income tax expense	29	(701 445)	(600 849)
Net profit		**4 637 776**	**2 537 596**
incl.			
Minority interest		52 644	55 369
attributable to equity holders of the parent		**4 585 132**	**2 482 227**

* including in 2005 the excess of share in the net consolidated assets of Unipetrol over cost in the amount of PLN 1,893,688 thousand.

** including the share in the net result of Polkomtel S.A. in the amount of PLN 209,259 thousand in 2005 and PLN 181,118 thousand in 2004.

The accompanying notes are an integral part of these unconsolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED STATEMENTS OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Notes	for the year ended 31 December 2005	for the year ended 31 December 2004
		(in thousand PLN)	
Cash flows - operating activities			
Net profit		**4 637 776**	**2 537 596**
Adjustments for:			
Share in profit from investments accounted for under equity method		(202 768)	(193 094)
Depreciation and amortisation		1 779 944	1 350 392
Interest and dividend income, net		103 365	80 596
Income tax expense		701 445	600 849
(Profit) / Loss on investing activities		(126 145)	99 436
(Increase) in receivables	23	(357 935)	(135 220)
(Increase) in inventories	23	(1 805 325)	(244 448)
Increase in liabilities and accruals	23	1 335 831	173 592
Increase in provisions	23	586 996	309 175
Other*		(2 196 107)	(297 632)
Income tax paid		(793 188)	(644 397)
Net cash provided by operating activities		**3 663 889**	**3 636 845**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 026 495)	(1 823 596)
Proceeds from the sale of property, plant and equipment		144 906	62 781
Proceeds from the sale of other shares		83 001	45 726
Acquisition of shares**		(1 607 203)	(48 299)
Acquisition of short-term securities		(159 250)	(1 232 744)
Proceeds from the sale of short-term securities		1 172 897	129 698
Interest and dividends received		145 806	105 058
Loans (granted) / repaid		(5 648)	6 688
Acquisition of liabilities of the Unipetrol Group		(241 174)	-
Other		(10 016)	54 544
Net cash used in investing activities		**(2 503 176)**	**(2 700 144)**
Cash flow - financing activities			
Proceeds from long and short-term borrowings and loans		2 628 670	1 240 178
Repayment of long and short-term borrowings and loans		(2 270 894)	(1 648 772)
Interest paid		(168 222)	(126 225)
Dividends paid		(911 020)	(278 011)
Other		(42 967)	(24 847)
Net cash provided by / (used in) financing activities		**(764 433)**	**(837 677)**
Net change in cash and cash equivalents		**396 280**	**99 024**
Effect of exchange rate changes		1 025	2 310
Cash and cash equivalents, beginning of the period	**15**	**729 498**	**628 164**
Cash and cash equivalents, end of period, incl.	**15**	**1 126 803**	**729 498**
Cash and cash equivalents not available for use		100 535	269 932

* including in 2005 the elimination of the excess of share in the net consolidated assets of Unipetrol over cost in the amount of PLN (1,893,688) thousand and in 2004 exchange rate gains in the amount of PLN (312,501) thousand.

** including in 2005 the acquisition of Unipetrol group in the amount of PLN (1,582,169) thousand decreased by acquired cash and cash equivalents.

The accompanying notes are an integral part of these unconsolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
STATEMENTS OF CHANGES IN CONSOLIDATED EQUITY
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Share capital	Share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2005	**1 057 635**	**1 227 253**	**87 648**	**(9 444)**	**10 828 516***	**439 706**	**13 631 314**
Foreign exchange differences on consolidation	-	-	-	(146 570)	-	-	(146 570)
Dividend	-	-	-	-	(911 020)	-	(911 020)
Net profit attributable to equity holders of the parent	-	-	-	-	4 585 132	-	4 585 132
Valuation of hedging instruments at fair value	-	-	(27 573)	-	-	-	(27 573)
Minority interest	-	-	-	-	-	52 644	52 644
Change in shareholders structure	-	-	-	-	-	2 124 128	2 124 128
Other	-	-	-	-	4 934	-	4 934
31 December 2005	**1 057 635**	**1 227 253**	**60 075**	**(156 014)**	**14 507 562**	**2 616 478**	**19 312 989**

	Share capital	Share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2004	**1 057 635**	**1 227 253**	**-**	**62 366**	**8 620 836***	**485 842**	**11 453 932**
Foreign exchange differences on consolidation	-	-	-	(71 810)	-	-	(71 810)
Dividend	-	-	-	-	(278 011)	-	(278 011)
Net profit attributable to equity holders of the parent	-	-	-	-	2 482 227	-	2 482 227
Valuation of hedging instruments at fair value	-	-	87 648	-	-	-	87 648
Minority interest	-	-	-	-	-	55 369	55 369
Change in shareholders structure	-	-	-	-	-	(101 505)	(101 505)
Other	-	-	-	-	3 464	-	3 464
31 December 2004	**1 057 635**	**1 227 253**	**87 648**	**(9 444)**	**10 828 516**	**439 706**	**13 631 314**

* Including retained earnings due to changes in accounting policies in the amount of PLN 1,741,958 thousand as at 1 January 2005 and PLN 1,848,711 thousand as at 1 January 2004.

The statement of changes in equity regarding profits and losses of 2005 and 2004

	2005	2004
Cash flow hedges	(27 573)	87 648
Other	4 934	3 464
Net profits / (losses) recognized directly in equity	**(22 639)**	**91 112**
Net profit for the period	**4 585 132**	**2 482 227**
Total profits and losses recognized in the period	**4 562 493**	**2 573 339**

The accompanying notes are an integral part of these unconsolidated financial statements

1. Principle activity of the group

The Parent Company of the Polski Koncern Naftowy ORLEN Capital Group ("Group") is Polski Koncern Naftowy ORLEN S.A. ("Company", "PKN ORLEN", "Parent"), seated in Płock , 7 Chemikow Street.
The Company was formed 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 Parent was registered as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" S.A. in the District Court in Plock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spolka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spolka 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 Spolka Akcyjna.

According to the Articles of Association dated 7 October 2005, the Company's activity includes:

- 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 a commission and as a consignee, including in particular: the trade of 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,
- 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,
- operation of petrol stations, bars, restaurants and hotels,
- capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade,
- providing services in respect of the clearance of electronic fuel cards,
- crude oil exploration,
- natural gas exploration.

The Capital Group consists among others of:

- The Capital Group of Rafineria Trzebinia S.A., producing mainly fuels, lubricants, industrial oils and paraffin,
- The Capital Group of Rafineria Nafty Jedlicze S.A., producing motor fuels, oils and re-processing of used oils,
- The Capital Group of Anwil S.A., the major client for ethylene from Parent Company, producing mainly nitric fertilisers and PVC,
- Inowroclawskie Kopalnie Soli "Solino" S.A., mining and processing of salt as well as storing crude oil and fuels,
- The Capital Group of SHIP-SERVICE S.A. ship servicing in sea harbors, loading and storing of goods,
- A German company, ORLEN Deutshland, concentrated on liquid fuels trading,
- ORLEN Asfalt Sp. z o.o., producing and processing of crude oil refining products,
- The Capital Group of UNIPETROL, operating in chemical sector in Czech Republic, concentrating on activities related to crude oil processing, fuels distribution, fertilizers production and petrochemical production,
- Companies engaged in trading and distribution of refinery products.

The Company jointly controls Basell ORLEN Polyolefins Sp. z o.o. ("BOP"), producer and seller of polyolefins.
The Parent Company controls its subsidiaries, jointly controls its joint ventures and has significant influence on associates.
Until the second public offering, completed in July 2000, the Group was primarily controlled, directly or indirectly, by the Polish State Treasury with minority shareholding of employees and others. The State Treasury supervised the Group through its control of the Group's majority shareholder, Nafta Polska S.A. As at 31 December 2005 Nafta Polska S.A. owned directly or indirectly 17.32% of the Company shares, the Polish State Treasury 10.20%, Bank of New York (as a depositary) held 11,33% shares and other shareholders owned 61.15% of the Company shares.

The composition of the Management Board of PKN ORLEN S.A.

The composition of the Management Board of the Company as at 31 December 2005 was the following:

Igor Chalupec - President of the Management Board, General Director
Wojciech Heydel - Vice-President of the Management Board of Sales
Jan Maciejewicz - Vice-President of the Management Board of Cost Management and IT
Cezary Smorszczewski - Vice-President of the Management Board, Chief Investment Officer
Paweł Szymański - Member of the Management Board, Chief Financial Officer
Dariusz Witkowski - Member of the Management Board of Organization

During the year 2005 the following changes in composition of the Management Board of PKN ORLEN S.A. took place:

On 29 June 2005, due to the elapse of the 3-year term of the Management Board of PKN ORLEN S.A., mandates of all members of the Management Board had expired. Hence, the Supervisory Board of PKN ORLEN S.A., at the meeting held on 30 June 2005, appointed the Management Board of PKN ORLEN S.A. for the next 3-year term.

On 30 June 2005 the Supervisory Board of PKN ORLEN S.A. appointed for 3-year term Mr Igor Chalupec to the position of the President of the Management Board – General Director of PKN ORLEN S.A. and, after his motion, Mr Wojciech Heydel, Mr Jan Maciejewicz and Mr Cezary Smorszczewski to the position of Vice-President of the Management Board of PKN ORLEN S.A. and Mr Pawel Szymański to the position of Member of the Management Board.

On 19 July 2005 the Supervisory Board of PKN ORLEN S.A., after a motion of the Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, appointed Mr Dariusz Witkowski to the position of Member of the Management Board of PKN ORLEN S.A., effective 1 August 2005.

On 21 December 2005 the Supervisory Board of PKN ORLEN S.A., after a motion of Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, 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 following changes to the composition of the Management Board took place after 31 December 2005:

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

The composition of the Management Board of PKN ORLEN as at the day of publication of the financial statements is the following:

Igor Chalupec - President of the Management Board, General Director
Cezary Filipowicz - Vice-President of the Management Board, Upstream & Crude Oil Procurement
Wojciech Heydel - Vice-President of the Management Board, Sales
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 Capital Group

The composition of the Supervisory Board of PKN ORLEN S.A.

The composition of the Supervisory Board as at 31 December 2005 was as following:
Jacek Bartkiewicz - Chairman of the Supervisory Board *
Andrzej Olechowski – Deputy Chairman of the Supervisory Board
Raimondo Eggink - Member of the Supervisory Board
Maciej Gierej - Member of the Supervisory Board
Krzysztof Obłój - Member of the Supervisory Board
Małgorzata Okońska-Zaremba – Member of the Supervisory Board
Adam Maciej Pawłowicz – Member of the Supervisory Board
Adam Sęk – Member of the Supervisory Board
Ireneusz Wesołowski – Secretary of the Supervisory Board

* on 8 December 2005, the Appeal Court in Warsaw, having recognized the appellation of the Bengodi Finance S.A., has declared the invalidity of the Resolution No 14 of the Extraordinary General Meeting of PKN ORLEN as of

5 August 2004 regarding appointment of Mr. Jacek Bartkiewicz to the position of the Chairman of the Supervisory Board of PKN ORLEN S.A. The Company submitted an annulment in the respective case which was not regarded until the date of preparation of these financial statements.

During the year 2005 the following changes in the composition of the Supervisory Board of PKN ORLEN S.A. took place:

On 30 March 2005 the Management Board of PKN ORLEN S.A. was informed on the resignation of Mr Krzysztof Żyndula from the position of the Member of the Supervisory Board of PKN ORLEN S.A.

On 29 June 2005 The Ordinary General Shareholders Meeting of PKN ORLEN S.A. appointed to the Supervisory Board Mr Adam Sęk and Mr Andrzej Olechowski.

Due to the appointment by the Shareholders Meeting of PKN ORLEN S.A. new members of Supervisory Board: Mr Andrzej Olechowski and Mr Adam Sęk and resignation of Mr Michał Stępniewski from the position of Deputy-Chairman of the Supervisory Board of PKN ORLEN S.A., the Supervisory Board at the meeting held on 7 July 2005 appointed Mr Andrzej Olechowski to the position of Deputy-Chairman of the Supervisory Board.

On 6 September 2005 the Management Board of PKN Orlen was informed on the resignation of Mr Piotr Osiecki from the position of the Member of the Supervisory Board of PKN ORLEN S.A. effective from the date of the first subsequent Shareholders Meeting.

On 14 October 2005 the Extraordinary Shareholders Meeting PKN ORLEN S.A. appointed Professor Krzysztof Obłój to Supervisory Board of PKN ORLEN S.A..

On 15 November 2005 the Management Board of PKN ORLEN S.A. was informed on the resignation of Mr. Michal Stepniewski from the position of member of the Supervisory Board of PKN ORLEN S.A. effective 14 November 2005.

On 2 December 2005 the Management Board of PKN ORLEN S.A. was informed by the Minister of State Treasury that, due to resignation of Mr Michal Stepniewski, he appointed, on behalf of the shareholder – State Treasury, Mr Adam Maciej Pawlowicz to Supervisory Board of PKN ORLEN from 1 December 2005 effective.

The following changes to the composition of the Supervisory Board of PKN ORLEN S.A. took place after 31 December 2005:

On 31 January 2006 the Extraordinary General Shareholders Meeting of PKN ORLEN S.A. dismissed Mr Jacek Bartkiewicz from the position of Chairman of the Supervisory Board and from the Supervisory Board. In addition, the Extraordinary General Shareholders Meeting dismissed from the Supervisory Board: Mr Maciej Gierej, Mr Krzysztof Obłój, Mrs Małgorzata Okońska-Zaremba, Mr Adam Sęk and Mr Ireneusz Wesołowski. Simultaneously, the Extraordinary General Shareholders Meeting appointed to the Supervisory Board: Mr Dariusz Dąbski to the position of the Chairman of the Supervisory Board, Mr Maciej Mataczyński to the position of independent Member of the Supervisory Board and Mr Zbigniew Macioszek and Mr Wojciech Pawlak to the positions of Members of the Supervisory Board.

On 28 March 2006 the Management Board of PKN ORLEN S.A. was informed by the Minister of State Treasury that, due to resignation of Mr Adam Maciej Pawłowicz (a representative for the Ministry of State Treasury), he dismissed him from his position in the Supervisory Board effective 28 March 2006.

The composition of the Supervisory Board as at the day of publication of the financial statements is the following:

Dariusz Dąbski - Chairman of the Supervisory Board
Andrzej Olechowski – Deputy-Chairman of the Supervisory Board
Raimondo Eggink - Member of the Supervisory Board
Zbigniew Macioszek - Member of the Supervisory Board
Maciej Mataczyński - Secretary of the Supervisory Board
Wojciech Pawlak – Member of the Supervisory Board

2. Principles of presentation

Information on principles adopted for preparation of consolidated financial statements for 2005

As of 1 January 2005, the amended Polish Accounting Act imposed a requirement on the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") adopted by the European Union.
The International Accounting Standards Board issued International Financial Reporting Standard No. 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as PKN ORLEN, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognized under IFRSs. In accordance with IFRS 1, an entity may state its property, plant and equipment at fair value as of IFRSs adoption date i.e. 1 January 2004 and recognize the fair value as the cost of the property, plant and equipment as at that date.
From 1 January 2005 the Group has prepared its consolidated financial statements for the first time in compliance with IFRS 1 as it complies with conditions defined in that standard.

From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory standalone financial statements in accordance with IFRSs approved by the European Commission for 2005.

In preparation of these financial statements the Group applied International Financial Reporting Standards adopted by the European Union (IFRSs) in force as at 31 December 2005.
The carrying amount of property, plant and equipment was revalued as of 1 January 2004 by an independent expert. The Group recognized the effect of the measurement. The revaluation covered non-current assets of all entities in the Group, in accordance with the principles discussed under section 4, Accounting Principles "Property, plant and equipment" in order to achieve full compliance with the International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and the International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16), applying IFRS 1. The Company recognized the revalued amount as the deemed cost as at the date of measurement.

The consolidated financial statements are compliant with all IFRS requirements adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2005 and 31 December 2004, results of its operations and cash flows for the periods the years ended 31 December 2005 and 31 December 2004.

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

Statement of the Management Board

Under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities, the Management Board of PKN ORLEN S.A. hereby honestly and sincerely declares that the foregoing consolidated financial statements and comparative data were prepared in compliance with the Group accounting principles in force and that they reflect true and fair view on financial status and financial result of PKN ORLEN Group and that the yearly report of the Management Board presents true overview of development, achievement and business situation of PKN ORLEN Group, including basic risks and exposures.

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards adopted by the European Union and in the scope required under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal no. 209, item 1744). The statements cover the period from 1 January to 31 December 2005 and the comparative period from 1 January to 31 December 2004.

The Management Board of PKN ORLEN declares that the entity, authorized to audit and conducting the audit of 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 of the domestic law.

In compliance with principles of corporate governance (as adopted by the Management Board of PKN ORLEN S.A.) the auditor was selected by the Supervisory Board by means of resolution No 485/2005 of 21 January 2005 on the selection of an auditor. The Supervisory Board made the selection in order to ensure complete independence and objectivity of the selection itself as well as fulfillment of tasks by the auditor.

Reorganization of the Group

In connection with the Polish Government's Restructuring and Privatization Program for the Polish Oil Sector Companies, the Polish State Treasury, through its holding in Nafta Polska S.A. reorganized the Polish oil sector in the years 1997 - 1999. The existing Group is a result of this reorganization of several significant operating companies, which were all under the common control of Nafta Polska S.A. and the Polish State Treasury.
In particular, this reorganization included the following transactions:

- Before the merger of Centrala Produktow Naftowych "CPN" S.A. ("CPN") with Petrochemia Plock:
  - separation of Dyrekcja Eksploatacji Cystern Sp. z o.o. from CPN – the entity dealing with operating of railway tanks for crude oil products transportation
  - sales of shares in Naftobazy Sp. z o.o by CPN – operator of large warehouse facilities used to store crude oil products.
- acquisition of refineries: Rafineria Trzebinia S.A. and Rafineria Nafty Jedlicze S.A.,
- merger of Petrochemia Plock with Centrala Produktow Naftowych "CPN" S.A. – the main distributor in the area of retail sales of fuels in Poland.

To the extent of the Polish State Treasury's control over the restructured Polish oil sector companies, these transactions were presented as if they were under common control using the pooling of interests' method according to International Accounting Standard No 22 "Business Combinations" (IAS 22).

Entities included in consolidated financial statements

These consolidated financial statements for the periods ended 31 December 2005 and 31 December 2004 include following entities within the Group located in Poland, Germany and Czech Republic:

	Share in total voting rights[1)]	
	31 December 2005	31 December 2004
	(in full %)	
PKN ORLEN S.A.	Parent Company	
ORLEN Deutschland AG	100%	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o.	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp. z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN KolTrans Sp. z o.o.	100%	100%
ORLEN Transport Szczecin Sp. z o.o.	100%	100%
ORLEN ASFALT Sp. z o.o. (formerly Bitrex Sp. z o.o.)	100%	100%
Capital Group of ORLEN Petroprofit Sp. z o.o.	100%	100%
including:		
Petro-oil Lubelskie Centrum Sprzedaży Sp. z o.o.	76%	100%
Petrooktan Sp z o.o.	51%	51%
ORLEN Morena Sp. z o.o.	100%	100%
Raf Trans Sp. z o.o.	99%	99%
ORLEN Transport Kraków Sp. z o.o.	98%	98%
ORLEN Transport Płock Sp. z o.o.	98%	98%
ORLEN Transport Nowa Sól Sp. z o.o.	97%	97%
Zakład Budowy Aparatury S.A.	97%	97%
ORLEN Transport Słupsk Sp. z o.o.	97%	97%
ORLEN Transport Poznań Sp. z o.o. [2)]	-	96%

ORLEN Laboratorium Sp. z o.o.	95%	95%
including:		
RAF-LAB Sp. z o.o.[3)]	100%	
ORLEN Transport Olsztyn Sp. z o.o.	95%	95%
ORLEN Transport Warszawa Sp. z o.o. [2)]	-	94%
Capital Group of ORLEN– Oil Sp. z o.o.	96%	92%
Orlen Oil Cesko s.r.o.	100%	-
Platinum Oil Mazowsze Sp. z o.o.	99%	-
ORLEN Petro – Tank Sp. z o.o.	90%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o.	94%	94%
Petrotel Sp. z o.o.	75%	89%
Capital Group of Anwil S.A.	84%	76%
Including:		
Przedsiębiorstwo Inwestycyjno – Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiębiorstwo Produkcyjno – Handlowo – Usługowe Pro – Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Capital Group of Rafineria Trzebinia S.A.	77%	77%
including:		
Energomedia Sp. z o.o.	100%	100%
Euronaft Sp. z o.o.	100%	100%
Nafto Wax Sp. z o.o.	100%	100%
Ekonaft Sp. z o.o.	99%	99%
Capital Group of Rafineria Nafty Jedlicze S.A.	75%	75%
including:		
RAF – LAB Sp. z o.o. [3)]	-	100%
RAF – ENERGIA Sp. z o.o.	100%	100%
RAF – KOLTRANS Sp. z o.o.	100%	100%
RAF – REMAT Sp. z o.o.	96%	96%
RAF – EKOLOGIA Sp. z o.o.	93%	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	81%	81%
Inowrocławskie Kopalnie Soli „Solino" S.A.	71%	71%
Capital Group of Unipetrol a.s. [4)]	63%	-
including:		
CHEMOPETROL a.s. including:	100%	-
UNIPETROL - DOBRAVA a.s.	100%	-
KAUČUK a.s.	100%	-
UNIPETROL TRADE a.s. including:	100%	-
CHEMAPOL (SCHWEIZ) AG	100%	-
UNIPETROL AUSTRIA GmbH	100%	-
ALIACHEM VERWALTUNGS GmbH	100%	-
UNIPETROL DEUTSCHLAND GmbH	100%	-
ALIAPHARM GmbH	100%	-
UNIPETROL CHEMICALS IBERICA S.A.	100%	-
ALIAPHARM GmbH	100%	-
UNIPETROL RAFINERIE a.s.	100%	-

BENZINA a.s. including:	100%	-
BENZINA Trade a.s.	100%	-
PETROTRANS a.s.	100%	-
SPOLANA a.s.	82%	-
PARAMO a.s.	74%	-
Česka Rafinerska a.s.[5]	51%	-
Grupa Kapitałowa Ship-Service S.A.[1]	56%	56%
including:		
Bor – Farm Sp. z o.o.	100%	100%
Ship Service Agro Sp. z o.o.	100%	100%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o.	52%	52%
ORLEN Petrogaz Wrocław Sp. z o.o.	52%	52%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt S.A.	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Capital Group of Basell Orlen Polyolefins Sp z o.o [5]	50%	50%
Incl.:		
Basell Orlen Polyolefins Sprzedaż Sp. z o.o.	100%	100%

[1] Share in total voting rights is equal to share in equity except for share in equity in Capital Group of Ship Service S.A., where it accounts for 61%;
[2] Entities taken over by ORLEN Transport Płock Sp. z o.o. in 2 quarter of 2005.
[3] On 11 December 2005 shares in RAF-LAB Sp. z o.o. were sold to Orlen Laboratorium Sp. z o.o.
[4] The Group acuired in 2 quarter 2005.
[5] Entities consolidated using the proportionate method of consolidation.

3. Functional currency and presentation currency of financial statements and methods applied to translation of data denominated in foreign currencies

a) Functional currency and presentation currency

Functional currency of the Parent Company and presentation currency of the foregoing consolidated financial statements is polish zloty.
Financial statements of foreign entities, for consolidation purposes are translated into polish zloty using the following procedures:

- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items in the profit and loss are translated at exchange rates at the dates of the transactions. All resulting exchange differences are recognized as a separate component of equity.

b) methods applied to translation of data denominated in foreign currencies

The financial data denominated in EUR were converted in line with the following methods:

- particular assets and liabilities – at the closing rate for 31 December 2005 – PLN 3.8598 / EUR, for 31 December 2004 – PLN 4.0790 / EUR,
- particular income and expense items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2005 to 31 December 2005 – PLN 4.0233 / EUR; for the period from 1 January 2004 to 31 December 2004 the rate was PLN 4.5182 / EUR.

The financial data denominated in CZK were converted in line with the following methods:

- particular assets and liabilities – at the closing rate for 31 December 2005 – PLN 0.1329 / CZK, for the date of acquisition – PLN 0.1353 / CZK,
- particular income and expense items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from date of acquisition of Unipetrol Group to 31 December 2005 – PLN 0.1345 / CZK.

4. Accounting principles

In the presented reporting period the Group introduced changes to the respective accounting principles applied by the Group for 2004 statutory reporting. The changes concern adoption of the International Financial Reporting Standards from 1 January 2005 in accordance with amended Polish Accounting Act (wording effective 1 January 2005) in accordance with the decision of the General Shareholders' Meeting of PKN ORLEN S.A. of 31 December 2004.
The last consolidated annual financial statements prepared by the Group were the annual statements for the year ended 31 December 2004 prepared in compliance with the Polish Accounting Standards (PAS). The accounting principles applied in the foregoing financial statements are discussed below.

The consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investments properties stated at fair value.

a) Accounting policies

Property, Plant and Equipment

Property, plant and equipment, excluding land and investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the fixed asset into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.

After initial recognition, property, plant and equipment are depreciated and subject to impairment allowances.

Property, plant and equipment items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment allowances.

Property, plant and equipment acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 in accordance with deemed cost less accumulated depreciation and impairment allowances.

The cost of current maintenance of property, plant and equipment is recorded in the financial result during the period when they are incurred.

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives.

Depreciation of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life.

The Group estimates the residual value of property, plant and equipment. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life. The residual value is not subject to depreciation and is reviewed periodically (once a year).

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

Buildings and constructions	10-70 years
Machinery and equipment	3-25 years
Vehicles and other	4-17 years

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analyzed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount by an appropriate allowance. The recoverable amount of property, plant and equipment reflects the higher of net selling price and value in use. Impairment allowances are recognized as operating costs in the profit and loss.

Finance lease

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the criteria defined in IAS 17, "Leases", are regarded as non-current assets and recognized at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar Group owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are initially recognized as long-term receivables and stated at the net lease investment value.

Goodwill

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment allowances.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortized.

Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognizes immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

Intangible assets

Intangible assets are recognized if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognized at fair value as defined at the business combination date.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortization and impairment allowances. Intangible assets with a definite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by impairment allowances.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted economic standard useful lives for amortization of intangible assets are:

Acquired licenses, patents, and similar intangible assets	2-15 years
Acquired computer software	2-10 years

All intangible assets generated by the Group are not recognized as assets and are recorded in the profit and loss for the period when the related cost has been incurred except for intangible assets arising from development (or from the development phase of an internal project).

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.
Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.
The titles to perpetual usufruct of land obtained under an administrative decision are recognised by the Group at fair value as off balance sheet items.

Investment property

Investment property is initially recognized at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is subject to impairment allowance when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from allowances of the investment property are recognized in the profit and loss in the period when they are made.

Inventories

Inventories are measured at the lower of cost and net realizable value, considering any inventory allowances. The net realizable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.
Cost of usage is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.

Receivables

Trade and other receivables are recognized when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less allowances for doubtful receivables.
If there is objective evidence that an impairment loss has been incurred, the amount of difference between the asset's carrying amount and the present value of estimated future cash flows is recognized in profit and loss.

Cash and cash equivalents

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

Revenue from sale

Revenue from sale is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. Sale of goods includes excise tax and fuel charges.
The net revenue from the sale of finished goods is recognized after deducting value added tax (VAT), excise tax, fuel charges and discounts.

Revenue from the sale of finished goods and merchandise is recognized when the finished goods/merchandise are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjusts the sales revenue.

The revenue is measured at the fair value of the received or due payment.

Revenue from dividends

Dividends are recognized when the shareholder's right to receive payment is established.

Equity

Equity is stated in the accounting books by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.
The stated outstanding share capital contributions are recognized as outstanding share capital contributions. Own shares and outstanding share capital contributions decrease the Company's equity.
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 joint stock 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 by the Group as retained earnings.
Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve (the difference between the fair value and the acquisition cost less deferred tax of assets available for sale 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), the undistributed result for prior periods and the current period net profit are presented in the financial statements as retained earnings.

Interest-bearing bank loans and borrowings

Interest-bearing bank loans and borrowings are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognized at amortized cost using the effective interest rate method. The difference between the net proceeds and the buyout amount is recognized as financial revenue or cost over the term of the loan or borrowing.

External financing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

Retirement benefits and jubilee bonuses

Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present value of

those liabilities 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 liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period ended at the last day of the reporting year. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the profit and loss.

Foreign currency transactions

Transactions denominated in foreign currencies are recognized after their translation to the functional currency, at every balance sheet date in the following way:

(a) foreign currency monetary items shall be translated using the closing rate;
(b) 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
(c) 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.

Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognized as financial income or expenses in the profit and loss statement. The exchange differences are stated in the profit and loss at their net amount.

Financial instruments

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Group intends and has the ability to hold to the maturity date, except for the Group's own receivables and loans. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.
All other financial assets, which are not borrowings or receivables of the Group, are classified as financial assets available for sale.

Financial investments held to maturity are part of non-current assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets measured at fair value through profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognized at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market value as at the balance sheet date. The change in fair value of those financial assets is recognized as financial income or expenses in the profit and loss.
Financial assets held to maturity are measured at amortized cost using the effective interest rate.

Financial assets available for sale are recognized at fair value, without deduction of the transaction costs, and considering their market value at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment allowances, if they have been valued at historical cost.

Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decrease in the value of financial assets available for sale due to impairment allowances is charged to financial expenses in the profit and loss.

Granted loans are recognized at amortized cost.

Derivatives which are not designated as hedging instruments are classified as financial assets or liabilities at fair value are stated at fair value, considering its changes, through profit and loss.

Derivatives treated as cash flow hedging instruments are carried at fair value with changes in value accounted for in the following way:
- the portion determined to be an effective hedge is recognized directly in equity through the statement of changes in equity;

- the portion determined to be an ineffective hedge is recognized in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognized in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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;
- is not the hybrid (combined) instrument.

The hybrid (combined) instrument is not measured at fair value and changes in fair value are not recognized in the net profit or loss.

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

The Group recognizes financial asset on its balance sheet when the Group becomes a party to the contractual provisions of the instrument.
The financial asset is derecognized when the contractual rights to economic benefits and risk related to this financial asset were executed, expired or the Group transferred the contractual rights and risks.

Derivatives used by the Group in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.
When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognized asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognized asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion of the gain or loss is recognized in the profit and loss.
The gain or loss from the re-measurement of the derivative instruments at fair value that do not comply with the hedge accounting criteria are recognized directly in the profit and loss.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such a case, total gain or loss on the hedging instrument, previously recognized in equity, is recognized in equity until the forecast transaction takes place. If the Group no longer expects the forecast transaction to take place, the total net gain or loss recognized in equity is presented in the financial result of the current period.

Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognized for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognized for all temporary tax differences.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.
Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

Non-current assets held for sale

Non-current assets held for sale are those which comply with the following criteria:

- a decision was declared by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active programme to locate a buyer has been initiated;
- the sale transaction is highly probable and could be settled within 12 months following the sale 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.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets held for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

Provisions

The Group shall recognize a provisions when it has a present obligation (legal or constructive) as a result of past event if it has such a legal or constructive obligation as a result of past events and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 recognized as external financing costs.

Environmental provisions

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

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognized as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

Liabilities

Trade and other liabilities are stated at the amount due, and financial liabilities, which contractual settlement is to be made by way of issue of non-monetary financial assets or due to exchange for financial instruments, are recognised at fair value.

Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

Contingent receivables are not recognized in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Business segments

The scope of financial information in the Group's segment reporting is defined based on requirements of IAS 14.

The Group adopted a business segments as the primary reporting format, i.e. as the dominant source of risks and benefits related to sale of goods and services. A secondary reporting format is geographical segments that are associated with activity conducted in different geographical areas.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity (result from operating activity of a segment) and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The segment result is determined at the level of profit from operations. The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made.

For the purpose of this report, the excess of fair value of the acquired net assets over the acquisition cost was allocated to particular business segments results proportionally to the value of segment assets of the Unipetrol Group.

The operations of the Group are divided into two main segments: Refining Segment and Chemical Segment.
- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products,
- The Chemical Segment encompasses production and sales of petrochemicals by PKN ORLEN and fertilisers and PVC by Anwil S.A.

Other operations include mainly support functions in PKN ORLEN S.A., transportation, .service and maintenance activities and construction conducted by other subsidiaries of PKN ORLEN S.A..

Segment revenues and assets were defined before inter-segment adjustments. Sales prices in inter-segment transactions are similar to market prices. Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated expenses, reconciling total segment results to profit from operations.

The Company's Management Board estimates

The preparation of 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 costs. 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 Company's Management Board bases its estimates on opinions of independent experts.

Actual results may differ from the estimated values.

The estimations and related assumptions are verified on a regular basis. Changes in accounting estimates are recognized 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.

Application of the accounting principles

The above principles are applicable for comparative data, except for principles concerning treatment of assets held for sale, which have been applied since 1 January 2005.

Impact of new Standards and interpretations on the Company's financial statements

As at 31 December 2005 the Company recognized new Standards and interpretations to International Financial Reporting Standards, regarding:
- IFRS 6 "Exploration for and Evaluation of Mineral Resources" – in force from 1 January 2006
- IFRS 7 "Financial Instruments: Disclosure" – in force from 1 January 2007
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – in force from 1 January 2006
- IAS 1 "Presentation of Financial Statements" – in force from 1 January 2007
- IAS 19 "Employee Benefits" – in force from 1 January 2006
- IAS 39 "Financial Instruments: Recognition and Measurement" – in force from 1 January 2006
- IAS 21 "The Effects of Changes in Foreign Exchange Rates" – in force from 1 January 2006
- IFRIC 4 – interpretation: Determining Whether an Agreement Contains a Lease – in force from 1 January 2006
- IFRIC 5 – interpretation: Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds – in force from 1 January 2006
- IFRIC 6 – interpretation: Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment - in force from 1 January 2005
- IFRIC 7 – interpretation: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies – in force from 1 March 2006
- IFRIC 8 – interpretation: IFRS 2 "Share-based payment" – in force 1 May 2006
- IFRIC 9 - Reassessment of Embedded Derivatives – in force from 1 June 2006

Acceptance of IFRIC 7, IFRIC 8 and IFRIC 9 by the European Union is pending.
The Company assessed the impact of application of the above interpretations and determined that the changes in IFRS 6, IFRS 7, IAS 1, IAS 19, IAS 21, IAS 39, IFRIC 4, IFRIC 7 and IFRIC 9 might have impact on the financial statements when applied. According to a preliminary assessment, the application of changes would not have a significant influence on the financial statements.

b) Principles of consolidation

Subsidiaries

The Group consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority interest is presented in equity. Net profit attributable to minority shareholders is presented in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

Investments in associates

Investments in associated companies (overall investments ranging from 20% to 50% in a company's share capital) where the Group exercises significant influence on the financial and operating policies, yet does not have control over them, are accounted for using the equity method. Assessment of the value of investments in associates is performed when there are indications that the asset has been impaired or the impairment allowances recognized in prior years are no longer required.

Investments in jointly controlled entities

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, after deduction of an impact of mutual transactions and settlements, is presented line by line with similar items in the consolidated financial statements.

Adjustments from consolidation

Intragroup balances and transactions and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements proportionally to the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements in the same manner as unrealized gains, until there are indications of impairment.

5. Property, plant and equipment

	31 December 2005	31 December 2004
Land	726 499	342 578
Buildings and constructions	8 067 518	5 548 780
Machinery and equipment	8 116 051	3 216 381
Vehicles and other	600 048	414 056
Construction in progress	1 000 638	1 956 447
Total property, plant and equipment	**18 510 754**	**11 478 242**

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2004	381 700	6 951 835	6 187 627	797 022	1 051 823	15 370 007
Incl. foreign exchange differences on Orlen Deutschland	28 087	59 733	55 504	1 656	111	145 091
Increase	31 212	457 126	363 474	91 260	1 825 609	2 768 681
Reclassification	-	8	(325)	317	-	-
Decrease	(29 904)	(187 163)	(216 848)	(52 787)	(874 459)	(1 361 161)
31 December 2004	**383 008**	**7 221 806**	**6 333 928**	**835 812**	**2 002 973**	**16 777 527**
1 January 2005	383 008	7 221 806	6 333 928	835 812	2 002 973	16 777 527
Incl. foreign exchange differences on Orlen Deutschland	9 717	21 604	21 526	610	185	53 642
Increase	52 746	1 006 949	1 739 993	162 076	1 969 368	4 931 132
Reclassification	-	3 082	(3 749)	667	-	-
Decrease	(21 293)	(132 847)	(267 476)	(79 533)	(3 076 516)*	(3 577 665)
Increases due to acquisition of Unipetrol	377 794	3 389 366	7 796 749	337 055	155 877	12 056 841
31 December 2005	**792 255**	**11 488 356**	**15 599 445**	**1 256 077**	**1 051 702**	**30 187 835**
Accumulated depreciation and impairment allowances						
1 stycznia 2004	488	1 235 112	2 507 836	395 814	45 245	4 184 495
Incl. foreign exchange differences on Orlen Deutschland	205	10 432	23 900	1 245	-	35 782
Depreciation	81	470 428	766 628	63 080	-	1 300 217
Other increases	1 031	1 627	568	2 847	-	6 073
Impairment allowances	39 929	56 836	15 582	297	1 281	113 925
Reclassification	-	798	(875)	77	-	-
Decrease	(1 099)	(91 775)	(172 192)	(40 359)	-	(305 425)
31 December 2004	**40 430**	**1 673 026**	**3 117 547**	**421 756**	**46 526**	**5 299 285**
1 January 2005	40 430	1 673 026	3 117 547	421 756	46 526	5 299 285
Incl. foreign exchange differences on Orlen Deutschland	27	5 438	11 279	461	-	17 205
Depreciation	908	563 350	1 028 977	118 193	-	1 711 428
Other increases	450	14 175	14 363	11 601	-	40 589
Impairment allowances	24 012	181 664	389 718	4 746	(7 151)	592 989
Reclassification	-	1 892	(2 436)	544	-	-
Decrease	(44)	(110 944)	(261 863)	(83 075)	-	(455 926)
Increases due to acquisition of Unipetrol	-	1 097 675	3 197 088	182 264	11 689	4 488 716
31 December 2005	**65 756**	**3 420 838**	**7 483 394**	**656 029**	**51 064**	**11 677 081**
Net book value						
1 stycznia 2004	**381 212**	**5 716 723**	**3 679 791**	**401 208**	**1 006 578**	**11 185 512**
31 December 2004	**342 578**	**5 548 780**	**3 216 381**	**414 056**	**1 956 447**	**11 478 242**
1 January 2005	**342 578**	**5 548 780**	**3 216 381**	**414 056**	**1 956 447**	**11 478 242**
31 December 2005	**726 499**	**8 067 518**	**8 116 051**	**600 048**	**1 000 638**	**18 510 754**

* Including in 2005 e.g. transfers to specific groups of property, plant and equipment that amounted to PLN 3,028,146 thousand.

Impairment allowances for property, plant and equipment as at 31 December 2005 and 31 December 2004 amounted to PLN 857,708 thousand and PLN 253,028 thousand respectively.
In 2005 the Group reviewed economic useful lives of property, plant and equipment applied afore. Should the rates from previous years be applied, depreciation expense would be higher by PLN 150,487 thousand. The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2005 and as at 31 December 2004 amounted to PLN 1,257,894 thousand, and PLN 930,461 thousand respectively.
Impairment allowances disclosed in property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded its recoverable amount. The impairment allowances are charged to operating expenses. The allowances concern mainly liquid fuels storage facilities and petrol stations.
Property, plant and equipment of PLN 346,533 thousand and PLN 167,327 thousand as at 31 December 2005 and 31 December 2004, respectively, were used as a pledge for the Group's liabilities.

As at 31 December 2005 the Group adjusted the carrying amounts of property, plant and equipment disclosed in financial statements in compliance with previously applied accounting principles. The below table presents differences identified and reported by the Group between IFRSs and Polish Accounting Standards (PASs) in force as at 31 December 2004.

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total property, plant and equipment
Balance sheet amounts reported in financial statements for 2004 in compliance with previously applied accounting principles	401 689	4 984 561	2 323 282	244 924	1 385 316	9 339 772
Reclassification of catalysts and advertising cost of petrol stations to property, plant and equipment	-	53 553	-	71 343	-	124 896
Separate presentation of rights to perpetual usufruct of land.	(35 717)	-	-	-	-	(35 717)
Value of precious metals previously disclosed as inventories.	-	-	-	59 205	-	59 205
Application of benchmark treatment of IAS 23 “Borrowing costs”	(26)	(24 597)	(33 824)	(5 432)	-	(63 879)
Revaluation of property, plant and equipment at fair value	16 536	544 244	897 386	43 170	6 681	1 508 017
Proportionate consolidation of Basell ORLEN Polyolefins Sp. z o.o. Capital Group	-	16 496	29 537	846	564 450	611 329
Impairment of property, plant and equipment of ORLEN DEUTSCHLAND A.G.	(39 904)	(25 477)	-	-	-	(65 381)
Balance sheet amounts reported as comparative data in the financial statements as at 31 December 2005 in compliance with IFRSs	342 578	5 548 780	3 216 381	414 056	1 956 447	11 478 242

As of 31 December 2005 and 31 December 2004 construction in progress included:

	31 December 2005	31 December 2004
Change in technology of production of chlorine from diaphragme to membrane	205 536	27 638
Construction of desulfurization of petrol installation Cracking	113 254	15 834
Modernization of warehouse bases nr 21, 51, 61, 91, 93 and 111	82 475	5 817
Extension of polyprophylene storage containers	62 936	-
Installation of hydrorefining of paraffins	55 643	24 413
Installation of Polymeroasphalt – tank V=10000 M3	31 737	799
Construction of underground crude oil and petrol storage	29 519	17 367
Construction of tanks 41D i 43 A,B,C,D	24 274	1 484
Canwil warehouse	19 984	-
Division of EPS production lines	14 499	-
Reactor R 101 for ammonia production line	14 012	-
Construction of petrol station: cost of documentation and construction	13 973	-
Reconstruction of turbogenerator TG 2	12 612	-
Installation Polypropylene III-Spheripol	10 281	239 296
Modernization of low-pressure compressor GB 201	9 990	-
Modernization of bitumen production line – installation of new reactor BITUROX	9 413	-
Modernization of distilling chamber	9 126	-
Modernization of sewerage installation I and II	8 417	-
Modernization of cracking junction – heat recovery	8 012	
Modernization of utilization of liquid sediment junction	7 525	-
Infrastructure of Polypropylene III and Polyethylene III	7 299	40 984
Loyalty cards consumer system	6 518	-
Modernization of boiler-house	6 489	-
Modernization of condensate treatment station	6 278	-
Revamping and infrastructure of Olefins II production unit	5 499	958 297
Plates production line no 2	3 746	-
Benzene warehouse	3 392	-
Drilling of exploitation hole M-24	3 019	-
Construction od biodiesel production installation	1 413	8 431
Intensification of Aromatics Extraction Installation	1 400	45 597
Intensification of IFP, Pyrotol, Butadiene	531	79 797
Installation Polipropylen HD –HOSTALEN	479	268 893
Construction of logistics platform in BOP	-	42 944
Modernization of P21 installation	-	831
Technological building in Petrolot	-	1 016
Modernization of sewing installation	-	10 185
Construction of installation of candle production	-	7 970
Construction of petrol station in Gdynia	-	4 270
Total specified construction in progress	**789 281**	**1 796 044**
Other	211 357*	160 402*
Total construction in progress	**1 000 638**	**1 956 447**

* other include PLN 147,706 thousand as at 31 December 2005 and PLN 83,756 thousand as at 31 December 2004 relating to insignificant investment projects of the Parent.

6. Investment property

The following changes were recognized in investment property in 2005 and 2004:

	2005	2004
Investment property, beginning of period	9 122	6 140
Purchase of land for resale	104	-
Revaluation at fair value	2 331	2 982
Investment property, end of period	**11 557**	**9 122**

Investment property of the Group comprise social-office building, partially designated for rent, valued at PLN 11,453 thousand and PLN 9,122 thousand as at 31 December 2005 and 31 December 2004, respectively and land purchased for resale of PLN 104 thousand. The fair value of investment property was assessed and disclosed on the basis of the expertise prepared by an independent asset surveyor, authorized for valuation of investment property and experienced in valuation of investment property of a similar location and qualified within the same category.
By virtue of characteristics of the investment property, revenue approach was applied to assess the fair value. Due to variability of revenues in foreseeable future, calculation was based on discounted cash flows method, using 5-year period forecasts. The discount rate reflected 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 objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for objects similarly located, in the same technical condition and standard and designated for similar purposes.

7. Goodwill

	31 December 2005	31 December 2004
Orlen PetroTank	11 298	11 298
ShipService	3 145	6 645
PetroProfit	1 175	1 175
Other	2 012	1 383
Total	**17 630**	**20 501**

The changes of goodwill in 2005 and 2004 were as follows:

	31 December 2005	31 December 2004
Goodwill, beginnig of period	20 501	20 856
Goodwill on entities consolidated for the first time in 2005	629	-
Impairment	(3 500)*	(355)
Goodwill, end of period	**17 630**	**20 501**

* impairment of Ship Service S.A.

8. Intangible assets

	31 December 2005	31 December 2004
Acquired licenses, patents and similar intangible assets	459 161	276 669
Acquired computer software	24 482	14 603
Goodwill	97 817	51 667
Other	29 524	3 305
Total intangible assets	**610 984**	**346 244**

The changes of intangible assets were as follows:

	Acquired computer software	Acquired licenses, patents and similar intangible assets	Goodwill	Other	Total
Gross book value					
1 January 2004	28 140	414 041	72 184	10 717	525 082
Increase	10 889	25 362	3 166	667	40 084
Decrease	(4 089)	(162)	(3 962)	(5 842)	(14 055)
31 December 2004	**34 940**	**439 241**	**71 388**	**5 542**	**551 111**
1 January 2005	34 940	439 241	71 388	5 542	551 111
Increase	4 545	23 952	10 284	9 950	48 731
Decrease	(2 818)	(1 300)	(759)	(1 767)	(6 644)
Increase due to acquisition of Unipetrol Group	97 410	309 317	57 946	40 743	505 416
31 December 2005	**134 077**	**771 210**	**138 859**	**54 468**	**1 098 614**
Accumulated depreciation and impairment allowances					
1 January 2004	15 791	123 523	10 399	3 784	153 497
Depreciation	4 668	38 394	2 617	1 531	47 210
Other increases	741	4 185	-	254	5 180
Impairment allowances	-	5	7 761	(43)	7 723
Decrease	(863)	(3 535)	(1 056)	(3 289)	(8 743)
31 December 2004	**20 337**	**162 572**	**19 721**	**2 237**	**204 867**
1 January 2005	20 337	162 572	19 721	2 237	204 867
Depreciation	12 689	46 182	2 620	3 272	64 763
Other increases	1 766	3 798	-	1 516	7 080
Impairment allowances	987	32 596	18 969	584	53 136
Decrease	(4 397)	(2 124)	(373)	(351)	(7 245)
Increase due to acquisition of Unipetrol Group	78 213	69 025	105	17 686	165 029
31 December 2005	**109 595**	**312 049**	**41 042**	**24 944**	**487 630**
Net book value					
1 January 2004	**12 349**	**290 518**	**61 785**	**6 933**	**371 585**
31 December 2004	**14 603**	**276 669**	**51 667**	**3 305**	**346 244**
1 January 2005	**14 603**	**276 669**	**51 667**	**3 305**	**346 244**
31 December 2005	**24 482**	**459 161**	**97 817**	**29 524**	**610 984**

Impairment allowances for intangible assets as at 31 December 2005 and 31 December 2004 amounted to PLN 61,055 thousand and PLN 7,919 thousand.
In 2005 the Group reviewed economic useful lives of intangible assets applied afore. Should the rates from previous years be applied, adjustment to depreciation expense would not be material. The gross book value of all fully depreciated intangible assets still in use as at 31 December 2005 and as at 31 December 2004 amounted to PLN 154,110 thousand, and PLN 75,081 thousand respectively.
The titles to perpetual usufruct of land obtained under an administrative decision were recognised by the Company at fair value as off balance sheet items in the amount of PLN 1,060,593 thousand.

As at 31 December 2005 the Group adjusted the carrying amounts of intangible assets disclosed in financial statements in compliance with previously applied accounting principles. The below table presents differences identified and reported by the Group between IFRSs and Polish Accounting Standards (PASs) in force as at 31 December 2004.

	Acquired licences, patents and similar intangible assets	Acquired computer software	Goodwill	Other	Total intangible assets
Balance sheet amounts reported in financial statements for 2004 in compliance with previously applied accounting principles	60 885	14 599	93	1 450	77 027
Revaluation of intangible assets at fair value	2 307	4	428	1 855	4 594
Proportionate consolidation of Basell ORLEN Polyolefins Sp. z o.o. Capital Group	213 477	-	51 146	-	264 623
Balance sheet amounts reported as comparative data in the financial statements as at 31 December 2005 in compliance with IFRSs	276 669	14 603	51 667	3 305	346 244

9. Financial assets

a) Significant shares in other parties

	Seat	31 December 2005	31 December 2004	Group's interest in capital/ voting rights as at 31 December 2005	Group's interest in capital/ voting rights as at 31 December 2004	Principal activity
Agrobohemie a.s.	Czech Republic - Prague	251 169	-	50.00%	-	Retail sale
Aliachem a.s.	Czech Republic - Pardubice	234 442	-	38.90%	-	production of chemicals
Telewizja Familijna	Poland - Warszawa	26 004	26 004	11.96% / 9.61%	11.96% / 9.61%	radio and television related activity
SK Eurochem Sp. z o.o.	Poland - Włocławek	25 203	24 192	17.37%	17.37%	production of chemicals
Naftoport Sp. z o.o.	Poland - Gdańsk	39 502	-	17.95%	-	construction, operation and maintenance of loading station for liquid fuels
AW S.A. Holland II B.V.	The Netherlands - Amsterdam	-	61 400	-	9.22%	Parent company of Autostrada Wielkopolska S.A.
Other		47 089	8 658			
Total		**623 409**	**120 254**			
Impairment allowance for Telewizja Familijna		(26 004)	(26 004)			
Other impairment allowances		(46 421)	(46 321)			
Total impairment allowances		**(72 425)**	**(72 325)**			
Net value of significant shares in other parties		**550 984**	**47 929**			

b) Investments held to maturity

Telewizja Familijna S.A. bonds *	Poland - Warszawa	26 000	26 000
Impairment allowance		(26 000)	(26 000)
Net value of investments held to maturity		**-**	**-**
Total net value of financial assets		**550 984**	**47 929**

* on 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was declared; book value of shares and bonds as at 31 December 2005 and 31 December 2004 was fully covered by a relevant allowance.

10. Investments accounted for using equity method

As at 31 December 2005 and 31 December 2004 the Group's investments accounted for using equity method were as follows:

	Book value as At		Group's interest in capital / voting rights	Group's interest in capital / voting rights	Principal activity
	31 December 2005	31 December 2004	as at 31 December 2005	as at 31 December 2004	
Polkomtel S.A.	929 035	803 071	19.61%	19.61%	rendering mobile telecommunication services
Naftoport Sp. z o.o.	-	52 017	-	48,71%	construction, operation and maintenance of loading station for liquid fuel
Niezależny Operator Międzystrefowy Sp. z o.o.*	18 033	-	35.00%	35.00%	rendering ground telecommunication services
Płocki Park Przemysłowo-Technologiczny S.A.	12 730	500	50.00%	50.00%	business activity advisory
Other	65 279	85 263			
	---	---			
Total	**1 025 077**	**940 851**			
	========	========			

* Detailed information in Note 33 I

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2005 and 31 December 2004, revenues, financial expenses and profit for 2005 and 2004 in Polkomtel S.A. are described below:

Polkomtel S.A.	31 December 2005	31 December 2004
Current assets	1 208 938	1 032 547
Non-current assets	6 388 196	6 197 981
Current liabilities	830 621	1 117 460
Non-current liabilities	862 068	924 730
Total sales revenues	6 495 963	5 743 871
Financial expenses	(124 367)	(214 857)
Profit before tax	1 310 746	1 186 306
Income tax expense	(243 641)	(262 704)
Net profit	1 067 105	923 603

11. Inventories

	31 December 2005	31 December 2004
Raw materials*	3 200 388	1 579 212
Work in progress*	714 968	322 764
Finished goods*	1 840 782	1 100 244
Merchandise	357 099	198 762
Total inventory, net	**6 113 237**	**3 200 982**

* Starting from 2002, mandatory reserves are established based on the schedule in accordance with the Minister of Economy Decree (the decree of 19 December 2005 currently in force, Official Journal no 266. item 2240) to arrive at the end of 2008 at the level equal to 76 days of average daily production, import and intra-Community acquisitions less export and intra-Community supplies (In addition the relevant economy Minister is obliged to establish the reserves of liquid fuels in the amount equal to consumption of fuels in 14 days on average in a given year). The value of mandatory reserves held by the Company as at 31 December 2005 and 31 December 2004 amounted to PLN 1,953,479 thousand and PLN 1,304,472 thousand respectively.

The value of inventories valued at net realizable value amounted to PLN 846,202 thousand as at 31 December 2005 and PLN 102,964 thousand as at 31 December 2004.

The inventory allowances to net realizable value amounted to PLN 66,006 thousand in 2005 and PLN 11,657 thousand in 2004.

As at 31 December 2005 and 31 December 2004 inventories of PLN 66,059 and PLN 14,380 thousand, respectively, were used as a pledge for the Group's liabilities.

12. Trade and other receivables

	31 December 2005	31 December 2004
Trade receivables *	3 720 376	2 159 175
Taxation, duty and social security receivables	374 303	226 064
Receivables from sale of property, plant and equipment	55 120	3 477
Prepayments for property, plant and equipment	25 320	35 861
Other receivables *	602 519	156 206
Total trade and other receivables, net	**4 777 638**	**2 580 783**
Receivables allowances	581 077	474 177
Total trade and other receivables, gross	**5 358 715**	**3 054 960**

* in 2005 the increase resulted from the acquisition of the Unipetrol Group

Trade and other receivables include PLN 1,905,490 thousand of amounts denominated in foreign currencies as at 31 December 2005 and PLN 392,428 thousand as at 31 December 2004. Trade receivables result primarily from the sales of finished goods and sales of merchandise.
Concentration of credit risk relating to trade receivables is limited due to a large number of customers with specified trade credit limits and their dispersion across many different industries principally in Poland, Germany and Czech Republic.
The assumed repayment period of receivables involved with the usual course of sales operations is 14 to 30 days.
Maximum trade credit limit risk amounted to PLN 4,403,335 thousand as at 31 December 2005. The Management Board believes that the risk of doubtful receivables is reflected by the relevant allowance.
As at 31 December 2005 and 31 December 2004 transfers of rights to receivables as a security for the Group's liabilities amounted to PLN 196,791 and PLN 167,541 thousand, respectively, including due to collateral for the investment loan granted to IKS Solino in the form of endorsement of receivables due from PKN ORLEN for the lease of the underground warehouse of crude oil and liquid fuels in the amount of PLN 117,133 thousand as at 32 December 2005 and PLN 127,700 thousand as at 31 December 2004.

The receivables allowances:

	31 December 2005	31 December 2004
Receivables allowances, beginning of period	474 177	317 058
Allowance made during the period	409 749	264 481
incl. acquisition of Unipetrol a.s.	238 084	-
Allowance reversed during the period	(257 751)	(95 955)
Allowance used during the period	(45 098)	(11 407)
Receivables allowances, end of period	**581 077**	**474 177**

13. Short-term investments

Short-term investments as at 31 December 2005 and 31 December 2004 included government bonds and bills, debt securities and other short-term investments of PLN 104,938 thousand and PLN 1,123,616 thousand, respectively, including:

	31 December 2005	31 December 2004
Financial instruments at fair value through profit and loss	89 465	85 344
Held to maturity	12 969	1 038 272
Available for sale	2 504	-
Total	**104 938**	**1 123 616**

14. Prepayments

	31 December 2005	31 December 2004
Subscriptions	16 323	15 493
Insurances	67 883	22 643
Other*	61 647	70 580
Total	**145 853**	**108 716**

* other prepayments include tax on means of transportation, toll fees and other.

15. Cash and cash equivalents

	31 December 2005	31 December 2004
Cash on hand and in bank	1 031 657	670 422
Other cash (incl. cash in transit)	95 134	59 028
Other monetary assets	12	48
Total	**1 126 803**	**729 498**
Incl. cash and cash equivalents not available for use	100 535	269 932

Total cash and cash equivalents denominated in foreign currencies amounted to PLN 735,429 thousand as at 31 December 2005 and to PLN 482,142 thousand as at 31 December 2004.

Taking into account cooperation of the Group mainly with well-established Polish and international banks, the risk relating to depositing cash and cash equivalents is considerably limited.

Since 2001 the cashpooling system has been introduced in the Capital Group. The system comprised of nineteen companies of capital group as at 31 December 2005. The accumulation of cash denominated in Polish zloty in cashpooling system is assisted by three banks, whereas accumulation of cash denominated in foreign currencies is assisted by one bank. Due to the application of the system the Group records considerable financial benefits.

Cash and cash equivalents not available for use as at 31 December 2005 and 31 December 2004 amounted to PLN 100,331 thousand and PLN 269,932 thousand, respectively (they relate mainly to amounts blocked on bank

accounts in relation to credits granted and in 2004 also to cash blocked on a restricted deposit account in Prague in relation to the planned acquisition of UNIPETROL).

16. Assets held for sale

The following assets has been classified as held for sale in PKN ORLEN Group as at 31 December 2005:

	31 grudnia 2005
Shares in AW S.A. Holland II B.V.*	72 469
Shares in CELIO**	10 410
Assets held for sale in Anwil S.A., including: ***	4 006
land	3 270
shares	507
buildings and constructions	226
Machinery and equipment	3
Petrol station (land, immovables)****	1 776
Rother	183
Total assets held for sale	**88 844**

* As at 31 December 2005 PKN ORLEN held 165,924 shares standing for 9.218% stake in AW S.A. Holland II BV ("AWSA"). Shares in AWSA have been classified as held for sale. The value of shares was increased by the effect of valuation of the put option and presented separately in assets, due to it being a subject to sale of shares agreement concluded on 27 February 2006 between PKN ORLEN and Kulczyk Holding S.A. The conclusion of the Pledged Sale Agreement resulted from exercising by PKN ORLEN of an option to sell the shares that was determined in the Supplementary Agreement signed on 14 November 2002 between PKN ORLEN S.A. and Kulczyk Holding S.A. The Supplementary Agreement provided that the put option is exercisable on each demand until 31 December 2006. The relavant demant was submitted to Kulczyk Holding S.A. on 28 December 2005. Upon fulfilment of agreed provisions of the Pledged Sale Agreement, that are expected to be fulfilled at latest upon elapse of 3-month period from the date the agreement was signed, PKN ORLEN shall transfer its rights to shares in AWSA to Kulczyk Holding S.A. On 27 February 2006 PKN ORLEN received PLN 73,007 thousand in cash to the bank account. The above described shares had been purchased by PKN ORLEN from Orbis S.A. in November 2002 for the amount of PLN 61,400 thousand. AWSA, through its subsidiary, controls Autostrada Wielkopolska S.A., a concessionaire for the construction of A2 motorway in Poland. Shares of AWSA are not quoted on an active market.

** The share of UNIPETROL Group in CELIO company, constituting 51.06 % stake in the share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and neither by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be completed in 3 quarter of 2006.

*** In accordance with the Resolution of the Supervisory Board of Anwil S.A. of 12 December 2005, the assets of Agro Azoty II "Włocławek" company were designated for sale. The sale transaction is expected to be completed in the first half of 2006. Due to the above, the assets hale been reclassified and presented as held for sale. As at 31 December 2005 the assets for sale comprise of real estate, movables and shares in the net amount of PLN 4,006 thousand.

**** On 25 November 2005 the Management Board of Rafineria Trzebinia S.A. decided to dispose a petrol station located in Sławków (land and facilities), owned by Rafineria Trzebinia S.A. The announcement in nationwide press has been issued. Due to the afore, Rafineria Trzebinia S.A. presents the above immovables as assets held for sale in its financial statements for 2005. The sale transaction is expected to occur in 2006. As at 31 December 2005 no indications for impairment allowance occurred.

Assets held for sale are stated at cost less impairment losses since it is not quoted in an active market and their fair value cannot be reliably estimated by alternative methods.

17. Interest-bearing loans and borrowings

	Note	31 December 2005	31 December 2004
Bank loans	(a)	3 956 721	2 300 971
Borrownings	(b)	13 065	30 192
Debt securities	(c)	547 011	-
Total		**4 516 797**	**2 331 163**
including:			
Short-term		1 110 819	247 627
Long-term		3 405 978	2 083 536

Maturities of principal instalments as at 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	31 December 2004
Up to 1 year	1 110 819	247 627
Between 1 and 5 years	2 664 921	1 973 729
Above 5 years	741 057	109 807
	4 516 797	**2 331 163**

The value of interest-bearing loans and borrowings drawn by the Group and debt securities issued increased in 2005 by PLN 2,185,634 thousand net.

The change in indebtedness level resulted primarily from:

- drawing of foreign currency loans translated to PLN:
  - CZK 750,000 thousand (PLN 103,500 thousand) in BH w Warszawie S.A.
  - CZK 750,000 thousand (PLN 103,500 thousand) in PKO BP S.A.
  - EUR 44,154 thousand (PLN 170,387 thousand) in consortium of banks (Societe Generale acting as Agent)
- drawing of loans in PLN:
  - PLN 79,306 thousand in Bank Pekao S.A.
  - PLN 28,193 thousand in BH w Warszawie S.A.
  - PLN 45,275 thousand in PKO BP S.A.
  - PLN 42,952 thousand in Bank Ochrony Środowiska S.A.
  - PLN 21,988 thousand in BPH PBK S.A.
  - PLN 7,652 thousand in BRE Bank S.A.
  - PLN 10 thousand in Kredyt Bank S.A.
- increase in indebtedness as at 31 May 2005 due to acquisition of Unipetrol Group by CZK 11,714,060 thousand (PLN 1,552,113 thousand)
- lawns drawn by Unipetrol Group of CZK 148,352 thousand (PLN 19,716 thousand)
- - increase in indebtedness due to acquisition of Unipetrol Group (issue of debenture bonds by Unipetrol Group until 31 May 2005) of CZK 4,115,959 thousand (PLN 547,011 thousand)
- PLN 23,796 thousand resulting from foreign exchange differences at PKN ORLEN S.A.
- lawns drawn by ORLEN Deutschland A.G. of EUR 60,650 thousand (PLN 234,105 thousand)
- repayment of foreign currency loans translated to PLN:
  - CZK 750,000 thousand (PLN 102,716 thousand) in BH S.A.,
  - CZK 750,000 thousand (PLN 99,625 thousand) in PKO BP S.A.
  - USD 18,411 thousand (PLN 61,532 thousand) of a consortium double currency loan (ING acting as Agent)
- repayment of loans in PLN
  - PLN 37,084 thousand in PKO BP S.A
  - PLN 31,074 thousand in BH w Warszawie S.A.
  - PLN 25,480 thousand in ING Bank Śląski S.A.
  - PLN 16,606 thousand in Bank Pekao S.A.
  - PLN 10,680 thousand in Narodowy Fundusz Ochrony Środowiska
  - PLN 7,708 thousand in BPH PBK S.A.
  - PLN 8,360 thousand in BNP PARIBAS POLSKA
  - PLN 5,639 thousand in Bank Współpracy Europejskiej S.A.
  - PLN 4,178 thousand in Kredyt Bank S.A.

PLN 3,286 thousand in BGŻ S.A.
PLN 1,700 thousand in BOŚ S.A.
PLN 1,356 thousand in LG PETRO BANK S.A.
PLN 943 thousand in Bank Millenium S.A.
PLN 31,366 thousand resulting from foreign exchange differences in BOP Sp. z o.o.
PLN 12,142 thousand resulting from foreign exchange differences in ORLEN Deutschland AG

- repayment of loans in ORLEN Deutschland A.G. of EUR 5,259 thousand (PLN 20,301 thousand according to historical exchange rates)
- repayment of loans in Unipetrol Group of CZK 2,348,337 thousand (PLN 312,094 thousand according to historical exchange rates)

a) Bank loans by currency (translated to PLN)

		31 December 2005	31 December 2004
PLN	(1)	510 743	426 662
USD	(2)	730 065	719 535
CHF	(3)	6 738	12 978
EUR	(4)	1 451 030	1 141 796
CZK	(5)	1 258 145	-
		3 956 721	**2 300 971**

As at 31 December 2005 and 31 December 2004 the level of flat interest rates and loan margins relating to bank loans with floating rates based interest were as follows:

	PLN (1)	
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	510 743	
T/N WIBOR		0.06% - 1.00%
1M WIBOR		0.07% - 3.00%
3M WIBOR		0.55% - 3.00%
Total PLN	**510 743**	
	USD (2)	
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	730 065	
1M LIBOR		0.40% - 1.35%
3M LIBOR		0.40% - 2.70%
6M LIBOR		to 0.15%
Total USD	**730 065**	
	CHF (3)	
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	6 738	
3M LIBOR		to 1.00%
Total CHF	**6 738**	
	EUR (4)	
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	88 962	2.60% - 7.30%
Floating rate	1 362 068	
1M LIBOR		to 1.00%
1M EURIBOR		0.40% - 1.00%
3M EURIBOR		0.40% - 1.50%
6M EURIBOR		0.30% - 1.35%
Total EUR	**1 451 030**	
	CZK (5)	
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	7 978	2.00% - 3.27%
Floating rate	1 250 167	
1D PRIBOR		to 0.30%
1W PRIBOR		to 0.30%
2W PRIBOR		0.25% - 0.70%
1M PRIBOR		0.45% - 0.90%
3M PRIBOR		0.60% - 0.80%
6M PRIBOR		0.48% - 0.90%
Total CZK	**1 258 145**	

Total	**3 956 721**	
	==========	

	PLN (1)	
31 December 2004	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	426 662	
T/N WIBOR		0.15% - 1.00%
1T WIBOR		0.60% - 2.50%
1M WIBOR		0.02% - 3.20%
3M WIBOR		0.40% - 1.00%
6M WIBOR		to 0.95%
Total PLN	**426 662**	
	USD (2)	
31 December 2004	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	719 535	
1M LIBOR		to 0.45%
3M LIBOR		to 0.40%
Total USD	**719 535**	
	CHF (3)	
31 December 2004	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	12 978	
3M LIBOR		to 1.00%
Total CHF	**12 978**	
	EUR (4)	
31 December 2004	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	112 812	4.17% - 7.90%
Floating rate	1 028 984	
3M LIBOR		0.45% - 1.00%
1M EURIBOR		0.16% - 0.50%
3M EURIBOR		to 0.45%
6M EURIBOR		to 0.30%
Total EUR	**1 141 796**	

Total	**2 300 971**	
	========	

As at 31 December 2005 and 31 December 2004 interest rates for specific bases were as follows:

	31 December 2005	**31 December 2004**
T/N Wibor	4.60%	6.67%
1W Wibor	4.60%	6.66%
1M Wibor	4.60%	6.66%
3M Wibor	4.60%	6.64%
6M Wibor	4.60%	6.61%
1 M Euribor	2.4070%	2.1280%
3 M Euribor	2.4870%	2.1550%
6 M Euribor	2.6370%	2.2150%
1M Libor (USD)	4.3900%	2.4000%
3M Libor (USD)	4.5362%	2.5644%
6M Libor (USD)	4.7000%	2.7806%
1M Libor (EUR)	2.4021%	2.1281%
3M Libor (EUR)	2.4896%	2.1544%
3M Libor (CHF)	1.0100%	0.7167%
Rediscount Interest rates of National Bank of Poland	4.75%	7.00%

As at 31 December 2005 and 31 December 2004 bank loans and borrowings of PLN 691,780 thousand and PLN 357,566 thousand, respectively, were pledged on the Group's assets.

b) Interest bearing loans

	31 December 2005	31 December 2004
Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej	-	34
Narodowy Fundusz Ochrony Środowiska	13 065	30 158
Total	13 065	30 192

Loans' floating interest rates amounted to 1.90%-3.20% and 2.80%-9.00% as at 31 December 2005 and 31 December 2004, respectively.

c) Debt securities

Debt securities by type	Face value	Fair value measurement in relation to bonds quoted at the Stock Exchange in Prague	Discount in relation to zero coupons bonds	Book value	Interests terms	End of holding period	Type of surety
Flat rate bonds	265 800	391 284	-	391 285	12,53	2013-12-28	Unsecured
Zero coupons bonds	172 770	-	(17 044)	155 726	-	2007-04-01	Unsecured

* Interest calculated on flat rate bonds are recognised in the amount of PLN 17,058 thousand as current liabilities.

As at 31 December 2005 the liabilities related to debt securities issued by the Group amounted to PLN 547,011 thousand.

The Group monitors opportunities to obtain loans and borrowings based on more favorable terms due to changes in market conditions.
The Group utilizes loans both in PLN and foreign currencies, subject mainly to floating interest rates.
As at 31 December 2005 and 31 December 2004, in accordance with agreements concluded with banks, the Company had unutilized amount of bank loans and borrowings at floating rate of PLN 3,896,154 thousand and PLN 1,128,369 thousand respectively.

18. Provisions

Long-term provisions

	31 December 2005	31 December 2004
Land reclamation provision	487 164	373 209
Retirement benefits and jubilee bonuses	197 219	178 381
Business risk provision	133 920	38 933
Shield programmes provision	68 718	25 464
Other provisions	69 970	26 305
Total	**956 991**	**642 292**

Short-term provisions

	31 December 2005	31 December 2004
Land reclamation provision	71 143	128 493
Retirement benefits and jubilee bonuses	19 186	19 065
Business risk provision	392 186	49 049
Shield programmes provision	130 500	44 536
Other provisions	70 258	42 299
Total	**683 273**	**283 442**

The Group has legal or constructive obligation to reclaim contaminated land in area of production plants, petrol stations and warehouse bases. In the period 2000-2004 an assessment of the contaminated objects and estimation of future expenditures on land reclamation were conducted by independent experts. The amount of the environmental provision was reassessed by the Management Board on the basis of analyses of independent experts. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities constituting basis of creating the provision.

The changes in provisions in particular periods were as follows:

Changes in long-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	373 209	178 381	38 933	25 464	26 305	**642 292**
Provision made during the period	123 268*	31 348	128 281***	43 254	57 134	**383 285**
incl. inrease due to acquisiton of Unipetrol a.s.	**60 106**	-	-	-	**42 115**	**102 221**
Provision used during the period	(1 689)	(4 451)	-	-	(1 690)	**(7 830)**
Provision reversed during the period	(7 624)**	(8 059)	(33 294)	-	(11 779)	**(60 756)**
31 December 2005	**487 164**	**197 219**	**133 920**	**68 718**	**69 970**	**956 991**

*incl. the amount of PLN 51,561 of land reclamation provision reclassified from short to long term portion
**incl. the amount PLN 5,036 of land reaclamation provision reclassified from long to short term portion
***incl. business risk provision of ORLEN Deutschland

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	367 208	139 323	3 800	-	23 364	**533 695**
Provision made during the period	92 495	57 525	35 214	25 464	14 601	**225 299**
Provision used during the period	(1 011)	(10 278)	-	-	(553)	**(11 842)**
Provision reversed during the period	(85 483)	(8 189)	(81)	-	(11 107)	**(104 860)**
31 December 2004	**373 209**	**178 381**	**38 933**	**25 464**	**26 305**	**642 292**

Change in short-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	128 493	19 065	49 049	44 536	42 299	**283 442**
Provision made during the period	14 149**	16 853	430 952***	122 746	63 805	**648 505**
incl. inrease due to acquisiton of Unipetrol a.s.	**1 449**	**226**	**-**	**-**	**32 981**	**34 656**
Provision used during the period	(17 710)	(16 037)	(734)	(36 782)	(10 956)	**(82 219)**
Provision reversed during the period	(53 789)*	(695)	(87 081)	-	(24 890)	**(166 455)**
31 December 2005	**71 143**	**19 186**	**392 186**	**130 500**	**70 258**	**683 273**

*incl. the amount of PLN 51,561 of land reclamation provision reclassified from short to long term portion
**incl. the amount PLN 5,036 of land reaclamation provision reclassified from long to short term portion

***incl. provision for the negative financial impact of execution of the agreements concerning the disposal of portion of of assets and liabilities of Unipetrol Group

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	58 032	21 520	18 011	-	18 029	**115 592**
Provision made during the period	132 022	15 033	39 271	44 536	33 779	**264 641**
Provision used during the period	(22 300)	(14 673)	(8 183)	-	(2 874)	**(48 030)**
Provision reversed during the period	(39 261)	(2 815)	(50)	-	(6 635)	**(48 761)**
31 December 2004	**128 493**	**19 065**	**49 049**	**44 536**	**42 299**	**283 442**

19. Trade and other liabilities and accrued expenses

Trade and other liabilities comprised of the following:

	31 December 2005	31 December 2004
Trade liabilities	3 912 336	1 765 198
Liabilities due to acquisition of property, plant and equipment	347 973	276 787
Social Funds	1 388	6 271
Holiday pay accrual	29 669	24 898
Payroll liabilities	53 762	14 328
Loyalty programme VITAY	61 858	54 158
Dividends liabilities	3 503	-
Excise tax and fuel charge liabilities	1 022 520	766 948
Other taxation, duty and social security liabilities	581 572	334 236
Other liabilities and accrued expenses	669 469	184 472
Total	**6 684 050**	**3 427 296**

Trade and other liabilities and accrued expenses denominated in foreign currencies amounted to PLN 3,712,599 thousand as at 31 December 2005 and PLN 1,339,592 thousand as at 31 December 2004. The carrying amount of short-term trade liabilities is equal to its fair value by virtue of its short-term characteristics.

The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for fuel or VITAY gifts.
The Company creates provision for the number of points granted to customers but not yet exchanged for gifts. The cost is recognized in the profit and loss in the period points had been granted. The provision is estimated on the basis of total unrealized amount of points and current cost per one VITAY point and equals 75% of the value of unrealized points (75% being a ratio for points' realizability).

20. Deferred income

	31 December 2005	31 December 2004
Subventions	8 910	2 121
Other	10 355	16 985
Total	**19 265**	**19 106**

21. Shareholders' equity

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2005 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2005 and 31 December 2004 consisted of the following series of shares:

Share series	Number of shares issued as at 31 December 2005	Number of shares issued as at 31 December 2004	Number of shares authorized as at 31 December 2005	Number of shares authorized as at 31 December 2004
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 issuance of shares is labeled as a new series of shares. All of the above series involve the exact same rights.

The balance of the hedging reserve results from valuation of derivatives meeting the criteria for hedge accounting (for cash flow hedges).

The shareholder structure as at 31 December 2005 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares	% share in share capital
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17.32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10.20%
Bank of New York (as a depositary)	48 467 578	48 467 578	60 584 473	11.33%
Other*	261 531 287	261 531 287	326 914 109	61.15%
Total	**427 709 061**	**427 709 061**	**534 636 326**	**100.00%**

* In accordance with the regulatory announcement no. 33/2005 issued on 25 May 2005, FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,436,944 PKN ORLEN shares as at 24 May 2005, which is 5.01% of the share capital and gives title to 21,436,944 votes at the General Shareholders' Meeting and 5.01% of the total votes at the General Meeting of PKN ORLEN.

In accordance with the regulatory announcement no. 7/2006 issued on 24 January 2006, FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,023,196 PKN ORLEN shares, which is 4.92% of the share capital and gives title to 21,023,196 votes at the General Shareholders' Meeting and 4.92% of the total votes at the General Meeting of PKN ORLEN.

The balance of foreign exchange differences on subsidiaries from consolidation is adjusted by differences resulting from translation of the financial statements of ORLEN Deutschland from EUR into PLN and Unipetrol from CZK into PLN.

Retained earnings comprise of the following titles:

	31 December 2005	31 December 2004
Reserve capital	7 120 267	5 441 610
Revaluation reserve from revaluation of property, plant and equipment in 1995	634 503	630 266
Revaluation reserve from disposal of property, plant and equipment revalued in 1995	372 226	372 266
Privatization Fund created with the privatization of Petrochemia Plock S.A.	53 476	53 476
Undistributed profit from changes in accounting policies	1 741 958	1 848 711
Net profit attributable to equity holders of the Parent	4 585 132	2 482 227
	---	---
Total retained earnings	**14 507 562**	**10 828 516**
	=========	=========

The share capital and share premium as at 31 December 1996, in accordance with IAS 29.24 and 29.25, were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand revaluation of share capital and PLN 168,803 thousand revaluation of share premium). The afore were presented as share capital revaluation adjustment and share premium revaluation adjustment in the balance sheet.
In 2005 the Company paid dividends to shareholders. The Company's General Shareholders' Meeting held on 29 June 2005 adopted a resolution to pay a dividend from the net profit of 2004 in the amount of PLN 911,020,299.91. The date of payment was defined in the following way:
- the first instalment of PLN 457,648,695.27, giving PLN 1.07 per share, was paid on 1 September 2005;
- the second instalment of PLN 453,371,604.64, giving PLN 1.06 per share, was paid on 1 December 2005.

22. Minority interests

Minority interests represent part of the net assets of subsidiaries that is not owned, directly or indirectly, by the Group.

Minority interests by company:

	31 December 2005	31 December 2004
Anwil S.A. Group	214 641	161 064
Rafineria Trzebinia S.A. Group	96 301	93 482
Rafineria Nafty Jedlicze S.A.Group	44 184	43 283
Inowrocławskie Kopalnie Soli "Solino" S.A.	24 008	20 805
Petrolot Sp. z o.o.	30 834	24 789
Orelan PetroZachód Sp. z o.o.	11 506	11 152
Unipetrol a.s.	2 172 047	-
Other	22 957	85 131
Total	**2 616 478**	**439 706**

23. Explanation of differences between changes in the balance sheet positions and changes presented in the cash flow statement

	2005	2004
Balance sheet change in other non-current assets and trade and other receivables	(2 201 159)	(67 169)
Change in Group structure	1 881 651	(15 229)
Other	(38 427)	(52 822)
Change in receivables in the cash flow statement	**(357 935)**	**(135 220)**

	2005	2004
Balance sheet change in other long-term liabilities and trade and other liabilities and accrued expenses	3 374 108	80 170
Change in Group structure	(2 064 205)	15 274
Other	25 928	78 148
Change in liabilities and accrued expenses in the cash flow statement	**1 335 831**	**173 592**

	2005	2004
Balance sheet change in inventories	(2 912 255)	(223 408)
Change in Group structure	1 133 660	(2 812)
Other	(26 730)	(18 228)
Change in inventories in the cash flow statement	**(1 805 325)**	**(244 448)**

	2005	2004
Balance sheet change in provisions	714 530	337 117
Change in Group structure	(147 218)	(2 303)
Change in deferred tax liabilities relating to fair value adjustment of non-current assets	6 136	(24 233)
Recognition of deferred tax change recorded in equity in the prior period	5 037	-
Other	8 511	(1 406)
Change in provisions in the cash flow statement	**586 996**	**309 175**

Sale of shares in subsidiaries and associates

In 2005 the Group sold shares in 8 subsidiaries and associates. The cumulative impact of the transactions amounted to:

Proceeds from sales of shares	79 356
Sales price	77 376
Net assets of entities sold	34 398
Result	42 978
Net Cash and Cash equivalents proceeds	36 378

24. Segment data

Revenues, costs and financial result by business segments

	Refining Segment for the year		Chemical Segment for the year		Other operations for the year		Adjustments for the year		Total for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Revenues										
Sales to external customers	33 520 927	25 837 224	6 750 072	4 082 509	813 528	699 374			41 084 527	30 619 107
Transactions with other segments	8 243 623	4 320 677	2 222 991	1 480 130	876 569	783 348	(11 343 183)	(6 584 155)	-	-
Settlement of hedging transactions			103 740	61 351					103 740	61 351
Total revenues	41 764 550	30 157 901	9 076 803	5 623 990	1 690 097	1 482 722	(11 343 183)	(6 584 155)	41 188 267	30 680 458
Total operating cost	(38 518 411)	(27 580 580)	(8 219 341)	(4 699 482)	(1 710 174)	(1 461 567)	11 343 103	6 584 490	(37 104 823)	(27 157 139)
Other operating revenue	282 144	208 431	97 084	32 480	42 006	55 786			421 234	296 697
Other operating expenses	(504 389)	(543 249)	(96 350)	(76 326)	(119 066)	(109 314)			(719 805)	(728 889)
The excess of the fair value of acquired net assets over the acquisition price	753141*	-	1 070 867		249 713		(281 304)		1 792 417	-
Result										
Segment result	3 777 035	2 242 503	1 929 063	880 662	152 576	(32 373)	(281 384)	335	5 577 290	3 091 127
Unallocated revenues of the Group									14 120	34 447
Unallocated excess of the fair value of acquired net assets over the acquisition price									102 520	-
Unallocated costs of the Group									(775 706)	(458 211)
Profit (loss) on the sale of all or part of shares of related parties									29 396	19 166
Profit from operations									4 947 620	2 686 529
Financial revenue									669 028	625 390
Financial expenses									(480 195)	(366 568)
Share in profit from investments accounted for under equity method	985	(309)	(7 477)	981	209 260	192 422			202 768	193 094
Gross profit									5 339 221	3 138 445
Income tax expense									(701 445)	(600 849)
Net profit									4 637 776	2 537 596

* incl. PLN 1,249 thousand relating to ORLEN Oil Sp. z o.o.

Other information by business segments

	Refining Segment for the year ended		Chemical Segment for the year ended		Other operations for the year ended		Adjustments for the year ended		Total for the year ended	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004	31 December 2005	31 December 2004	31 December 2005	31 December 2004	31 December 2005	31 December 2004
Other information										
Segment assets employed	16 892 532*	10 912 128	11 802 750**	4 869 206	3 699 057***	2 087 783	(1 709 609)	(160 903)	30 684 730	17 708 214
Investments in associates	13 960	11 649	7 312	774	1 003 805	928 428			1 025 077	940 851
Unallocated assets									1 694 504 ****	2 220 410
Total consolidated assets									33 404 311	20 869 475
Segment liabilities	5 456 289	2 949 533	1 196 749	387 574	1 075 895	466 763	(1 556 349)	(154 417)	6 172 584	3 649 453
Unallocated liabilities									7 918 738	3 588 708
Total consolidated liabilities									14 091 322	7 238 161

* including assets classified as held for sale of PLN 1,776 thousand (petrol stations).

** including assets classified as held for sale of PLN 4,006 thousand (real estate, movables and shares).

*** including assets classified as held for sale of PLN 183 thousand (other).

**** including assets classified as held for sale: shares in AW S.A. Holland II B.V. of PLN 72,469 thousand and shares in Celio a.s. of PLN 10,410 thousand.

At the Group's assets as at 31 December 2005 and 31 December 2004 are located in Poland, Germany, Czech Republic, Switzerland, Austria and Spain, where also all capital expenditures were incurred in the years ended 31 December 2005 and 31 December 2004.

Other information by business segments – continued

	Refining Segment		Chemical Segment		Other operations		Total	
	for the year		for the year		for the year		for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Cost incurred to acquire segment property, plant and equipment and intangible assets	995 443	711 190	903 900	722 074	158 726	70 150	2 058 069	1 503 414
Unallocated cost incurred to acquire property, plant and equipment and intangible assets							42 444	34 455
Total cost incurred to acquire property, plant and equipment and intangible assets							2 100 513	1 537 869
Segment depreciation	846 528	888 824	683 135	212 559	216 636	214 322	1 746 299	1 315 705
Depreciation of unallocated assets							33 645	34 687
Total depreciation							1 779 944	1 350 392
Non-cash expenses other than depreciation	335 881	294 218	82 274	27 905	145 134	84 524	563 289	406 647

	Refining Segment		Chemical Segment		Other operations		Total	
	for the year		for the year		for the year		for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Impairment allowances	134 910	240 353	51 442	23 820	24 247	56 832	210 599	321 005
Unalocated allowances							9 970	1 232
Total impairment allowances							220 589	322 237
Reversal of impairment allowances	105 870	91 122	62 946	12 788	15 155	9 030	183 971	112 940
Unallocated reversal of unnalocated allowances							15 088	5 766
Reversal of impairment allowances							199 059	118 706

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:
- receivables allowances;
- inventories allowances;
- property, plant and equipment impairment allowances.

Allowances and reversals were performed in conjunction with occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment.
Allowances made in the Refining Segment concerned primarily impairment of petrol stations and warehouse bases. Allowances for idle assets and obsolete raw materials were recognized in other activities segment.

Geographical segments

The below table presents the Group's sales revenues by geographical segments for the periods ended 31 December 2005 and 31 December 2004.

	Revenues from sale by geographical area for the year	
	ended 31 December 2005	ended 31 December 2004
Poland	20 933 413	19 908 402
Germany	9 904 661	9 257 500
Czech Republic	6 935 015	747 470
Other countries	3 415 178	767 086
Total revenues from sale by geographical area	**41 188 267**	**30 680 458**

25. Financial instruments

a) Transactions within derivatives of Parent Company

According to „Market risk management policy in PKN ORLEN S.A.", the reduction of the volatility of cash flows and potential losses resulting from events which could have a negative impact on the Company's result is the Company's major goal in terms of market risk management. Market risk management includes identification, measurement and definition of risk mitigation, taking into consideration fluctuation of exchange rates, interest rates and prices of goods.

As at the end of 2005 the Company's portfolio comprised hedging instruments (concluded in 2003), hedging sales revenues of petrochemical products. As a consequence, the Company significantly reduced fluctuations of revenues from sale of the above mentioned products in 2005. The Company applies currency-interest EUR/PLN swap transactions. The principles of cash flows hedge accounting are applied to the instruments. The portion determined to be an effective hedge, recognized directly in equity, decreased by PLN 32,045 thousand in comparison to 2004 and amounted to PLN 96,840 thousand. The portion determined to be an ineffective hedge was recognized in the profit and loss of 2005 in the amount of PLN 7,894 thousand. The cash flows resulting from the settlement of the instruments in 2005 amounted to PLN 103,740 thousand.

In June 2004 the Company signed a conditional agreement for purchase of shares in Unipetrol a.s. with the Czech government bodies. In conjunction with the transaction the Company decided to hedge CZK/PLN exchange rate on the futures market. Currency forward contracts were used to minimize foreign exchange rate risk resulting from the future liability corresponding with realization of the above agreement. The instruments were settled in May 2005 with a loss of PLN 153 thousand. Principles of hedge accounting were not applied to this group of transactions,

In September and October 2005 the Company applied currency forward contracts to hedge the repayment of a bank loan drawn in CZK for the purposes of Unipetrol a.s. holding's entities. In October 2005 the Company hedged the currency exposure in CZK on the futures market. The exposure related to the adjustment to acquisition price of Unipetrol a.s. Currency forward contracts were used to minimize foreign exchange risk corresponding with repayment of these liabilities. Principles of hedge accounting were not applied to the forwards due to its short-term characteristics. The instruments were settled in October and November 2005 with a profit of PLN 4,143 thousand.

The Company values derivatives at fair value using financial instruments valuation models that utilize widely available data from active markets. The transactions can only be concluded with reliable partners that were authorized to participate in transactions as a result of procedures obliging in the Company and within limits granted. In accordance with the "Market risk management policy in PKN ORLEN S.A." conclusion of transactions for speculation is unallowable. All the concluded transactions are reflected in the physical transactions and hedge risk resulting directly from relevant actual transactions or belong to the group of probable transactions.

Recognition of hedging transactions:

	Financial assets – hedging transactions – derivatives	**Financial liabilities – hedging transactions – derivatives**
Fair value as at 31 December 2004	**146 784**	**-**
INCREASE	-	-
- purchase, creation, drawing	-	-
- valuation	-	-
- revaluation	-	-
- reclassification	-	-
DECREASE	50 662	-
- sale, release, repayment	-	-
- valuation	-	-
- revaluation	50 662	-
- reclassification	-	-
Fair value as at 31 December 2005	**96 122**	**-**

As at the end of 2005 fair value of hedging instruments decreased in comparison to the end of 2004. The change resulted from settlement of profit on transactions realized in the current period (decrease in value) and revaluation to fair value of transactions to be realized in forthcoming periods (increase in value).

Derivative transactions – continued

Characteristics of term transactions

Company	Type of term transaction	Transaction concluded on:	Period of transaction	Amount of PLN required to settle term contract for the sales of EUR	Interest rate for nominal amount**	Exchange rate**
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	08.10.2003	20.10.2003-29.09.2006	224 136.0	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	10.10.2003	20.10.2003-29.09.2006	224 284.5	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	15.10.2003	20.10.2003-29.09.2006	225 720.0	2.4%	4.6
PKN ORLEN	Currency swap (EUR/PLN) depreciated using the straight-line method*	17.12.2003	18.12.2003-30.11.2006	814 968.0	0.0%	5.5

Payment date of interest from the amount bought forward	Payment date of interest from the amount sold forward	Amount of interest received by the PKN ORLEN in the year ended 31 December 2005	Amount of interest paid by the PKN ORLEN in the year ended 31 December 2005	Fair value as at 31 December 2005	Fair value as at 31 December 2004
Last working day of a month	-	103 740	-	96 122	146 784

* Derivatives as at the end of the period are valued at fair value, whereas every month interest is accrued on unamortized portion of base value of the financial instrument.
** Interest rates and exchange rates rounded to one decimal.

b) Transactions within derivatives of subsidiaries

Chemopetrol entered into interest swap contracts to hedge against interest rate risk.

Data relating to interest swaps as at 31 December 2005 are presented in below table:

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value at 31 December 2005
Chemopetrol	CITIBANK N.A.	Interest swap	06.09.00	15.02.01-15.08.08	USD 12 232 653	fix 6,70 <=> 6M USD LIBOR	-12 006 295.81
Chemopetrol	CITIBANK N.A.	Interest swap	06.09.00	15.02.01-15.08.08	USD 12 232 653	fix 6,35 <=> 6M USD LIBOR	-14 450 047.96

Interest swap was divided into headge accounting part (99.224%) and available for sale part (0.776%).

Chemopetrol entered into Cross Currency swap for trading purposes. Data relating to Cross Currency swap as at 31 December 2005 are presented in below table:

Company	Bank	Type of transaction	Transaction concluded on:	Period of transaction	Amount	Base interest rate	Fair value at 31 December 2005
Chemopetrol	Česká spořitelna, a.s.	Cross currency swap	15.04.05	15.07.05-15.07.11	EUR 25.6 mln <=> CZK 768 mln	6M EURIBOR <=> 6M PRIBOR	24 385 583.00

Interest paid by the Group in 2005 amounted CZK 26,342,352.09.

c) Financial instruments by class:

	31 December 2005	31 December 2004
1. Financial assets at fair value through profit and loss	96 962	92 313
2. Financial assets held to maturity	19 622	1 042 152
3. Financial assets available for sale	223 748	685 518
4. Loans and receivables including:	3 735 785	2 169 595
-loans granted	15 409	10 420
-trade receivables	3 720 376	2 159 175
5. Cash and cash equivalents	1 126 791	729 450
6. Financial liabilities at fair value through profit and loss	40	21 350
7. Trade liabilities	3 912 336	1 765 198
8. Interest-bearing loans and borrowings	4 516 797	2 331 163

The value of long-term financial assets stated at cost less impairment charges as at 31 December 2005 amounted to PLN 37,845 thousand and as at 31 December 2004 to PLN 523,033 thousand and included mainly shares and stakes not quoted in an active market.
The Group presents derivative transactions with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.

The value of other financial assets available for sale stated at fair value as at 31 December 2005 includes hedging derivative instruments of PKN ORLEN.
The value of short-term financial assets held to maturity as at 31 December 2005 and 31 December 2004 amounted to PLN 12,969 thousand and PLN 1,042,152 thousand, respectively and included mainly “buy-sell back” transactions concerning treasury bonds and bills in the Group amounting PLN 1,016,899 thousand as at 31 December 2004.

d) Interest rate risk

The Group’s financial liabilities are held to maturity. The effective interest rate is similar to nominal interest rate (the Group does not pay commission on majority of loans received; loan margins are at relatively low level). Cash flow surpluses are deposited primarily in treasury securities i.e. State Treasury bills and/or bonds.

The Group uses bank loan financing. The fluctuation of interest rates impacts both financial expenses and financial revenues. An increase in interest rates results in an increase in the Group’s financial expenses, in particular interest on loans and borrowings, as well as it contributes to an increase in interest from deposited cash.

e) Credit risk

The Management Board believes that no significant credit risk in respect of receivables from financial instruments or loans granted by members of the Group exists (details in note 12).

26. Cost by kind

	for the year ended 31 December 2005	for the year ended 31 December 2004
Materials and energy	20 742 180	12 442 236
Cost of merchandise and materials sold	11 567 863	10 594 203
External services*	2 337 672	1 751 876
Payroll, social security and other employee benefits	1 267 120	1 090 394
Depreciation	1 779 944	1 350 392
Taxes and charges	284 154	237 056
Other	1 376 928	1 057 821
Total	**39 355 861**	**28 523 978**
Adjustments:		
Change in inventory and prepayments	(598 839)	(76 091)
Cost of products and services for own use	(156 688)	(103 648)
Operating cost	**38 600 334**	**28 344 239**

* including PLN 13,012 thousand in 2005 and PLN 19,966 thousand in 2004 of research and development cost

27. Other operating revenues and expenses

Other operating income

	for the year ended 31 December 2005	for the year ended 31 December 2004
Profit on sale of non-financial non-current assets	11 657	31 057
Provision reversal	52 944	35 724
Allowances reversal*	199 059	118 706
Penalties and compensations earned	14 682	24 581
Other**	2 051 949	121 076
Total	**2 330 291**	**331 144**

* including reversal of allowances for:	for the year ended 31 December 2005	for the year ended 31 December 2004
Receivables [1)]	128 214	79 257
Inventories	4 118	2 473
Property, plant and equipment and intangible assets	66 727	36 976
	199 059	118 706

[1)] including in 2005 receivables allowance regarding sale of shares in Niezależny Operator Międzystrefowy Sp. z o.o. in the amount of PLN 111,500 thousand.

** including in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the cost of PLN 1,893,688 thousand

	for the year ended 31 December 2005	for the year ended 31 December 2004
Loss on sale of non-financial non-current assets	19 281	11 837
Revaluation of non-financial non-current assets	40 180	184 085
Creation of provisions *	701 740	328 209
Impairment allowances **	180 389	138 152
Donations	6 204	15 172
Nonculpable shortages in non-current assets	16 894	9 185
Other**	126 175	81 311
Total	**1 090 863**	**767 951**

* Described in detail in Note 33 f, 33g, 38 c

** including allowances for:	for the year ended 31 December 2005	for the year ended 31 December 2004
Receivables	165 060	130 643
Inventories	12 511	5 795
Property, plant and equipment and intangible assets	2 818	1 714
	180 389	138 152

28. Net financial income and expenses

	for the year ended 31 December 2005	for the year ended 31 December 2004
Interest paid	(203 612)	(124 618)
Negative foreign exchange surplus	(181 654)	(7 120)
Interest received	123 972	70 195
Positive foreign exchange surplus	172 434	399 634
Gains on trade in shares and other securities	7 069	2 575
Dividends received	8 899	294
Unrealised discount on the acquisition of liabilities of Unipetrol Group	245 696	-
Decrease in receivables allowances	17 998	15 620
Increase in receivables allowances	(28 436)	(129 893)
Other financial expenses	26 467	32 135
Total	**188 833**	**258 822**

29. Income tax

	for the year ended 31 December 2005	for the year ended 31 December 2004
Current tax	(713 999)	(692 628)
Deferred tax	12 554	91 779
Total	**(701 445)**	**(600 849)**

The difference between reported income tax expense in the profit and loss statement and the amount calculated based on profit before tax results from the following items:

	for the year ended 31 December 2005	for the year ended 31 December 2004
Profit before tax	**5 339 221**	**3 138 445**
Corporate income tax for 2005 and 2004 by the valid tax rate (19% in Poland)	(1 014 452)	(596 305)
Difference between Polish and German (40%) tax rates	37 401	26 270
Difference between Polish and Czech (26%) tax rates	(41 551)	-
The impact of taxation on permanent and temporary diffrences, incl.		
Taxation on the excess of the fair value of acquired net assets over cost	360 038	-
Business risk provision	83 244	-
Valuation of financial instruments	(5 037)	3 256
The excess of tax depreciation	(34 316)	(13 051)
Subventions granted	7 600	-
Impairment of property, plant and aquipment	-	(12 422)
Valuation of entities accounted under the equity method	(39 759)	(34 412)
Other	(54 613)	25 815
Corporate income tax	**(701 445)**	**(600 849)**
Effective tax rate	13%	19%

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell ORLEN Polyolefins Sp. z o.o capital group which is also a tax capital group comprising Basell ORLEN Polyolefins Sp. z o.o. and Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.

As the companies in the Group are separate taxpayers, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheet presents deferred tax assets of PLN 62,131 thousand as at 31 December 2005 and PLN 19,673 thousand, as at 31 December 2004 and deferred tax liabilities of PLN 1,020,159 thousand as at 31 December 2005 and PLN 458,512 thousand as at 31 December 2004.

The net deferred tax liability as at 31 December 2005 and 31 December 2004 comprised of the following:

	for the year ended 31 December 2005	for the year ended 31 December 2004
Deferred tax assets		
Land reclamation provision	88 674	87 509
Other receivables allowances	10 942	-
Retirement benefits and jubilee bonuses	23 704	29 266
Expenses for loyalty programme prizes	11 753	10 290
Deferred tax on impairment of non-current assets	78 773	-
Impairment of long-term investments	(19 419)	(27 443)
Provision for long-term financial assets	37 091	37 892
Impairment of property, plant and equipment and intangible assets	1 218	-
Deferred tax on other provisions	18 859	28 760
Other	71 816	58 042
Total deferred tax assets	**323 411**	**224 316**
Deferred tax provision		
Investment relief *	137 155	170 134
Difference between carrying amount and tax base of property, plant and equipment	978 068	272 994
Unrealised positive foreign exchange differences	49 214	60 871
Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o.	42 870	61 325
Impairment of property, plant and equipment and intangible assets	-	75 121
Other	74 132	22 710
Total deferred tax provision	**1 281 439**	**663 155**
Deferred tax provision, net	**958 028**	**438 839**

* According to the Polish tax regulations, taxpayers were entitled to deduct qualified investment expenditures in a given tax year from the taxable income (investment relief). In addition, taxable income could have been further reduced in the following year by 50% of previous year's deduction (investment premium). This was described in detail in Note 33 b.

Unipetrol Group companies were granted tax relieves in the period 2000-2001 in the amount of PLN 282 million, including PL 51 million that is planned to be utilized until 2007. As at the date of preparation of the consolidated financial statements, the amount of utilized investment relieves used totaled PLN 66 million.

30. Leases

(a) The Group as a lessee

- operating lease

Lease agreements and other agreements of an operating nature regard mainly the lease of tanks, gas facility, buildings, cars, tractors, semitrailers, vehicle tanks, forklifts and computer equipment. The minimum lease payments recognized as costs of 2005 amounted to PLN 30,233 thousand and PLN 4,213 thousand in 2004.

Future minimum lease payments under non-cancellable operating lease agreements as at 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	31 December 2004
Up to 1 year	21 215	2 459
Between 1 and 5 years	247 844	1 172
Above 5 years	-	-
Total minimum lease payments	**269 059***	**3 631**

* including in 2005 operating lease of Unipetrol Group of PLN 258,925 thousand

- finance lease

Finance lease agreements regard mainly the lease of cars, computer equipment, vehicle tanks, wagons, buildings, tractors, semitrailers and forklifts. The minimum lease payments recognized as costs of 2005 amounted to PLN * 17,950 thousand and PLN 7,512 thousand in 2004.

Future minimum lease payments under non-cancellable finance lease agreements as at 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	31 December 2004
Up to 1 year	32 878	6 860
Between 1 and 5 years	78 190	18 745
Above 5 years	47 711	-
Total minimum lease payments	**158 779***	**25 605**

* including in 2005 finance lease of Unipetrol Group of PLN 101,318 thousand

(b) The Group as a lessor

- operating lease

Operating lease agreements regard the lease of machinery, equipment, buildings and cars. The minimum lease payments amounted to PLN 16,683 thousand in 2005 and PLN 21,084 thousand in 2004.

Gross investment in the lease due as at 31 December 2005 and 31 December 2004 for future periods were as follows:

	31 December 2005	31 December 2004
Up to 1 year	3 566	275
Between 1 and 5 years	13 588	888
Above 5 years	18 066	-
Total gross lease investments in the lease	**35 220***	**1 163**

* including in 2005 operating lease of Unipetrol Group of PLN 34,053 thousand

The lease agreements were concluded for an indefinite period hence there is no possibility to define future minimum lease payments.

- finance lease

Finance lease agreements regard the lease of distributors and steering devices owned by the Parent Company. The agreements were concluded for a definite period. The lease term is for the major part of the economic life of the asset. After expiration of a lease agreement a lessee can purchase the object of the lease on mutually agreed conditions.

Gross investments in the lease due as at 31 December 2005 and 31 December 2004 for future periods were as follows:

	31 December 2005	31 December 2004
Up to 1 year	878	3 967
Between 1 and 5 years	301	1 461
Above 5 years	-	-
Total gross lease investments in the lease	**1 179**	**5 428**

Unearned finance income as at 31 December 2005 amounted to PLN 109 thousand and as at 31 December 2004 to PLN 522 thousand.

As at 31 December 2005 and 31 December 2004 the Group companies did not record contingent rents recognized in the profit and loss and allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the Group.

31. Commitments resulting from investment expenditures

Investments expenditures in 2005 accounted for PLN 2,183,066 thousand, including PLN 223,984 thousand of environmental protection related investments. Planned investment expenditure in the Group in the period of 12 months from the balance sheet date amounts to PLN 1,910,482 thousand, including PLN 169,199 thousand of environmental protection related investments. As at 31 December 2005 future liabilities resulting from signed contracts amounted to PLN 373,581 thousand.

32. Related party transactions

a) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

In 2005 and 2004 the Group companies did not grant any advances, loans, guarantees and commitments, or other agreements obliging Management Board, Supervisory Board and their relatives, to render services to the Company and related parties.
As at 31 December 2005 and 31 December 2004 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the years ended 31 December 2005 and 31 December 2004 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

b) Transactions with related parties concluded through the supervising persons

In 2005 the Company obtained statements on transactions with related parties extended in scope in regard of the amended IAS 24 “Related Party Disclosures”.

	Sale	Purchase	Receivables	Liabilities	Dividend paid
Legal persons *	221 823	411 028	38 103	49 437	-
Natural persons**	781	61	106	-	-

* Transactions in the period of performing duties as supervising persons in the Company.

** In the period covered by the financial statements the recorded transactions comprised of those below EUR 500 thousand.

In the period presented in the financial statements 13 persons served as members of the Supervisory Board.

(c) Transactions with related parties concluded through the managing persons of the Company

In 2005 members of the Company's key executive personnel did not conclude any significant transactions with related parties in regard of IAS 24 "Related Party Disclosures".

d) Transactions with related parties, not consolidated with the full method, were concluded on market conditions and are presented below:

	Companies consolidated with the equity method
Sale	
2005	26 616
2004	49 890
Purchase	
2005	192 300
2004	142 491
Short term receivables	
31 December 2005	4 532
31 December 2004	3 965
Gross short term liabilities	
31 December 2005	18 256
31 December 2004	20 861

Above transactions with related parties relate to sale and purchase of petrochemicals, and purchase of repair, transport and other services. Prices are similar to market conditions.

33. Contingent liabilities and risks

a) Guarantees and other contingent liabilities

The Group granted the following guarantees and sureties:

	31 December 2005	Expiration of liability
Guarantees and sureties granted to:		
other entities, including:	**56 822**	
performance Bond	34 238	till 01.12.2008
customs guarantee	14 755	till 03.03.2008
guarantee related to the change in chlorine production technology investment	3 926	till 09.08.2006
bid guarantee	1 750	till 10.03.2006
guarantee for customers' liabilities related to the Paylink Card Agreement	1 010	till 31.03.2007
other (customs guarantees, debt repayment guarantee, lottery guarantee, rent contract payment guarantee)	1 143	till 25.07.2006
non consolidated related entities, including:	**1 551**	
performance bond	1 551	till 20.11.2007

Total guarantees and sureties:	**58 373**	
	========	
Other contingent liabilities:		
excise tax guarantees, including collaterals submitted on behalf of third parties in respect of movements of harmonized excise goods under the excise tax suspension procedure and excise tax liability on goods kept in warehouses under the excise tax suspension procedure	939 879	
statement of voluntary submission for execution	126 127	
Receivables endorsement	125 294	
blank bills	72 177	
legal casus	37 546	
letters of credit	14 491	
collateral for factoring with recourse	13 597	
Other	6 488	

Total Other contingent liabilities:	**1 335 599**	
	========	
Guaranties and sureties granted	**58 373**	
Other contingent liabilities:	**1 335 599**	

Total contingent liabilities	**1 393 972**	
	========	

b) Investment relief

In accordance with tax regulations, in force in previous years, Group companies reduced the taxable income for the purposes of corporate income tax by the following titles:

- investment expenditures incurred in a given tax year (investment relief)
- 50% of the previous year's investment relief (investment premium)

During the period 2001 -2003 Group companies reduced the taxable income by investment relief and investment premium in the following amounts:

Year of deduction	Investment relief	Investment premium
2001	98 927	43 750
2002	14 234	49 222
2003	-	6 923
	---	---
Total	**113 161**	**99 895**

Despite the fact that the investment relieves and investment premiums are of contingent nature, the Group does not identify a risk that its right to the deductions might be denied by the tax authorities.

The Group companies do not also identify a risk of losing the right to relieves and premiums due to breach of conditions which in effect oblige to return the amounts deducted.

c) Excise tax contingent liability of Rafineria Trzebinia S.A.

- On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all necessary expert opinions confirming correctness of the applied classification of goods taxed with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter in the court of second instance.

On 5 May 2005, in reply to its motion to suspend execution of a decision until the date of the matter, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.

On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.

On 28 July 2005 the Head of the Customs Office in, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total amount of about PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary legal opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.

On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and filed a motion to suspend execution of the decisions until the case would be decided by the second instance authority. On 11 August 2005, the Head of the Customs Office in Kraków, having examined the appeal of Rafineria Trzebinia S.A. of 8 August 2005, suspended the decision in respect of setting the excise tax liability for the period of May-August 2004 at about PLN 100 million. On 14 November 2005 the Head of the Customs Office in Krakow had refused to accept evidence from the hearings of witnesses using argument that it does not constitute any significant circumstances in respect of the case. In addition, the Customs Office declined to accept corrections to excise tax declarations submitted by the company for the period May-September 2004, resulting from the change in excise tax rate for technological oils from 60 PLN/Mg to 0%. The Office declined acceptance based on the fact that there were proceedings in progress in respect of the case.

On 30 December 2005 the Head of the Customs Office in Krakow issued a decision keeping the first instance authority's decision in force. Rafineria Trzebinia S.A. prepared a complaint to the Woivodship Administrative Court against the decision of the Head of the Customs Office in Krakow together with a motion to suspend execution of the decision. The complaint and a motion to suspend execution of the decision was submitted to the Woivodship Administrative Court in Kraków on 3 February 2006.

- Currently, apart from the aforementioned proceedings initiated by the Customs Office in Kraków, acting under the authorization from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003. The deadline for completion of control proceedings is 30 June 2006. As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods were not yet known.

On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and correctness of tax settlements to be summarized in "Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.". The 2000-2004 tax audit was completed and its results were presented to the Supervisory Board. On 22 April 2005, having received the report from the first phase of the audit of procedures, the Supervisory Board of Rafineria Trzebinia S.A. has recommended carrying out the second, more detailed phase of the "Report on agreed upon procedures", encompassing the analyzes of transactions in selected areas of the company's activity. The Supervisory Board has got acquainted with the results of the second phase of the audit and issued appropriate recommendations regarding the assessment of internal control to the Management Board. As at the date of preparation of these financial statements Management Board of Rafineria Trzebinia S.A. has taken legal actions against individuals responsible for the irregularities stated in the report.

d) Power transfer fee in settlements with Zakład Energetyczny Płock S.A.

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Official Journal No. 1 dated 15 January 2001), the method of settlement of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of system fee calculation has been allowed. Following the decision of the Chairman of the Energy Regulatory Office, the electricity sale agreement between Zakład Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN was signed. The agreement did not determine contentious issues concerning system fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. ZEP S.A. called on PKN ORLEN to compromise agreement, while the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against ZEP S.A. The Company's Management Board estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created a provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the court decision PKN ORLEN was obliged to pay a liability connected with the system fee to ZEP S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for the business risk was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN S.A. is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings. On 12 December 2005 the Court of Appeal in Warsaw, I Civil Department, dismissed the complaint regarding the decision of stay of proceedings.
In conjunction with the fact that the above described proceedings has not yet been ended, in 4 quarter 2005 PKN Orlen increased the provision for potential interest on the principal amount by PLN 8,900 thousand.

e) Anti-trust proceedings

As at the date of the preparation of the report, the Company is a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") from 21 March 2005, an anti-trust proceedings were started in connection with an allegation that Polski Koncern Naftowy ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of universal petrol U95 through an unanimous decision to give up production and distribution of U95 and thus eliminating competition on the domestic U95 sale market as well as excluding the risk of the market take-over by the competitor. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by the Chairman of OCCP.

The proceedings to take evidence are pending. They have been prolonged due to motions filed by PKN ORLEN S.A. in order to limit access rights to evidence and due to relative decisions that were issued in this respect by the Chairman of OCCP and which were sued at the Consumer and Competition Court by the Lotos Group S.A. On 22 February 2006 the proxy of PKN ORLEN S.A. filed complaint against the decision of Chairman of OCCP refusing taking into account one of the PKN ORLEN's motions concerning limitation of access rights to evidence by Lotos Group S.A. On 14 April 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 31 May 2006.

By virtue of the actual course of the proceedings, limited to court verification of decisions issued by the Chairman of OCCP, it is difficult to assess the risk that PKN ORLEN S.A. may be fined. However, in the light of lack of evidence that would indicate concluding of prohibited agreement, the Company assesses risk of penalty as low.

On 21 March 2005, the Company received a letter in which the Chairman of OCCP requested information on monoethylene glycol and radiator liquid market in the years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze "Petrygo" liquid to radiators and prices for monoethylene glycols. In these proceedings OCCP issued a decision of 19 July 2000 imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the negative decision of OCCP. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OCCP, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the cash penalty. Consequently, in 2001 due to this fact the provision was fully reversed in PKN ORLEN. OCCP applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court dated 13 August 2001.
The case was conducted again by the District Court in Warsaw and the Consumer and Competition Court (former Anti-Trust Court), which at the hearing on 21 July 2004 pronounced the judgment again revoking the appealed decision of OCCP.
Due to the received letter, PKN ORLEN S.A. answered the questions of OCCP on 11 April 2005. Simultaneously OCCP approved prolongation of the period for responding to queries up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining the adequate geographical market of monoethylene glycol was sent to OCCP on 6 May 2005. Upon the OCCP's request, additional information was provided on 18 May 2005 and 7 December 2005. On 14 March 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 30 April 2006 due to necessary completion of evidence from proceedings.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN S.A. and the petitioner in order to limit access rights to evidence and due to respective decisions issued in this respect by the Chairman of OCCP and which may be sued at the Consumer and Competition Court.

By virtue of the actual course of the proceedings it is difficult to assess the risk that PKN ORLEN S.A. may again be fined. However, in the light of time passed and significant changes in PKN ORLEN's market environment, the risk of penalty was assessed by the Company as low.

In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Management Board.

The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management Board, supported by an independent legal opinion, a risk that the Company is charged with a fine is remote.

f) Compensation program for employees

On 14 June 2005, in connection with the Parent Company's announcement of Regional Organizational Units Restructuring Program, Regulations for Group Redundancy in Regional Organizational Units of Parent Company has been issued.
All employees, who are employed in areas mentioned in the Regulations and declare to dissolve the employment agreement by mutual consent or will be dismissed due to reasons independent from employees, are subject to the Regulations.
In the period the Regulations are in force, employees are entitled to single money consideration due to dissolution of the employment agreement by mutual consent due to reasons independent from employees. The money consideration is equal to 12 monthly remunerations or the amount of PLN 50 thousand increased by PLN 4 thousand for every started year of service with an employer operating in PKN ORLEN S.A. or its legal predecessors.
The above described money consideration includes money considerations granted to employees in accordance with obligatory law regulations, in particular in accordance with "Particular principles of dissolution of employment agreement due to reasons independent from employees act" of 13 March 2003 (Official Journal no. 90 item 844 with later amendments) and other considerations for the benefit of employees in accordance with other internal regulations and agreements in force.

In addition, in order to facilitate getting other employment or starting of economic activity, the employee is entitled to participate in a selected training – organized by PKN ORLEN S.A. – which will be financed or partially financed by employer up to PLN 2 thousand.

g) Shield programs

To support the restructuring process conducted in the Parent Company the Voluntary Leave Programme (VLP) was launched in the Company. VLP provides additional money considerations for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Due to the above, the Parent Company created a provision in the amount of PLN 236,000 thousand, including:

- for realization of Employment Restructuring Program in the period 2005-2006 the amount of PLN 167,000 thousand,
- for realization of Employment Restructuring Program in 2007 the amount of PLN 69,000 thousand

The above provision was created in accordance with the Management Board's Resolution No 2537/05 of 22 December 2005.

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

In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in exchange for receivables due from Tankpol. In a law suit dated 11 August 2003 Tankpol demanded obligation of PKN ORLEN to transfer ownership of 324 shares in Petrotank and compensation of PLN 198 thousand. The demand was modified several times. Finally, in a note dated 22 January 2004, Tankpol modified its suit demanding compensation of PLN 36,384 thousand with interest from the date of law suit until the payment date. In case of PKN ORLEN's refusal to compensate, Tankpol demanded that the court obliged PKN ORLEN to transfer ownership of 253 shares in Petrotank to Tankpol.

On 22 March 2005 the District Court in Warsaw dismissed Tankpol's suit and adjudged PKN ORLEN with a compensation of relevant costs. On 4 May 2005 Tankpol appealed against the verdict, on 27 June 2005 PKN ORLEN submitted its response to the appeal. The Court of Appeals in Warsaw declared that the Tankpol's appeal will be recognized on 21 March 2006. The Court of Appeals postponed pronouncing the judgment till 31 March 2006. On 31 March 2006 the Court of Appeals changed the verdict of the District Court in Warsaw (which dismissed Tankpol's suit as a whole). The Court of Appeals declared that PKN ORLEN is obliged to transfer ownership of 26 shares in Petrotank. According to verbal justification of the verdict, the Court of Appeals is convinced that PKN ORLEN has appropriately executed the transfer of ownership agreement of 20 December 2002. The verdict of the Court of Appeals is legally binding and feasible, however both parties are entitled to submit an annulment to the Supreme Court.

i) Polish tax regulations

Taxes in Poland are imposed both by the central government and by local authorities (to a little extent). The notion of a "tax" has been defined in the Tax Order Act, as a civic-public, free of charge, compulsory, non-returnable money consideration for the benefit of the State Treasury, voivodship, or district, resulting from an act on taxation.

The current taxation system in Poland comprises of eleven tax titles, covered by specific material tax law: common income tax, tax on goods and services (value added tax, VAT), excise tax, real estate tax, tax on means of transportation and civil law activity tax (e.g. sale of shares or real estates).

Beside corporate income tax stated at 19% rate in 2005, majority of companies conducting business activity are taxpayers of the value added tax (VAT). The basic VAT rate amounts to 22%, reduced rates are 7%, 3% and 0%, whereas some goods and services are exempt from VAT.

Business activity involves also excise tax. Excise goods are precisely defined in the act. The goods comprise e.g. engine fuels, heating oil, natural gas, alcoholic beverages, tobacco products and electricity. By virtue of PKN ORLEN's business activity, excise tax is a significant economic cost for the Parent and group companies. Activities under excise tax include: production of harmonized excise tax goods, release of harmonized excise tax goods from a tax consignment warehouse, sale of excise tax goods on Polish territory, export and import of excise tax goods, intra Community supply and intra Community acquisition of goods, acquisition and possession of excise tax goods with an excise tax unsettled in the proper amount, which does not indicate excise tax to be a multiphase tax. Excise tax rates are described as: percentage of tax base, amount per unit of excise tax goods and percentage of maximum retail price. In practice, tax rates described in decrees issued by the Minister of Finance are applied, whereas maximum tax rates were defined in the excise tax act.

In the common view of entrepreneurs, Poland qualifies as a country with an exceptionally high level of tax risk. The tax law is often amended, which results in lack of clarity as well as inconsistencies. In addition, frequent discrepancies in tax law interpretations provided within tax authorities and administrative judiciary are observed.

Tax system in Poland is judged as unstable, with highly formalized tax regulations combined with rigorous laws in respect of sanctions. Tax settlements and other regulated areas of activity (e.g. customs or currency exchange control) might be subject to a control from the relevant authorities, entitled to impose severe penalties and sanctions with interests. Tax settlements may be subject to a tax control over five years since the end of the calendar year when the tax liability reaches its maturity. Considering the above described rationales, activities of PKN ORLEN and other entities of the group, that conduct business activity in Poland, may be subject to a tax risk.

j) German tax regulations

The German tax system is similar to the Polish one, where beside direct income tax (corporate income tax), there are also indirect taxes such as value added tax and excise tax.

German tax system is more stable, where tax risks connected with business activity are mitigated by the taxpayer's entitlements.

Taxes in Germany may be imposed by state, federal and local authorities. Business activity is connected with the obligation to pay corporate income tax, personal income tax, social security charges, value added tax, excise tax, capital gains tax and real estate tax.
Calendar year is a fiscal year for the purpose of personal income tax. Tax rates amount up to 42%. Employers are obliged also to pay social security, health insurance and unemployment fund. Charges are cofinanced by an employer and an employee. Due to the level of charges, employment costs are very high in Germany.
For the purposes of corporate income tax, companies seated in Germany or having the factual management headquarter in Germany are taxpayers on total income earned. Taxable income is calculated based on income on operating activity, which is increased and decreased by certain items. Corporate income tax rate amounts to 25%.
Additionally, direct taxes are increased by so-called merger charge.
Value added tax is applied to goods and services. Basic rate amounts to 16% and reduced – 7%. The tax is based on the solutions applied in the EU. Similarly to VAT, excise tax regulations also reflect regulations applicable in the EU. This is the basis for imposing of excise tax on e.g. production and import of petrol or diesel oil in Germany.
Real estate tax is charged on all items of real estate (land and buildings) situated in Germany. Tax regulations in Germany, similarly to other countries, might be subject to different interpretations from taxpayers and tax authorities. Expiration period for liabilities equals maximum 7 years. Regulations in respect of utilization of accumulated tax losses from prior years, which may be deducted from future income in a limited amount, are crucial for Orlen Deutschland A.G.'s activity in Germany.

k) Czech tax regulations

Group companies, conducting their business activity in the Czech Republic, are subject to value added tax, excise tax, corporate income tax, personal income tax and social security regulations. Corporate income tax rate, including capital gains tax equals 26%. Taxpayers can select a tax year that is different from the calendar year. Tax losses can be settled during the consecutive five years. Transactions between related parties must be based on market prices – tax authorities may assess the level of prices applied in intercompany transactions and impose severe fines, should the prices differ from the market level. Taxpayers might however request binding interpretation in respect of transfer pricing.
Czech value added tax is based on EU standards. Supply of goods and rendering of services (including sale of rights) are subject to VAT. Taxpayer may, in most cases, deduct tax paid on purchases (input tax). Basic rate amounts to 19%, but some goods and services are subject to the reduced rate of 5%.
Legal entity conducting business activity may also be obliged to pay real estate tax, tax on means on transportation used in business activity and excise tax. Similarly to other EU countries, petrol and diesel oils are subject to excise tax.
Tax regulations are frequently interpreted in a different manner. Tax authorities can adopt different interpretation of the tax law than the Group companies. Tax settlements may be subject to tax control over three years since the end of the calendar year when the taxpayer was obliged to submit the tax return. Should the tax authorities initiate the control before the end of the three year period, the expiration period is prolonged for the next three years. Maximum period of expiration may not exceed 10 years from the end of a given settlement period. For breaching of tax law leading to tax arrears, severe fines may be imposed, including even a possibility of suspension of business activity. Fines are also imposed when tax returns are submitted with any delay. Due to the above stated reasons business activity of Czech companies is subject to tax risk.

l) Disposal of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezależny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,500 thousand and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between NOM shareholders.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce (PCC) in Warsaw, regarding the determination of the invalidity of the sale of shares agreement.
On 26 April 2005 the Company received a verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw. The verdict of the arbitration court is unfavorable for the Company. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable were changed. The Company provided an allowance for the receivable in the amount of PLN 111,500 thousand presented in the financial statements for the year 2004.
On 20 May 2005 the Company issued a complaint to the District Court in Warsaw regarding waiving of the above verdict of the Court of Arbitration together with a motion to suspend execution of the verdict. On 26 June 2005 the District Court issued a decision to dismiss the motion to suspend execution.
The District Court set a trial date on 23 March 2006. On 6 April the District Court in Warsaw, XX Commercial Department, issued a verdict in respect of PKN ORLEN S.A. complaint against the verdict of Court of Arbitration of the Polish Chamber of Commerce in Warsaw, dated 14 April 2005, in the case against PSE S.A. regarding sale of shares in NOM. The District Court dismissed PKN ORLEN's complaint and adjudged the return of proceeding's expenses of PLN 7,200 for the benefit of PSE. The verdict is not legally binding and may be appealed against. The attorney of PKN ORLEN in the described case has issued a motion in respect of preparation and submission of justification of the verdict.
On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111,500 thousand.
On 8 August 2005 PKN ORLEN received a letter from PSE where PSE stated it was not bound to settle the penalty.
On 15 September 2005 PKN ORLEN filed at the Court of Arbitration of PCC in Warsaw a suit for adjudication of the contractual penalty of PLN 33,453,390.
According to the declaration of the Court of Arbitration of 7 December 2005, PKN ORLEN submitted a letter with motions of evidence and the statement regarding eventual suspension of the proceedings. PKN ORLEN's attorney received analogous letter from PSE. The Court of Arbitration did not declare the date of next seating.

As of 31 December 2005, shares in NOM were presented in the financial statements as investments in associates in the net amount of PLN 18 million, after consideration of an impairment of shares allowance based on independent expert's valuation.

m) Collateral for shares of Basell ORLEN Polyolefins Sp. z o.o. („BOP")

Under the share pledge agreement of 19 December 2003 PKN ORLEN pledged all own shares of BOP, i.e. 907,398 shares of nominal value of PLN 500 per each, representing 50% of share capital of BOP and having 50% of voting rights at the Shareholders' Meeting. The pledge was for the benefit of Kredyt Bank S.A., seated in Warsaw, operating as a Pledge Agent. The condition for the pledge to be effective included its registration in a collateral register held by the registry court, which was completed on 23 January 2004.
Collateral set by the pledge agreement of 19 December 2003 secures repayment of current and future claims by BOP, to which Pledge Agent is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.

n) Tax audit in ORLEN Oil Sp. z o.o.

On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarized in "Report on agreed upon procedures concerning review of control procedures in Orlen Oil Sp. z o.o." . The Supervisory Board got acquainted with the conclusions of audit. Both the tax audit and "Report on agreed upon procedures concerning review of control procedures in Orlen Oil Sp. z o.o." did not reveal any material risks or discrepancies.

o) Tax audit in Rafineria Nafty Jedlicze S.A.

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarized in "Report on agreed upon procedures concerning review of control procedures in Rafineria Nafty Jedlicze S.A." The Supervisory Board got acquainted with the conclusions of audit. The tax audit did not disclose risks which initially estimated value would have a significant impact on the company's further operations.

p) Court proceedings against Benzina a.s. ("Benzina")

As a part of court proceeding in progress since August 2001, the Anti-Trust Bureau declared a disposition in respect of violation of the Economic Competition Protection Act. Due to the disposition, Benzina was imposed with a penalty of CZK 98 million.

The penalty was returned to Benzina as at 29 July 2004.
The disposition of the first instance of the Anti-Trust Bureau was annulled due to the serious legal faults mentioned in the appeal submitted by Benzina. The Management Board of Benzina believes that Regional Court will pronounce the judgment in favour of Benzina.

However, taking into account the repeated dispositions of the Anti-Trust Bureau in respect of the penalty and the fact that the court has not yet announced its verdict, Benzina created a provision for penalty in the amount of CZK 98 million.

r) Other risks

As it has been presented in note 18 to the consolidated financial statements, the Group reported in the balance sheet as at 31 December 2005 the balance of reclamation of land provision on the basis of independent experts' analyses taking into consideration the legal and constructive obligations concerning the reclamation of contaminated land. Potential future changes in legal and constructive obligations concerning environmental protection can affect the amount of the provision in future periods.

34. Compensation, together with profit-sharing paid and due to the Management Board, Supervisory Board and the key executive personnel in accordance with IAS 24.

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

a) Remuneration of Management Board, Supervisory Board and key executive peronnel of the Parent Company in 2005

	2005
The Management Board of the Parent Company, including:	26 147
compensation paid to Management Board Members performing the function as at 31 December 2005	7 422
remuneration potentially due to Management Board Member performing the function as at 31 December 2005	4 597
remuneration paid to other Management Board Members	14 128
remuneration potentially due to other Management Board Members*	-
The Supervisory Board of the Parent Company	854
Key executive personnel of the Parent Company, including:	26 212
remuneration paid	18 604
remuneration due	7 608
Key executive personnel of subsidiaries	61 808**

* The Supervisory Board did not assessed realization of set goals, therefore potentially due bonus was not estimated.
** including in 2005 remuneration of Unipetrol Group

Remuneration of Supervisory Board of the Parent Company	**2005**
Jacek Bartkiewicz	118
Raimondo Eggink	101
Maciej Gierej	101
Krzysztof Lis	8
Krzysztof Obłój	22
Małgorzata Okońska – Zaremba	101
Andrzej Olechowski	51
Piotr Osiecki	79
Adam Pawłowicz	8
Adam Sęk	51
Michał Stępniewski	88
Ireneusz Wesołowski	101
Krzysztof Żyndul	25

Total remuneration of Supervisory Board of the Parent Company	**854**
	====

Remuneration paid to Management Board Members of the Parent Company performing the function as at 31 December 2005

	Ssalary	bonus	insurance policies	potentially due*
Igor Chalupec	1 939	315	107	1 250
Wojciech Heydel	1 162	-	76	1 140
Jan Maciejewicz	1 093	-	42	776
Cezary Smorszczewski	1 335	-	80	626
Paweł Szymański	863	-	55	609
Dariusz Witkowski	355	-	-	196

*Potentially due, not paid remuneration to Management Board Members of the Parent Company is due to the new bonus policy - Management by Objectives (MBO) in force from 1 January 2005. Bonus was calculated based on preliminary appraisal of Management Board of Parent Company performed by the Supervisory Board.

Remuneration paid to other Management Board Members of the Parent Company

	salaries	bonus	insurance Policie	Post-employment compensation / prohibition from competition
Sławomir Golonka	-	1 500	-	1 325
Krzysztof Kluzek	-	824	-	513
Andrzej Macenowicz*	420	1 752	103	490
Andrzej Modrzejewski	112	-	-	-
Jacek Strzelecki	-	1 500	-	1 234
Janusz Wiśniewski*	703	1 752	100	1 800

*The Supervisory Board did not performed an appraisal of realization of set goals, therefore potentially due bonus was not assessed

In 2005 new incentive system for key executive personnel of PKN ORLEN S.A. and Capital Group was ontroduced – Management by Objectives (MBO). New incentive system concerns Management Board and key executive personnel. Individuals participating in MBO are rewarded for individual goals realization and solidarity goal (SVA), set at the beginning of the period. The Supervisory Board sets goals for each Management Board Members. Set goals are of qualitative and quantitative nature and are assessed on the basis of Bonus Policy, after the end of a year to which they relate.

Compensation paid to Management Board and Supervisory Board Members of the Parent Company for acting as a Supervisory Board Members of subsidiaries, jointly-controlled companies and associates

Management Board Members of PKN ORLEN S.A., acting in 2005 as Menagement Board Members or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where compensations paid are transferred to ORLEN Dar Serca foundation.
Supervisory Board Members did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of PKN ORLEN in 2005.

The Management Board's of the Parent Company remuneration include in 2005 an estimate of potential bonus for Board Members, not included in costs of 2005 and compensation (including annual bonuses) paid to 5 former Board Members that amounted to PLN 12,802 thousand, including PLN 5,362 thousand of post-employment compensations (money consideration for serving as a Board Member due after termination/expiration of a contract, as specified in those contracts, among others due to prohibition from competition). Part of compensation paid to former Board Members in 2005 amounting to PLN 10,500 thousand was included in prior year's costs.

The Management Board's remuneration for 12 months of 2004 includes questionable part of compensation as at 31 December 2004 amounting to PLN 9,252 thousand.

During 12 months of 2005 40 persons, taking into consideration changes during the year, served as key executive personnel (additionally 7 members of key executive personnel engaged in 2004 were included in 2005 year's remuneration) and 36 in 2004, respectively.

b) Remuneration of Management Board, Supervisory Board and key executive personnel of the Parent Company in 2004

The Supervisory Board of the Parent Company	882
The Management Board of the Parent Company, including:	45 159
compensation paid to Management Board Members performing the function as at 31 December 2004	10 549
Compensation paid to other Board Members	34 610
Key executive personnel of the Parent Company	16 021

Remuneration of Supervisory Board of Parent Company	**2004**
Jacek Bartkiewicz	67
Marian Czekański	17
Raimondo Eggink	40
Maciej Gierej	74
Edward Grzywa	27
Krzysztof Kluzek	31
Andrzej Kratiuk	27
Maciej Andrzej Kruk	2
Krzysztof Lis	40
Ryszard Ławniczak	59
Grzegorz Mroczkowski	8
Oresta Andrzej Nazaruk	27
Małgorzata Okońska – Zaremba	40
Piotr Osiecki	40
Michał Stępniewski	51
Andrzej Studziński	32
Krzysztof Szlubowski	59
Jan Waga	67
Jacek Walczykowski	30
Ireneusz Wesołowski	40
Andrzej Wieczorkiewicz	32
Janusz Zieliński	32
Krzysztof Żyndul	40

Total remuneration of Supervisory Board of the Parent Company	**882**
	====

Remuneration paid to Management Board Members of Parent Company performing the function as at 31 December 2004

	Salaries	Bonus	Other contributions	Post-employment compensation / prohibition from competition	Insurance policies
Igor Chalupec	483	-	-	-	16
Wojciech Heydel	180	-	-	-	13
Andrzej Macenowicz	844	1 990	1	1 752	50
Jan Maciejewicz	90	-	-	-	4
Cezary Smorszczewski	220	-	-	-	13
Paweł Szymański	170	-	1	-	8
Janusz Wiśniewski	917	1 990	8	1 752	47

Remuneration paid to other Management Board Members of the Parent Company

	Salaries	Bonus	Other contributions	Post-employment compensation / prohibition from competition	Insurance Policie
Sławomir Golonka	845	2 416	663	2 825	53
Krzysztof Kluzek	407	415	256	1 313	43
Jacek Strzelecki	714	2 214	639	2 734	46
Jacek Walczykowski*	55	13	-	5 966	-
Zbigniew Wróbel*	1 052	2 554	3 857	5 387	143

* The remuneration includes questionable amount of PLN 9,252 thousand.

Compensation paid to Management Board and Supervisory Board Members of the Parent Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled companies or associates

Compensation in subsidiaries	**2004**
Sławomir Golonka	98
Jacek Strzelecki	63
Andrzej Macenowicz	79
Janusz Wiśniewski	159
Total	**399**

Compensation in jointly controlls companies	**2004**
Andrzej Macenowicz	42
	-
Total	**42**

35. Auditors' remuneration due or paid, resulting from audit and review of financial statements

In the period covered in these financial statements change of an auditor took place in the Parent Company. Remuneration presented in 2004 relates to the agreement dated 10 July 2003 concluded between the Parent Company and Ernst & Young Audit Sp. z o.o. for audit and review of interim stand-alone and consolidated financial statements for the period 2003-2004. On 18 January 2005 agreement with Ernst & Young Sp. z o.o. was concluded for review of stand-alone and consolidated financial statements for the first quarter of 2005.
Beginning from second quarter of 2005 interim reviews and audit of stand-alone and consolidated financial statements are performed by KPMG Audit Sp. z o.o. according to the agreement dated 30 May 2005 for the period 2005-2007.

	for the year ended 31 December 2005	For the year ended 31 December 2004
Audit fees of Ernst & Young Audit Sp. z o.o.*	1 285	2 168
Fees for audit related services of Ernst & Young Audit Sp. z o.o.**	1 451	10 138
Audit fees of KPMG Audyt Sp. z o.o.*	1 537	-
Fees for audit related services of KPMG Audyt Sp. z o.o.**	811	-
Audit fees of auditors of subsidiaries	5 852	3 754
Fees for audit related services of auditors of subsidiaries	944	1 212
	---	---
	11 880	17 272
	=========	=========

* Audit fees include amounts paid to an auditor for professional services related to an audit of the stand-alone and consolidated financial statements of the Parent Company and quarterly and half-year reviews of the consolidated financial statements.

** Fees for audit related services include other amounts paid to an auditor that include services performed in connection with audit or review of financial statements, but not disclosed under "Audit fees" position.

In 2005 the procedure for additional orders for an auditor and auditor's related parties was set up in the Parent Company. The Audit Committee of the Supervisory Board makes decisions about ordering additional services from an Auditor.

36. Employment structure

Average employment by groups was as follows:

	For the year ended 31 December 2005	For the year ended 31 December 2004
Blue collar workers	11 643	7 457
White collar workers	9 532	6 995
	---	---
	21 175	**14 452**
	======	======

In 2005 average employment of PKN ORLEN Group includes average employment of UNIPETROL Group.
Employment level as of 31 December 2005 and 31 December 2004 amounted to 20,805 and 14,296 persons, respectively.

37. Events after the balance sheet date

Changes in the Supervisory Board of PKN ORLEN S.A.

The Management Board of PKN ORLEN announced in its regulatory announcement no 10/2006 that the Extraordinary General Meeting of 31 January 2006 dismissed Mr. Jacek Bartkiewicz from the position of the Chairman of the Supervisory Board and from the Supervisory Board.
Extraordinary General Meeting of PKN ORLEN has also dismissed the following members of the Supervisory Board: Mr. Maciej Gierej, Prof. Krzysztof Obłój, Mrs. Małgorzata Okońska-Zareba, Mr. Adam Sęk, Mr. Ireneusz Wesołowski.

At the same time the Extraordinary General Meeting appointed to the Supervisory Board of PKN ORLEN S.A.: Mr. Dariusz Dąbski as the Chairman of the Supervisory Board, Mr. Maciej Mataczyński as an independent Member, and Mr. Zbigniew Macioszek and Mr. Wojciech Pawlak as Members of the Supervisory Board.

As at 31 December 2005 the Supervisory Board of PKN Orlen included two independent members: Mr. Ireneusz Wesołowski and Mr. Andrzej Olechowski, while as at 27 February 2006 The Supervisory Board of PKN ORLEN included three independent members: Mr. Raimondo Eggink, Mr. Andrzej Olechowski and Mr. Maciej Mataczyński.

The Management Board of PKN ORLEN announced in its regulatory announcement no 20/2006 that on 28 March 2006 it received a note informing that the Minister of the State Treasury dismissed Mr. Adam Maciej Pawłowicz, performing a role of the State Treasury's representative in the PKN ORLEN Supervisory Board, from the position of the PKN ORLEN Supervisory Board Member. The reason for the dismissal was the resignation of Mr. Pawłowicz from the position of the PKN ORLEN Supervisory Board Member.

Changes in the Management Board of PKN ORLEN S.A.

The Management Board of PKN ORLEN announced in its regulatory announcement no 21/2006 that the Supervisory Board, at its seating of 31 March 2006 has dismissed Mr. Dariusz Witkowski from the position of the Management Board Member of PKN ORLEN S.A., effective 31 March 2006.
Simultaneously, the Supervisory Board has appointed Mr. Krzysztof Szwedowski to the position of the Management Board Member with the effect from 31 March 2006.
Mr. Krzysztof Szwedowski, born in 1965, graduated from the Nicolaus Copernicus University in Toruń, Master in Law, advocate, completed public prosecutor application in 1992 and controller application in 2004.

Bid for purchase of shares in Mažeikiu Nafta

As a consequence of participation in the public tender, on 27 January 2006 PKN ORLEN made a bid for purchase of 53.7022% shares in Mažeikiu Nafta (MN) offered by Yukos International UK B.V. The bid included also a declaration to purchase, on the same terms, MN's shares owned by the Lithuanian government. The bid was conditional and dependent upon fulfillment of several legal conditions, including formal and technical status of logistics assets of Mažeikiu Nafta.

Due to the change in the legal status of Yukos Oil Corporation and in effect of conducted negotiations, on 13 April 2006 PKN ORLEN S.A. has submitted a complex offer to purchase 40.6621% share in AB Mažeikiu Nafta from the Lithuanian government. In addition, should the Lithuanian government buy 53.7022% share currently owned by Yukos International UK B.V., PKN ORLEN has offered to purchase these shares from the Lithuanian government for a price per share equal to the price offered for the 40.6621% stake. Pursuant to the expectations of the Lithuanian government, the offer comprises all components deemed significant by the Lithuanian government in respect of selection of a strategic shareholder of Mažeikiu Nafta, including the price, information on preservation of crude oil supplies to Mažeikiu Nafta, investment program and a description of the proposed management method.

According to PKN ORLEN's assessment, the acquisition of MN would allow PKN to strengthen its position in the region and perform further optimization of current operations. Inclusion of MN into PKN ORLEN capital group would enable to utilize synergies from combining of activities performed in neighboring countries. In addition, the purchase of Lithuanian assets would allow development of production infrastructure and a significant increase in processing power of the Capital Group. Moreover, acquisition of MN would allow optimization of crude oil supply policies. The enlarged capital group would considerably increase energetic security of the region.

The planned investment would not confine Group's investment plans, including investment in the upstream activities which was described in the update of PKN ORLEN strategy for 2006-2009.

Withdrawal from contracts with Agrofert Holding a.s. by PKN ORLEN S.A.

The Management Board of PKN ORLEN announced in its regulatory announcement no 12/2006 that on 20 February 2006 it has decided to withdraw (in accordance with Czech Republic commercial code) from the Cooperation Agreement concluded on 19 November 2003 and General Agreement on terms of future share purchase concluded on 7 April 2004 with Agrofert Holding a.s. ("Agreements"). The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the Agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s and ALIACHEM a.s. shares.
The fact of execution of the option has been confirmed by public announcement of Unipetrol a.s. dated 15 December 2005.
(see also: regulatory announcement no 85/2003 dated 20 November 2003 and regulatory announcement no 41/2004 dated 4 June 2004).

38. Supplementary information

a) Restructuring of the southern assets

The restructuring and consolidation project embraces the following companies:
- Rafineria Nafty Jedlicze S.A.
- Rafineria Trzebinia S.A.
- Orlen Oil Sp. z o.o.
- Paramo a.s., where Unipetrol a.s. is the majority shareholder.

The objective of the project is to secure the value of assets engaged by PKN ORLEN S.A. by optimizing production structure in the above companies by matters of reorganization and restructuring of the possessed assets as well as combination of selected assets and capital consolidation of the companies. The project is intended also to protect assets of those companies against changes in the tax law, which may lead to discontinuation of crude oil processing in the southern Poland.

In July 2005 PKN ORLEN's Management Board approved a restructuring project for the southern assets designed by Investekspert which aims at:
- consolidation of activity related to oil and lubricant production in Orlen Oil Sp. z o.o.,
- targeted discontinuation of crude oil processing in the southern Poland and grouping assets relating to this activity within a separate business,
- buy-out of minority shareholders (provided that the transaction is economically effective),

On 2 December 2005, pursuant to sale of shares agreement, PKN ORLEN purchased 3,360 shares in Orlen Oil Sp. z o.o., seated in Kraków, from Rafineria Czechowice S.A. In effect of the transaction PKN ORLEN has increased its stake in Orlen Oil from 47.21% to 51.69%.

Effective 1 January 2006, Rafineria Nafty Jedlicze S.A. has leased Oil and Lubricants production line to Orlen Oil Sp. z o.o.

The business advisor for the restructuring and consolidation project submitted recommendations in respect of suggested action plan. The recommendations shall be consulted with the companies involved in the project until the end of May 2006.

The sale process is also being carried out in respect of subsidiaries of Rafineria Nafty Jedlicze S.A. and Rafineria Trzebinia S.A. which operations were determined as non-core activity of those entities.

b) Purchase of UNIPETROL shares

On 24 May 2005, the Company acquired 114,224,038 registered shares in UNIPETROL a.s., which is 62.99% of all issued Unipetrol a.s shares. The acquisition was made under the agreement concluded by PKN ORLEN on 4 June 2004 with the National Property Fund of the Czech Republic.

Unipetrol is a group of companies operating in the chemical sector in the Czech Republic, mainly in activities related to processing of crude oil, fuel distribution, production of fertilizers and petrochemicals. In all those activities Unipetrol is a representative of the industry sector in the Czech Republic and Central Europe. The Unipetrol Group consists mainly of the following companies:

- Česka Rafinerska (a joint venture, combined with: AgipPetroli, Conoco and Shell) and Paramo – the largest manufacturer of fuels, bitumin and other products related to refining of the crude oil – and Unipetrol Rafinerie – the largest Czech company dealing with purchase of crude oil and sale of crude oil derived products;
- Chemopetrol, Kaučuk i Spolana – manufacturers of mainly petrochemical products and plastics;
- Benzina – the network of petrol stations in the Czech Republic.

The Unipetrol Group has the following entities: Lovochemie – an important manufacturer of industrial fertilizers and other non-organic chemical products; Aliachem – a group of enterprises engaged in organic and non-organic chemical and plastics production; and a few entities operating in the area of distribution, research and services.

The acquisition of the UNIPETROL Group was accounted under the purchase method in accordance with IFRS 3 "Business combinations". Applying the purchase method involves, among others, the following steps:

- measuring the cost of the business combination,
- allocation, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

A possible excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities is recognized as goodwill as an asset in assets or directly in the profit and loss.
In case of purchase of UNIPETROL shares, PKN ORLEN's interest in net fair value of identifiable assets, liabilities and contingent liabilities exceeded the cost of business combination. As a result, the excess of interest in net fair value of identifiable assets, liabilities and contingent liabilities over cost was recognized in the profit and loss for 2005, as a component of consolidated operating revenues.

As a result of purchase of UNIPETROL shares, the following categories of assets, liabilities and contingent liabilities were acquired and the transaction was settled in accordance with the purchase method in the following way:

Fair value of assets and liabilities by main categories (PLN million):	
Cash and cash equivalents	220 085
Property, plant and equipment	6 947 510
Inventories	1 133 660
Receivables	1 869 844
Other assets	981 177
Provisions	(147 218)
Long-term liabilities	(1 402 360)
Short-term liabilities	(1 967 640)
Contingent liabilities	(8 155)
Other liabilities	(1 742 524)
Net assets of UNIPETROL at fair value	5 884 379
PKN ORLEN's interest in the net assets of UNIPETROL	3 706 570
Purchase price	(1 783 492)
Transaction costs*	(29 390)
The excess of interest in consolidated net assets over the cost, recognized as other operating revenues	1 893 688
Impact on the net cash flow relating to purchase of UNIPETROL Group	(1 592 797)

* Transaction costs include cost of advisory services, business trips, etc.

PKN ORLEN has been consolidating the UNIPETROL Group using the full method since the acquisition date.

In accordance with IFRS 3 "Business combinations" the below table presents the consolidated revenues and financial result of PKN ORLEN Group (including consolidated data of UNIPETROL for the period from 1 January 2005 to 31 December 2005), as if the acquisition date coincided with the beginning of the period.

Consolidated pro forma cumulative data for 2005:

Net sale revenues	42 592 786
Operating revenues	2 377 927
Financial revenues	664 428
Financial result	4 751 848

The Management Boards of PKN ORLEN and Unipetrol intend to restructure the Unipetrol Group. In accordance with the strategy announced on 17 October 2005 by the Management Boards of PKN ORLEN S.A. and Unipetrol it is projected to sell particular non-core business operations.
Actual transaction costs incurred until 31 December 2005 amounted to PLN 29,390 thousand.
In January 2006, the Management Board of UNIPETROL initiated procedures leading to sale of shares in Spolana and Kaucuk. The sale will be conducted by means of a public tender. In January 2006 the Management Board of UNIPETROL decided to increase share capital in Benzina, a subsidiary company. The funding acquired from the increase would contribute to strengthening of Benzina's financial position and allow to restructure its indebtedness. Restructuring activities in Benzina would be aimed at reduction of operating and administration costs and development in quality of services.

c) Agreements for disposal of a portion of assets and liabilities related to purchase of Unipetrol shares

In 2003-2004, the former Management Board of PKN ORLEN concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.
In 2005, the present Management Board, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.
In relation to the agreements concluded with Agrofert Holding a.s., in the second quarter 2005 the Management Board of PKN ORLEN created provisions to cover the potential negative financial effects related to execution of the agreements.

Agrofert Holding a.s. agreed to disclose only portions of the agreements which it also presented at the press conference on 13 September 2005.

On 25 January 2006 PKN Orlen received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500. The court proceeding in front of Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress. The risk related to the above described proceeding has been recognized in these consolidated financial statements.

On 20 February 2006 the Management Board of PKN Orlen has decided to withdraw (in the understanding of Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the Agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE, a.s and ALIACHEM, a.s. shares.

On 3 April 2006 Agrofert Holding a.s. informed via the mass media that it filed another suit against PKN ORLEN to the Court of Arbitration of the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague. Until the date of preparation of the foregoing financial statements, PKN ORLEN did not receive a copy of the suit. Consequently, both the subject and legal justification of the suit submitted by Agrofert Holding a.s. is unknown to the Company.

In respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V., as at the date of preparation of the financial statements the parties are conducting mediations aimed at amicable settlement of the dispute

d) Agreement with DEZA a.s.

In August and September 2005 UNIPETROL, a.s. received letters from DEZA a.s., requesting execution of the agreements regarding sale of shares in AGROBOHEMIE a.s. and ALIACHEM a.s. UNIPETROL a.s. and DEZA a.s. each own 50% shares in AGROBOHEMIE a.s. The shareholder structure in ALIACHEM a.s. is as follows: AGROBOHEMIE a.s. owns 55,01% shares, UNIPETROL a.s. – 38,79% and DEZA a.s. – 4,67%. The remainder of 1,53% is owned by minority shareholders of ALIACHEM a.s.

Letters received from DEZA regarded the agreements for future payable assignment of shares, concluded between UNIPETROL a.s. and DEZA a.s. in relation to shares in AGROBOHEMIE a.s. and ALIACHEM a.s. on 12 October 2000 and 15 August 2001, respectively. The Management Board of UNIPETROL a.s., having thoroughly analyzed concluded agreements and received letters, has determined that these documents contain vital legal faults as well as are incompliant with best market practice. In conjunction with this fact the Management Board of UNIPETROL a.s. has proposed that DEZA a.s. modified the transaction documents in order to ensure its compliance with binding Czech law as well as market standards and practices. In spite of endeavors of UNIPETROL a.s., DEZA a.s. has rejected proposals of the Management Board of UNIPETROL a.s. In such a situation the Management Board of UNIPETROL a.s. decided to submit the case to court. On 14 December 2005 UNIPETROL a.s. filed a law suit to the court in Ostrawa regarding invalidity of agreements concerning shares of AGROBOHEMIE a.s. and ALIACHEM a.s. As a response Deza a.s. claimed for penalty in amount of CZK 71,000 thousand for period 2 September 2005 – 11 November 2005 and CZK 18,000 thousand for period 6 October 2005 – 11 November 2005 calculated as at 11 November 2005. The amounts were calculated in line with above described agreements, which UNIPETROL a.s. considers as not valid.

On 24 March 2006 the Court in Ostrava rejected the motion of Unipetrol a.s. in respect of the declaration of invalidity. The rejection was substantiated by the fact that Deza a.s. filed a separate claim against Unipetrol a.s. in respect of settlement of contractual penalties. According to the view of the Court in Ostrava, proceedings related to declaration of invalidity are not necessary; hence it will be decided in front of the Court in Prague, prior to verdict in respect of the claim submitted by Deza a.s.

On 5 April 2006 Unipetrol received a warrant for payment of the contractual penalty from the Court in Prague. Unipetrol intends to submit an annulment to the warrant for payment to the Court as well as it plans to claim invalidity of the agreements again.

Legal and financial effects of claims submitted by DEZA a.s. and interpretation of provisions of the concluded agreements regarding assignment of shares of AGROBOHEMIE a.s. and ALIACHEM a.s. may include necessity of assignment of shares (for a price that is not yet determined) and payment of penalties and compensations. By virtue of faults in agreements and substantial doubts regarding its validity, the financial impact on UNIPETROL a.s. is difficult to be quantified. The Management of UNIPETROL a.s. has initiated the process of evaluation the risk.

Due to loss of significant influence of Unipetrol Group on associated companies: Aliachem, Agrobohemie and Lovochemie as of 30 September 2005, these assets were accounted for using the equity method and included in the consolidated balance sheet of UNIPETROL a.s. as at 31 December 2005 as long-term financial investments. By virtue of uncertainties in relation to future outcome of court proceedings as well as due to difficulties in determination of the fair value of shares in AGROBOHEMIE a.s. and ALIACHEM a.s., neither impairment provision in respect of the value of shares was recognized nor was provision for contractual penalties created in the financial statements.

e) Polkomtel S.A.

According to the announced strategy, activities on sale of shares in Polkomtel S.A. were in progress in 2005. PKN ORLEN S.A., KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded “Shareholders’ Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital” in July 2005. Under the Agreement, Polish shareholders of Polkomtel S.A. with assistance of recognized advisors agreed on a negotiation strategy which was presented to foreign shareholders, i.e. TDC and Vodafone. In December 2005 a group of financial institutions announced public tender offer for TDC Shares. As a consequence of the settlement of the public tender offer, the control over TDC was changed. According to the Articles of Association of Polkomtel S.A., TDC has offered its shares owned in Polkomtel S.A., to other shareholders.

In accordance with §12.14 of the Articles of Association of Polkomtel S.A., pursuant to occurrence of the so-called Change in the Ownership Title in respect of TDC Mobile International A/S, other shareholders of Polkomtel S.A. (including Vodafone Americas Inc.) are entitled to acquire 4,019,780 shares of Polkomtel S.A. owned by TDC Mobile International A/S, in a proportion equal to the percentage of shares owned by each of Polkomtel S.A. shareholders, except for the shares owned by TDC Mobile International A/S. The offer to purchase shares from TDC Mobile International A/S has been issued to other Polkomtel S.A. shareholders on 8 February 2006. PKN ORLEN informed in its regulatory announcement no 17/2006 that on 10 March 2006 an agreement was concluded between KGHM Polska

Miedź S.A., PKN ORLEN S.A., PSE S.A. i Węglokoks S.A. as buyers and TDC Mobile International A/S as a seller in respect of "Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A.". The conclusion of the above agreement was preceded by conclusion by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as shareholders of Polkomtel S.A. the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A.". The conclusion of the Agreement was performed in conjunction with the execution by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. of the entitlement to acquire shares under the offer of TDC Mobile International A/S. The offer relates also to a dispute between Vodafone Americas Int. and TDC Mobile International A/S. As a result of the dispute, the below described pledge was established.

Pursuant to the Agreement, PKN ORLEN may acquire 980,486 shares in Polkomtel S.A., representing 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share (an equivalent of PLN 833, in accordance with the exchange rates table no 50/A/NBP/2006 of 10 March 2006), that is for the total purchase price not exceeding 209,863 thousand (an equivalent of PLN 816,473 thousand). In case KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. purchased the shares in result of the Agreement, these parties, together with currently owned shares, would hold over 75% shares in Polkomtel S.A. After the transaction is settled, PKN ORLEN would hold 24.4% stake in the share capital of Polkomtel S.A.

The parties agreed to vote jointly at General Shareholders Meetings of Polkomtel S.A. in favor of dividends distributed to the shareholders as allowed under the applicable laws from the retained net profits for years preceding 2005, 100% of net profit of Polkomtel S.A. for years 2005 and 2006 and at least 50% of the net profit for any subsequent financial year. The amount of dividend paid out to TDC Mobile International A/S, reduced by an interest on the maximum purchase price, would result in the decrease of the final shares' purchase price.

The Agreement was concluded under a suspending clause regarding termination or abatement of the pledge in respect of shares under the Agreement, established by verdict of the District Court in Warsaw of 24 February 2006, or any other pledge (or similar measure) established by other judgemental body that would disallow sale of shares under the Agreement in Polkomtel S.A. by TDC Mobile International A/S.

Pursuant to the Agreement, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as buyers are entitled to withdraw from execution of the Agreement for the purchase of shares in Polkomtel S.A. if by 10 March 2009 (or any other date agreed between parties) the above described suspending clause would not have been completed or if any circumstances exist related to the disputes between Vodafone Americas Inc. and TDC Mobile International A/S that may constitute an obstacle for the purchase of shares. As a consequence, the Agreement would dissolve at that date.
With the conclusion of the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A." the agreement signed by KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. ("Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital" of July 2005 with later amendments) is no longer in force.

On 10 march 2006 Vodafone Americas Inc. filed a suit to International Court of Arbitration by Federal Chamber of Commerce in Vienna, and suit six legal entities defining TDC Mobile International A/S as a Principle Respondend, Polkomtel S.A as a First Auxiliary Respondent ang KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as Second to Fifth Auxiliary Respondends). In above mentioned suit Vodafone Americas Inc. questioned above all the method of setting the price by TDC International A/S in the offer to other shareholders.

In this consolidated financial statements of PKN ORLEN Group, 19.61% of shares in Polkomtel S.A. were valued using the equity method in 2005 and in 2004, as a comparative data. Based on opinions of independent experts, Polkomtel S.A. has been determined an entity, over which the Group exercises significant influence.

Share of Polkomtel in the consolidated financial result of the Group in 2005 amounted to PLN 209,259 thousand.

Share of Polkomtel in the consolidated financial result of the Group in 2004 amounted to PLN 181,118 thousand.

f) CO_2 Emission rights

In its financial statements, the Group recognized the CO_2 emission rights that were granted free of charge based on binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention On Climate Change, adopted by the European Union. Emission rights granted free of charge are recognized in the balance sheet as intangible assets. The Group has recognized emission rights granted for the period of 3 years, as a difference between deferred income related to receipt of free of charge emission rights and its fair value at the date rights were granted.
Sale of emission rights is recognized as profit or loss in other operating revenues / expenses in the reporting period when the rights were sold. Profit / loss on sales of emission rights is determined as a difference between the net sales revenues and its carrying amount.

Information on granted emission rights and its balance sheet presentation	Quantity (Mg)	Value
Emission rights acquired by the Group in 2005 for the 3-year accounting period	36 941 257	3 001 698
Emissions planned in 2005, including:	14 146 829	1 148 711
Estimated use of emission rights in 2005	10 826 673	880 087
Emissions planned in 2006	11 360 873	923 532
Emissions planned in 2007	11 433 555	929 455

The net value of granted emission rights as at 31 December 2005 in the balance sheet of the Group, being the difference between granted emission rights and deferred income related to receipt of rights free of charge, amounted to nil.

g) Consolidation of BOP by proportionate method

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise - Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.
In the records presented 2004 and 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods the company was presented in line with the equity method.

As at 31 December 2005 and 31 December 2004, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

	31 December 2005
Current assets	376 564
Non-current assets	967 682
Short-term liabilities	301 332
Long-term liabilities	494 664

	Year ended 31 December 2005
Revenues	507 330
Cost of finished goods, merchandise and raw materiale sold	(465 691)
General and administration expense	(8 855)
Financial expense	(26 878)
Profit before tax	19 372
Income tax expense	(3 808)
Net profit	15 564

39. Impact of IFRS adoption on prior period results

Due to the fact that effective 1 January 2005 the Group has been preparing its consolidated financial statements in accordance with IFRSs for statutory purposes, the below table presents the major differences identified and reported by the Group between IFRSs adopted by the European Union and Polish Accounting Standards (PASs) with respect to changes in the opening balance of equity as at 1 January 2004 and 31 December 2004 and data in respect of the net profit for the respective year ended 31 December 2004.

	Net profit attributable to the equity holders of the Parent for the year ended 31 December 2004
Consolidated according to PASs	2 588 981
Application of the benchmark treatment of IAS 23 “Borrowing costs”	7 052
Deferred tax on capitalized borrowing costs	(1 340)
Valuation of property, plant and equipment at fair value	(127 140)
Deferred tax on valuation of property, plant and equipment at fair value	26 076
Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost	(27 758)
Reversal of goodwill amortization	5 765
Consolidation of Basell ORLEN Polyolefins with proportionate method	12 355
Impairment of property, plant and equipment of ORLEN Deutschland	(65 381)
Distribution of profit other than dividends	(4 176)
Consolidation of Polkomtel S.A.	112 898
Rother	(45 105)
Consolidated according with IFRSs	**2 482 227**

	Total equity attributed to shareholders of the Parent Company as at 31 December 2004	Total equity attributed to shareholders of the Parent Company as at 1 January 2004
Consolidated according to PASs	11 449 650	9 155 986
Application of the benchmark treatment of IAS 23 "Borrowing costs"	(56 336)	(63 264)
Deferred tax on capitalized borrowing costs	12 230	13 593
Valuation of property, plant and equipment at fair value	1 472 701	1 598 606
Deferred tax on valuation of property, plant and equipment at fair value	(292 523)	(316 861)
Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost	273 611	301 369
Reversal of goodwill amortization	5 765	-
Consolidation of Basell ORLEN Polyolefins with proportionate method	77 264	58 254
Impairment of property, plant and equipment of ORLEN Deutschland	(65 381)	-
Consolidation of Polkomtel S.A.	366 576	253 678
Other	(51 949)	(33 271)
	---	---
Consolidated according with IFRSs	**13 191 608**	**10 968 090**
	========	========

a) Capitalization of borrowing costs – application of benchmark treatment of IAS 23 „Borrowing costs"

In accordance with the PASs, borrowing costs resulting from investment loans were stated as investment expenditure. Other financial expenses were recognized in the profit and loss when incurred. In the financial statements prepared in accordance with the IFRSs, the cost of loans and borrowings, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognized in the profit and loss statement in the period to which they refer.

b) Valuation of property, plant and equipment at fair value

In accordance with the IFRSs, the Group valued property, plant and equipment at fair value as at the date of application of the IFRSs and recognized the fair value as cost of property, plant and equipment as at that date.

c) Alternative treatment of the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

In accordance with PASs the Group settled the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost to revenues over the period from 2 to 5 years.
Under IFRS 3, the excess of fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost was recognized as retained earnings.

d) Reversal of goodwill amortization

In accordance with PASs goodwill was amortized on a straight line basis over the period not longer than 5 years and presented in the profit and loss as other operating expenses. In the financial statements prepared in accordance with IFRSs, goodwill was not amortized yet decreased by impairment allowances.

e) Impairment of property, plant and equipment of ORLEN Deutschland

Due to the change in the policy discussed in detail under b) above, ORLEN Deutschland AG recognized an excess of net fair value for identifiable assets, liabilities and contingent liabilities over acquisition cost in equity as at 1 January 2005. Consequently, for the purpose of consolidated annual financial statements the impairment allowance for property, plant and equipment of ORLEN Deutschland AG was increased by the amount reflecting the above change in the accounting principles and recognized in 2004 financial result.

f) Consolidation of BOP by proportionate method

PKN ORLEN S.A. owns a 50% share in a joint-venture enterprise - Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins.
In the records presented for 2004 and 2005, Basell ORLEN Polyolefins Sp. z o.o. has been consolidated by proportionate method. In the prior periods the company was presented in line with the equity method.

g) Consolidation of Polkomtel S.A.

Polkomtel S.A. was not consolidated on the past, as the Parent owned only 19.61% of votes on the General Shareholders meeting. The Parent Company states that it possesses significant influence on Polkomtel.

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

a) Differences as to data published in the condensed financial statements as at 28 February 2006, with the effect on net result and equity:

	Net profit attributable to the equity holders of the Parent for 2005	Total equity attributed to shareholders of the Parent Company as at 31 December 2005	Net profit attributable to the equity holders of the Parent for 2004
Data for 2005 disclosed in the condensed financial statement for IV quarters 2005	4 670 483	16 795 512	2 511 432
Financial instruments valuation adjustment	(26 512)	-	(35 127)
Provision for liquidation of warehouses base	(8 039)	(8 039)	-
Reversal of provision for business risk	49 325	49 325	-
Adjustment of excess of interest in consolidated net assets of UNIPETROL over the acquisition cost	(111 339)	(111 339)	-
Interest in change of consolidated result of UNIPETROL	(1 623)	(1 623)	-
Fair value adjustment of shares	26 490	26 490	
Deferred tax from the above adjustments	1 817	(3 905)	6 674
Other*	(15 470)	(49 910)	(752)
	---	---	---
Data disclosed in consolidated annual financial statements for 2005	4 585 132	16 696 511	2 482 227
	==========	==========	==========

* including adjustment of Polkomtel S.A. results

b) Differences as to data published in the condensed financial statements as at 28 February 2006, with the effect on cash flow statement:

Data for 2005

	Data for 2005 disclosed in the condensed financial statement for IV quarters 2005	Data for 2005 disclosed in the annual financial statement for 2005	Change
Net cash provided by operating activities	3 634 353	3 663 889	29 536
Net cash used in investment activities	(2 289 247)	(2 503 176)	(213 929)
Net cash used in financing activities	(950 002)	(764 433)	185 569
	---	---	---
Cash and cash equivalents, end of period	(396 129)	(397 305)	(1 176)
	========	========	========

Data for 2004

	Data for 2005 disclosed in the condensed financial statement for IV quarters 2005	Data for 2005 disclosed in the annual financial statement for 2005	Change
Net cash provided by operating activities	3 592 088	3 636 845	44 757
Net cash used in investment activities	(2 655 387)	(2 700 144)	(44 757)

The change in presentation results from adjustments and reclassifications of consolidated financial data performed in the balance sheet and the profit and loss.

41. Other

The consolidated financial statements were authorized by the Management Board of Parent Company in its seat on 27 April 2006

Condensed consolidated financial statements for the period of 3 months ended 31 March 2007

Prepared in accordance with International Financial Reporting Standards

POLSKI KONCERN NAFTOWY ORLEN S.A.
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	I quarter (cumulative data) period from 1.01.2007 to 31.03.2007	I quarter (cumulative data) period from 1.01.2006 to 31.03.2006	I quarter (cumulative data) period from 1.01.2007 to 31.03.2007	I quarter (cumulative data) period from 1.01.2006 to 31.03.2006
Data in respect of consolidated financial statement				
I. Total sales revenues	13 408 224	11 330 649	3 432 461	2 900 609
II. Profit from operations	374 762	417 386	95 938	106 849
III. Profit before tax	215 250	442 875	55 103	113 375
IV. Net profit attributable to equity holders of the parent	49 201	347 702	12 595	89 011
V. Net cash provided by / (used in) operating activities	594 358	(557 195)	152 153	(142 640)
VI. Net cash used in investing activities	(987 814)	(403 529)	(252 877)	(103 302)
VII. Net cash provided by financing activities	436 016	601 234	111 619	153 914
VIII. Net change in cash and cash equivalents	42 560	(359 490)	10 895	(92 028)
	as of 31 March 2007	as of 31 December 2006	as of 31 March 2007	as of 31 December 2006
IX. Non-current assets	27 270 720	27 660 798	7 047 608	7 148 417
X. Current assets	17 899 962	17 758 286	4 625 911	4 589 297
XI. Total Assets	45 170 682	45 419 084	11 673 519	11 737 714
XII. Long-term liabilities	9 665 401	8 958 143	2 497 842	2 315 065
XIII. Short-term liabilities	13 843 349	14 878 378	3 577 555	3 845 039
XIV. Equity	21 661 932	21 582 563	5 598 122	5 577 610
XV. Share capital *	1 057 635	1 057 635	273 326	273 326
XVI. Equity attributable to equity holders of the parent	18 856 663	18 850 940	4 873 152	4 871 673
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	50,65	50,46	13,09	13,04

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	I quarter (cumulative data) period from 1.01.2007 to 31.03.2007	I quarter (cumulative data) period from 1.01.2006 to 31.03.2006	I quarter (cumulative data) period from 1.01.2007 to 31.03.2007	I quarter (cumulative data) period from 1.01.2006 to 31.03.2006
Data in respect of condensed financial statement				
I. Total sales revenues	8 088 629	6 737 453	2 070 663	1 724 766
II. Profit from operations	288 131	309 432	73 761	79 214
III. Profit before tax	419 573	304 018	107 409	77 828
IV. Net profit	390 383	247 847	99 937	63 448
V. Net cash provided by / (used in) operating activities	157 788	(501 133)	40 393	(128 288)
VI. Net cash used in investing activities	(641 549)	(176 276)	(164 234)	(45 126)
VII. Net cash provided by financing activities	852 664	451 674	218 279	115 627
VIII. Net change in cash and cash equivalents	368 903	(225 735)	94 438	(57 787)
IX.Earnings and diluted earnings per ordinary share (in PLN/EUR)	0,91	0,58	0,23	0,15
	as of 31 March 2007	as of 31 December 2006	as of 31 March 2007	as of 31 December 2006
X. Non-current assets	19 330 696	18 996 554	4 995 657	4 909 305
XI. Current assets	9 459 032	8 474 447	2 444 510	2 190 063
XII. Total assets	28 789 728	27 471 001	7 440 167	7 099 367
XIII. Long-term liabilities	4 983 932	4 249 852	1 288 004	1 098 295
XIV. Short-term liabilities	8 408 153	8 211 563	2 172 930	2 122 125
XV. Equity	15 397 643	15 009 586	3 979 233	3 878 947
XV. Share capital *	1 057 635	1 057 635	273 326	273 326
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	36,00	35,09	9,30	9,07

* Share capital after revaluation in accordance with IAS 29

The above data for I quarter 2007 and 2006 were translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities - by the average exchange rate published as of 31 March 2007 – 3.8695 PLN/EUR,
- specific items in income statement and 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 March 2007) – 3.9063 PLN / EUR

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED BALANCE SHEET
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	31 March 2007 (unaudited)	31 December 2006
ASSETS		
Non-current assets		
Property, plant and equipment	25 029 728	25 199 681
Intangible assets	529 728	619 783
Goodwill	143 155	143 704
Long-term financial investments	568 487	570 932
Investments in associates	566 810	716 303
Loans granted	22 747	5 272
Deferred tax assets	213 762	165 928
Investment property	34 611	34 925
Perpetual usufruct of land	88 810	87 722
Other non-current assets	72 882	116 548
Total non-current assets	**27 270 720**	**27 660 798**
Current assets		
Inventory	7 215 289	7 398 856
Trade and other receivables	6 743 748	6 293 672
Income tax receivable	195 117	253 041
Short-term investments	7 025	7 424
Short-term prepayments	136 786	121 358
Cash and cash equivalents	2 393 692	2 351 320
Other financial assets	193 937	302 007
Non-current assets clasiffied as held for sale	1 014 368	1 030 608
Total current assets	**17 899 962**	**17 758 286**
Total assets	**45 170 682**	**45 419 084**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity		
Nominal share capital	534 636	534 636
Share capital revaluation adjustment	522 999	522 999
Share capital *	**1 057 635**	**1 057 635**
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
Share premium	**1 227 253**	**1 227 253**
Hedging reserve	**9 563**	**8 506**
Foreign exchange differences on subsidiaries from consolidation	**(14 245)**	**22 003**
Retained earnings:	**16 576 457**	**16 535 543**
incl. net profit atributable to equity holders of the parent	49 201	1 985 966
Total equity (attributed to equity holders of the parent)	**18 856 663**	**18 850 940**
Minority interest	2 805 269	2 731 623
Total equity	**21 661 932**	**21 582 563**
Long-term liabilities		
Interest-bearing loans and borrowings	6 977 091	6 211 193
Provisions	802 343	814 192
Deferred tax liabilities	1 729 277	1 765 761
Other long-term liabilities	156 690	166 997
Total long-term liabilities	**9 665 401**	**8 958 143**
Short-term liabilities		
Trade and other liabilities and accrued expenses	7 638 392	8 221 395
Provisions	735 541	734 027
Income tax liability	145 703	106 261
Interest-bearing loans and borrowings	4 258 000	4 277 912
Deferred income	36 709	27 060
Other short-term financial liabilities	849 824	1 315 767
Liabilities related to non-current assets held for sale	179 180	195 956
Total short-term liabilities	**13 843 349**	**14 878 378**
Total liabilities and shareholders' equity	**45 170 682**	**45 419 084**

* Share capital after revaluation in accordance with IAS 29

The accompanying notes are an integral part of these condensed consolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED INCOME STATEMENT
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	for 3 months ended 31 March 2007 (unaudited)	for 3 months ended 31 March 2006 (unaudited)
Operating activities		
Net sale revenues		
Sales of finished goods	13 764 280	10 807 098
Excise tax and other charges	(3 475 321)	(2 763 643)
Revenues from sale of finished goods, net	10 288 959	8 043 455
Sales of merchandise and raw materials	3 604 874	3 477 924
Excise tax and other charges	(485 609)	(190 730)
Revenues from sale of merchandise and raw materials, net	3 119 265	3 287 194
Total sales revenues	**13 408 224**	**11 330 649**
Cost of finished goods sold	(8 670 450)	(7 175 832)
Cost of merchandise and raw materials sold	(3 094 753)	(2 885 044)
Cost of finished goods, merchandise and raw materials sold	(11 765 203)	(10 060 876)
Gross profit on sales	**1 643 021**	**1 269 773**
Distribution expenses	(746 537)	(645 803)
General and administrative expenses	(396 628)	(246 190)
Other operating revenues	129 338	132 740
Other operating expenses	(254 432)	(94 414)
Profit on the sale of all or part of shares of related parties	-	1 280
Profit from operations	**374 762**	**417 386**
Financial revenues	47 747	146 982
Financial expenses *	(260 461)	(168 245)
Net financial revenues and expenses	**(212 714)**	**(21 263)**
Share in profit from investments accounted for under equity method	53 202	46 752
Profit before tax	**215 250**	**442 875**
Income tax expense	(74 821)	(70 076)
Net profit	**140 429**	**372 799**
incl.		
Minority interest	91 228	25 097
Net profit attributable to equity holders of the parent	**49 201**	**347 702**

* including expenses related to increase of indebtedness

The accompanying notes are an integral part of these condensed consolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	for 3 months ended 31 March 2007 (unaudited)	for 3 months ended 31 March 2006 (unaudited)
Cash flows - operating activities		
Net profit	**140 429**	**372 799**
Adjustments for:		
Share in profit from investments accounted for under equity method	(53 202)	(46 752)
Depreciation	619 624	566 310
Interest and dividend, net	135 234	63 643
Income tax expense	74 821	70 076
Loss/(Profit) on investing activities	106 689	(43 812)
(Increase) in receivables	(283 344)	(649 274)
Decrease/(Increase) in inventories	150 881	(235 175)
Decrease in liabilities and accruals	(303 100)	(500 365)
Decrease in provisions	(10 037)	(44 528)
Other	64 519	42 571
Income tax paid	(48 156)	(152 688)
Net cash provided by / (used in) operating activities	**594 358**	**(557 195)**
Cash flows - investing activities		
Acquisition of property, plant and equipment and intangible assets	(690 153)	(521 502)
Proceeds from the sale of property, plant and equipment and intangible assets	26 420	77 213
Proceeds from the sale of other shares	1 698	76 772
Acquisition of shares *	(465 688)	(24 036)
Acquisition of short-term securities	(165 670)	(44 711)
Proceeds from the sale of short-term securities	262 754	30 210
Interest and dividends received	61 094	3 026
Loans (granted) / repaid	(12 462)	2 822
Other	(5 807)	(3 323)
Net cash used in investing activities	**(987 814)**	**(403 529)**
Cash flow - financing activities		
Proceeds from long and short-term borrowings and loans	2 102 825	3 719 714
Debt securitities issued	750 000	-
Repayment of long and short-term borrowings and loans	(2 325 489)	(3 064 625)
Interest paid	(80 675)	(47 135)
Other	(10 645)	(6 720)
Net cash provided by financing activities	**436 016**	**601 234**
Net change in cash and cash equivalents	**42 560**	**(359 490)**
Effect of exchange rate changes	(188)	28
Cash and cash equivalents, beginning of the period	**2 351 320**	**1 126 803**
Cash and cash equivalents, end of the period	**2 393 692**	**767 341**
incl. cash and cash equivalents not available for use	46 777	103 090

* including in I quarter 2007 purchase of shares in Mazeikiu held by minority shareholders of PLN 463,608 thousand

POLSKI KONCERN NAFTOWY ORLEN S.A.
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2007	**534 636**	**522 999**	**1 058 450**	**168 803**	**8 506**	**22 003**	**16 535 543**	**2 731 623**	**21 582 563**
Foreign exchange differences on consolidation	-	-	-	-	-	(36 248)	-	(19 213)	(55 461)
Net profit	-	-	-	-	-	-	49 201	91 228	140 429
Increase in cash flow hedge accounting due to valuation of instruments	-	-	-	-	4 217	-	-	-	4 217
Deferred tax on increase in cash flow hedge accounting	-	-	-	-	(800)	-	-	-	(800)
Decrease in cash flow hedge accounting due to settlement of instruments	-	-	-	-	(2 867)	-	-	-	(2 867)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	507	-	-	-	507
Change of minority interest	-	-	-	-	-	-	(1 631)	1 631	-
Other	-	-	-	-	-	-	(6 656)	-	(6 656)
31 March 2007 (unaudited)	**534 636**	**522 999**	**1 058 450**	**168 803**	**9 563**	**(14 245)**	**16 576 457**	**2 805 269**	**21 661 932**

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Minority interest	Total equity
1 January 2006	**534 636**	**522 999**	**1 058 450**	**168 803**	**57 334**	**(156 014)**	**14 485 629**	**2 641 152**	**19 312 989**
Foreign exchange differences on consolidation	-	-	-	-	-	140 543	-	83 977	224 520
Net profit	-	-	-	-	-	-	347 702	25 097	372 799
Decrease in cash flow hedge accounting due to valuation of instruments	-	-	-	-	(22 919)	-	-	-	(22 919)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	4 133	-	-	-	4 133
Change of minority interest	-	-	-	-	-	-	-	(12 646)	(12 646)
Other	-	-	-	-	-	-	4 842	-	4 842
31 March 2006 (unaudited)	**534 636**	**522 999**	**1 058 450**	**168 803**	**38 548**	**(15 471)**	**14 838 173**	**2 737 580**	**19 883 718**

The accompanying notes are an integral part of these condensed consolidated financial statements

The statement of profits and losses recognized directly in equity regarding 3 months ended 31 March 2007 and 3 months ended 31 March 2006

	for 3 months ended 31 March 2007	for 3 months ended 31 March 2006
	(unaudited)	(unaudited)
Increase/(Decrease) in valuation of financial instruments, net	3 417	(18 786)
Foreign exchange differences on subsidiaries from consolidation	(55 461)	224 520
Other	(6 656)	4 842
Profit/(loss) recognized directly in equity	(58 700)	210 576
Net profit for the period	140 429	372 799
Profit recognized in current period and in equity, total	**81 729**	**583 375**

POLSKI KONCERN NAFTOWY ORLEN S.A.
UNCONSOLIDATED CONDENSED BALANCE SHEET
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	31 March 2007 (unaudited)	31 December 2006
ASSETS		
Non-current assets		
Property, plant and equipment	7 902 413	8 001 116
Intangible assets	39 499	42 806
Long-term financial investments	33 775	32 652
Investment in associates	11 256 951	10 791 463
Loans granted	4 516	5 589
Perpetual usufruct of land	76 285	75 948
Other non-current assets	17 257	46 980
Total non-current assets	**19 330 696**	**18 996 554**
Current assets		
Inventory	4 463 461	4 515 736
Trade and other receivables	4 154 023	3 475 623
Income tax receivable	1 486	55 394
Loans granted	51 319	3 387
Short-term prepayments	63 979	55 396
Cash and cash equivalents	676 027	307 315
Other financial assets	42 587	55 446
Non-current assets clasiffied as held for sale	6 150	6 150
Total current assets	**9 459 032**	**8 474 447**
Total assets	**28 789 728**	**27 471 001**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity		
Nominal share capital	534 636	534 636
Share capital revaluation adjustment	522 999	522 999
Share capital *	**1 057 635**	**1 057 635**
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
Share premium	**1 227 253**	**1 227 253**
Hedging reserve	**21 121**	**23 447**
Retained earnings:	**13 091 634**	**12 701 251**
incl. net profit	390 383	2 199 876
Total equity	**15 397 643**	**15 009 586**
Long-term liabilities		
Interest-bearing loans and borrowings	4 280 802	3 495 630
Provisions	468 800	475 737
Deferred tax liabilities	202 897	228 199
Other long-term liabilities	31 433	50 286
Total long-term liabilities	**4 983 932**	**4 249 852**
Short-term liabilities		
Trade and other liabilities and accrued expenses	4 439 704	4 457 301
Provisions	608 968	604 812
Interest-bearing loans and borrowings	3 355 879	3 139 842
Deferred income	1 057	1 081
Other short-term financial liabilities	2 545	8 527
Total short-term liabilities	**8 408 153**	**8 211 563**
Total liabilities and shareholders' equity	**28 789 728**	**27 471 001**

* share capital after revaluation in accordance with IAS 29

The accompanying notes are an integral part of these condensed consolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
UNCONSOLIDATED CONDENSED INCOME STATEMENT
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	for 3 months ended 31 March 2007 (unaudited)	for 3 months ended 31 March 2006 (unaudited)
Operating activities		
Net sale revenues		
Sales of finished goods	7 906 101	7 432 797
Excise tax and other charges	(2 605 338)	(2 124 295)
Revenues from sale of finished goods, net	5 300 763	5 308 502
Sales of merchandise and raw materials	3 048 211	1 551 415
Excise tax and other charges	(260 345)	(122 464)
Revenues from sale of merchandise and raw materials, net	2 787 866	1 428 951
Total sales revenues	**8 088 629**	**6 737 453**
Cost of finished goods sold	(4 618 739)	(4 627 732)
Cost of merchandise and raw materials sold	(2 630 421)	(1 313 887)
Cost of finished goods, merchandise and raw materials sold	(7 249 160)	(5 941 619)
Gross profit on sales	**839 469**	**795 834**
Distribution expenses	(371 320)	(362 341)
General and administrative expenses	(142 198)	(120 004)
Other operating revenues	40 035	27 422
Other operating expenses	(77 855)	(31 479)
Profit from operations	**288 131**	**309 432**
Financial revenues *	308 190	35 803
Financial expenses	(176 748)	(41 217)
Net financial revenues and expenses	**131 442**	**(5 414)**
Profit before tax	**419 573**	**304 018**
Income tax expense **	(29 190)	(56 171)
Net profit	**390 383**	**247 847**
Basic and diluted earnings per share (per share in Polish Zloty) * **	**0,91**	**0,58**

* including dividend from Polkomtel S.A. in the amount of PLN 202,315 thousand in the period of 3 months ended 31 March 2007
** dividends (received and due) are excluded from the tax base what significantly reduces the effective tax rate
*** in the period of 3 months ended 31 March 2007 and 31 March 2006 there was no additional shares issue

The accompanying notes are an integral part of these condensed consolidated financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
UNCONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	for 3 months ended 31 March 2007 (unaudited)	for 3 months ended 31 March 2006 (unaudited)
Cash flows - operating activities		
Net profit	**390 383**	**247 847**
Adjustments for:		
Depreciation	221 521	228 088
Interest and dividend, net*	(200 277)	22 520
Income tax expense	29 190	56 171
Loss/(Profit) on investing activities	27 435	(3 818)
(Increase) in receivables	(521 164)	(306 077)
Decrease/(Increase) in inventories	52 275	(291 804)
Increase/ (Decrease) in liabilities and accruals	113 248	(305 820)
(Decrease) in provisions	(2 236)	(41 388)
Other adjustments	47 996	26 420
Income tax paid	(583)	(133 272)
Net cash provided by / (used in) operating activities	**157 788**	**(501 133)**
Cash flows - investing activities		
Acquisition of property, plant and equipment and intangible assets	(300 409)	(341 934)
Proceeds from the sale of property, plant and equipment	1 396	2 271
Proceeds from the sale of shares in AWSA Holland	-	74 007
Acquisition of shares **	(465 487)	(21 037)
Proceeds from repayment of liabilities of the Unipetrol Group	36 951	108 219
Interest and dividends received	140 082	2 245
Loans granted to related parties	(47 000)	-
Proceeds from repayment of loans granted to related parties	169	169
Other	(7 251)	(216)
Net cash used in investing activities	**(641 549)**	**(176 276)**
Cash flow - financing activities		
Proceeds from long and short-term borrowings and loans	947 984	1 837 644
Debt securitities issued	750 000	-
Repayment of long and short-term borrowings and loans	(812 248)	(1 366 567)
Interest paid	(33 072)	(19 403)
Net cash provided by financing activities	**852 664**	**451 674**
Net change in cash and cash equivalents	**368 903**	**(225 735)**
Effect of exchange rate changes	(191)	(24)
Cash and cash equivalents, beginning of the period	**307 315**	**283 509**
Cash and cash equivalents, end of period	**676 027**	**57 750**
incl. cash and cash equivalents not available for use	-	-

* including dividend from Polkomtel S.A. in the amount of PLN 202,315 thousand in the period of 3 months ended 31 March 2007
** including in I quarter 2007 purchase of shares in Mazeikiu held by minority shareholders of PLN 463,608 thousand

POLSKI KONCERN NAFTOWY ORLEN S.A.
STATEMENT OF CHANGES IN UNCONSOLIDATED EQUITY
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Retained earnings	Total equity
1 January 2007	**534 636**	**522 999**	**1 058 450**	**168 803**	**23 447**	**12 701 251**	**15 009 586**
Net profit	-	-	-	-	-	390 383	390 383
Increase in cash flow hedge accounting due to valuation of instruments	-	-	-	-	3 109	-	3 109
Deferred tax on increase in cash flow hedge accounting	-	-	-	-	(590)	-	(590)
Decrease in cash flow hedge accounting due to settlement of instruments	-	-	-	-	(5 981)	-	(5 981)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	1 136	-	1 136
31 March 2007 (unaudited)	**534 636**	**522 999**	**1 058 450**	**168 803**	**21 121**	**13 091 634**	**15 397 643**

	Nominal share capital	Share capital revaluation adjustment	Nominal share premium	Share premium revaluation adjustment	Hedging reserve	Retained earnings	Total equity
1 January 2006	**534 636**	**522 999**	**1 058 450**	**168 803**	**78 440**	**10 501 375**	**12 864 703**
Net profit	-	-	-	-	-	247 847	247 847
Decrease in cash flow hedge accounting due to valuation if instruments	-	-	-	-	(23 992)	-	(23 992)
Deferred tax on decrease in cash flow hedge accounting	-	-	-	-	4 559	-	4 559
31 March 2006 (unaudited)	**534 636**	**522 999**	**1 058 450**	**168 803**	**59 007**	**10 749 222**	**13 093 117**

The accompanying notes are an integral part of these condensed consolidated financial statements

The statement of profits and losses recognized directly in equity regarding 3 months ended 31 March 2007 and 3 months ended 31 March 2006

	for 3 months ended 31 March 2007 (unaudited)	for 3 months ended 31 March 2006 (unaudited)
Increase/(Decrease) in valuation of financial instruments, net	2 519	(19 433)
Profit/(Loss) recognized directly in equity	2 519	(19 433)
Profit for the period	390 383	247 847
Profit recognized in current period and in equity, total	**392 902**	**228 414**

I. PRINCIPLE ACTIVITY OF THE GROUP

The Parent Company of the Polski Koncern Naftowy ORLEN Capital Group ("Group", "Capital Group") is Polski Koncern Naftowy ORLEN S.A. ("Company", "PKN ORLEN", "Parent"), seated in Płock, 7 Chemików Street.
The Company was formed 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 Parent 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.

The Group activities include processing of crude oil and manufacturing of oil-derivative (refinery and petrochemical) products and semi finished products as well as their transport, retail and wholesale.
Until the second public offering, completed in July 2000, the Group was primarily controlled, directly or indirectly, by the Polish State Treasury with minority shareholding of employees and others. The State Treasury supervised the Group through its control of the Group's majority shareholder, Nafta Polska S.A. As at 30 April 2007 Nafta Polska S.A. owned directly or indirectly 17.32% of the Company's shares, the Polish State Treasury 10.20% and other shareholders owned 72.48% of the Company's shares.

II. INFORMATION ON PRINCIPLES ADOPTED FOR PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR I QUARTER 2007

1. Statement of compliance

The condensed consolidated financial statements and condensed unconsolidated financial statements presented in this consolidated report have been prepared in accordance with IAS 34 "Interim financial reporting" and in the scope required under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal No. 209, item 1744), and they cover the period from 1 January to 31 March 2007 and the comparative period from 1 January to 31 December 2006.

The presented condensed consolidated financial statements are compliant with all requirements of IAS 34 "Interim financial reporting" and present a true and fair view of the Group's financial position as at 31 March 2007 and 31 December 2006, results of its operations for the 3 months period ended 31 March 2007 and 31 March 2006 as well as its cash flows for the 3 months periods ended 31 March 2007 and 31 March 2006.

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

2. Format and general principles for preparation of condensed consolidated and condensed unconsolidated balance sheet, condensed consolidated and condensed unconsolidated income statement, condensed statement of changes in consolidated and unconsolidated equity and condensed consolidated and condensed unconsolidated cash flow statement

The condensed consolidated and condensed unconsolidated quarterly financial statements included in this consolidated quarterly report were prepared in accordance with the IAS 34 "Interim financial reporting" and in the scope required under the Decree of the Minister of Finance of 19 October 2005 on current and periodical information presented by issuers of securities published in Official Journal no. 209, item 1744 ("The Decree"). The statements comprise the period from 1 January to 31 March 2007 and the comparative period from 1 January to 31 March 2006.
According to the paragraph § 87.1 of the Decree, the issuer, who is a parent company is not obliged to prepare a separate quarterly report, providing that the condensed unconsolidated quarterly financial statements, comprising balance sheet, income statement, statements of changes in equity and cash flow statements, are included in the consolidated quarterly report.

3. Accounting principles

The condensed consolidated financial statements have been prepared based on historic cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.
The accounting principles in scope exploration and exploitation of hydrocarbons were actualized.

a. Accounting principles

Property, Plant and Equipment

Property, plant and equipment, excluding land and investment property, are stated at cost which consists of the acquisition cost and direct costs related to bringing the item of property, plant and equipment into use as well as estimated costs of dismantling and removal of the asset and the cost of restoration of the site/land to the initial state regardless of whether the obligation exists at acceptance of the asset for use or arises during its use.
After initial recognition, property, plant and equipment are depreciated and subject to impairment allowances.
Property, plant and equipment items acquired after 31 December 1996 are stated at acquisition cost less accumulated depreciation and impairment allowances.
Property, plant and equipment acquired before 1 January 1997 are stated at fair value determined as at 1 January 2004 as deemed cost less accumulated depreciation and impairment allowances.

The cost of current maintenance of property, plant and equipment is recorded in the financial result of the period when they are incurred.
The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives.
Depreciation of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. Appropriateness of the applied periods and depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life.

The Group estimates the residual value of property, plant and equipment. The residual value is the net amount which the Group would currently obtain from the disposal of the assets, having deducted the estimated cost of disposal, if the assets were already of the age and in the condition expected at the end of their useful life. The residual value is not subject to depreciation and is reviewed periodically (once a year).

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

Buildings and constructions	10-70 years
Machinery and equipment	3-25 years
Vehicles and other	4-17 years

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analyzed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units is decreased to the recoverable amount by an appropriate allowance. The recoverable amount of property, plant and equipment reflects the higher of net selling price and value in use. Impairment allowances are recognized as other operating costs in the profit and loss.

Impairment indicators should be analyzed annually. If the analysis indicates potential impairment, the impairment test is performed.

If the recoverable amount of an asset (or cash generating unit, to which an asset belongs) is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. Impairment tests are carried out and the impairment allowances are accounted for in line with rules described in point “Impairment of assets”.

As at the balance sheet date, the property, plant and equipment are stated at acquisition or construction cost less any accumulated depreciation and impairment allowances.

Finance lease

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.
Assets used under lease, tenancy, rental or similar contracts which meet the criteria defined in IAS 17, “Leases”, are regarded as non-current assets and recognized at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

Depreciation methods for leased assets being depreciated are consistent with normal depreciation policies applied for similar Group owned assets and depreciation is calculated in accordance with IAS 16 and IAS 38. If it is not

certain that the lessee will obtain title to the asset before the end of the lease term, the asset is depreciated over the shorter of the lease term and the asset's economic useful life.

Assets leased out based on lease, tenancy, rental or similar contracts meeting the above finance lease criteria are initially recognized as long-term receivables and stated at the net lease investment value.

Goodwill

Goodwill resulting from a business combination is stated at the acquisition date at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is decreased by impairment allowances.

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that it might be impaired. Goodwill is not amortized and the impairment of goodwill is not reversible.

Excess of net fair value of identifiable assets, liabilities and contingent liabilities over acquisition cost

If the acquirer's share resulting from a business combination in the net fair value of identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the acquirer:

- reassesses the identification and measurement of the identifiable assets, liabilities and contingent liabilities and the cost of the business combination;
- recognizes immediately in the profit and loss any excess remaining after the reassessment in the period in which the business combination was carried out.

Intangible assets

Intangible assets are recognized if it is probable that expected future economic benefits that are directly attributable to the assets will flow to the entity. Initially intangible assets are stated at acquisition or construction cost. The intangible assets acquired in a business combination are initially recognized at fair value as defined at the business combination date.

After initial recognition, intangible assets are measured at acquisition or construction cost less amortization and impairment allowances. Intangible assets with a definite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is periodically reviewed, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods.

Intangible assets with an indefinite useful life are not amortized. Their value is decreased by impairment allowances.

The residual value of intangible assets is usually assumed to be zero, unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is then defined by the contract for disposal of the title to the asset; or
- there is an active market for the asset, its value may be reliably estimated and it is highly probable that such a market will exist at the end of the asset's useful life.

The adopted standard economic useful lives for amortization of intangible assets are:

Acquired licenses, patents, and similar intangible assets	2-15 years
Acquired computer software	2-10 years

All intangible assets generated by the Group are not recognized as assets and are recorded in the profit and loss for the period when the related cost has been incurred except for intangible assets arising from development (or from the development phase of an internal project).
Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.

Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable.

If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price or their value in use.

If the analysis indicates potential impairment, the impairment test is performed.

The test for impairment is carried out and eventual impairment is recognized according to the principles defined in the point 'Impairment of assets'.

The titles to perpetual usufruct of land obtained under an administrative decision are recognized by the Group at fair value as off balance sheet items.

Investment property

Investment property is initially recognized at acquisition cost including transaction costs. After initial recognition investment property is presented at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the profit and loss in the period when incurred.

Investment property is subject to impairment allowance when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses arising from allowances of the investment property are recognized in the profit and loss in the period when they are made.

Inventories

Inventories are measured at the lower of cost and net realizable value, considering any inventory allowances. The net realizable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.
Cost of usage is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.

Receivables

Trade and other receivables are recognized when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less allowances for doubtful receivables.
If there is objective evidence that an impairment loss has been incurred, the amount of difference between the asset's carrying amount and the present value of estimated future cash flows is recognized in profit and loss.

Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of an entity's cash management.

Impairment of assets

Goodwill, intangible assets which are not yet available for use and intangible assets with an indefinite useful life are tested for impairment once a year.

Assets with definite useful life are tested for impairment if there are indicators that an asset may be impaired.

For the purpose of impairment testing, assets are grouped in the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

For the purpose of impairment testing, 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 are expected to benefit from the synergies of the combination. Each cash generating unit is defined as the acquired entity.

The impairment allowances are recognized in the profit and loss account.

Revenue from sale

Revenue from sale is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of revenue can be measured reliably. Sale of goods and merchandise includes excise tax and fuel charges.
The net revenue from the sale of finished goods and merchandise is recognized after deducting value added tax (VAT), excise tax, fuel charges and discounts.
Revenue from the sale of finished goods and merchandise is recognized when the finished goods/merchandise are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjusts the sales revenue.

The revenue is measured at the fair value of the received or due payment.

The revenues contain also the revenues from the insurance fee including the outstanding amount from the concluded insurance contracts during the reporting period together with all the supplements for the outstanding periods and after the deductions, repayments, allowances, taxes and other parafiscal charges, considering the re-insurers share as well as the change of the charge provision.

Revenue from dividends

Dividends are recognized when the shareholder's right to receive payment is established.

Equity

Equity is stated in the accounting records by type, in accordance with legal regulations and the Company's Articles of Association.
The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.
The stated outstanding share capital contributions are recognized as outstanding share capital contributions. Own shares and outstanding share capital contributions decrease the Company's equity.
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 joint stock 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 by the Group as retained earnings.
Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve (the difference between the fair value and the acquisition cost, net of deferred tax, of assets available for sale 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), the undistributed result for prior periods and the current period net profit are presented in the financial statements as retained earnings.

Interest-bearing loans and borrowings

Interest-bearing bank loans and borrowings are initially stated at the fair value of proceeds received, net of transaction costs. They are subsequently recognized at amortized cost using the effective interest rate method. The difference between the net proceeds and the buyout amount is recognized as financial revenue or cost over the term of the loan or borrowing.

External financing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies are expensed in accordance with the benchmark treatment of IAS 23 in the profit and loss in the period to which they refer.

Retirement benefits and jubilee bonuses

Under the Group's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Group does not assign assets which would be used for future retirement or jubilee liabilities. The Group creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. In accordance with IAS 19, jubilee bonuses are long-term employee benefits and retirement benefits are classified as post-employment benefit plans. The present value of those liabilities 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 liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation, and relate to the period ended at the last day of the reporting year. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses are recognized in the profit and loss.

Foreign currency transactions

Transactions denominated in foreign currencies are recognized after their translation to the functional currency, at each balance sheet date in the following way:

- foreign currency monetary items shall be translated using the closing rate;
- 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.

Any gains or losses resulting from changes in foreign exchange rates after the transaction date are recognized as financial income or expenses in the profit and loss. The foreign exchange differences are stated in the profit and loss in the net amount.

Financial instruments

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Group intends and has the ability to hold to the maturity date, except for the Group's own receivables and loans. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.
All other financial assets, which are not borrowings or receivables of the Group, are classified as financial assets available for sale.

Financial investments held to maturity are part of non-current assets if their maturity dates exceed twelve months from the balance sheet date. Financial assets measured at fair value through profit and loss, are classified as current assets if the Management Board intends to realize them within twelve months from the balance sheet date.

Purchases and sales of financial assets are recognized at the transaction date. At the moment of the original recognition those assets are measured at acquisition cost, i.e. at fair value, including transaction costs.

Financial assets at fair value through profit and loss, are measured at fair value without deduction of the transaction costs and considering their market value as at the balance sheet date. The change in fair value of those financial assets is recognized as financial income or expenses in the profit and loss.
Financial assets held to maturity are measured at amortized cost using the effective interest rate.

Financial assets available for sale are recognized at fair value, without deduction of the transaction costs, and considering their market value at the balance sheet date. If the financial instruments are not traded on an active market and it is impossible to estimate reliably their fair value by alternative methods, financial assets available for sale are measured at acquisition cost adjusted by impairment allowances, if they have been valued at historical cost.

Positive and negative differences between fair value and acquisition cost, net of deferred tax, of financial assets available for sale are reflected in the revaluation reserve if their market price is determinable on a regulated active market or fair value may be estimated by some other reliable method. Decrease in the value of financial assets available for sale due to impairment allowances is charged to financial expenses in the profit and loss.

Granted loans are recognized at amortized cost.

Derivatives which are not designated as hedging instruments are classified as financial assets or liabilities at fair value are stated at fair value, considering its changes, through profit and loss.

Derivatives treated as cash flow hedging instruments are carried at fair value with changes in value accounted for in the following way:

- the portion determined to be an effective hedge is recognized directly in equity through the statement of changes in equity;
- the portion determined to be an ineffective hedge is recognized in the profit and loss;
- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognized in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives 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;
- is not the hybrid (combined) instrument.

The hybrid (combined) instrument is not measured at fair value and changes in fair value are not recognized in the net profit or loss (i.e. derivative that is embedded in a financial asset or financial liability at fair value through profit and loss is not separated).

Embedded derivatives are accounted for in a similar way as other derivatives which are not designated as hedging instruments.

The Group recognizes financial asset on its balance sheet when the Group becomes a party to the contractual provisions of the instrument.
The financial asset is derecognized when the contractual rights to economic benefits and risk related to this financial asset were executed, expired or the Group transferred the contractual rights and risks.

Derivatives used by the Group in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.
When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognized asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognized asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion of the gain or loss is recognized in the profit and loss.
The gain or loss from the re-measurement of the derivative instruments at fair value that do not comply with the hedge accounting criteria are recognized directly in the profit and loss.

The Group discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such a case, total gain or loss on the hedging instrument, previously recognized in equity, is recognized in equity until the forecast transaction takes place. If the Group no longer expects the forecast transaction to take place, the total net gain or loss recognized in equity is presented in the financial result of the current period.

An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity (calculated as a difference between acquisition price and current fair value, decreased by potential impairment losses recognized previously in profit and loss) shall be removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be

reversed through 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 the reversal is recognized in profit or loss.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has occurred, the amount of the loss is measured as 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 (i.e. the effective interest rate computed at initial recognition for assets measured based on fixed interest rate and the effective interest rate computed at the date of last valuation for assets measured based on floating interest rate). Impairment allowances are recognized in profit and loss. If, in a subsequent period, the impairment loss decreases and the decrease can be attributed to an event subsequent to the time of impairment recognition, the reversal is recognized in profit or loss. Subject to the reversal of impairment allowance, the carrying amount of financial assets cannot exceed its value at amortized cost that would be calculated if impairment allowance was not recognized.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is carried at cost (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.

Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognized for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognized for all positive temporary tax differences.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.

Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

Non-current assets held for sale/disposal

Non-current assets held for sale are those which comply with the following criteria:

- a decision was declared by the Company's Management Board for the disposal;
- 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 could be settled within 12 months following the sale 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.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets held for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

Provisions

The Group shall recognize a provision when it has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 recognized as external financing costs.

Provisions include also the provision for unpaid compensations and benefits created in the amount equal to the fixed or expected final value of future payments of compensations and benefits connected to the damages, including these not reported as at the balance sheet date, increased by the clean-up costs.
Provision for charges is calculated individually for each insurance contract as the fee for the next reporting periods, proportional to the period, to which the fee was assigned.

Environmental provisions

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

Exploration and extraction of hydrocarbons

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

Expenditures related to the preliminary stage of assessment are recognized in profit and loss when incurred.

Cost incurred for acquisition of rights to explore and extract are recognized as intangible assets.

General administration expenses of the company that may be directly attributed to the purchase transaction of exploration/extraction rights should increase the purchase price of an asset. If direct allocation to the purchase transaction is not possible, general expenses are recognized in profit and loss when incurred.

Cost of exploration and evaluation:

- Cost incurred for each exploratory drilling is initially recognized as construction in progress. If the exploratory drilling has not led to the discovery of commercially viable quantities of mineral resources, the cost previously recognized as an asset is included in profit and loss.
- Cost incurred for each appraisal drilling is initially recognized as construction in progress. If the appraisal is unsuccessful, the cost previously recognized as an asset (including cost incurred in exploration stage) is included in profit and loss. If the appraisal is successful, the cost incurred for all appraisal drillings (including unsuccessful drillings in hydrocarbons resource, which was recognized as an asset) is transferred to property plant and equipment at the date of put into use.
- Other cost incurred at the exploration and evaluation stage is initially recognized as intangible assets under development or construction in progress, depending on the type of cost incurred. If the exploration and evaluation stage ends without success other cost incurred previously recognized as an asset is included in profit and loss.
- When the commercial viability and technical feasibility of a resource is confirmed the Group defines cost generating unit. It is assumed that cost generating unit will be defined as hydrocarbons resource.
- General administration expenses, which can be attributed to the exploration and evaluation stage should be recognized as an asset and included in previously defined cost generating unit.
  If cost cannot be allocated, they are included in the profit and loss as incurred.

Cost incurred for resource site planning
Cost incurred for resource site planning are recognized as an asset and included in previously defined cost generating unit.
General administrative expenses which may be directly attributed to the resource site planning stage should be recognized as an asset and included in previously defined cost generating unit.
If cost cannot be allocated, they are included in the profit and loss as incurred.

Cost incurred for hydrocarbons resource exploitation
Cost directly attributed to hydrocarbons resource exploitation is included in the profit and loss in the current period.
Cost attributed to exploitation is allocated directly to the cost generating unit.
Inventories are measured at the lower of cost and net realizable value, considering any inventory allowances.

Depreciation of non-current assets used for exploration and exploitation activity is calculated proportionally to the amount of extracted hydrocarbons, using Unit of Production Method.
If the Unit of Production Method (UOP) is difficult or not possible to apply (e. g. because of lack of information regarding total amount of hydrocarbons or using of assets on multiple stages of exploration or exploitation) other depreciation methods can be applied, for example straight line method.

The Group creates provisions for the cost of removal of drillings and supporting infrastructure. The amount of provision for future dismantling and land reclamation is initially recognized 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 each balance sheet date 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 recognized as a financial expense. 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 an asset.

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

The indicators for impairment are analyzed and impairment test is performed of unproved assets/resources, if one ore more of the following facts and circumstances (the list is not exhaustive) have occurred:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The indicators for impairment are analyzed and impairment test is performed of unproved assets/resources as at each balance sheet date or during the year, if one or more of the following facts and circumstances (the list is not exhaustive) has occurred:

- legal and tax regulations were changed and adversely influenced the economy of resource exploitation,
- local circumstances worsened leading to threat the security of conducted activity,
- hydrocarbons' prices have permanently and long-lasting fallen,
- market interest rates increased, adversely influencing the economy of resource exploitation,
- the unit of property plant and equipment was permanently damaged.

The impairment assessment is performer by the Group for assets/resources (proved and unproved) on the level of cash generating unit defined as hydrocarbons resource.

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognized as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

Liabilities

Trade and other liabilities are stated at the amount due, and financial liabilities, which contractual settlement is to be made by way of issue of non-monetary financial assets or due to exchange for financial instruments, are recognized at fair value.

Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.
Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

Contingent receivables are not recognized in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Operating segments

The scope of financial information in the Group segment reporting is defined based on requirements of IAS 14.

The Group adopted a business segments as the primary reporting format i.e. as the dominant source of risks and benefits related to sale of goods and services. A secondary reporting format is geographical segments that are associated with activity conducted in different geographical areas.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity (result from operating activity) and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The segment result is determined at the level of profit from operations. The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made.

The operations of the Group are divided into three main segments: Refining Segment, Petrochemical Segment and Chemical Segment.

- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products,
- The Petrochemical Segment encompasses production and sales of petrochemicals,
- The Chemical Segment encompasses production and sales of fertilizers and PVC.

Other operations include mainly support functions in PKN ORLEN, transportation, service and maintenance activities and construction conducted by other subsidiaries of PKN ORLEN S.A..

Segment revenues and assets were defined before inter-segment adjustments. Sales prices in inter-segment transactions are similar to market prices. Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated expenses of the Group, reconciling total segment results to profit from operations.

The Company's Management Board estimates

The preparation of financial statements in accordance with IFRSs requires that the Company's Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and costs. 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 Company's Management Board bases its estimates on opinions of independent experts.
Actual results may differ from the estimated values.
The estimations and related assumptions are verified on a regular basis. Changes in accounting estimates are recognized 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.

Application of the accounting principles

The above principles are applicable for comparative data.

b. Principles of consolidation

Subsidiaries

The Group's consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority interest is presented in equity. Net profit attributable to minority shareholders is presented in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

Investments in associates

Investments in associated companies (overall investments ranging from 20% to 50% in a company's share capital) where the Group exercises significant influence on the financial and operating policies, yet does not have control over them, are accounted for using the equity method. Assessment of the value of investments in associates is performed when there are indications that the asset has been impaired or the impairment allowances recognized in prior years are no longer required.

Investments in jointly controlled entities

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, after deduction of an impact of mutual transactions and settlements, is presented line by line with similar items in the consolidated financial statements.

Adjustments from consolidation

Intragroup balances and transactions and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements proportionally to the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements in the same manner as unrealized gains, until there are indications of impairment.

4. Functional currency and presentation currency of financial statements and methods applied to translation of data denominated in foreign currencies

a) Functional currency and presentation currency

Functional currency of the Parent and presentation currency of the foregoing consolidated financial statements is Polish zloty.
Financial statements of foreign entities, for consolidation purposes, are translated into Polish zloty using the following procedures:

- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items in the income statement are translated at exchange rates at the dates of the transactions. All resulting exchange differences are recognized as a separate component of equity.

b) Methods applied to translation of data denominated in foreign currencies

The financial data denominated in EUR were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 March 2007 –3.8695 PLN / EUR, for 31 December 2006 –3.8312 PLN / EUR,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2007 to 31 March r 2007 –3.9063 PLN / EUR; for the period from 1 January 2006 to 31 March 2006 –3.8456 PLN / EUR.

The financial data denominated in CZK were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 March 2007 –0.1381 PLN / CZK, for 31 December 2006 –0.1393 PLN / CZK,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2007 to 31 March 2007 –0.1385 PLN / CZK, for the period from 1 January 2006 to 31 March 2006 –0.1353 PLN / CZK.

The financial data denominated in USD were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 March 2007 –2.9058 PLN / USD, for 31 December 2006 – 2.9105 PLN / USD,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2007 to 31 March 2007 –2.9719 PLN / USD.

5. Companies included in the consolidated financial statements

The Group's condensed consolidated financial statements include PKN ORLEN S.A. as Parent Company and entities located mainly in Poland, Czech Republic, Lithuania, Germany and Malta, constituting the Group as at the 31 March 2007, presented below:

THE GROUP DIVISION BY BUSINESS SEGMENTS*

REFINING SEGMENT

- ORLEN Gaz Sp. z o.o 100 %
- Capital Group of ORLEN PetroProfit Sp. z o.o. 100 % [1]
- ORLEN PetroCentrum Sp. z o.o 100 %
- Capital Group of ORLEN PetroTank Sp. z o.o. 90 % [2]
- Petrolot Sp. z o.o. 51 %
- ORLEN PetroZachód Sp. z o.o. 100 %
- Capital Group of ORLEN Deutschland AG 100 % [3]
- ORLEN EKO Sp. z o.o. 100 %
- Capital Group of Rafineria Trzebinia S.A. 77 % [4]
- Capital Group of SHIP - SERVICE S.A. 61 % [5]
- Capital Group of Rafineria Nafty Jedlicze S.A. 75 % [6]
- ORLEN Asfalt Sp. z o.o. 100 % (95,99%)**
- Capital Group of ORLEN Oil Sp. z o.o. 100 % [7] (88,87%)**
- ORLEN Morena Sp. z o.o. 100 %
- ORLEN Petrogaz Wrocław Sp. z o.o. 100 %
- Capital Group of AB Mazeikiu Nafta 90% [9] (100%)**
- Capital Group of UNIPETROL a.s. 63 % [8]

PETROCHEMICAL SEGMENT

- Capital Group of BASELL ORLEN POLYOLEFINS Sp. z o.o. 50% [11]
- Etylobenzen Płock Sp. z o.o. 51 % ***

CHEMICAL SEGMENT

- Capital Group of "Anwil" S.A. 84 % [10]

UNALLOCATED SEGMENT

- Motell Sp. z o.o. 35 %
- ORLEN Transport Kraków Sp. z o.o. 98 %
- ORLEN Transport Nowa Sól Sp. z o.o. 97 %
- IKS SOLINO S.A. 71 %
- Petrotel Sp. z o.o. 75 %
- WISŁA Płock Sportowa S.A. 100 %
- Petromor Sp. z o.o. 51 %
- ORLEN Medica Sp. z o.o. 100 %
- ORLEN Administracja Sp. z .o. o. 100 %
- POILEN Sp. z o.o. 25%
- ORLEN Projekt S.A. 51 %
- ORLEN Ochrona Sp. z o.o. 100 %
- ORLEN Laboratorium Sp. z o.o. 95 %
- ORLEN Automatyka Sp. z o.o. 52 %
- ORLEN KolTrans Sp. z o.o. 100 %
- ORLEN Transport Płock Sp. z o.o. 98 %
- Polkomtel S.A. 19,61%
- ORLEN Transport Kędzierzyn - Koźle Sp. z o.o. 94 %
- ORLEN Powiernik Sp. z o.o. 100%
- ORLEN Wir Sp. z o.o. 51 %
- ORLEN Budonaft Sp. z o.o. 100 %
- ORLEN Prewencja Sp. z o.o. 100 %
- ORLEN Centrum Serwisowe Sp. z o.o. 97 %
- ORLEN Transport Słupsk Sp. z o.o. 97 %
- B.H.T. Dromech S.A. in bankruptcy 81 %
- Niezależny Operator Międzystrefowy Sp. z o.o. 35 %
- ORLEN Transport Szczecin Sp. z o.o. 100 %
- ORLEN Transport Olsztyn Sp. z o.o. 95%
- Chemiepetrol GmbH 20 %
- ORLEN Księgowość Sp. z o.o. 100 %
- ORLEN Upstream Sp. z o.o. 100%
- Capital Group of ORLEN Holding Malta Ltd 100 % [12]
- Capital Group of Płocki Park Przemysłowo - Technologiczny S.A. 50% [13]

* the scheme does not include the Parent, whose activities were allocated to all business segments
** (%) the share in consolidated financial data
***as at 18 January 2007 the Company signed the agreement of the purchase of 49% shares of Etylobenzen Płock Sp. z o.o.. for more information see note VIII 6.

Entities consolidated as at 31 March 2007

THE LIST OF COMPANIES BELONGING TO THE CAPITAL GROUPS ON LOWER LEVELS PRESENTED ON THE CAPITAL GROUP SCHEME

Name of Capital Group	Share in total voting rights[1] (in full %)
1. Capital Group of ORLEN PetroProfit Sp. z o.o.	100%
including:	
Petro-Ukraina LTD	80%
Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.	76%
Petro-Ukraina in liquidation	31%
2. Capital Group of ORLEN PetroTank Sp. z o.o.	90%
including:	
Petro-Mawi Sp. z o.o. in liquidation	60%
Petro-Ukraina in liquidation	31%
3. Capital Group of ORLEN Deutschland AG	100%
including:	
Wecotect Trading & Consulting GmbH	100%
4. Capital Group of Rafineria Trzebinia S.A.	77%
including:	
Energomedia Sp. z o.o.	100%
Euronaft Trzebinia Sp. z o.o.	100%
Fabryka Parafin NaftoWax Sp. z o.o.	100%
Zakładowa Straż Pożarna Sp. z o.o.	100%
AQUA PLANET Sp. z o.o.	100%
EkoNaft Sp. z o.o.	99%
5. Capital Group of Ship Service S.A.	56%
including:	
Ship-Service Agro Sp. z o.o.	100%
6. Capital Group of Rafineria Nafty Jedlicze S.A.	75%
including:	
Raf-Energia Sp. z o.o.	100%
Raf-Koltrans Sp. z o.o.	100%
Raf-Służba Ratownicza Sp. z o.o.	100%
Raf-Bit Sp. z o.o.	100%
Raf-Remat Sp. z o.o.	96%
Raf-Ekologia Sp. z o.o.	93%
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	81%
Ran Petromex Sp. z o.o.	51%
Ran-Watt Sp. z o.o. in liquidation	51%
7. Capital Group of ORLEN Oil Sp. z o.o.	100%
including:	
ORLEN Oil Cesko s.r.o.	100%
Platinum Oil Mazowsze Sp. z o.o.	100%
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	100%
Petro-Oil CZ s.r.o. in liquidation	49%
Petro-Oil Łódzkie Centrum Sprzedaży Sp. z o.o.	25%
Petro-Oil Seewax Sp. z o.o. in bankruptcy	25%
Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.	24%
Petro-Oil Dolnośląskie Centrum Sprzedaży Sp. z o.o.	24%
Petro-Oil Małopolskie Centrum Sprzedaży Sp. z o.o.	24%

Name of Capital Group	Share in total voting rights[1] (in full %)
Petro-Oil Podlaskie Centrum Sprzedaży Sp. z o.o.	24%
Petro-Oil Śląskie Centrum Sprzedaży Sp. z o.o.	24%
Petro-Oil Zachodniopomorskie Centrum Sprzedaży Sp. z o.o.	24%
Petro-Oil Wielkopolskie Centrum Sprzedaży Sp. z o.o.	22%
8. Capital Group of Unipetrol a.s.	63%
including:	
Capital Group of CHEMOPETROL a.s.	100%
including:	
UNIPETROL DOPRAVA a.s.	100%
CHEMICKÁ SERVISNÍ a.s.	100%
POLYMER INSTITUTE BRNO spol. s.r.o.	100%
HC CHEMOPETROL a.s.	71%
Capital Group of UNIPETROL TRADE a.s.	100%
including:	
UNIPETROL CHEMICALS IBERICA S.A.	100%
CHEMAPOL (SCHWEIZ) AG	100%
UNIPETROL AUSTRIA HmbH	100%
UNIPETROL (UK) LIMITED	100%
MOGUL d.o.o.	100%
DP MOGUL UKRAJINA	100%
ALIACHEM VERWALTUNGS GmbH	100%
including:	
ALIAPHARM GmbH FRANKFURT	100%
UNIPETROL DEUTSCHLAND GmbH	100%
UNIPETROL FRANCE S.A.	97%
UNIPETROL ITALIA S.r.l.	90%
Výzkumný ústav anorganické chemie a.s.	100%
Capital Group of BENZINA a.s.	100%
including:	
PETROTRANS a.s.	100%
BENZINA Trade a.s in liquidation	100%
Capital Group of UNIPETROL RAFINÉRIE a.s.	100%
including:	
UNIRAF SLOVENSKO s.r.o.	100%
Capital Group of KAUČUK a.s.	100%
including:	
K-PROTOS a.s.	100%
Capital Group of PARAMO a.s.	50%
including:	
MOGUL SLOVAKIA s.r.o.	100%
ČESKÁ RAFINÉRSKÁ a.s.	51%
Steen Estates s.r.o.	100%
UNIPETROL SERVICES s.r.o. (previously Meliba Estates s.r.o.)	100%
9. Capital Group of AB Mažeikių Nafta (Mazeikiu Group)[2]	90%
including:	
UAB Juodeikių nafta	100%
UAB Uotas	100%
AB Ventus-Nafta	99%

Name of Capital Group	Share in total voting rights[1] (in full %)
Capital Group of UAB Mažeikių naftos prekybos namai	100%
Including:	
SIA Mažeikių Nafta Tirdzniecibas nams	100%
OU Mažeikių Nafta Trading House	100%
Mazeikiu Nafta Trading House Sp. z o.o.	100%
10. Capital Group of "Anwil" S.A.	84%
including:	
Przedsiębiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%
Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99%
Spolana a.s.	82%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%
Zakład Usługowo Produkcyjny EKO-Dróg Sp. z o.o.	49%
Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o.	49%
Apex-Elzar Sp. z o.o.	47%
Specjalistyczna Przychodnia Przemysłowa Prof-Med Sp. z o.o.	46%
Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe Arbud Sp. z o.o.	45%
11. Capital Group of Basell ORLEN Polyolefins Sp. z o.o.	50%
including:	
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	100%
12. Capital Group of ORLEN Holding Malta Ltd.	100%
including:	
ORLEN Insurance Ltd.	100%
13. Capital Group of Płocki Park Przemysłowo-Technologiczny S.A.	50%
including:	
Centrum Komercjalizacji Technologii Sp. z o.o.	100%
Centrum Edukacji Sp. z o.o.	69%

[1] Share in total voting rights is equal to the stake in share capital, except for the Capital Group of Ship Service S.A., where the stake in share capital amounts to 61%.
[2] 100% shares in Mazeikiu Group in the consolidated financial statements was assumed.

III. SELECTED EXPLANATORY NOTES

3.1. Impairment of assets

3.1.1. Impairment of property, plant and equipment

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	522 766	806 644
Additions during the period 1 January - 31 March	15 982	10 944
Disposals during the period 1 January - 31 March	(11 001)	(20 561)
Effect of exchange rate changes	(2 668)	6 010
Impairment allowances as at 31 March	**525 079**	**803 037**

3.1.2. Impairment of construction in progress

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	49 029	51 064
Additions during the period 1 January - 31 March	475	33
Disposals during the period 1 January - 31 March	(74)	(896)
Effect of exchange rate changes	(89)	105
Impairment allowances as at 31 March	**49 341**	**50 306**

3.1.3. Impairment of intangible assets

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	1 832	34 326
Additions during the period 1 January - 31 March*	63 188	-
Disposals during the period 1 January - 31 March	(31)	(195)
Effect of exchange rate changes	(1 420)	2
Impairment allowances as at 31 March	**63 569**	**34 133**

* revaluation of CO_2 emission rights in Mazeikiu Group

3.1.4. Impairment of long term financial investments (shares)

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	150 100	144 701
Additions during the period 1 January - 31 March	2 821	450
Disposals during the period 1 January - 31 March	(1 531)	(2 379)
Effect of exchange rate changes	(147)	(247)
Impairment allowances as at 31 March	**151 243**	**142 525**

3.1.5. Receivables allowances

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	609 982	600 134
Additions during the period 1 January - 31 March	27 148	27 823
Disposals during the period 1 January - 31 March	(36 567)	(16 322)
Effect of exchange rate changes	(1 370)	(7 560)
Impairment allowances as at 31 March	**599 193**	**604 075**

3.1.6. Inventory allowances

Data for 1st quarter	2007	2006
	(unaudited)	(unaudited)
Impairment allowances as at 1 January	74 151	66 006
Additions during the period 1 January - 31 March	14 997	14 803
Disposals during the period 1 January - 31 March	(25 385)	(20 192)
Effect of exchange rate changes	(354)	817
Impairment allowances as at 31 March	**63 409**	**61 434**

3.2. Assets and liabilities classified as held for sale

3.2.1. Assets classified as held for sale

	31 March 2007	31 December 2006
	(unaudited)	
Assets of Kaucuk [1]	997 017	1 009 846
Shares in Celio [2]	10 818	10 912
Shares in "Krystynka" [3]	2 262	2 262
Other assets held for sale [4]	4 271	7 588
Total	---	---
	1 014 368	**1 030 608**
	=========	=======

[1] As at 31 March 2007 UNIPETROL held 6,236,000 shares constituting 100% stake in share capital of Kaucuk. The company's activity includes production of plastic and synthetic rubber. It is part of petrochemical segment. Assets of Kaucuk valued at fair value less liabilities and cost of sales have been classified as held for sale. The sale agreement was signed on 30 January 2007. The change in the value of shares results from change in exchange rates. For detailed information please refer to note VIII 8 and VIII 9.

[2] The share of UNIPETROL Group in CELIO, constituting 51.06 % stake in the share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and not by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be completed in the first half of 2007. The change in the value of shares results from change in exchange rates.

[3] Shares of ORLEN Medica in Sanatorium Uzdrowiskowe "Krystynka" constituting 98.54% stake in the share capital. The shares have been classified as held for sale after the resolution of the Management Board of ORLEN Medica dated 20 December 2006 about the beginning of a disinvestment process. The shares have been valued at cost, fair value amounts to PLN 5,891 thousand.

[4] Other assets held for sale comprise other items of property, plant and equipment: buildings and constructions, land, machinery and equipment, vehicles and other.

3.2.2. Liabilities held for sale

Liabilities held for sale include liabilities of Kaucuk, which according to the decision of the Management Board of Unipetrol have been classified as held for sale. The liabilities amount to PLN 179,180 thousand.

3.3. Provisions for liabilities

3.3.1. Deferred tax liabilities

Data for 1st quarter	2007 (unaudited)	2006 (unaudited)
Impairment allowances as at 1 January	1 765 761	1 020 159
Additions during the period 1 January - 31 March	74 339	28 862
Disposals during the period 1 January - 31 March	(106 377)	(124 497)
Effect of exchange rate changes	(4 446)	20 047
Impairment allowances as at 31 March	**1 729 277**	**944 571**

3.3.2. Provisions

Short-term and long-term provisions

Data for 1st quarter 2007 (unaudited)	Land reclamation provision	Retirement benefits and jubilee bonuses	Shield programs provision	Business risk provision	Other provisions	Total provisions
Provisions as at 1 January 2007	454 747	215 814	123 920	578 464	175 274	**1 548 219**
Additions during the period 1 January - 31 March 2007	759	4 794	-	11 577	7 042	**24 172**
Disposals during the period 1 January - 31 March 2007	(6 285)	(3 412)	(1 014)	(5 173)	(19 354)	**(35 238)**
Effect of exchange rate changes	(407)	(44)	-	1 395	(213)	**731**
Provisions as at 31 March 2007	**448 814**	**217 152**	**122 906**	**586 263**	**162 749**	**1 537 884**
incl.						
Long-term provisions as at 31 March 2007	**345 578**	**191 724**	**99 428**	**116 436**	**49 177**	**802 343**
Short-term provisions as at 31 March 2007	**103 236**	**25 428**	**23 478**	**469 827**	**113 572**	**735 541**

Short-term and long-term provisions

Data for 1st quarter 2006 (unaudited)	Land reclamation provision	Retirement benefits and jubilee bonuses	Shield programs provision	Business risk provision	Other provisions	Total provisions
Provisions as at 1 January 2006	558 307	216 405	199 218	526 106	140 228	**1 640 264**
Additions during the period 1 January - 31 March 2006	567	4 311	-	6 775	2 563	**14 216**
Disposals during the period 1 January - 31 March 2006	(2 909)	(3 810)	(44 839)	(11 527)	(5 593)	**(68 678)**
Effect of exchange rate changes	2 292	231	-	3 087	2 389	**7 999**
Provisions as at 31 March 2006	**558 257**	**217 137**	**154 379**	**524 441**	**139 587**	**1 593 801**
incl.						
Long-term provisions as at 31 March 2006	**488 889**	**198 094**	**68 718**	**131 259**	**70 479**	**957 439**
Short-term provisions as at 31 March 2006	**69 368**	**19 043**	**85 661**	**393 182**	**69 108**	**636 362**

3.4. Goodwill

Carrying amount of goodwill on consolidation	**31 March 2007 (unaudited)**	**31 December 2006**
ORLEN PetroTank Sp. z o.o.	11 298	11 298
ShipService S.A.	3 145	3 145
PetroProfit Sp. z o.o.	1 175	1 175
ORLEN Petrozachód Sp. z o.o.	9 886	9 886
Goodwill on Mazeikiu Group companies	1 406	1 301
Other	658	658
	---	---
Total goodwill on consolidation	**27 568**	**27 463**
Goodwill on business combination		
Basell ORLEN Polyolefins Sp. z o.o.	51 146	51 146
Goodwill on Unipetrol Group companies	34 177	34 472
Spolana a.s.	8 148	8 218
ORLEN Deutschland AG	9 077	9 256
Mazeikiu Elektrine	12 402	12 509
Other	637	640
	---	---
Total goodwill on business combination	**115 587**	**116 241**
Total	**143 155**	**143 704**
	=========	=========

The changes of goodwill in the period of 3 months ended 31 March 2007 and 31 March 2006 were as follows:

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
Goodwill on business combination, beginning of period	**27 463**	**17 630**
Additions during the period 1 January - 31 March	**105**	**-**
Effect of exchange rate changes	105	-
Disposals during the period 1 January - 31 March	**-**	**-**
Goodwill on business combination, end of period	**27 568**	**17 630**

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
Goodwill on business combination, beginnig of period	**116 241**	**97 817**
Additions during the period 1 January - 31 March	**-**	**-**
Disposals during the period 1 January - 31 March	**(654)**	**(50 805)**
Goodwill on Unipetrol Group companies	-	(51 112)
Orlen Deutschland AG	-	(1 083)
Effect of exchange rate changes	(654)	1 390
Goodwill on business combination, end of period	**115 587**	**47 012**

3.5. Interest-bearing loans and borrowings

	31 March 2007 (unaudited)	31 December 2006
Bank loans	9 880 151	9 893 499
Borrowings	2 714	2 885
Debt securities *	1 352 226	592 721
Total	**11 235 091**	**10 489 105**
including:		
short-term	4 258 000	4 277 912
long-term	6 977 091	6 211 193

* including as at 31 March 2007 liability of PLN 752,894 thousand concerning PKN ORLEN bond issue. PKN ORLEN Bond issue program was described in the regulatory announcement no. 75/2006 dated 27 November 2006.

The value of interest-bearing loans and borrowings drawn by the Group increased during 3 months ended 31 March 2007 by PLN 745,986 thousand net.

The change in indebtedness level resulted primarily from:

- drawing of foreign loans translated to PLN:

  EUR 80,000 thousand (PLN 310,280 thousand) consortium multi currency loan (BTM acting as Agent)

- drawings of loans by Unipetrol Group in the amount of CZK 6,695,082 thousand (PLN 927,269 thousand)
- increase of indebtedness in Unipetrol Group due to valuation of debt securities in the amount of CZK 84,846 thousand (PLN 11,752 thousand)
- drawings of loans by Mazeikiu Group in the amount of USD 2,462 thousand (PLN 7,154 thousand)

- drawing of loans in PLN:

  PLN 400,000 thousand consortium loan (BTM acting as Agent)
  PLN 160,393 thousand in BH w Warszawie S.A.
  PLN 104,371 thousand in PKO BP S.A.
  PLN 73,787 thousand in Bank Pekao S.A.
  PLN 34,794 thousand in HVB Bank a.s.
  PLN 23,204 thousand in Nordea Bank Polska S.A.
  PLN 13,893 thousand in Societe Generale S.A.
  PLN 13,682 thousand in ING Bank Śląski S.A.
  PLN 12,576 thousand in MILLENNIUM Bank S.A.
  PLN 10,445 thousand in BPH S.A.
  PLN 2,408 thousand in Fortis Bank Polska S.A.
  PLN 219 thousand in Raifeisen Bank Polska S.A.

  PLN 752,894 thousand indebtedness of PKN ORLEN S.A. concerning debt securities issue
  PLN 125,062 thousand resulting from foreign exchange differences and interest

- repayment of foreign currency loans translated to PLN:

  EUR 80,000 thousand (PLN 312,248 thousand) consortium double currency loan (ING acting as Agent)
  USD 1,590 thousand (PLN 4,621 thousand) in Bank Pekao S.A.
  CHF 494 thousand (PLN 1,177 thousand) in BPH S.A.
  USD 109 thousand (PLN 81 thousand) in BRE BANK S.A.

- repayment of loans by Unipetrol Group in the amount of CZK 7,921,495 thousand (PLN 1,097,127 thousand)
- repayment of loans by ORLEN DEUTSCHLAND A.G. in the amount of EUR 40,849 thousand (PLN 159,567 thousand)
- repayment of loans by Mazeikiu Group in the amount of USD 5,975 thousand (PLN 17,756 thousand)

- repayment of loans and borrowings in PLN:

  PLN 400,000 thousand consortium loan (BTM acting as Agent)
  PLN 100,546 thousand in PKO BP S.A
  PLN 66,871 thousand in BH w Warszawie S.A.
  PLN 36,045 thousand in Bank Pekao S.A.
  PLN 14,024 thousand in BRE BANK S.A.
  PLN 13,967 thousand in BPH S.A.
  PLN 8,007 thousand in HVB Bank a.s.
  PLN 3,170 thousand in Bank Ochrony Środowiska S.A.
  PLN 1,955 thousand in ING Bank Śląski S.A.
  PLN 489 thousand in Fortis Bank Polska S.A.
  PLN 375 thousand in BGŻ S.A.
  PLN 171 thousand in Narodowy Fundusz Ochrony Środowiska

3.6. Cost by kind

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
Materials and energy	8 066 851	6 291 193
Cost of merchandise and materials sold	3 094 753	2 885 044
External services	768 782	653 758
Payroll, social security and other employee benefits	439 365	345 559
Depreciation	619 624	566 310
Taxes and charges	109 681	98 402
Other *	318 837	144 479
	13 417 893	10 984 745
Change in inventory	(290 495)	79 799
Cost of products and services for own use	35 402	(17 261)
Operating cost	13 162 800	11 047 283
Distribution expenses	(746 537)	(645 803)
General and administrative expenses	(396 628)	(246 190)
Other operating expenses	(254 432)	(94 414)
Cost of finished goods and raw materials sold	**11 765 203**	**10 060 876**

* including other operating expenses

3.7. Net financial revenues and expenses

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
Interest expense	(152 507)	(57 836)
Negative foreign exchange surplus	(89 813)	(63 609)
Interest income	31 295	16 734
Positive foreign exchange surplus	7 688	99 077
Gains on trade in shares and other securities	18	17 614
Financial instruments	(232)	(25 476)
Other	(9 163)	(7 767)
Total	**(212 714)**	**(21 263)**

3.8. Income tax expense

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
Current tax	(164 909)	(172 204)
Deferred tax	90 088	102 128
Total	**(74 821)**	**(70 076)**

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell ORLEN Polyolefins Sp. z o.o capital group which is a tax capital group comprising Basell ORLEN Polyolefins Sp. z o.o. and Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.

IV. GROUP'S ACHIEVEMENTS IN THE FIRST QUARTER 2007 ACCOMPANIED BY CIRCUMSTANCES AND EVENTS WHICH HAVE SIGNIFICANT IMPACT ON THE FINANCIAL RESULT

KEY FACTORS INFLUENCING THE RESULTS OF THE FIRST QUARTER 2007 – COMPANY'S COMMENTARY

Selected consolidated financial data

	2007	2006
Total sales revenues for the 1st quarter	13 408 224	11 330 649
Operating expense and other operating revenues for the 1st quarter	13 033 462	10 913 263
Profit from operations for the 1st quarter	374 762	417 386
EBITDA for the 1st quarter	994 386	983 696
Net profit for the 1st quarter	140 429	372 799

1. MAIN MACROECONOMIC FACTORS

- fall in differential from 3.59 USD/bbl in the 1st quarter 2006 to 3.38 USD/bbl in the 1st quarter 2007 decreased EBIT of the Parent by PLN 16 million,
- positive impact of increasing crack margins on refining products on EBIT of the Parent in the amount of PLN 44 million and higher sales volume of PLN 43 million,
- strengthening of PLN against USD unfavorably influenced profit from operations of the Parent (in respect of differential and margins) in the amount of PLN (-) 63 million.

2. INTERNAL FACTORS

- high demand on fertilizers as well as prosperity in construction business had a positive impact on the financial results of Anwil S.A. – PLN 83 million in the 1st quarter 2007 as compared to PLN 52 million in the comparable period of 2006,
- increase in sales volume of polyolefins by 11% favorably influenced the financial results of Basell ORLEN Polyolefins Sp. z o.o., which increased by PLN 38 million to the level of PLN 48 million,
- significant operating loss in Mazeikiu Group in the amount of PLN 334 million caused by the consequences of fire which took place in October 2006. As a result of this event, the refinery in Mazeikiu utilized only about 50% of nominal production capacity. Moreover, the fire contributed to the increase of production of low margin products, especially heavy heating oil. Mazeikiu's results were also negatively influenced by the breakdown of "Druzhba" pipeline in July 2006. The breakdown contributed to the visible interference of crude oil supplies system. Currently all crude oil is delivered by the sea supplies via Butinge marine terminal, what generates higher cost that traditional means of supply.
- increase in retail sales volume of engine fuels in the Parent (CODO petrol stations) of 23% contributed to an increase in EBIT by PLN 44 million, whereas increase in retail sales volume of non-fuel merchandise and services increased profit from operations by PLN 8 million,
- fall in retail margins on gasoline and LPG contributed to a decrease in profit from operations of the Parent by PLN 5 million,
- considerable cost cutting results of OPTIMA program in the 1st quarter 2007 in the amount of PLN 88 million – the highest savings noted in refining (wholesale and retail) and chemical segment – PLN 49 million and PLN 20 million, respectively,
- fixed costs of the Parent on the level slightly higher (0.9%) than in the 1st quarter 2006, after elimination of costs of strategic projects.

Until 10 January 2007 the Organizational Rules and Regulations, which was adopted by the Management Board on 24 October 2006, was in force in the Parent. On 11 January 2007 the Management Board of the Parent adopted new Organizational Rules and Regulations, according to which the duties of Members of the Management Board have been assigned as follows:
- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Chief Investment Officer;
- Vice-President of the Management Board, Cost Management;
- Vice-President of the Management Board, Upstream and Crude Procurement;
- Vice-President of the Management Board, Audit and Regulations;
- Vice-President of the Management Board, Sales;
- Member of the Management Board, Chief Financial Officer;
- Member of the Management Board, Organization and Capital Group.

Duties of the Deputy Executive Officer for Operational Activities include the areas of production, maintenance of technical operations, production development, technology and property investment.
On 18 January 2007 the Supervisory Board of PKN ORLEN S.A. dismissed Igor Chalupiec from the position of the President of the Management Board and appointed to this position Piotr Kownacki, the Vice President of the Management Board of PKN ORLEN S.A. responsible for Audit and Regulations till that day. Piotr Kownacki held position of the Vice President of the Management Board from 23 October 2006.
On 30 January 2007 the Management Board of the Parent passed a resolution in respect of a new assignment of duties to the Members of the Management Board, according to which the position of the Vice-President of the Management Board responsible for Audit and Regulations was liquidated. The supervision over technical and energy area, production and technology development, capital investments, refining, chemical, petrochemical and oil production became a duty of the Deputy Executive Officer for Operational Activities.
On 15 March 2007 the Supervisory Board of the Parent dismissed, with the majority of votes, Jan Maciejewicz, on his own motion, from the position of the Vice-President of the Management Board responsible for Cost Management and unanimously Cezary Smorszczewski, on the motion of the President of the Management Board, from the position of the Vice-President of the Management Board responsible for Capital Investments. Simultaneously, the Supervisory Board appointed Krystian Pater to the Member of the Management Board of PKN ORLEN S.A.
On 20 March 2007, as a result of the above mentioned changes, the Management Board of the Parent passed a resolution changing previous assignment of duties to the Members of the Management Board. As a result of this resolution the duties of Members of the Management Board have been assigned in the following manner:
- President of the Management Board, Chief Executive Officer;
- Vice-President of the Management Board, Upstream and Crude Procurement;
- Vice-President of the Management Board, Sales;
- Member of the Management Board, Chief Financial Officer;
- Member of the Management Board, Organization and Support Function;
- Member of the Management Board, Production.

The organizational structure of the Parent has been adjusted to new assignment of duties to the Members of the Management Board on 12 April 2007.

Besides, in the 1st quarter 2007 the preparation of the restructuring process of a financial department was in progress. The finalization of the preparatory works is planned for the year 2007.

The most important activities connected with reorganization of the PKN ORLEN Group in the 1st quarter 2007 included the following:

- on 30 January 2007 Unipetrol a.s as a seller and Firma Chemiczna DWORY S.A. as a purchaser signed share purchase agreement regarding the sale of ordinary shares in Kaucuk a.s.
- on 5 March 2007 the increase in the share capital of Płocki Park Przemysłowo –Technologiczny S.A. was registered
- On 23 April 2007 PKN ORLEN S.A and Firma Chemiczna DWORY S.A. signed share purchase agreement regarding the sale of shares in ETYLOBENZEN Płock Sp. z o.o.
- On 23 April 2007 ORLEN PetroProfit Sp. z o.o. and ORLEN Oil Sp. z o.o. signed share purchase agreement regarding the sale of shares in Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.

Capital investments of PKN ORLEN Group were described in detail in point VIII of these condensed consolidated financial statements.

As at the end of the 1st quarter 2007, PKN ORLEN S.A. held shares directly and indirectly in the following entities, which it controls, jointly controls or the operation of which it significantly influences:
- 111 subsidiaries,
- 5 jointly controlled companies,
- 21 associated companies.

In comparison to the end of the 1st quarter 2006 the number of subsidiaries, jointly controlled companies and associated companies belonging to the Group decreased from 150 to 137.

The most significant factors influencing the Group's operating results for the 1st quarter 2007, as compared to results for the 1st quarter 2006 comprised the following:

- increase in margins (cracks) for gasoline from 109.01 to 130.89 USD/t (by 20.1%), diesel oil from 110.17 to 112.73 USD/t (by 2.3%) and Jet A-1 aviation fuel from 148.10 to 156.54 USD/t (by 5.7%),
- decrease in margins (cracks) for Ekoterm from 89.81 to 88.24 USD/t (by 1.7%),
- increase in margins (cracks) for ethylene from 490.53 to 692.15 USD/t (by 41.1%) and for propylene from 484.09 to 645.01 USD/t (by 33.2%),
- decrease in retail margins on CODO petrol stations in the Parent on gasoline by 14.3% and LPG by 6.0% and increase in retail margins on diesel oil by 12.8%,
- decrease in the average commodity price for Brent crude oil from 61.79 to 57.79 USD/bbl (by 6.5%),
- decrease in Ural/Brent differential from /-3.59/ USD/bbl to /-3.38/ USD/bbl (by 5.8%),
- increase in the crude oil processing in the Group by 40.4%,
- increase in the volume of gasoline, diesel oil and LPG sold by 48.9%, 45.9% and 91.1%, respectively, due to consolidation of sales revenues of Mazeikiu Refinery in the 1st quarter 2007,
- decrease in the average exchange rate of USD against PLN from PLN 3.19/USD to PLN 2.97/USD (by 6.9%),
- increase in the average exchange rate of EUR against PLN from PLN 3.83/EUR to PLN 3.89/EUR (by 1.6%).

In the 1st quarter 2007, the volume of wholesale and retail sale of engine fuels (gasoline, diesel oil, LPG, Jet A-1) and light fuel oil (Ekoterm) in the Group amounted to 4,192,743 tonnes and was higher than sale in the 1st quarter 2006 by 1,104,471 tonnes (by 35.8%). High dynamics of sale results from consolidation of sales revenues of Mazeikiu Refinery in the 1st quarter 2007. In the 1st quarter 2007 total sale of finished goods (refining, petrochemical, chemical and other) amounted to 6,422,334 tonnes and was higher than in the 1st quarter of the prior year by 1,564,139 tonnes (by 32.2%). In the 1st quarter 2007, retail sale of engine fuels (gasoline, diesel fuel, LPG) and light fuel oil amounted to 1,051,818 tonnes and was higher than sale in the comparable period of the prior year by 136,420 tonnes (by 14.9%).

Sales tendencies in respect of main products are presented in the below table:

Sale of light products in the PKN ORLEN Group (by volume)	1st quarter 2007		1st quarter 2006		Dynamics (%) 1st quarter 2007/ 1st quarter 2006
Wholesale of light products, including:		3 140 925		2 172 874	144.6
- gasoline (tones)		967 110		513 303	188.4
- diesel oil (tones)		1 580 895		1 022 365	154.6
- Jet A-1 (tonnes)		134 913		94 838	142.3
- Ekoterm (tones)		343 134		495 858	69.2
- LPG (tonnes)		114 873		46 510	247.0
Retail sale of light products, including:	1 352 477	1 051 818	1 177 734	915 398	114.9
- gasoline ('000 litres) / (tonnes)	679 356	512 914	636 628	480 654	106.7
- diesel oil ('000 litres) / (tonnes)	567 525	479 559	461 631	390 078	122.9
- Ekoterm ('000 litres) / (tonnes)	0	0	2	2	0.0
- LPG ('000 litres) / (tonnes)	105 596	59 345	79 473	44 664	132.9
Total sale of fuels (tonnes)		4 192 743		3 088 272	135.8
- including engine fuels (tonnes)		3 849 609		2 592 412	148.5

Negative influence of macroeconomic factors such as strengthening of PLN exchange rate and unfavorable Ural/Brent differential as well as negative financial results of Mazeikiu Refinery contributed to a decrease in operating results of PKN ORLEN Group as compared to the parallel period of the prior year.

The results of the Parent in comparison to the Group were as follows:

Item	1st quarter 2007		Share of PKN in the Group	1st quarter 2006		Share of PKN in the Group
	Group	PKN	(%)	Group	PKN	(%)
Crude oil processed ('000 tonnes)	5 768	3 348	58.0	4 109	3 201	77.9
Net sales revenues	13 408 224	8 088 629	60.3	11 330 649	6 737 453	59.5
Gross profit on sales	1 643 021	839 469	51.1	1 269 773	795 834	62.7
Profit from operations	374 762	288 131	76.9	417 386	309 432	74.1
Profit before tax	215 250	419 573	194.9	442 875	304 018	68.6
Net profit	140 429	390 383	278.0	372 799	274 874	66.5

In the 1st quarter 2007 refinery throughput of PKN ORLEN Group amounted to 5,768 thousand tonnes of crude oil. The achieved level of throughput in the 1st quarter 2007 is by 40.4% higher than in the analogous period of the prior year. Positive dynamics was caused by the increase in refinery throughput in the 1st quarter 2007 in the Parent by 4.6% and Unipetrol Group by 22.3% as well as recognition in the 1st quarter 2007 of refinery throughput of Mazeikiu Group in the amount of 1,325 thousand tonnes.
In the 1st quarter 2007 the Group's profit from operations amounted to PLN 375 million, compared to PLN 417 million in the parallel quarter of 2006. The decrease of profit from operations resulted mainly from recognition in the 1st quarter 2007 of financial results of Mazeikiu Refinery, which incurred loss of PLN 334 million. The loss from operations in Mazeikiu Refinery was caused by the fire which took place in October 2006. As a result of this event, the Mazeikiu Refinery utilized only about 50% of nominal production capacity and produced many low margin products, especially heavy heating oil. Lower Group's profit from operations was also a result of external factors connected with differential and exchange rates. Estimated influence of the fall in differential on EBIT of the Parent amounted to PLN (-) 16 million. Moreover, significant impact on financial results had stronger PLN currency. Strengthening of PLN against USD by 6.9% decreased EBIT by PLN (-) 63 million.
In the 1st quarter 2007 net profit of the Group amounted to PLN 140 million, whereas in the 1st quarter 2006 to PLN 373 million. Lower net profit is a consequence of increased financial costs regarding interests by PLN 95 million due to higher indebtedness of the Parent resulting from financing of Mazeikiu Refinery acquisition.

Consolidated financial data of the Group by business segment are as follows:

tem	1st quarter 2007					
	Refining Segment	Petrochemical Segment	Chemical Segment	Other operations	Adjust.	Total
Segment result	122 660	369 580	82 824	-63 752	-4 830	506 482
Unallocated revenues of the Group						4 813
Unallocated costs of the Group						-136 533
Profit from operations						374 762

Item	1st quarter 2006					
	Refining Segment	Petrochemical Segment	Chemical Segment	Other operations	Adjust.	Total
Segment result	112 501	310 158	56 975	48 899	-4 878	523 655
Unallocated revenues of the Group						5 804
Unallocated costs of the Group						-112 073
Profit from operations						417 386

Total profit from operations for the 1st quarter 2007 decreased by 10.2% as compared to the analogous period of the prior year.
Profit from operations of the refining segment increased by 9.0% as compared to the 1st quarter 2006. Profit from operations of the refining segment was influenced by loss of Mazeikiu Refinery allocated to this segment in the amount of PLN 262 million. In the 1st quarter 2007 the Czech Unipetrol companies earned a profit of the refining segment of PLN 52 million as compared to a loss of PLN 64 million in the analogous period of the prior year.

Prosperity in the petrochemical segment connected with the increase of margins on basic products increased profit from operations of the petrochemical segment by 19.2%. High increase of EBIT was achieved in Unipetrol group, which increased its profit from operations by 79% to the level of PLN 224 million. Basell ORLEN Polyolefins also earned a high profit from operations in the amount of PLN 48 million, as compared to 11 million in the 1st quarter 2006.
In the 1st quarter 2007 profit from operations of the chemical segment increased by 45.4% due to favorable dynamics of profits in Anwil S.A. High demand on fertilizers as well as prosperity in construction business had a positive impact on the financial results of Anwil S.A. in the amount of PLN 83 million as compared to PLN 49 million in the comparable period of 2006.

In the 1st quarter 2007 unallocated segment incurred a loss on operating activity of PLN 64 million as compared to profit of PLN 49 million in the 1st quarter 2006. Negative result is a consequence of loss incurred by companies belonging to Mazeikiu Group and companies belonging to Unipetrol Group allocated to this segment.

OPTIMA program, implemented with an effect from 1 January 2006, brought considerable cost cutting results in the 1st quarter 2007 in the amount of PLN 88 million.

In the 1st quarter 2007, the Parent issued bonds in the amount of PLN 750,000 thousand under the Bond Issuance Program signed in November 2006. Within PKN ORLEN Group the Bond Issuance Program was utilized also by Unipetrol Group companies (Spolana and Paramo). The indebtedness connected with bond issuance in these entities amounted to PLN 599,332 thousand as at the end of the 1st quarter 2007.

V. DESCRIPTION OF FACTORS AND EVENTS, ESPECIALLY OF A NON-USUAL NATURE, WITH SIGNIFICANT IMPACT ON FINANCIAL RESULTS

The following significant events impacting financial positions of the foregoing condensed consolidated financial statements occurred in three-month period ended 31 March 2007:

1. Settlement of acquisition of Mazeikiu shares

In the period covered by this condensed consolidated financial statement squeeze out procedure, in accordance with Lithuanian law was performed. After settlement the mandatory tender PKN ORLEN acquired 39,569,492 shares for 10.25 LTL each, representing 5.58% of Mazeikiu's share capital. As it was presented at 31 December 2006 the share of PKN ORLEN in Mazeikiu Group was assumed at 100% for the purposes of consolidation.
Previously estimated purchase price was adjusted, what contributed to the change of value of goodwill of PLN 13,478 thousand, which was charged to retained earnings.

2. CO_2 emission rights

In the financial statements, the Group recognized the CO2 emission rights that were granted free of charge based on the binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention On Climate Change, adopted by the European Union. Emission rights granted free of charge are recognized in the balance sheet as intangible assets. The Group has recognized emission rights granted for the period of 3 years, as a difference between deferred income related to receipt of free of charge emission rights and its fair value at the date rights were granted.
Sale of emission rights is recognized as profit or loss in other operating revenues / expenses in the reporting period when the rights were sold. Profit / loss on sales of emission rights is determined as a difference between the net sales revenues and its carrying amount.

Information on granted emission rights and its balance sheet presentation	Quantity (Mg)	Value (in PLN thousand)
Emission rights acquired by the Group in 2005 for the 3-year accounting period	35 333 094	2 922 085
Actual use of emission rights in 2005	(10 310 051)	(852 153)
Actual use of emission rights in 2006 *	(10 459 646)	(883 441)
Sale of emission rights in 2006 (quantity and value in accordance with accounting records)	(734 951)	(63 175)
Sale of emission rights in I quarter 2007 (quantity and value in accordance with accounting records)	(557 715)	(46 274)
Remaining emission rights for 2007	13 270 731	1 007 042
Planned emissions In 2007	10 784 481	891 302
Estimated emissions In I quarter 2007	2 725 789	225 288

* As at the date of preparation of this condensed consolidated financial statement the decisions relating to settlement of CO_2 emission rights usage in 2006 were issued.

In the 3 months period ended 31 March 2007, the income from sales of CO2 emission rights of PLN 4,616 thousand was recognized.

As at 31 March 2007 the net value of granted emission rights in the consolidated balance sheet of the Group, being the difference between granted emission rights and deferred income related to receipt of rights free of charge, amounted to nil.

Information on emission rights acquired through the business combination with Mazeikiu Group	Quantity (Mg)	Value (in PLN thousand)
CO_2 emission rights as at 31 December 2006	3 617 481	88 771
Impairment allowance		(61 783)
CO_2 emission rights as at 31 March 2007	3 617 481	26 998
Planned emissions in 2007	2 048 333	19 162
Estimated emissions in I quarter 2007	467 548	11 453

As at 31 March 2007 the net value of granted CO2 emission rights in consolidated financial statement of the Group amounted to PLN 26,998 thousand.

VI. SEGMENT DATA

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the period ended		for the period ended		for the period ended		for the period ended		for the period ended		for the period ended	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Sales to external customers	10 079 386	8 248 174	2 348 915	1 956 231	732 149	846 157	245 360	250 519			13 405 810	11 301 081
Transactions with other segments	3 718 676	2 935 944	961 783	1 014 400	4 819	2 297	256 209	259 830	(4 941 487)	(4 212 471)	-	-
Settlement of hedging transactions	(491)	-	2 905	29 568	-	-	-	-			2 414	29 568
Total sales revenues	13 797 571	11 184 118	3 313 603	3 000 199	736 968	848 454	501 569	510 349	(4 941 487)	(4 212 471)	13 408 224	11 330 649
Total operating expenses	(13 639 586)	(11 107 782)	(2 877 624)	(2 701 157)	(656 237)	(786 710)	(552 527)	(458 204)	4 936 657	4 207 593	(12 789 317)	(10 846 260)
Other operating revenues	92 904	78 318	13 557	33 257	4 440	7 845	13 624	8 796			124 525	128 216
Other operating expenses	(128 229)	(42 153)	(79 956)	(22 141)	(2 347)	(12 614)	(26 418)	(12 042)	-		(236 950)	(88 950)
Segment result	122 660	112 501	369 580	310 158	82 824	56 975	(63 752)	48 899	(4 830)	(4 878)	506 482	523 655
Unallocated revenues of the Group											4 813	4 524
Unallocated costs of the Group											(136 533)	(112 073)
Profit (loss) on the sale of all or part of shares of related parties											-	1 280
Profit from operations											374 762	417 386
Financial revenues											47 747	146 982
Financial expenses											(260 461)	(168 245)
Share in profit from investments accounted for under equity method	(521)	(549)	-	-	(145)	3	53 868	47 298			53 202	46 752
Profit before tax											215 250	442 875
Income tax expense											(74 821)	(70 076)
Net profit											140 429	372 799

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the period ended		for the period ended		for the period ended		for the period ended		for the period ended	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Cost incurred to acquire property, plant and equipment and intangible assets	401 120	134 858	51 212	54 166	8 183	43 722	33 220	31 585	493 735	264 331
Unallocated cost incurred to acquire property, plant and equipment and intangible assets									19 336	8 392
Total cost incurred to acquire property, plant and equipment and intangible assets									513 071	272 723
Segment depreciation	344 553	259 290	156 224	201 082	45 775	48 370	66 012	50 335	612 564	559 077
Depreciation of unallocated assets									7 060	7 233
Total depreciation									619 624	566 310
Non-cash expenses other than depreciation	99 850	21 980	76 277	19 241	675	3 096	17 466	9 994	194 268	54 311

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the period ended		for the period ended		for the period ended		for the period ended		for the period ended	
	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006
Additions of impairment allowances	(88 479)	(16 195)	(72 656)	(9 194)	(666)	(3 012)	(15 132)	(7 785)	(176 933)	(36 186)
Unallocated allowances									(2 876)	(8)
Total additions of impairment allowances									(179 809)	(36 194)
Reversal of impairment allowances	37 494	23 686	6 279	16 781	1 361	4 334	6 648	6 528	51 782	51 329
Unallocated reversal of impairment allowances									1 471	4 422
Total reversal of impairment allowances									53 253	55 751

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:

- receivables allowances;
- inventories allowances;
- property, plant and equipment impairment allowances.

Allowances and reversals were performed in conjunction with occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment.

Allowances made in the Refining Segment concerned primarily impairment of petrol stations and warehouse bases. Allowances for idle assets and obsolete raw materials were recognized in other operations segment.

Geographical segments

The below table presents the Group's sales revenues by geographical segments for the three-month periods ended 31 March 2007 and 31 March 2006.

	Revenues from sale by geographical area	
	for the period ended	
	31 March 2007	31 March 2006
Poland	6 739 788	5 659 453
Germany	2 420 070	2 510 228
Czech Republic	2 152 686	1 507 546
Lithuania	603 701	1 013
Other countries	1 491 979	1 652 409
Total revenues from sale by geographical area	13 408 224	11 330 649

VII. CONTINGENT LIABILITIES AND ASSETS

1. Guarantees and sureties of PKN ORLEN Group in three-month period ended 31 March 2007

	31 December 2006	Increase/ (Decrease)	31 March 2007	Expiration of guarantee/ surety
guarantee of payment for the benefit of Lithuanian Bank in relation to mandatory trade offering for shares attributable to minority shareholders of Mazeikiu Group (released at 29 January 2007)	1 283 452	(1 283 452)	-	29.01.2007
guarantees issued by PKN ORLEN Group for the benefits of legal persons	62 560	21 158	83 718	30.06.2013
customs guarantees issued by Unipetrol a.s. and the Parent as collateral of liabilities to Customs Office due to import of merchandise	4 832	(13)	4 819	03.03.2008
collateral for factoring with recourse and for customers' liabilities related to the PayLink Card Agreement issued by ORLEN Oil Sp. z o.o. and ORLEN PetroTank Sp. z o.o.	4 092	28	4 120	30.09.2007
bid guarantees issued by PKN ORLEN Group for the benefit of legal persons	919	5 683	6 602	21.05.2007
Other	2 905	(204)	2 701	31.12.2010
Total guarantees and sureties:	**1 358 760**	**(1 256 800)**	**101 960**	

As at 31 December 2006 contingent liabilities of Mazeikiu Group are presented in accordance with IFRS 3 "Business Combinations" as liabilities arose at the day of acquisition.

2. Other contingent liabilities of PKN ORLEN Group in three-month period ended 31 March 2007

	31 December 2006	Increase/ (Decrease)	31 March 2007
excise tax guarantees (including collaterals submitted on behalf of PKN ORLEN Group and third parties in respect of movements of harmonized excise goods kept on warehouse under the excise tax suspension procedure)*	1 060 684	149 752	1 210 436
letter of credits	42 082	81	42 163
legal cases related to real estates with undefined legal status	23 153	(300)	22 853
anti trust proceeding of the Office for Competition and Consumers' Protection in respect of setting the price formula of anti-freeze engine coolant and glycol (detailed information in note VII.3.7)	14 000	-	14 000
legal cases	9 998	1 232	11 230
Total other contingent liabilities:	**1 149 917**	**150 765**	**1 300 682**
Total contingent liabilities (guarantees and sureties and other contingent liabilities)	**2 508 677**	**(1 106 035)**	**1 402 642**

* including as at 31 March 2007 excise tax guarantee of PKN Orlen S.A. in the amount of PLN 865,922 thousand related to products in production plant in Płock, tax warehouses and warehouse-bases (owned and belonging to third parties) as well as bank guarantees of PKN ORLEN S.A. in the amount of 232,460 thousand submitted on behalf of Operator Logistyczny Paliw Płynnych (former NAFTOBAZY Sp. z o.o.) as excise tax guarantees

3. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies and on other risks of parent company and its subsidiaries

3.1 Excise tax contingent liability of Rafineria Trzebinia S.A.

On 15 October 2004, the Head of the Customs Office in Kraków had decided to institute tax proceedings in order to determine the excise tax liability of Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all necessary expert opinions confirming correctness of the applied classification of goods taxed with 0 PLN rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter by the second instance authority.

On 5 May 2005, in reply to its motion to suspend execution of a decision until the date of settling the matter, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.

On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined Rafineria Trzebinia S.A.'s appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.

On 28 July 2005 the Head of the Customs Office, upon receipt of the Director of the Customs Chamber decision, without providing any further evidence in the case, determined an excise tax liability for May-September 2004 at total amount of about PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary opinions confirming correctness of the applied classification of goods taxable with 0 PLN rate, which according to the Management Board guarantees a positive outcome of the proceedings.

On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and filed a motion to suspend execution of the decisions until the case is decided by the second instance authority. On 11 August 2005, the Head of the Customs Office in Kraków, having examined the appeal of Rafineria Trzebinia S.A. of 8 August 2005, suspended execution of the decision in respect of setting the excise tax liability for the period of May-September 2004 at about PLN 100 million. On 14 November 2005 the Director of the Customs Chamber in Kraków had decided to refuse to accept evidence from the hearings of witnesses using argument that it does not constitute any significant circumstances in respect of the case. In addition, the Customs Office declined to accept corrections to excise tax declarations submitted by Rafineria Trzebinia S.A. for the period May-September 2004, resulting from the change in excise tax rate for technological oils from 60 PLN/Mg to 0 PLN. The Office declined acceptance based on the fact that there were proceedings in progress in respect of the case.

On 30 December 2005 the Director of the Customs Chamber in Kraków issued a decision keeping the first instance authority's decision in force. Rafineria Trzebinia S.A. prepared a complaint to the Woivodship Administrative Court against the decision of the Director of the Customs Chamber in Kraków together with a motion to suspend execution of the decision. The complaint and the motion to suspend execution of the decision were submitted to the Woivodship Administrative Court in Kraków on 3 February 2006. On 14 February 2006 the Director of the Customs Chamber in Kraków issued a decision on suspending execution of the decision until the case is decided by the Woivodship Administrative Court.

Until the present moment the case regarding the company's excise tax liability is in progress in front of the Woivodship Administrative Court and the outcome is unknown.

On 19 March 2007 Rafineria Trzebinia S.A. received a notification from the Customs Chamber in Kraków in respect of a submission a motion for compulsory entry made in the mortgage register by the District Court in Chrzanów for the benefit of the State Treasury. The mortgage register entry regarded both real estate owned and used under perpetual usufruct by Rafineria Trzebinia S.A. The real estates pledge for the excise tax liability for the period May-September 2004 as determined by the decisions issued by the Head of the Customs Office in Kraków. On 18 April 2007 Rafineria Trzebinia S.A. received decision dated 2 April 2007 of the District Court in Chrzanów, V Commercial Department of Commercial Register, dismissing the claim of the Director of the Customs Chamber in respect of a compulsory entry made in the mortgage register on real estates of Rafineria Trzebinia S.A.

The Management Board, based on the opinions of recognized tax advisors, states that in connection with the excise tax for technological oils proceedings in progress, there is a high probability of a positive outcome, based on the

evidence and arguments raised by Rafineria Trzebinia S.A.. As a result there is no provision related to the case in these condensed consolidated financial statements for the period ended 31 March 2007.

On 6 March 2007, the Management Board of Rafineria Trzebinia S.A. filed a motion to the Customs Office in Kraków to spread the payment of the disputable liabilities imposed based on decisions of the Head of the Customs Office in Kraków into installments.

On 5 April 2007, a decision of the Head of the Customs Office in Kraków was received by Rafineria Trzebinia. The Head of Customs Office disapproved the motion of the taxpayer, refusing to spread the tax liability into installments. On 6 April 2007, the Management Board of Rafineria Trzebinia S.A. appealed against the decision of the authority to the Head of the Director of the Customs Chamber in Kraków.
On 27 April 2007 the Head of the Customs Office in Kraków issued a permit to maintain tax consignment warehouse on the area of Rafineria Trzebinia S.A. until 30 April 2010.

Acting under the authorization from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003. On 30 November 2006 Rafineria Trzebinia S.A. received a control protocol related to the above period. On 14 December 2006 the Plenipotentiary of Rafineria Trzebinia S.A. raised reservations to the content of the protocol. The reservations regarded formal faults related to the protocol as well as to control proceedings. On 28 December 2006 the Head of Tax Control Office submitted the response to reservations raised by the Plenipotentiary of Rafineria Trzebinia S.A.

Termination date of control proceedings was extended to 29 June 2007.

On 12 May 2006 Rafineria Trzebinia S.A. received a decision of the Head of Tax Control Office in Kraków regarding institution of control proceedings with respect to reliability of calculation and settlement of value added tax and excise tax for the period from 1 January 2004 to 30 April 2004. On 15 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a control protocol related to the above described period. On 29 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. raised reservations and considerations to this protocol which included, among other matters, lack of legal basis for the control proceedings related to the specified period in conjunction with the decision of the Head of the Customs Office in Kraków dated 17 September 2004 that waived the proceedings on determination of excise tax liability for January, February and March 2004 due to lack of legal substance. In addition the Plenipotentiary raised reservations in respect of lack of legal opinion on the matter subject to control in the control protocol.

In a letter dated 6 February 2007, the Tax Control Inspector representing the Tax Control Office in Kraków presented the office's position in respect of reservations to the control protocol for the period January-April 2004 that had been raised by the Plenipotentiary.

Termination date of control proceedings was extended to 29 June 2007.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in these condensed consolidated financial statements for the period ended 31 March 2007.

On 22 October 2006 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Małopolska regarding institution of control proceedings with respect to value added tax liability for the period of January, February and April – August 2005. The termination date of the above proceedings is 30 April 2007.
On 26 February 2007 the Head of Tax Office in Małopolska, seated in Kraków, had decided to institute tax control proceedings with regard to setting of value added tax liability for March 2005.
The above proceedings concern intracommunity supplies of finished goods and merchandise.
On 11 May 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a notice of the Head of the Tax Office in Małopolska extending to 29 June 2007 the tax control proceedings with respect of value added tax liability for the period from January to August 2005.

On 10 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Kraków regarding institution of control proceedings with respect to excise tax liability for the period of November-December 2004. The proceedings concern deducting of input excise tax on purchased components with excise tax paid by the party not being an excise tax payer, from the output excise tax. The termination date of the above control proceedings is 31 May 2007.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in these condensed consolidated financial statement for the period ended 31 March 2007.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 500,715 thousand as at 31 March 2007. The share of PKN ORLEN in total voting rights at the General Shareholders' Meeting of Rafineria Trzebinia amounted to 77.15%.

3.2 The proceedings of the Energy Regulatory Office in Rafineria Trzebinia S.A.

On 24 March 2006 Rafineria Trzebinia S.A. received a notice from the Chairman of the Energy Regulatory Office regarding official institution of proceedings in respect of imposing a fine in connection with violating of concession obligations regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport and Directive 2003/17/EC of the European Parliament and of the Council of 3 March 2003 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels while on one hand effective 1 May 2004 Poland has become a member of the European Union whereas on the other hand no decrees of the Minister of Economy in respect of quality requirements for biofuels were available.
On 8 September 2006 the Chairman of the Energy Regulatory Office issued a decision imposing a fine of PLN 1 million in connection with alleged violating of concession regarding production of liquid fuels by Rafineria Trzebinia S.A. On 26 September 2006 the Management Board of Rafineria Trzebinia S.A. appealed via the Chairman of the Energy Regulatory Office to the Court of Competition and Consumer Protection, District Court in Warsaw, against the decision of the Chairman of the Energy Regulatory Office. The appeal regarded complete waiver of the decision. Unless waived, the Management Board of Rafineria Trzebinia appealed that the decision was changed in respect of the merit by waiver of the proceedings in front of the Chairman of the Energy Regulatory Office due lack of legal substance as Rafineria Trzebinia S.A. violated neither laws nor the concession obligations. The motion submitted by Rafineria Trzebinia included also a prejudicial query to the Court of Justice of the European Communities in Luxembourg via the Competition and Consumers Protection Court, regarding the application of the acquis communautaire based on article 234 of the ECT. The query was as follows: "Was Rafineria Trzebinia – a business entity registered in the Republic of Poland – entitled in 2006 to production of biofuels with a 20% fraction of biocontent in line with the standard EN 14214 and trade in biofuels in the Republic of Poland and other countries of the European Union, in accordance with the law of European Communities, in particular in accordance with the Directive 2003/30/EC of the European Parliament and of the Council on the promotion of the use of biofuels or other renewable fuels for transport, whereas the Republic of Poland did not implement the provisions of the above stated Directive within the period specified in the Directive?". On 6 December 2006 the Chairman of the Energy Regulatory Office submitted a response to the appeal, claiming waiver of the appeal as it identified no basis to change the decision in respect of the fine. Among other matters, the Chairman of the Energy Regulatory Office stated that the violation of the acquis communautaire as described by Rafineria Trzebinia S.A. did not occur as the fine was imposed on the Company in relation to trade of fuels not meeting quality standards defined in the decree dated 19 October 2005 in the Republic of Poland, and in conjunction with this case the decision was effective solely in the Republic of Poland and consequently it could not violate acquis communautaire. In accordance with article 130 § 2 of Administrative Proceedings Code the payment of the fine is suspended until the appeal is resolved.
On 2 April 2007 the Competition and Consumers Protection Court in Warsaw pronounced a sentence giving consideration to Rafineria Trzebinia S.A.'s appeal and changing the decision of the Chairman of the Energy Regulatory Office in respect of the fine of PLN 1,000 thousand by waiver of proceedings.
According to the Court, Rafineria Trzebinia S.A. traded in biofuels with a 20% fraction of biocontent in line with terms of the concession regarding production of liquid fuels.
None of the concession terms banned production of fuels with specified parameters. According to the concession Rafineria Trzebinia S.A. is obliged to control the quality of fuels currently and to issue quality certificates which may concern parameters set by law (for example decrees) or mutual agreements. As in the period covered by the decision of the Chairman of the Energy Regulatory Office there were no quality standards set by decrees defining quality requirements for biocontent and liquid biofuels and Rafineria Trzebinia S.A. produced biofuels by the terms of the concession and the agreements and issued quality certificates confirming that parameters of fuels produced are in line with parameters set in the agreements, it means that Rafineria Trzebinia could produce biofuels with a 20% fraction of biocontent.
This way the Court admitted that the decision of the Chairman of the Energy Regulatory Office offended article 56 par. 1 point 12 of Energy Law, changed the decision and waived the proceedings due lack of legal substance. As at the date of preparation of these condensed consolidated financial statements Rafineria Trzebiania S.A. has not received the appeal of the Chairman of the Energy Regulatory Office against the court verdict mentioned above.

3.3 Standing of Rafineria Trzebinia S.A. in connection with its management's decision to temporarily discontinue production and sales of the ON BIO biofuel containing 20% of FAME esters

The immediate reason for the decision to temporarily discontinue production and sales of the biodiesel containing 20% of FAME esters was the Decree of the Minister of Finance reducing allowances to excise tax liabilities. As a consequence, the financial standing of Rafineria Trzebinia S.A., an owner of modern biofuel production installation, deteriorated and the bank creditors of Rafineria Trzebinia S.A. demanded additional collateral on Rafineria Trzebinia's property.
The establishing of collateral must have been preceded by conclusion of agreements between Rafineria Trzebinia S.A. and PKN ORLEN and banks: Pekao S.A. and BPH S.A.
PKN ORLEN as a strategic investor has actively engaged in financial standing improvement process of Rafineria Trzebinia S.A.
On 5 March 2007, an agreement was signed in Warsaw between Rafineria Trzebinia S.A., PKN ORLEN, Pekao S.A. bank and BPH S.A. bank. The agreement regarded restructuring of indebtedness of Rafineria Trzebinia S.A. to banks and PKN ORLEN.

The agreement defined conditions for repayment of bank loan liabilities of Rafineria Trzebinia S.A. due to Pekao S.A. and BPH S.A. banks as well as amounts due to PKN ORLEN. It has also provided that Rafineria Trzebinia S.A. has to present satisfactory legal and property collaterals that would secure repayment of financial liabilities to the banks and PKN ORLEN. According to the schedule contained in the agreement, on 29 March 2007 Rafineria Trzebinia S.A. has partially repaid its bank loan liabilities to PEKAO S.A. and BPH S.A. in the amounts of PLN 20,000 thousand and PLN 5,000 thousand, respectively.

The above described conditions of cooperation with the banks as well as the support granted by PKN ORLEN as a major shareholder would enable Rafineria Trzebinia S.A. to conduct usual business activities, implement stabilization strategies and rebuild positive customer relations. The afore actions will be performed until a stable tax laws that support alternative energy sources are implemented as well as a long-term biofuels promotion program, that is being prepared by the Ministry of Economy, is introduced.

After decreasing costs of raw materials used in biodiesel installation, the Management Board of Rafineria Trzebinia intends to trade in diesel oil with a 30% fraction of biocontent designated for particular car fleets. Production of new fuels is possible if positive sales profitability will be reached and a decree of the Minister of Economy defining the way of marking distributors selling the above mentioned liquid biofuels will be issued.

On 18 April 2007, after the approval of the corporate bodies, the Management Board of Rafineria Trzebinia S.A. signed an agreement with PKN ORLEN for composition of fuels with a fraction of biocontent up to 5%. The agreement will enable better utilization of assets such as warehouse spaces and biodiesel installation.

Net consolidated assets of Rafineria Trzebinia S.A. Group amounted to PLN 500,715 thousand as at 31 March 2007. The share of PKN ORLEN in total voting rights at the General Shareholders' Meeting of Rafineria Trzebinia S.A. amounted to 77.15%.

3.4 Claims and court proceedings – Tankpol Sp. z o.o.

In accordance with an agreement dated 20 December 2002, Tankpol Sp. z o.o.; presently Tankpol – R.Mosio i wspólnicy spółka jawna in Szczucin ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in connection to receivables due from Tankpol. In a law suit dated 11 August 2003 Tankpol demanded obligation of PKN ORLEN to transfer ownership of 324 shares in Petrotank and compensation of PLN 198 thousand. The demand was modified several times. Finally, in a note dated 22 January 2004, Tankpol modified its suit demanding compensation of PLN 36,384 thousand with interest from the date of law suit until the payment date. In case of PKN ORLEN's refusal to compensate, Tankpol demanded that the court obliged PKN ORLEN to transfer ownership of 253 shares in Petrotank to Tankpol.

On 22 March 2005 the District Court in Warsaw dismissed Tankpol's suit and adjudged PKN ORLEN with a compensation of relevant costs. On 4 May 2005 Tankpol appealed against the verdict and on 27 June 2005 PKN ORLEN submitted its response to the appeal. On 31 March 2006 the Court of Appeals changed the verdict of the District Court in Warsaw (which dismissed Tankpol's suit as a whole). The Court of Appeals pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in PetroTank to Tankpol. The Court of Appeals was convinced that PKN has appropriately executed the transfer of ownership agreement of 20 December 2002. The verdict of the Court of Appeals was legally binding and feasible, however both parties were entitled to submit an annulment to the Supreme Court. On 22 June 2006 Tankpol has submitted annulment from the verdict of the Court of Appeals. On 28 August 2006 PKN ORLEN responded to the annulment submitted by Tankpol. In its response PKN ORLEN disagreed with Tankpol's statement and claimed that it has appropriately executed the transfer of ownership agreement.

On 14 December 2006 the Supreme Court pronounced that it submitted the case for further examination to the Court of Appeals in Warsaw. According to justification of the verdict by the Supreme Court, valuation of shares presented by Tankpol should be taken into consideration (whereas the Court of Appeals omitted the valuation in its verdict). On 6 March 2007 the seating in front of the Court of Appeals in Warsaw took place. The verdict was pronounced on 15 March 2007. The Court of Appeals dismissed Tankpol's claim in respect of money compensation. The case was revoked to repronouncement in front of the District Court in Warsaw.

3.5 Disposal of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezależny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Elektroenergetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,500 thousand and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the agreement dated 8 June 2000 regulating the cooperation between shareholders of NOM.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce ("PCC") in Warsaw, regarding the determination of the invalidity of the sale of shares agreement.
On 26 April 2005 the Company received a verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw. The verdict of the arbitration court is unfavorable for PKN ORLEN. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable were changed. The Company provided an allowance for the receivable in the amount of PLN 111,500 thousand presented in the financial statements for the year 2004.
On 20 May 2005 the Company issued a complaint to the District Court in Warsaw regarding waiving of the above verdict of the Court of Arbitration together with a motion to suspend execution of the verdict. On 26 June 2005 the District Court issued a decision to dismiss the motion to suspend execution.
On 6 April 2006 the District Court in Warsaw, XX Commercial Department, issued a verdict in respect of PKN ORLEN's complaint against the verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, dated 14 April 2005, in the case against PSE S.A. regarding sale of shares in NOM. The District Court dismissed PKN ORLEN's complaint and adjudged the return of proceeding's expenses of PLN 7 thousand for the benefit of PSE.
On 27 April 2006 PKN's attorney received the justification of a verdict from the District Court. Upon analysis of the justification, PKN decided not to appeal against the verdict. The verdict is legally binding.

On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111,500 thousand.
On 8 August 2005 PKN ORLEN received a letter from PSE where PSE stated it was not bound to settle the penalty.
On 15 September 2005 PKN ORLEN filed at the Court of Arbitration of PCC in Warsaw a suit for adjudication of the contractual penalty of PLN 33,453 thousand. On 7 August 2006 PKN ORLEN changed the suit by the letter submitted to the Court of Arbitration of PCC, demanding contractual penalty of PLN 111,511 thousand with interest.
According to the declaration of the Court of Arbitration of 7 December 2005, PKN ORLEN submitted a letter with motions of evidence and the statement regarding eventual suspension of the proceedings. PKN ORLEN's attorney received analogous letter from PSE. On the seatings dated 31 August 2006 and 1 September 2006 the Court of Arbitration acquainted with testimonies of both parties' witnesses.
On the following seatings dated 29 November 2006 and 14 December 2006 the Court acquainted with testimonies of both parties' witnesses.
On the seating dated 14 December 2006 the Court obliged both parties to prepare and submit letters with recapitulation of stands until the end of January 2007. The letter was submitted by PKN ORLEN.

As of 31 March 2007, shares in NOM were presented in these condensed consolidated financial statements as investments in associates accounted under equity method in the net amount of PLN 18 million, after recognition of an impairment of shares allowance.

3.6 Power transfer fee in settlements with Zakład Energetyczny Płock S.A.

According to the paragraph 36 of the Decree of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Official Journal No. 1 dated 15 January 2001), the method of settlement of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of system fee calculation has been allowed. Following the decision of the Chairman of the Energy Regulatory Office, the electricity sale agreement between Zakład Energetyczny Płock S.A. ("ZEP S.A.") and PKN ORLEN was signed. The agreement did not determine contentious issues concerning system fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. ZEP S.A. called on PKN ORLEN to compromise agreement and then filed a law suit against PKN ORLEN, while the District Court in Warsaw summoned PKN ORLEN

as a co-defendant in a court case Polskie Sieci Energetyczne against ZEP S.A. The Company's Management Board estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created a provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the court decision PKN ORLEN was obliged to pay a liability connected with the system fee to ZEP S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for the business risk was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN S.A. is an outside intervener, is decided. The amount of claim is updated by the amount of interests.

On 3 August 2005 a complaint was filed against the above decision of stay of proceedings. On 12 December 2005 the Court of Appeal in Warsaw, I Civil Department, dismissed the complaint regarding the decision of stay of proceedings. The above described proceedings have not yet been ended. According to the decision of the Polish Constitutional Tribunal issued on 25 October 2006, suspended proceedings may again be opened.

On 8 March 2007 the first seating of the case where PKN ORLEN acts as an outside intervener took place. The parties were entitled to declare its positions in front of the court. The next seating has been postponed for an indefinite period. The letter in proceedings on behalf of PKN ORLEN was sent to the court on 22 March 2007.

On 4 April 2007 the Company received the letter in proceedings of ZEP S.A. dated 22 March 2007, in which ZEP S.A. supported its statement in the case and claimed to waive the motion of PSE S.A. concerning issuance of a partial verdict and motions of evidence raised by PSE S.A.

On 6 April 2007 another letter in proceedings on behalf of PKN ORLEN as an outside intervener was sent to the court. In the letter PKN ORLEN approved the motion of ZEP S.A. to raise a legal query to the Polish Constitutional Tribunal and explained its statement in the case.

The Company received also the letter in proceedings of PSE S.A. dated 25 April 2007, in which PSE S.A. supported its claims and its statement included in the previous letters as well as presented its opinion about statements and motions presented in the letter of an outside intervener. Moreover, PSE S.A. supported and explained its motion concerning issuance of a partial verdict.

3.7 Anti-trust proceedings

As at the date of the preparation of these consolidated financial statements, the Company is a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") from 21 March 2005, an anti-trust proceedings were started in connection with an allegation that PKN ORLEN S.A. in Płock concluded an agreement with Lotos S.A. group in Gdańsk which limited competition on the domestic sale market of universal petrol U95 through an unanimous decision to give up production and distribution of U95 and thus eliminating competition on the domestic U95 sale market as well as excluding the risk of the market take-over by the competitor. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by the Chairman of OCCP.
The proceedings to take evidence are pending. They have been prolonged due to motions filed by PKN ORLEN S.A. in order to limit access rights to evidence and due to relative decisions that were issued in this respect by the Chairman of OCCP and which were sued at the Consumer and Competition Court by Lotos S.A. group. On 22 February 2006 the proxy of PKN ORLEN S.A. filed complaint against the decision of Chairman of OCCP refusing taking into account one of the PKN ORLEN's motions concerning limitation of access rights to evidence by Lotos S.A. group. On 14 April 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 31 May 2006, and subsequently until 31 August 2006. As at the date of preparation of these condensed consolidated financial statements the proceedings were not finalized. The decision on prolongation of the proceedings was also not delivered.
By virtue of the actual course of the proceedings, limited to court verification of decisions issued by the Chairman of OCCP, it is difficult to assess the risk that PKN ORLEN S.A. may be fined. However, in the light of lack of evidence that would indicate concluding of a prohibited agreement, the Company assesses risk of fine as low.

On 21 March 2005, the Company received a letter in which the Chairman of OCCP requested information on monoethylene glycol market and radiator liquid market in the years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze "Petrygo" liquid to radiators and prices for monoethylene glycols. In these proceedings the Chairman of OCCP issued a decision of 19 July 2000 imposing a fine in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the decision. On 13 August 2001 the Anti-Trust Court annulled fully the decision of the Chairman of OCCP, which accused PKN ORLEN S.A. of applying monopolistic

practice, at the same time annulling the fine. Consequently, in 2001 the provision was fully reversed in PKN ORLEN. On 4 October 2001 the Chairman of OCCP submitted an annulment to the verdict.
On 10 July 2003 the Supreme Court annulled the verdict of the Anti-Trust Court dated 13 August 2001.
The case was conducted again by the District Court in Warsaw, the Consumer and Competition Court (former Anti-Trust Court), which at the seating on 21 July 2004 pronounced the judgment again revoking the appealed decision of the Chairman of OCCP.
Due to the letter from OCCP that had been received on 21 March 2005, PKN ORLEN answered the questions of OCCP on 11 April 2005. A response defining the adequate geographical market of monoethylene glycol was sent to OCCP on 6 May 2005. Upon the OCCP's request, additional information was provided on 18 May 2005, 7 December 2005 and 14 July 2006. On 5 October 2006 the Company submitted additional information concerning the method of calculation of base price of monoethylene glycol and explained the conditions concerning validity of price list for antifreeze liquid to radiators for packaging companies. On 19 October 2006 a notice from OCCP concerning conclusion of proceedings to take evidence was received. PKN ORLEN S.A. was given a fourteen-day period to get acquainted with the evidence gathered. On 3 November 2006, after getting acquainted with all gathered evidence, the Company submitted a motion to discontinue the proceedings or to issue a decision stating that no activities limiting competition described in art. 8 par. 1 and 2, point 5 and 6 of the Anti-trust Act occurred. The decision dated 29 December 2006 no. RWA-48/2006 was received on 16 January 2007. The Chairman of the Office for Competition and Consumers' Protection decided that PKN ORLEN violated laws by limiting competition and abusing dominant position on the domestic monoethylene glycols market. The violation regarded acting against the creation of the indispensable conditions for setting or development of the competition through unfair setting of the price formula of anti-freeze engine coolant Petrygo. The setting was acknowledged as inadequate to increase in price of glycol (basis raw material for this coolant). The Chairman of OCCP ordered to abandon the practice and imposed a penalty in the amount of PLN 14,000 thousand.
On 29 January 2007 PKN ORLEN filed a cancellation to this decision to the District Court in Warsaw, the Consumer and Competition Court. As at the present date, the date of the seating in respect of the cancellation has not yet been set.

The financial statements do not include provisions related to the above proceedings as in the view of the Management Board of PKN ORLEN, upon receipt of independent legal opinions, a risk that the Company is charged with a fine is remote. However due to the actual status of proceedings related to PETRYGO these condensed consolidated financial statements include contingent liability in the amount of PLN 14,000 thousand.

3.8 Investment relief

In accordance with tax regulations, in force in previous years, the Group companies reduced the taxable income for the purposes of corporate income tax by the following titles:
- investment expenditures incurred in a given tax year (investment relief)
- 50% of the previous year's investment relief (investment premium).

During the period 2002-2003 the Group companies reduced the taxable income by investment relief and investment premium in the following amounts:

Year of deduction	Investment relief	Investment premium
2002	14 234	49 222
2003	-	6 923
	---	---
Total	**14 234**	**56 145**

Despite the fact that the investment relieves and investment premiums are of contingent nature, the Group companies do not identify a risk that its right to the deductions might be denied by the tax authorities. The Group companies do not also identify a risk of losing the right to relieves and premiums due to breach of conditions which in effect oblige to return the amounts deducted.
Due to acquisition of assets in the Czech Republic, PKN ORLEN Group is subject to regulations included in investment relieves act and income tax act being in force in the Czech Republic. According to Czech regulations investment relieves are of contingent nature. Breach of certain conditions results in losing the right to the investment relief and obliges to return of the relief (repayment of tax liability for all years, in which the relief was used) increased by the appropriate fines.

As at the date of preparation of these financial statements Unipetrol Group companies have utilized PLN 40,451 thousand of investment relieves.

In Lithuania of investment relief is regulated by tax law and individual agreements signed between the company and the government of Lithuania. In accordance with the law, part of profit designated for investment is taxed with 0% rate. The State Tax Inspection is authorized to collect tax related to unused tax relief, which was improperly calculated and not fully paid within the 5 years period.

As at the date of preparation of these financial statements Mazeikiu Group companies have utilized PLN 26,087 thousand of investment relieves.

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

In 2003-2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.
In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.
Agrofert Holding a.s. agreed that PKN ORLEN S.A. disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

On 25 January 2006 PKN ORLEN received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500 with interests. The court proceeding in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress.

On 20 February 2006 the Management Board of PKN ORLEN has decided to withdraw (in the understanding of the Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s. and Synthesia a.s. (formerly: ALIACHEM a.s.) shares.

On 9 May 2006 the Company's attorney received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of the second law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute, similarly to the first one commenced by Agrofert Holding a.s., amounts to EUR 77,266,500 with interests. The arbitration proceedings initiated by this law suit are currently in progress.

On 5 July 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of the third law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute amounts to CZK 409,102,494 (approximately EUR 14 million) plus interests.
The arbitration proceedings initiated by this law suit are currently in progress.

On 13 December 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of the fourth law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of compensation of loss related to unfair competition, illegal violation of reputation of Agrofert Holding a.s.
The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interests. The amount claimed by Agrofert Holding a.s. is analyzed by the Company's legal advisors, and the arbitration proceedings are in progress.

As at the date of preparation of these financial statements, the parties are conducting mediations aimed at amicable settlement of the dispute in respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V. The Management Board of the Company hopes that, as a consequence of series of mediation meetings, the Company and ConocoPhillips will soon finalize the mediation process with favorable outcome to both parties.

The foregoing financial statements include the provision to cover the potential negative financial effects related to execution of the agreements.

3.10 Risk connected with agreements with DEZA a.s.

In August and September 2005 Unipetrol a.s. received letters from Deza a.s., requesting execution of the agreements regarding sale of shares in Agrobohemie a.s. and Aliachem a.s. (presently Synthesia a.s.). Unipetrol a.s. and Deza a.s. each own 50% shares in Agrobohemie a.s. The shareholder structure in Synthesia a.s. is as follows: Agrobohemie a.s. owns 55.01% shares, Unipetrol a.s. – 38.79% and Deza a.s. – 4.67%. The remainder of 1.53% is owned by minority shareholders of Synthesia a.s.
Letters received from Deza regarded the agreements for future payable assignment of shares, concluded between Unipetrol a.s. and Deza a.s. in relation to shares in Agrobohemie a.s. and Synthesia a.s. on 12 October 2000 and 15 August 2001, respectively. The Management Board of Unipetrol a.s., having thoroughly analyzed concluded agreements and received letters, has determined that these documents contain vital legal faults as well as are incompliant with best market practice. In conjunction with this fact the Management Board of Unipetrol a.s. has proposed that Deza a.s. modified the transaction documents in order to ensure its compliance with binding Czech law as well as market standards and practices. In spite of endeavors of Unipetrol a.s., Deza a.s. has rejected proposals of the Management Board of Unipetrol a.s. and on 26 January 2006 it issued a law suit in respect of settlement of contractual penalties arguing that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In accordance with the above mentioned agreements, Deza a.s. has calculated the amount of the penalty in the amount of CZK 1.5 million per day. On 22 August 2006 Deza a.s. issued a law suit in respect of execution of the agreements concerning assignment of shares and a law suit in respect of damages arguing in both cases that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In the second half of 2006 Unipetrol a.s. and Deza a.s. commenced negotiations in order to achieve potential compromise in both cases aside court proceedings. Until the date of preparation of these condensed consolidated financial statements the negotiations have not been finished and no agreement has been signed related to this cases. In spite of endeavors of Unipetrol a.s. related to conclusion of an agreement acceptable by both parties, probability of concluding of such an agreement is difficult to predict.
In relation to the fact that no compromise agreement has been signed between Unipetrol a.s. and Deza a.s., it may be suspected that the court proceedings presently in progress will be continued. The completion date for these proceedings as well as final decisions related to nullity of agreements, payment of contractual penalties or indemnities for the benefit of Deza a.s. are difficult to be defined. Court proceedings in the Czech Republic usually last a few years depending on circumstances.
In addition, Unipetrol a.s. has currently no access to any business information connected with future development of Agrobohemie a.s. and Synthesia a.s. and is unable to manage, control or influence the financial and operating standing of both entities due to the fact that they are controlled by Deza a.s. The feasibility of sale of shares by Unipetrol a.s. to any third party entities is limited in this situation.
The above described circumstances may have significant negative impact on value of shares of Unipetrol a.s. in Agrobohemie a.s. and Synthesia a.s. By virtue of uncertainties in relation to future outcome of court proceedings as well as due to difficulties in determination of the fair value of shares, neither impairment allowance in respect of the value of shares was recognized nor was provision for contractual penalties created in the financial statements.

Due to loss of significant influence of Unipetrol Group on associated companies: Synthesia a.s., Agrobohemie a.s. as of 30 September 2005, these assets were accounted for using the equity method and included in the consolidated balance sheet of Unipetrol a.s. as at 31 March 2007 as long-term financial investments of PLN 504,610 thousand (translated from CZK using the exchange rate applicable for 31 March 2007).

VIII. SIGNIFICANT EVENTS DURING THE PERIOD FROM 1 JANUARY 2007 TO THE DATE OF PREPARATION OF THIS REPORT, PRESENTED IN THE REGULATORY ANNOUNCEMENTS

1. The Management Board of Rafineria Trzebinia S.A. has decided to temporarily discontinue production and sales of the bio-fuel ON BIO containing 20% of FAME esters

PKN ORLEN informed in its regulatory announcement no. 1/2007 that on 3 January 2007 it was informed that Management Board of Rafineria Trzebinia S.A. had decided to temporarily discontinue production and sales of the bio-fuel ON BIO containing 20% of FAME esters (“ON BIO”).

The decision was made as the result of the Minister of Finance Decree (“Decree”) dated 22 December 2006 that changed the previous law referring to exemptions from excise tax (Official Journal No. 243/2006, item 1766), effective from 1 January 2007.

After detailed economical analysis, the Management Board of Rafineria Trzebinia S.A. has estimated that, due to the legal changes introduced by the Decree, the net loss of Rafineria Trzebinia S.A. will amount to approximately PLN 2.5 – 3 million in January 2007. The production of ON BIO was suspended until the new regulations justifying production of this particular bio-fuel were introduced.

In this situation, the Management Board of Rafineria Trzebinia S.A. decided to concentrate on trading and marketing activities on the sale of FAME esters on foreign markets only.
The announced change in the tax regulations caused the necessity of the renegotiations by Rafineria Trzebinia S.A. of supply contracts for raw materials used in the production of ON BIO.
The Management Board of Rafineria Trzebinia S.A. has also made a decision to discontinue the investment projects aimed at development of current bio-fuel production capacity. Detailed information was presented in note VII 3.3.

2. PKN ORLEN has gained the exclusive rights to supply Mozeikiu Nafta with crude oil

PKN ORLEN informed in its regulatory announcement no. 3/2007 that on 5 January 2007 that it signed an agreement with AB Mazeikiu Nafta ("Mazeikiu") that gives to PKN ORLEN the exclusive rights to supply Mazeikiu with crude oil ("Agreement"). The Agreement was signed in connected with the centralization of crude oil purchases to the PKN ORLEN Group, including supplies to the refineries in Poland, the Czech Republic and Lithuania.
The Agreement was concluded for an indefinite period and came into force on the date of signing. The crude oil deliveries associated with the Agreement will be realized with the use of the "Druzhba" pipeline and through the marine terminal in Butinge.
As at the date of signing the Agreement, the estimated value of the crude oil supplies to Mazeikiu, realized within the Agreement in the first five years was assessed at the level of approximately USD 19 billion (i.e. approximately PLN 56.5 billion, based on USD/PLN average exchange rates as of 5 January 2007, announced by the National Bank of Poland).

3. Receipt of the decision of the Chairman of the Office of Competition and Consumer Protection

PKN ORLEN informed in its regulatory announcement no. 5/2007 that on 16 January 2007 the Plenipotentiary of the Company received the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") dated 29 December 2006 acknowledging PKN ORLEN of applying the competition limiting practice, violating the prohibition included in art. 8 par. 1 and par. 2 point 5 of the Competition and Consumer Protection Act, abusing dominant position by PKN ORLEN on the domestic monoethylene glycols market by acting against the creation of the indispensable conditions for setting or development of the competition through unfair setting of the price formula of Petrygo (anti-freeze engine coolant) which was deemed inadequate in relation to increase of monoethylene glycol price. Decision of the Chairman of the OCCP imposed a penalty in the amount of PLN 14 million on PKN ORLEN. Decision of the Chairman of the OCCP referred to the anti-trust proceedings started on 17 November 1999, in consequence of which on 19 July 2000 the Chairman of the OCCP imposed a penalty in the amount of PLN 40 million on PKN ORLEN. PKN ORLEN is entitled to submit an appeal to the District Court in Warsaw – Competition and Consumer Protection Court. For detailed information please refer to note VII 3.7.

4. PKN ORLEN has signed an agreement with PETRACO Oil Company Ltd for crude oil deliveries

PKN ORLEN informed in its regulatory announcement no. 6/2007 that on 17 January 2007, PKN ORLEN signed an agreement with Petraco Oil Company Limited ("Petraco"), seated in Guernsey, for crude oil deliveries via the "Druzhba" pipeline to PKN ORLEN for 3,360 thousand tonnes of REBCO crude oil annually ("the Agreement"). The crude oil delivered to PKN ORLEN will be based on Rosneft reserves. The validity of the Agreement covers the period from 1 January 2007 until 31 December 2011, with the option to prolong it for an additional year or longer.

In case of lack of deliveries or delays, the Agreement requires the payment of contractual penalties that exceed the equivalent in PLN of EUR 200 thousand based on the average exchange rate as of the day of signing the Agreement, announced by the National Bank of Poland. Payment of contractual penalties does not exclude the right for PKN ORLEN to claim for compensation exceeding the value of the penalties.

At the date the Agreement was signed, the estimated value of the crude oil supplies to PKN ORLEN in the period until 31 December 2011 amounted to ca. USD 6 billion (i.e. approximately PLN 18.1 billion, based on USD/PLN average exchange rate as of 17 January 2007, announced by the National Bank of Poland).

5. Changes in the Management Board of PKN ORLEN

PKN ORLEN informed in its regulatory announcement no. 7/2007 that the Supervisory Board of PKN ORLEN, acting in accordance with par. 8 section 11 point 1 of the PKN ORLEN Articles of Association, following its meeting on 18 January 2007, had dismissed Mr. Igor Chalupec from the position of the President of the PKN ORLEN Management Board with effect from 18 January 2007 with the majority of its votes. Mr. Igor Chalupec held position of the President and Chief Executive Officer of the PKN ORLEN Management Board from 1 October 2004.

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

6. PKN ORLEN signed agreements for sale of ethylbenzene, butadiene and C4 fraction with DWORY S.A.

PKN ORLEN informed in its regulatory announcement no 8/2007 that on 18 January 2007 PKN ORLEN signed three long-term agreements with Firma Chemiczna Dwory S.A. ("DWORY S.A.") seated in Oświęcim, Poland. The agreements were signed for sale of ethylbenzene, butadiene 1.3 and C4 fraction by PKN ORLEN to DWORY S.A.
The first agreement concerns the sale of ethylbenzene by PKN ORLEN to DWORY S.A. The annual quantity delivered will amount to 120 thousand tonnes, however not less than 105 thousand tonnes ("Ethylbenzene Agreement"). The estimated total value of the Ethylbenzene Agreement (i.e. at least in 15 years of its duration) amounts to approximately PLN 6 billion. Sales of ethylbenzene will commence at latest on 1 January 2010, however PKN ORLEN has the right to one nine-month period of delay in commencing of deliveries without any consequence. The Ethylbenzene Agreement is effective from 18 January 2007 and cannot be terminated within 15 years from the date of the initial ethylbenzene delivery.
The second agreement concerns the sale of butadiene 1.3 by PKN ORLEN to DWORY S.A. in the quantity of at least 57 thousand tonnes in 2007 and at least 60 thousand tonnes in the period between 1 January 2008 and 31 December 2023 ("Butadiene Agreement"). PKN ORLEN will supply with at least 897 thousand tonnes of butadiene 1.3 in total during the contractual period of the Butadiene Agreement. The estimated total value of the Butadiene Agreement amounts to approximately PLN 2.5 billion.
The third agreement concerns the sale by PKN ORLEN of a C4 fraction to DWORY S.A. in the quantities specified in an annually updated plan of deliveries, but amounting to at least 20.6 thousand tonnes in 2007 ("C4 Fraction Agreement"). The C4 Fraction Agreement was signed for the period from 1 February 2007 to 31 December 2022. The estimated total value of the C4 Fraction Agreement amounts to approximately PLN 68 million.

The conclusion of the three above agreements is connected with the commencement of activities of Etylobenzen Płock Sp. z o.o. ("Etylobenzen Płock"), in which PKN ORLEN holds 51% and DWORY S.A. holds 49% stake in the share capital. On 18 January 2007 PKN ORLEN signed an agreement on the strategic cooperation with DWORY S.A. Pursuant to the agreement, PKN ORLEN is obliged to conclude the share purchase agreement related to shares in Etylobenzen Płock, and DWORY S.A. is obliged to sell all of its shares in Etylobenzen Płock, i.e. 588 shares with a nominal value of PLN 10 thousand each and total nominal value of PLN 5,880,000 thousand, representing 49% stake in the share capital of Etylobenzen Płock. This share purchase agreement will be concluded at a date specified by PKN ORLEN, but not later than on 30 June 2007.
See also: regulatory announcement no. 62/2006 dated 17 October 2006.

7. Signing the agreement with Deutsche BP by ORLEN Deutschland

PKN ORLEN informed in its regulatory announcement no. 9/2007 that on 25 January 2007 ORLEN Deutschland AG signed a one-year agreement with Deutsche BP Aktiengesellschaft. The subject of the agreement concerns sale of fuels to ORLEN Deutschland AG in the period between 1 January 2007 and 31 December 2007. The estimated value of the transaction amounts to EUR 900,000,000, i.e.: approximately PLN 3,490,650,000 thousand based on EUR/PLN average exchange rate as of 25 January 2007, announced by the National Bank of Poland.

8. The acceptance of the agreement on sale of shares in Kaucuk a.s. by the Management and Supervisory Boards of the Unipetrol a.s.

PKN ORLEN informed in its regulatory announcement no. 10/2007 that on 29 January 2007 the Management Board of Unipetrol a.s. accepted the conditions of the agreement on sale of 100% shares in Kaucuk a.s. seated in Kralupy, on the Vltavou, Czech Republic, the subsidiary of Unipetrol a.s. ("Share Purchase Agreement") between Unipetrol a.s. as a seller and Firma Chemiczna Dwory S.A., seated in Oswiecim, Poland ("Dwory"), as a buyer. The conditions of the Share Purchase Agreement had been accepted by the Supervisory Board of Unipetrol a.s.
The Management Board of Unipetrol a.s. accepted the conditions of the agreement concerning the construction and operation of a new butadiene unit ("Cooperation Agreement") between Unipetrol a.s., Kaucuk a.s., Chemopetrol a.s., seated in Litvinov, Czech Republic and Firma Chemiczna Dwory S.A.. The subject of the Cooperation Agreement is the establishment of a joint-venture for the purposes of the construction and operation of a new butadiene unit on the industrial area in Kralupy upon Vltavou, Czech Republic.
The conditions of the Cooperation Agreement had also been accepted by the appropriate corporate bodies of Chemopetrol, Kaucuk a.s. and Firma Chemiczna Dwory S.A.

9. Conclusion of the Agreement on Share Purchase of Kaucuk by Unipetrol a.s. and Firma Chemiczna Dwory S.A.

PKN ORLEN informed in its regulatory announcement no. 11/2007 that on 30 January 2007 UNIPETROL a.s., seated in Prague, Czech Republic ("Unipetrol"), as a seller, Firma Chemiczna Dwory S.A., seated in Oświecim, Poland ("Dwory"), as a buyer, signed the Share Purchase Agreement on sale of 6,236,000 ordinary shares ("Purchased Shares") of Kaucuk, seated in Kralupy upon Vltavou, Czech Republic.

The Purchased Shares represent 100% stake in share capital of Kaucuk with a par value of CZK 1,000 per share (i.e. approximately PLN 139.2 based on CZK/PLN average exchange rate as of 29 January 2007, announced by the National Bank of Poland) and represent 100% of the total number of voting rights at the General Shareholders Meeting of Kaucuk.

The purchase price for shares amounted to EUR 195,000 thousand (i.e. approximately PLN 765,180 thousand based on EUR/PLN average exchange rate announced on 29 January 2007 by the National Bank of Poland) and will be contributed in cash by Dwory.

The Share Purchase Agreement was signed on 30 January 2007, but the closing of the transaction will occur upon fulfillment by both Unipetrol and Dwory of the conditions precedent, which should take place within the next two or three quarters. The conditions precedent include, among others
- receipt of all necessary clearances of the relevant anti-monopoly authorities to the sale of the shares in Kaucuk to Dwory and the transactions scheduled in the Share Purchase Agreement (including the creation of a joint-venture between the Unipetrol Group and Kaucuk for the purposes of the construction and operation of a new butadiene unit),
- acknowledgement of results of the environmental audits concerning the land owned by Unipetrol and used by Kaucuk, in order to identify present environmental issues,
- conclusion of the commercial contracts between the Unipetrol Group and Kaucuk, based on the already-agreed principles which will assure the continuous activity of the Unipetrol Group.

Simultaneously to the Share Purchase Agreement, on 30 January 2007 Unipetrol, Dwory, Chemopetrol and Kaucuk concluded the Cooperation Agreement in the matter of construction and operation of a new butadiene unit (the "Cooperation Agreement"), Pursuant to the Cooperation Agreement, selected subsidiary of the Unipetrol Group and Kaucuk will establish a joint-venture for the purposes of construction and operation of the new butadiene unit. The participating interest in the new company as well as in costs of establishing and costs of further operations will be divided between the Unipetrol Group (51% stake) and Kaucuk (49% stake).

The conclusion of the Share Purchase Agreement and the Cooperation Agreement involves liabilities of both Unipetrol and Dwory regarding the past and future activities of Kaucuk. Three main areas of potential financial consequences are:
- a misrepresentation or a breach of the representations and warranties provided by either Unipetrol or Dwory,
- liabilities of Kaucuk related to the period before or after the closing of the transaction in respect of environmental issues,
- potential changes to the fine recently imposed on Kaucuk and Unipetrol by the European Commission regarding anti-monopoly proceedings.

10. The Bank of New York decreased share in the total number of votes at PKN ORLEN's General Meeting below 5%

PKN ORLEN informed in its regulatory announcement no. 12/2007, that on 30 January 2007, PKN ORLEN was informed that The Bank of New York, depositary of PKN ORLEN's Depositary Receipts signed on the base of shares issued by the PKN ORLEN („Depositary Receipts"), decreased its share in the total number of voting rights on the general meeting of PKN ORLEN. This change was made as a result of the cancellation by The Bank of New York of the part of the Depositary Receipts on 22 January 2007. Due to this fact, The Bank of New York on 22 January 2007 owned 21,183,234 shares of PKN ORLEN, which is equal to 21,183,234 votes at the General Meeting of PKN ORLEN (representing 4.95% of the initial capital of PKN ORLEN and 4.95% of the total voting rights at General Meeting in PKN ORLEN).
Until 22 January 2007 The Bank of New York owned 21,847,034 shares of PKN ORLEN, which was equal to 21,847,034 votes at the General Meeting of PKN ORLEN (representing 5.11% of the initial capital of PKN ORLEN and 5.11% of the total voting rights at General Meeting in PKN ORLEN).

11. The increase of initial capital of the Płocki Park Przemysłowo – Techniczny S.A.

PKN ORLEN informed in its regulatory announcement no. 15/2007, that on 5 March 2007, according to the decision of the District Court in Warsaw, XIV Commercial Department of National Commercial Register according to the date

of entry being 5 March 2007, based on the complete extract from Commercial Register dated 6 March 2007, the share capital of PKN ORLEN's subsidiary - Płocki Park Przemyslowo - Technologiczny S.A. (PPPT), was increased from the amount of PLN 50,460.86 thousand to PLN 53,439.54 thousand, i.e. by PLN 2.978 thousand.

12. Changes in the Management Board of PKN ORLEN

PKN ORLEN informed in its regulatory announcement no. 16/2007 that the Supervisory Board of PKN ORLEN, acting in accordance with par. 8 section 11 point 1 of the Company's Articles of Association, following its meeting on 15 March 2007, with the majority of votes, dismissed Mr Jan Maciejewicz, on his request, from the position of the Vice-President of the Management Board of Cost Management as well as on request of the President of the Management Board, unanimously, Mr Cezary Smorszczewski from the position of the Vice-President of the Management Board of Capital Investment.
At the same time, the Supervisory Board of PKN ORLEN S.A., on request of the President of the Management Board, appointed Mr Krystian Pater to the Member of the Management Board of PKN ORLEN.

13. Signing the agreement by ORLEN Deutschland with Shell Deutschland Oil

PKN ORLEN informed in its regulatory announcement no. 17/2007, that on 19 March 2007 ORLEN Deutschland AG concluded an agreement with Shell Deutschland Oil GmbH, based in Hamburg for the sale of fuels to Orlen Deutschland petrol stations in Germany in the period between 1 January 2007 and 31 December 2007. The estimated value of the transactions amounts to approximately EUR 800,000 thousand (i.e. approximately PLN 3,102,240 thousand, based on USD/PLN average exchange rates as of 19 March 2007, announced by the National Bank of Poland).

14. Purchase of shares in Ethylobenzen Płock Sp. z o.o. by PKN ORLEN

PKN ORLEN informed in its regulatory announcement no. 19/2007, that on 23 March 2007 PKN ORLEN signed with Firma Chemiczna Dwory S.A., seated in Oświecim, Poland ("Dwory"), the agreement on sale of shares ('Agreement') of ETYLOBENZEN Płock Sp. z o.o., seated in Płock.
As the result of the agreement, PKN ORLEN will buy from DWORY S.A., 588 shares of ETYLOBENZEN Płock Sp. z o.o. for PLN 10 thousand each and with total nominal value of PLN 5,880 thousand, representing 49% of share capital of ETYLOBENZEN Płock Sp. z o.o. i 49% of voting rights at the General Meeting of Shareholders of ETYLOBENZEN Płock Sp. z o.o., for the total price of PLN 6.016.444,59.
After the transaction settlement, PKN ORLEN will own 100% shares in the share capital of ETYLOBENZEN Płock Sp. z o.o., The share capital of ETYLOBENZEN Płock Sp. z o.o. amounts to PLN 12,000 thousand and is divided into 1,200 equal and indivisible shares with a nominal value of PLN 10 thousand each.
There are two persons in the Management Board of ETYLOBENZEN Płock Sp. z o.o.: President of the Management Board and Member of the Management Board. The President of the Management Board is an employee of PKN ORLEN.
PKN ORLEN's investment in ETYLOBENZEN Płock shares is considered as a short-term investment, it is the intention of the Management Board of PKN ORLEN to incorporate ETYLOBENZEN Płock into the structure of PKN ORLEN.
See also: Regulatory announcement no 8/2007 dated 19 January 2007 and Regulatory announcement no 62/2006 dated 17 October 2006.

15. Call of the Ordinary General Meeting of Shareholders of PKN ORLEN

PKN ORLEN informed in its regulatory announcement no. 20/2007, that on 19 March 2007, the Management Board of the PKN ORLEN acting in accordance with art. 399 par. 1 in connection with art. 395 par. 1 Code of Commercial Companies and par. 7 section 3 of the Statute of Association calls of the Ordinary General Meeting of PKN ORLEN SA („General Meeting"), to be held on 31 May 2007 at 12.00 in Płock at the following address: Dom Technika; ul. Kazimierza Wielkiego 41, Płock. The agenda of the meeting will be as follows:

1. Opening of the General Meeting.
2. Election of the Chairman of the Meeting.
3. Affirmation of the legality of the Meeting and ability to pass resolutions
4. Approval of the Agenda.
5. Election of the Vote Counting Commission.
6. Election of the Director's Report on the Company's Activities of the PKN ORLEN SA for the financial year 2006, with a motion concerning profit distribution for the financial year 2006.

7. Revision of the Supervisory Board's Report on the Director's Report on the Company's Activities of PKN ORLEN SA for the financial year 2006 regarding their conformity with the books and documentation, as well as with the actual status and the motion of the Management Board concerning profit distribution for the financial year 2006.
8. Revision of the Director's Report on the Company's Activities and consolidated financial statements of the PKN ORLEN Capital Group for the financial year 2006.
9. Voting on a resolution concerning approval of the Director's Report on the Company's Activities and financial statements of PKN ORLEN SA for the financial year 2006.
10. Voting on a resolution concerning approval of the Director's Report on the Company's Activities and consolidated financial statements of the PKN ORLEN Capital Group for the financial year 2006.
11. Voting on a resolution concerning the distribution of PKN ORLEN profit for the year 2006.
12. Voting on the resolutions concerning approval of the PKN ORLEN Management Board Members performance in 2006.
13. Voting on the resolutions concerning approval of the PKN ORLEN Supervisory Board Members performance in 2006.
14. Voting on a resolution concerning the transferring of the financial resources gathered within the Poland-wide Charity Fund, CPN-SOS, to the Company's Social Benefits Fund.
15. Voting on a resolution concerning approval of the Corporate Governance Principles for the issuers of shares, convertible bonds and pre-emptive conversion bonds admitted to public trading.
16. Examination and adoption of the resolutions regarding the divestment (including the sale, exchange, contribution in kind, donation) or lease-out of entities within the structure of the enterprise.
17. Voting on a resolution concerning changes to the composition of the Supervisory Board of PKN ORLEN.
18. Closure of the General Meeting of Shareholders.

16. Purchase of shares in Petro–Oil Lubelskie Centrum Sprzedaży from Orlen Oil by Orlen Petroprofit

PKN ORLEN informed in its regulatory announcement no. 21/2007, that on 25 April 2007 PKN ORLEN was informed that on 23 April 2007 its subsidiary, ORLEN PetroProfit Sp. z o.o., seated in Niemce near Lublin signed with the other PKN ORLEN subsidiary, ORLEN Oil Sp. z o.o., seated in Krakow the Agreement on the sale of the shares („Agreement") of the Company Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o. seated in Lublin.

As the result of the agreement, ORLEN OIL purchased from ORLEN PetroProfit 2,888 shares of Petro-Oil LCS for PLN 500 each, with total nominal value of PLN 1,444 thousand, representing 76% of share capital of Petro-Oil LCS and 76% of voting rights at the General Meeting of Shareholders of Petro-Oil LCS, for PLN 2,280 thousand. The sources of financing of the purchase of the shares of Petro-Oil LCS are the ORLEN OIL's own means.

PKN ORLEN owns 100% stake of share capital and of share capital of ORLEN PetroProfit, as well as 51,7% of share capital and total voting rights at the General Meeting of Shareholders of ORLEN OIL. Moreover, 6 from 7 Members of the Supervisory Board of ORLEN OIL are the employees of PKN ORLEN, whereas 3 from 3 Members of the Supervisory Board of ORLEN PetroProfit are the employees of PKN ORLEN.
Moreover, Rafineria Trzebinia S.A. owns 43.8% stake in the share capital of ORLEN OIL and Rafineria Nafty Jedlicze S.A. owns 4.5% stake in the share capital of ORLEN OIL.
PKN ORLEN owns 77.2% stake in the share capital of Rafineria Trzebinia S.A. and 75% stake in the share capital of Rafineria Nafty Jedlicze S.A.
With the exception of the relations mentioned above, there are no other connections between ORLEN PetroProfit, its managing or supervisory personnel, and the buyer of the shares – ORLEN OIL.

17. Signing the agreement by PKN ORLEN with Rafineria Trzebinia for the supply of diesel blended with bio-components

PKN ORLEN informed in its regulatory announcement no. 22/2007, that on 25 April 2007 PKN ORLEN signed service agreement with Rafineria Trzebinia S.A. , for the production of diesel - Ekodiesel Ultra – blended with up to 5% of fatty acid methyl ester ("Agreement") for PKN ORLEN.
The agreement is in force from 1 February 2007 and it was concluded for an indefinite period. The estimated value of the agreement for the period of five years amounts to approximately PLN 2 billion.
The subject of the Agreement are the services of Rafineria Trzebinia S.A. connected to the blending of diesel with up to 5% of bio-components (fatty acid methyl ester - FAME) in the Rafineria Trzebinia warehouse.
Moreover, PKN ORLEN, during the past 12 months, had signed with Rafineria Trzebinia the following agreements, for a total amount estimated at approximately PLN 126 million:
- 14 February 2007 – the agreement on logistic services of Rafineria Trzebinia S.A. for PKN ORLEN,
- 2 April 2007 – the agreement for the sale by Rafineria Trzebinia S.A. of fuel for pyrolysis to PKN ORLEN,
- 13 December 2006 - the agreement on sale by Rafineria Trzebinia S.A. of fatty acid methyl ester to PKN ORLEN S.A.,

- 13 December 2006 - the agreement on sale by Rafineria Trzebinia S.A. of Ekoterm Plus, i.e. light heating oil to PKN ORLEN,
- 16 November 2006 - the agreement on sale by Rafineria Trzebinia S.A. of fuel for pyrolysis to PKN ORLEN S.A.

PKN ORLEN S.A. owns 77.2% shares in the initial capital of Rafineria Trzebinia S.A.

18. The purchase of shares in Butadien Kralupy a.s. by Kaucuk a.s.

PKN ORLEN S.A. informed in its regulatory announcement no. 24/2007 that on 9 May 2007 it was informed that the company Butadien Kralupy a.s. ("Butadien Kralupy"), seated in Kralupy upon Vitava (the Czech Republic), was registered by the City Court in Prague (the Czech Republic) on 27 April 2007.

PKN ORLEN's indirect subsidiary – Kaucuk a.s. ("Kaucuk"), seated in Kralupy upon Vitava (the Czech Republic) has acquired 300 shares in Butadien Kralupy for a total amount of CZK 150,000 thousand (i.e. approximately PLN 19,980 thousand based on average CZK/PLN exchange rates as of 9 May 2007, announced by the National Bank of Poland) ("Purchased Shares").

The Purchased Shares, with a nominal value of CZK 500 thousand per each share (i.e. approximately 66.6 thousand based on average CZK/PLN exchange rates as of 9 May 2007, announced by the National Bank of Poland), represent 100% of the share capital of Butadien Kralupy and 100% of the voting rights at the General Shareholders' Meeting of Butadien Kralupy. The Shares were paid for by Kaucuk in the form of a cash contribution.

The main business activity of Butadien Kralupy contains among others rent of real estates, apartments and non-residential premises. Butadien Kralupy will be involved in the construction and operation of a new butadiene installation, which is a subject of the agreement signed by Unipetrol, Firma Chemiczna Dwory S.A., seated in Oświęcim (Poland) ("Dwory"), Chemopetrol a.s. and Kaucuk (details of the agreement are included below).

Simultaneously, on 9 May 2007, Butadien Kralupy and Chemoprojekt a.s., seated in Prague (the Czech Republic) signed the Agreement on the Construction of a New Butadiene Installation (the "Agreement") for a total price of CZK 1,147,364 thousand (i.e. approximately 152,828.9 thousand based on average CZK/PLN exchange rates as of 9 May 2007, announced by the National Bank of Poland) as well as other contractual documentation connected with the Agreement.

The Agreement was signed in connection with implementation of the sale of 100% shares in Kaucuk, owned by Unipetrol, and within the meaning of the Cooperation Agreement regarding construction and operation of a new butadiene installation, which was signed on 30 January 2007 by Unipetrol, Dwory, Chemopetrol a.s. and Kaucuk (the "Cooperation Agreement"). The sale of shares in Kaucuk is executed based on the share purchase agreement signed on 30 January 2007 between Unipetrol as a seller and Dwory as a purchaser.

The Cooperation Agreement provides that a 51% stake in Butadien Kralupy will be transferred from Kaucuk to Unipetrol. As a result the investment of Kaucuk in Butadien Kralupy is of a short-term nature.

IX. SHAREHOLDERS HOLDING DIRECTLY OR UNDIRECTLY VIA RELATED PARTIES AT LEAST 5% OF THE TOTAL VOTES AT THE PARENT'S GENERAL MEETING AS AT THE DATE OF FILING THE REPORT

	% of votes at the GSM presented in the prior quarter report *	Number of shares presented in the prior quarter report *	Change of % in the period 12.02.2007 - 30.04.2007	% of votes at the GSM at the report filing date **	Number of shares at the report filing date **
Nafta Polska S.A.	17.32%	74 076 299	-	17.32%	74 076 299
Skarb Państwa	10.20%	43 633 897	-	10.20%	43 633 897
Others	72.48%	309 998 865	-	72.48%	309 998 865
Total	100%	427 709 061	-	100%	427 709 061

* Data as at 12 February 2007
** Data as at 30 April 2007

Percentage share in share capital of the Company is compatible with percentage share in total votes at the General Shareholders Meeting as at date of filing the report.

X. CHANGES IN THE NUMBER OF THE COMPANY'S SHARES HELD BY THE MANAGEMENT BOARD AND SUPERVISORY BOARD IN ACCORDANCE WITH THE COMPANY'S RECORDS

The number of shares held by the Management Board and Supervisory Board in the I quarter 2007

	Number of shares, options as at the date of the prior quarter report filing *	Acquisition	Disposal	Number of shares, options as at the date of the report filing **
Management Board	-	-	-	-
Supervisory Board	**2 950**	**-**	**-**	**2 950**
Raimondo Eggink	2 950	-	-	2 950

* Data as at 12 February 2007
** Data as at 30 April 2007

XI. INFORMATION ABOUT CURRENT PROCEEDINGS CONCERNING LIABILITIES OR RECEIVABLES OF THE PARENT COMPANY AND SUBSIDIARIES OF THE TOTAL VALUE EXCEEDING 10% OF THE COMPANY'S EQUITY

As at 31 March 2007, the Parent Company was not a party in proceedings concerning liabilities or receivables of the Parent Company or subsidiaries, of the value exceeding 10% of the Company's equity.

XII. RELATED PARTIES

1. Information about significant related party transactions

During the period from 1 January to 31 March 2007, there were no unusual related party transactions concluded between related parties within the Group, where the transaction value would exceed EUR 500 thousand.
Transactions concluded within the Group related to the deliveries and supplies connected with the normal activity of the Group companies.

2. Information about significant related party transactions

a) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

During the 3 months ended 31 March 2007 the Group companies did not grant any advances, loans, guarantees and commitments, or other agreements obliging Management Board, Supervisory Board and their relatives, to render services to the Company and related parties.
As at 31 March 2007 the Group companies did not grant any loans to managing and supervising persons and their relatives.
During the 3 months ended as at 31 March 2007 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

b) Transactions with related parties concluded through the supervising persons

During the 3 months ended 31 March 2007 the Company obtained statements on transactions with related parties extended in scope in regard of the amended IAS 24 “Related Party Disclosures”.

	Sale	Purchase	Receivables	Liabilities
Legal persons *	65 699	45 336	47 655	7 882
Natural persons	-	-	-	-

* Transactions for the period of performing function in the supervising bodies.

c) Transactions with related parties concluded through the managing persons of the Parent and other Group companies

During the 3 months ended 31 March 2007 managing persons of the Parent and other Group companies did not conclude any significant transactions with related parties in regard of the amended IAS 24 “Related Party Disclosures”.

d) Transactions with related parties concluded through the key executive personnel of the Parent and other Group companies

During the 3 months ended 31 March 2007 the key executive personnel of the Parent and other Group companies did not conclude any significant transactions with related parties in regard of the amended IAS 24 “Related Party Disclosures”.

e) Parent Company's transactions with related parties in the period from 1 January to 31 March 2007 and the settlement balances as at 31 March 2007

	PKN ORLEN Capital Group					
	Consolidated subsidiaries [1]	Consolidated associates [2]	Non-consolidated subsidiaries [1]	Non-consolidated associates [2]	Consolidated jointly controlled entities [3]	Total related parties
Sales	2 953 366	1 895	429	1 062	588 239	3 544 991
Purchases	386 144	12 100	19 238	8 868	5 823	432 173
Interest received	670	-	2	3	5	680
Financial costs	12	-	-	1	-	13
Gross short term receivables	1 397 343	952	600	464	468 363	1 867 722
Short term liabilities	213 754	5 088	9 932	2 633	2 426	233 833
Gross long term receivables	17 221	-	-	-	-	17 221
Long term liabilities	31 433	-	-	-	-	31 433

[1] Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members.
[2] Parent Company exercises significant influence on the entity's supervisory bodies via its representatives.
[3] Parent Company exercises a joint control over the entities under the deed of association

3. Compensation, together with profit-sharing paid and due to the Management Board, Supervisory Board and the key executive personnel in accordance with IAS 24.

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

	3 months ended 31 March 2007 (unaudited)	3 months ended 31 March 2006 (unaudited)
The Management Board of the Parent Company *	6 425	2 149
Supervisory Board of the Parent Company	259	199
Key Executive Personnel of the Parent Company **	5 518	3 203
Key Executive Personnel of subsidiaries ***	20 541	16 807
Total	**32 743**	**22 358**

* including compensation of former Board Members during the three months period ended 31 March 2007 of PLN 4,560
** including compensation of former Key Management Personnel of the Parent of PLN 1,378 thousand in the period of 3 months ended 31 March 2007. During the three months period ended 31 March 2007 35 persons performed duties as Key Executive Personnel and 28 persons performed duties as Key Executive Personnel during the three months period ended 31 March 2006
*** Management Board, Supervisory Board and Key Executive Personnel of Group Companies.

XIII. LOAN SECURITY, GUARANTEES AND COLLATERALS OF AT LEAST 10% OF THE COMPANY'S EQUITY GRANTED BY PARENT COMPANY OR ITS SUBSIDIARIES TO ONE ENTITY OR ITS SUBSIDIARY

Within the Group, in the period from 1 January to 31 March 2007 PKN ORLEN S.A. and its subsidiaries did not grant loan security, guarantees or collaterals to another entity or its subsidiary, where the value of security or guarantee constituted at least 10% of the Company's equity.

XIV. SEASONAL OR CYCLICAL CHARACTER OF THE ISSUER'S OPERATIONS IN THE PRESENTED PERIOD

The PKN ORLEN Group does not report any material seasonal or cyclical character of its operations.

XV. SUPPLEMENTARY INFORMATION

1. Restructuring of the southern assets

The restructuring and consolidation project embraces the following companies:
- Rafineria Nafty Jedlicze S.A.
- Rafineria Trzebinia S.A.
- ORLEN Oil Sp. z o.o.
- Paramo a.s., where Unipetrol a.s. is the majority shareholder

The objective of the project is to secure the value of assets engaged by PKN ORLEN S.A. by optimizing production structure in the above companies by matters of reorganization and restructuring of the possessed assets as well as combination of selected assets and capital consolidation of the companies. The project is also intended to protect assets of those companies against changes in the tax law, which may lead to discontinuation of crude oil processing in the southern Poland.

The company realizes restructuring project approved in July 2005 by PKN ORLEN's Management Board.
The project for the southern assets designed by Investekspert aims at:
- consolidation of activity related to oil and lubricant production in Orlen Oil Sp. z o.o.,
- targeted discontinuation of crude oil processing in the southern Poland and grouping assets relating to this activity within a separate business,

The business advisor for the restructuring and consolidation project submitted recommendations in respect of suggested action plan. In June 2006 the Management Board of PKN ORLEN S.A. has accepted the major assumptions of restructuring process:

- modernization of existing DRW installation (crude oil distillation unit) in Rafineria Nafty Jedlicze S.A. for the purposes of processing of own output crude;
- construction of organic solvent installation in Rafineria Nafty Jedlicze S.A. in case a rebate on supplies of local (Sanok region) crude oil is negotiated;
- restructuring of distribution system in Orlen Oil Sp. z o.o.

On 3rd January 2007 the Management Board of Rafineria Trzebinia S.A. decided to temporarily withhold the production and sale of the bio-fuel ON BIO containing 20% FAME esters ("ON BIO").

The decision was made due to the coming into force on January 1st, 2007 Regulation of the Minister of Finance dated December 22nd, 2006.. This changed the previous regulation referring to exemptions from excise tax (Official Journal 2006 No. 243, item 1766), which unexpectedly deteriorated circumstances of production and sales of bio – fuels.

Following a detailed economic analysis, the Management Board of Rafineria Trzebinia S.A.. has estimated that, due to the change in Polish law introduced in the Regulation, the net loss of Trzebinia Refinery in January 2007 will amount to approximately PLN 2.5 – 3 million. The production of ON BIO is therefore to be kept on hold until new regulations which will justify production of this particular bio-fuel are introduced.

Due to the mentioned changes, Rafineria Trzebinia S.A. will concentrate on trading and marketing activities.

The change in tax regulations caused the necessity for the renegotiation contracts for the supply of raw materials used in ON BIO production.

Rafineria Trzebinia S.A. also decided to suspend investment projects concerning significant increase in bio-fuel production capacity.

2. Polkomtel S.A.

On 10 March 2006 an agreement was concluded between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as buyers and TDC Mobile International A/S as a seller in respect of "Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A." ("The Agreement"). The conclusion of the above agreement was preceded by conclusion by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as shareholders of Polkomtel S.A. the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A.". The conclusion of the Agreement was performed in conjunction with the execution by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. of the entitlement to acquire shares under the offer of TDC Mobile International A/S.

Pursuant to the Agreement, PKN ORLEN S.A. may acquire 980,486 shares in Polkomtel S.A., representing 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share. In case KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. purchased the shares as a result of the Agreement, these parties, together with currently owned shares, would hold over 75% shares in Polkomtel S.A. After the transaction is settled, PKN ORLEN S.A. would hold 24.4% stake in the share capital of Polkomtel S.A.

The Agreement was concluded under a suspending clause regarding termination or abatement of the pledge in respect of shares under the Agreement, established by verdict of the District Court in Warsaw on 24 February 2006, or any other pledge (or similar measure) established by other judgmental body that would disallow sale of shares under the Agreement in Polkomtel S.A. by TDC Mobile International A/S.

As a result of complaint filed by TDC Mobile International the Court of Appeals in Warsaw changed the decision of the District Court in Warsaw. The Court of Appeals stated that the execution of pledge depends on submission by Vodafone Americas Inc. a bail of Euro 43,000,000. Vodafone Americas Inc paid the bail for the benefit of Court's bank account, which states that the decision on pledge is effective.

On 10 march 2006 Vodafone Americas Inc. filed a law suit to International Court of Arbitration by Federal Chamber of Commerce in Vienna, against six legal entities defining TDC Mobile International A/S as a Principle Respondent, Polkomtel S.A as a First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as Second to Fifth Auxiliary Respondents. In the above mentioned law suit Vodafone Americas Inc., among other things, questioned the method of calculation of the price offered by TDC International A/S to other shareholders. On 29 May 2006 TDC Mobile International A/S, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. filed a joint response to the law suit. Polkomtel S.A. filed its response to the law suit on 26 April 2006. Appointed arbitrators issued several procedure-oriented rulings concerning further proceedings.

Proceedings came into phase, when letters concerning this case were exchanged. On 7 March 2007 the seating in front of the Court of Arbitration in Vienna took place. During the seating plenipotentiaries of all sides represented their standings in this case. This resulted for example in modification of claim from Vodafone America. The verdict should be announced when trial charges are paid.
On the 5th March 2007 the advanced dividend for the benefit of PKN Orlen S.A. in amount of PLN 49,684 thousand was paid. The resolved dividend amounted to PLN 202,315 thousand.
Share of Polkomtel in the consolidated financial result of the Group in the three-month period ended 31 March 2007 amounted to PLN 53,868 thousand and PLN 47,298 thousand in the three-month period ended 31 March 2006.

3. Purchase of additional shares in Mazeikiu by PKN ORLEN

3.1 Mandatory tender offering for shares in AB Mazeikiu Nafta ("Mazeikiu")

In accordance with Lithuanian law, exceeding of the 40% voting rights at the General Meeting of Shareholders of Mazeikiu (what took place in 2006 when the shares were purchased from Yukos International UK B.V.) obliged PKN ORLEN S.A. to announce mandatory tender offering ('MTO') for all remaining shares in Mazeikiu attributable to investors other than PKN ORLEN S.A. Until receipt of relevant clearance with regard to the documentation related to MTO from the Stock Exchange Commission in Lithuania, PKN ORLEN S.A. was not able to execute its voting rights at the General Meeting of Shareholders, that were attributable to all shares held in Mazeikiu. Until that moment, however not longer than for the period of 100 days, the Government of the Republic of Lithuania assumed an obligation to execute voting rights attributable to shares held in Mazeikiu in conformity with instructions issued by PKN ORLEN S.A. Documentation related to MTO received clearance of the Stock Exchange Commission in Lithuania on 22 December 2006.
Prior to commencement of the subscription process under MTO, a merger of Mazeikiu with AB Mazeikiu Elektrine was registered on 28 December 2006. In consequence of the merger, 1,366,992 new shares of Mazeikiu were issued for the minority shareholders of AB Mazeikiu Elektrine. As a result of the new issue of shares, total number of shares of Mazeikiu is equal to 708,821,122.
Mandatory Tender Offering has been conducted in the period from 2 to 15 January 2007. Pursuant to the settlement of MTO, PKN ORLEN S.A. purchased 35,879,247 shares of Mazeikiu. The Company holds 632,713,599 shares which is equal to 89.2628% stake in share capital of Mazeikiu.

3.2 Constant call offer at the Vilniaus Stock Exchange

Due to the fact that MTO did not comprise the above mentioned new issue of shares, as well as in order to improve the preparatory process to squeeze out procedure related to shares of Mazeikiu attributable to minority shareholders other than the Government of the Republic of Lithuania, PKN ORLEN S.A. made a constant call offer at the Vilniaus Stock Exchange for shares of Mazeikiu at each day in the period from 26 January to 19 February 2007. The purchase price for shares was equal to the purchase price used for the purposes of MTO i.e. LTL 10.25 per share. In the described period PKN ORLEN purchased 1,895,952 shares of Mazeikiu and as at 19 February 2007 held 634,609,551 shares, constituting a 89.5303% stake in Mazeikiu. Except for 70,750,000 shares owned by the Government of the Republic of Lithuania, 3,461,571 shares representing 0.4884% stake in share capital are quoted at the market.

3.3 Squeeze out procedure related to shares in Mazeikiu held by minority shareholders

Acting under agreement with the Government of the Republic of Lithuania, on 20 February 2007 PKN ORLEN commenced a squeeze out procedure related to shares of Mazeikiu held by minority shareholders. The squeeze out will be conducted in accordance with the Lithuanian law. The provisions of the cooperation between PKN ORLEN and the Government of the Republic of Lithuania are included in the agreement dated 25 January 2007. At the first phase of the process, which will be effected until 21 May 2007, the shareholders of Mazeikiu are entitled to sell shares through broker house SEB Vilniaus Bankas. The price was set at LTL 10.25.
Unless the first phase leads to buyout of all shares held by minority shareholders, PKN ORLEN will put forward a motion to the court in Lithuania to issue a decision in accordance with the Lithuanian law related to squeeze out procedure. In effect of the decision all shares held by minority shareholders other than the Government of the Republic of Lithuania will become property of PKN ORLEN for a price equal to LTL 10.25 per share. The procedure will result in acquisition of all shares in Mazeikiu, except for shares held by the Government of the Republic of Lithuania.

4. The Company's Management Board estimates

For the purpose of this financial statement the fair value as at 31.12.2006 decreased by depreciation for the first quarter of 2007 was adopted as the recoverable amount of Mazeikiu's assets. From the date of valuation of Mazeikiu's assets performed by independent expert and the date of preparation of this financial statement no factors that may influence the value of assets have occurred. Therefore the Management Board decided to adopt for the purpose of this financial statement the fair value decreased by depreciation as a higher of fair value and value in use as a recoverable amount of assets.

5. Restructuring process of IKS Solino Sp. z o.o.

In November 2006 an agreement was concluded between IKS SOLINO S.A. and its labor unions with the participation of PKN ORLEN S.A. and the State Treasury. The agreement provided that operations of the Salt Processing Unit (SPU) will be sustained in IKS structure only in the event of its economic profitability.
According to PKN ORLEN, sale of SPU to a branch investor might guarantee long-term development of the disposed unit and therefore sustaining of existing job positions.
PKN ORLEN emphasized that the intention of the eventual sale transaction of the SPU is based upon concern about the future of its employees and sustaining of job positions. In the event of sale of the SPU the vast majority of employees will keep their job positions. The small number of people covered by the restructuring process will be enabled to benefit from a shield program that is currently negotiated with the labor unions of IKS SOLINO S.A.

6. Transfer of shares in Spolana a.s. between companies of PKN ORLEN Capital Group

In 2006 Zakłady Azotowe Anwil S.A. purchased shares of Spolana a.s. from Unipetrol A.S.. After transaction PKN ORLEN Group owned 95.18% of the Votes at the General Meeting of Spolana after Anwil purchased shares of Spolana. In Accordance to Czech law the Mandatory Tender Offer – MTO from minority shareholders. Spolana shares were valuated by independent expert for MTO needs with methodology compatible with guidance from Czech National Bank ("CNB"). The Management Board of Anwil S.A. proposed to minority shareholders of Spolana a.s. the prize for one share in the amount of CZK 162. The squeeze out procedure was finished at 21 March 2007. After the process of MTO PKN ORLEN S.A. and Anwil S.A. own 95.7% of the Votes at the General Meeting of Spolana.

7. Changes in Management Board and Supervisory Board

Changes in Management Board of PKN ORLEN

The Supervisory Board of PKN ORLEN at meeting on 18 January 2007 with majority of its votes dismissed Mr Igor Chalupec from the position of the President of the PKN ORLEN Management Board which held from 1 October 2004. At the same time, the Supervisory Board of PKN ORLEN has appointed Mr. Piotr Kownacki, the Vice President of the Company responsible for Audit and Regulations at that date, for the position of the President of the PKN ORLEN Management Board.

On 15 March 2007 the Supervisory Board of PKN ORLEN, with the majority of votes, dismissed Mr Jan Maciejewicz, at his request, from the position of the Vice-President of the Management Board of Cost Management as well as at request of the President of the Management Board, unanimously, Mr Cezary Smorszczewski from the position of the Vice-President of the Management Board of Capital Investment. Simultaneously, the Supervisory Board of PKN ORLEN, on request of the President of the Management Board, appointed Mr Krystian Pater to the Member of the Management Board of PKN ORLEN.

Changes in Management Board of Mazeikiu

In conjunction with the resignation of Mr Igor Chalupec from the position of the President of the Management Board of PKN ORLEN on 31 January 2007, the Supervisory Board of Mazeikiu dismissed Mr Igor Chalupec and at the same time appointed Mr Dariusz Formela to the Management Board. On 7 February 2007 the Management Board of Mazeikiu has elected Mr Piotr Kownacki for the position of President of the Management Board. On 16 March 2007 Mr. Jan Maciejewicz resigned from the position of Member of the Management Board. In accordance with the Lithuanian law, the resignation came into force after a lapse of 14 days.

Changes in Supervisory Board of Mazeikiu

On 27 April 2007 the Ordinary Shareholders Meeting of Mazeikiu changed the composition of the Supervisory Board. Current composition of the Supervisory Board is as follows: Marek Moroz (chairman), Czesław Bugaj, Piotr Kearney, Wojciech Wróblewski, Marcin Wasilewski, Rafał Zwierz, Arūnas Laurinaitis, Robertas Tamođiūnas and Gediminas Vaičiūnas.

XVI. OTHER

These condensed consolidated financial statements were authorized by the Management Board of the Parent Company in its seat on 14 May 2007.

Financial Statements of the Issuer

Audited Unconsolidated Financial Statements of the Issuer as at and for the period 14 December 2005 to 30 June 2006

Annual Report of the Issuer for the period 14 December 2005 to 30 June 2006 ..... F – 297
Independent Auditors' Report for the period 14 December 2005 to 30 June 2006..... F – 298

TRANSLATION

[Stamp: received by the Swedish Companies Registration Office on July 20, 2006]

ANNUAL REPORT

The Board of Directors of **Aktiebolaget Grundstenen 108770 (556693-8915)** hereby issues its report for the period December 14, 2005 to June 30, 2006.

ADMINISTRATION REPORT

The company conducted no operations and had no employees during the period concerned. The company is a so-called off-the-shelf company.

INCOME STATEMENT

Costs	0	Revenues	0
Total	**0**	**Total**	**0**

BALANCE SHEET

	June 30, 2006	*December 14, 2005*
Assets		
Current assets		
Other current receivables	500,000	500,000
Total	**500,000**	**500,000**
Liabilities and shareholders' equity		
Liabilities	0	0
Shareholders' equity (5,000 shares)	500,000	500,000
Total	**500,000**	**500,000**
ASSETS PLEDGED	None	None
CONTINGENT LIABILITIES	None	None

July 2, 2006

(Duly signed)
Sören Thunström

My audit report was submitted on July 2, 2006

(Duly signed)
Björn Aspling
Authorized Public Accountant

[Stamp:
On today's date, the Annual General Meeting adopted an income statement and closing balance sheet that were identical to the above. Earnings were regulated in accordance with the Board of Directors' motion.

Duly initialled
Member of the Board]

AUDIT REPORT

To the Annual General Meeting of Aktiebolaget Grundstenen 108770 Corporate Registration Number: 556693-8915

I have audited the annual report, the accounting records and the Board of Directors' administration of Aktiebolaget Grundstenen 108770 for the fiscal year extending from December 14, 2005 to June 30, 2006. The Board of Directors is responsible for these accounts and the administration of the company, and for ensuring that the Annual Accounts Act is applied when the annual report is compiled. My responsibility is to express an opinion on the annual report and the administration based on my audit.

I conducted my audit in accordance with Generally Accepted Auditing Standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors, evaluating the material estimations made by the Board of Directors when compiling the annual report and the consolidated financial statements, and evaluating the overall presentation of information in the annual report. I examined significant decisions, actions taken and circumstances of the company in order to determine the possible liability to the company of any Board member or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion set out below.

The annual report has been prepared in accordance with the Annual Accounts Act and consequently provides a true and fair picture of the company's earnings and financial position in accordance with Generally Accepted Auditing Standards in Sweden. The Administration Report is compatible with the other parts of the annual report.

I recommend that the Annual General Meeting adopt the income statements and balance sheets and that the members of the Board be discharged from liability for the fiscal year.

The company is a dormant so-called off-the-shelf company and conducted no operations during the fiscal year.

Falun, July 2, 2006

(Duly signed)
Björn Aspling
Authorized Public Accountant

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