Polski Koncern Naftowy ORLEN
Spółka Akcyjna

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

SEPARATE ANNUAL REPORT

2012

SEPARATE ANNUAL REPORT FOR THE YEAR 2012 INCLUDES:

1. **LETTER OF THE PRESIDENT OF THE BOARD**
2. **OPINION AND REPORT OF THE INDEPENDENT AUDITOR ON THE SEPARATE FINANCIAL STATEMENTS**
3. **SELECTED FINANCIAL DATA**
4. **SEPARATE FINANCIAL STATEMENT OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2012**
5. **MANAGEMENT BOARD REPORT ON THE OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2012**

POLISH FINANCIAL SUPERVISION AUTHORITY

Annual Report R 2012

(year)

(in accordance with § 82 section 1 point 3 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259 with further amendments)

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

for the reporting year 2012 that is for the period from 2012-01-01 to 2012-12-31 which includes financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish currency (PLN).

2013-03-29
(submission date)

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

PKN ORLEN (abbreviated name of the issuer)

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

09-411 (zip code)

PŁOCK (location)

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

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
I. Sales revenues	88 348 971	79 037 121	21 168 529	18 937 397
II. Profit from operations	1 810 083	3 173 938	433 698	760 480
III. Profit before tax	2 663 963	2 396 447	638 289	574 192
IV. Net profit	2 127 798	1 386 166	509 823	332 127
V. Total net comprehensive income	2 073 282	1 307 675	496 761	313 321
VI. Net cash provided by/(used in) operating activities	2 065 304	(793 335)	494 850	(190 084)
VII. Net cash provided by/(used in) investing activities	(2 458 824)	2 490 678	(589 138)	596 770
VIII. Net cash provided by/(used in) financing activities	(2 928 327)	1 197 823	(701 631)	287 000
IX. Net (decrease)/increase in cash and cash equivalents	(3 321 847)	2 895 166	(795 919)	693 686
X. Net profit and diluted net profit per share (in PLN/EUR per share)	4.97	3.24	1.19	0.78
	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
XI. Non-current assets	22 474 134	22 429 271	5 497 318	5 486 344
XII. Current assets	18 932 835	23 439 812	4 631 093	5 733 529
XIII. Total assets	41 406 969	45 869 083	10 128 411	11 219 873
XIV. Long-term liabilites	7 702 331	9 844 384	1 884 040	2 408 000
XV. Short-term liabilities	10 784 632	15 177 975	2 637 990	3 712 630
XVI. Total equity	22 920 006	20 846 724	5 606 381	5 099 243
XVII. Share capital	1 057 635	1 057 635	258 704	258 704
XVIII. Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
XIX. Book value and diluted book value per share (in PLN/EUR per share)	53.59	48.74	13.11	11.92

The above data for 2012 and 2011 were translated into EUR using the following exchange rates:

- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2012 – 4.0882 PLN/EUR;
- items of statement of profit or loss and other comprehensive income and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of the month during the period 1 January - 31 December 2012 – 4.1736 PLN/EUR.

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012
PREPARED IN ACCORDANCE WITH INTERNATIONAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

2012

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SEPARATE FINANCIALSTATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

Separate statement of financial position

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	12 087 781	12 190 347
Intangible assets	7	603 416	362 791
Perpetual usufruct of land	8	91 319	89 692
Shares in related parties	9	9 003 021	9 051 706
Financial assets available for sale	10	40 634	40 328
Deferred tax assets	29.2.	-	11 280
Other non-current assets	11	647 963	683 127
		22 474 134	**22 429 271**
Current assets			
Inventories	13	10 375 471	11 549 043
Trade and other receivables	14	6 395 513	7 271 441
Other short-term financial assets	15	1 081 549	320 480
Income tax receivables		56 489	1 142
Cash and cash equivalents	16	972 179	4 291 187
Non-current assets held for sale	17	51 634	6 519
		18 932 835	**23 439 812**
Total assets		**41 406 969**	**45 869 083**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18.1.	1 057 635	1 057 635
Share premium	18.2.	1 227 253	1 227 253
Hedging reserve	18.3.	(69 133)	(14 617)
Retained earnings	18.4.	20 704 251	18 576 453
Total equity		**22 920 006**	**20 846 724**
LIABILITIES			
Long-term liabilities			
Loans and debt securities	19	6 968 525	9 346 203
Provisions	20	360 307	327 747
Deferred tax liabilities	29.2.	239 872	-
Other long-term liabilities	21	133 627	170 434
		7 702 331	**9 844 384**
Short-term liabilities			
Trade and other liabilities	22	8 585 606	10 998 036
Loans, borrowings and debt securities	19	1 303 497	2 320 861
Income tax liabilities		-	613 182
Provisions	20	400 794	442 181
Deferred income	23	137 348	118 423
Other financial liabilities	24	357 387	685 292
		10 784 632	**15 177 975**
Total liabilities		**18 486 963**	**25 022 359**
Total equity and liabilities		**41 406 969**	**45 869 083**

(all amounts in PLN thousand)

Separate statement of profit or loss and other comprehensive income

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Statement of profit or loss			
Sales revenues	*25*	88 348 971	79 037 121
Cost of sales	*26.1.*	(83 753 762)	(73 327 619)
Gross profit on sales		**4 595 209**	**5 709 502**
Distribution expenses		(2 065 565)	(1 947 915)
General and administrative expenses		(754 926)	(671 186)
Other operating revenues	*27.1.*	372 879	435 158
Other operating expenses	*27.2.*	(337 514)	(351 621)
Profit from operations		**1 810 083**	**3 173 938**
Financial revenues	*28.1.*	1 639 570	2 999 717
Financial expenses	*28.2.*	(785 690)	(3 777 208)
Financial revenues and expenses		**853 880**	**(777 491)**
Profit before tax		**2 663 963**	**2 396 447**
Income tax expense	*29*	(536 165)	(1 010 281)
Net profit		**2 127 798**	**1 386 166**
Items of other comprehensive income which will be reclassified into profit or loss under certain conditions			
Hedging instruments		*(67 303)*	*(96 902)*
Deferred tax		*12 787*	*18 411*
		(54 516)	**(78 491)**
Total net comprehensive income		**2 073 282**	**1 307 675**
Net profit and diluted net profit per share (in PLN per share)		4.97	3.24

SEPARATE FINANCIALSTATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

Separate statement of cash flows

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Cash flows - operating activities			
Net profit		**2 127 798**	**1 386 166**
Adjustments for:			
Depreciation and amortisation	*26.2.*	1 055 942	991 405
Foreign exchange (gain)/loss		(820 640)	1 063 096
Interest, net		301 971	299 764
Dividends	*28.1.*	(173 085)	(400 702)
Loss/(Profit) on investing activities		452 560	(579 191)
Change in provisions	*30*	225 766	248 509
Income tax expense	*29*	536 165	1 010 281
Income tax (paid)		(940 753)	(176 856)
Other adjustments	*30*	(380 697)	(353 265)
Change in working capital		(319 723)	(4 282 542)
inventories	*30*	*1 183 711*	*(4 083 934)*
receivables	*30*	*919 581*	*(1 358 678)*
liabilities	*30*	*(2 423 015)*	*1 160 070*
Net cash provided by/(used in) operating activities		**2 065 304**	**(793 335)**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 398 978)	(1 249 218)
Disposal of property, plant and equipment and intangible assets		20 342	254 970
Acquisition of shares		(169 551)	(111 094)
Disposal of shares		116	3 672 247
Interest received		36 411	28 417
Dividends received		172 249	403 602
Outflows from additional repayable payments to subsidiaries' equity		(195 795)	(135 334)
Proceeds from additional repayable payments to subsidiaries' equity		7 641	19 080
Outflows from long-term loans granted		-	(561 380)
(Outflows)/Proceeds from short-term loans granted		(917 696)	314 249
Outflows from cash pool facility		(10 204)	(81 046)
Other		(3 359)	(63 815)
Net cash provided by/(used in) investing activities		**(2 458 824)**	**2 490 678**
Cash flows - financing activities			
Proceeds from loans and borrowings received		3 906 620	13 773 529
Debt securities issued		10 140 925	5 550 239
Repayments of loans and borrowings		(6 993 929)	(12 713 195)
Redemption of debt securities		(9 574 388)	(5 223 918)
Interest paid		(330 039)	(396 983)
Payments of liabilities under finance lease agreements		(10 351)	(6 647)
(Outflows)/Proceeds from cash pool facility		(67 165)	214 798
Net cash provided by/(used in) financing activities		**(2 928 327)**	**1 197 823**
Net (decrease)/increase in cash and cash equivalents		**(3 321 847)**	**2 895 166**
Effect of exchange rate changes		2 839	(39)
Cash and cash equivalents, beginning of the period		**4 291 187**	**1 396 060**
Cash and cash equivalents, end of the period	*16*	**972 179**	**4 291 187**

(all amounts in PLN thousand)

Statement of changes in equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2012	2 284 888	(14 617)	18 576 453	20 846 724
Net profit	-	-	2 127 798	2 127 798
Items of other comprehensive income	-	(54 516)	-	(54 516)
Total net comprehensive income	**-**	**(54 516)**	**2 127 798**	**2 073 282**
31 December 2012	**2 284 888**	**(69 133)**	**20 704 251**	**22 920 006**
1 January 2011	2 284 888	63 874	17 190 287	19 539 049
Net profit	-	-	1 386 166	1 386 166
Items of other comprehensive income	-	(78 491)	-	(78 491)
Total net comprehensive income	**-**	**(78 491)**	**1 386 166**	**1 307 675**
31 December 2011	**2 284 888**	**(14 617)**	**18 576 453**	**20 846 724**

(all amounts in PLN thousand)

ACCOUNTING POLICIES, NOTES AND OTHER SUPPLEMENTARY INFORMATION

1. General information

1.1. Principal activity of the Company

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

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

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

Principal activity of the Company includes:
- Processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber;
- Production of pig iron, ferro-alloys, iron and steel, steel products, noble metals and other non-iron metals
- Purchase, processing and trade of used lubricant oils and other chemical waste;
- Manufacturing, transfer and trade in heating energy and electricity;
- Manufacturing and supply of air conditioning systems with water vapour, hot water and air;
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil-derivative and other fuel, sale of industrial and consumer goods;
- Research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- Activity connected to reclamation of land and other services related to waste management;
- Operation of petrol stations, bars, restaurants and hotels as well as catering activities;
- Financial holding activities, brokerage and other financial activities;
- Natural gas and crude oil exploration and extraction;
- Accounting and bookkeeping services, tax advisory.

1.2. Concessions held

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

AS AT 31/12/2012	Remaining concession periods (in years)
Electrical energy: manufacturing, distribution, trade	13
Heating energy: manufacturing, transmission, distribution and trade	13 - 18
Liquid and gaseous fuels: manufacturing, trade, storage	13

The process of granting concessions in the Company is periodical and administrative in nature. The Management Board believes that the probability of failure in obtaining required concessions is remote.
The Company as the owner of the particular concession is paying annual fees that are recognized as the cost for the period. As at 31 December 2012 and as at 31 December 2011 the Company had no liabilities related to concession services in scope of IFRIC 12.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

1.3. Shareholders' structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting of PKN ORLEN as at 31 December 2012

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	Share in share capital
State Treasury	117 710 196	117 710 196	147 137 745	27.52%
Aviva OFE*	21 744 036	21 744 036	27 180 045	5.08%
ING OFE**	21 464 398	21 464 398	26 830 497	5.02%
Other	266 790 431	266 790 431	333 488 039	62.38%
	427 709 061	**427 709 061**	**534 636 326**	**100%**

* according to the information obtained by the Company as at 9 February 2010
** according to the information obtained by the Company as at 30 March 2012

1.4. Composition of the Management Board and the Supervisory Board of the Company

As at 31 December 2012 and the date of preparation of the financial statements, the composition of the management and supervisory boards of the Company is as follows:

Management Board

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

Supervisory Board

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

2. Statement of the Management Board

2.1. In respect of the reliability of separate financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing separate financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Company in force (disclosed in note 3) and that they reflect true and fair view on financial position and financial result of the Company and that the Management Board Report on the Company's Operations presents true overview of business situation, achievements and development of the Company, including basic risks and exposures.

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

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

KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of separate financial statements of PKN ORLEN S.A. for the year 2012.

3. Accounting policies

3.1. Principles of presentation

The separate financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretation of Standing Interpretation Committee (SIC) and the IFRS Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and were in force as at 31 December 2012. The scope of separate financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (Official Journal no. 33, item 259 with further amendments) and covers the annual period from 1 January to 31 December 2012 and the comparative period from 1 January to 31 December 2011.

Presented separate financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2012, results of its operations and cash flows for the year ended 31 December 2012.

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

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

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

3.2.1. Binding amendments and interpretations to IFRSs

The amendments to standards and IFRS interpretations, in force from 1 January 2012 until the date of publication of these separate financial statements, i.e. amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of financial assets, had no impact on the foregoing separate financial statements.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective

Early application

The company applied in the foregoing separate financial statements amendments to IAS 1, before their effective date.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

The Company, taking the possibility of the earlier application, applied in the foregoing separate financial statements the amendments to IAS 1, which will be effective for the financial statements for annual periods beginning on or after 1 July 2012.
As a result, the title of the "statement of comprehensive income" was changed to the "statement of profit or loss and other comprehensive income" as well as the items of other comprehensive income that may be reclassified to profit or loss in the future after fulfilling certain conditions are presented separately from those that would never be reclassified to profit or loss.

Application according to the effective date

The Company intends to adopt listed below new standards and amendments to the standards and interpretations to IFRSs that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

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

The amendment adds an exemption that an entity can apply, at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows the entity to measure all assets and liabilities held before the functional currency normalization date at fair value and use that fair value as a deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective continued

An entity shall apply those amendments for annual periods beginning on or after 1 January 2013.
Adoption of the amendments to standard will have no impact on future separate financial statements, as the Company applies IFRSs since the year 2005.

Amendments to IFRS 1 – First-time adopters: Government Loans

The amendments add a new exception to retrospective application of IFRS. A first-time adopter of IFRS now applies the measurement requirements of financial instruments standards (IAS 39 or IFRS 9) to a government loan with a below-market rate of interest prospectively from the date of transition to IFRS.
Alternatively, a first-time adopter may elect to apply the measurement requirements retrospectively to a government loan, if the information needed was obtained when it first accounted for that loan. This election is available on a loan-by-loan basis.

Effective for periods beginning on or after 1 January 2013.

It is expected that, at the date of adoption, the amendments to standard will have no impact on future separate financial statements, as the Company applied MSSF since the year 2005.

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

The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or are subjected to master netting arrangements or similar agreements.
Effective for periods beginning on or after 1 January 2013.
The adoption of the new standard will have no impact on the future separate financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

New Standard IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces IAS 27 Consolidated and separate financial statements, in scope of consolidation and SIC 12 interpretation Special Purpose Entities.
IFRS 10 provides a new single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12.
Under the new single control model, an investor controls an investee when:
- it is exposed or has rights to variable returns from its involvements with the investee,
- has the ability to affect those returns through its power over that investee and
- there is a link between power and returns.

Effective for periods beginning on or after 1 January 2014.
Not applicable to the separate financial statements of the Company.

New Standard IFRS 11 – Joint Arrangements

IFRS 11 “Joint Arrangements”, supersedes and replaces IAS 31 “Interest in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non Monetary Contributions by Venturers”.
IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.
Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations (recognizing particular items of assets and liabilities), under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.
Effective for periods beginning on or after 1 January 2014.
Not applicable to the separate financial statement of the Company.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective continued

New Standard- IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.
Effective for periods beginning on or after 1 January 2014.
Not applicable to the separate financial statement of the Company.

New Standard - IFRS 13 Fair Value Measurement

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

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

Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management’s intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset’s economic benefits over the life of the asset.
Effective for periods beginning on or after 1 January 2013.
The Company expects that new standard will have no significant impact on future separate financial statements, as the amendments to IAS 12, are not applicable to the Company.

Amendments to IAS 19 – Employee Benefits

The amendment removes the so-called corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognised immediately in profit or loss.
Effective for periods beginning as the or after 1 January 2013.

The Company expects that the amendments to the standard will have an impact on future separate financial statements since the Company will present actuarial gains and losses as the position of other comprehensive income, not in the profit or loss statement, as so far. For the year ended 31 December 2012, net actuarial gains and losses amounted to PLN (2,937) thousand.

Amendments to IAS 27 - Separate Financial Statements

IAS 27 (2011) was modified in relation to issuance of IFRS 10 Consolidated Financial Statement and carries forward the existing accounting and disclosure requirements for separate financial statements. For that reason requirements of IAS 28 (2008) and IAS 31 relating to separate financial statements will be incorporated to IAS 27.
Effective for periods beginning on or after 1 January 2014.

The amendment will have no material impact on the separate financial statements, since it does not result in a change in the Company‘s accounting policy.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective continued

Amendments to IAS 28 – Investments in Associates and Joint Ventures

Adopted amendments comprise:

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

Effective for periods beginning on or after 1 January 2014.

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

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

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify and define precisely the offsetting criteria. The entity has a legally enforceable right to offset if that right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
Effective for periods beginning on or after 1 January 2014.
It is expected that the amendment, when initially applied, will have no material impact on future separate financial statements, since the Company does not offset any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

New Interpretation IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

The Interpretation sets out requirements relating to the recognition of production stripping costs, initial measurement of stripping activity assets, and subsequent measurement of stripping activity assets as at reporting date.

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

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU

New standard and amendments to IFRS 9 – Financial Instruments

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

The 2010 amendments to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement mainly about liabilities “designated as fair value through profit or loss” in case of changes in fair value, as a result of changes in credit risk of a liability, that are presented directly in other comprehensive income. Amounts presented in other comprehensive income are not subsequently reclassified to profit or loss. Accumulated profit or loss may be transferred within equity.

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU continued

New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.
Moreover, the amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9.

IFRS 9 and amendments to IFRS 9 are effective for periods on or after 1 January 2015.

The Company expects that new standard will not have an impact on items presented in future separate financial statements. Based on the standard, assets will be assigned to changed financial instruments categories.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance

The amendments:
- define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
- limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
- requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
- will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

Effective for periods on or after 1 January 2013.
It is expected that the application of the new standard will not have any impact on future separate financial statements of the Company as the amendments define precisely guidelines as regards the transition period for the standards mentioned above.

Amendments do IFRS 10, IFRS 12 and IAS 27: Investment Entities

The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them.
The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.

An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity:
- obtains funds from investors to provide those investors with investment management services;
- commits to its investors that its business purpose is to invest for returns solely from appreciation and/or dividend income; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

Effective for annual periods on or after 1 January 2014.
It is expected that the application of the new standard will not have any impact on future separate financial statements of the Company as the amendments are not applicable to the Company.

Improvements to IFRS (2009-2011)

The Improvements to IFRSs (2009-2011) contains 7 amendments to 5 standards, with consequential amendments to other standards and interpretations. The main changes relate to:
- repeated application of IFRS 1 – a repeated adopter that elects not to apply IFRS 1 has to apply IFRS retrospectively in accordance with IAS 8, as if it had never stopped applying IFRS,
- clarification that first-time adopter of IFRS choosing to apply borrowing costs exemptions should not restate the borrowing cost component that was capitalized under previous GAAP and should account for borrowing cost incurred on or after the date of transition (or an earlier date, as permitted by IAS 23) in accordance with IAS 23,
- clarification that only one comparative period, which is the preceding period, is required to a complete set of financial statements; however if additional comparative information is prepared it should be accompanied by related notes and be in accordance with IFRS,

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU continued

- clarification that the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or reclassification has a material effect upon the information in that statement of financial position and except for the disclosures required under IAS 8, other notes related to the opening statement of financial position are no longer required,
- clarification on the classification and accounting of spare parts, stand-by equipment and servicing equipment,
- removal of inconsistencies between IAS 32 and IAS 12 in respect of distributions to holders of an equity instrument and transaction costs of an equity transaction, by clarification that IAS 12 applies to the accounting for income taxes relating to those transactions,
- additional disclosure required of a measure of total assets and liabilities for a particular reportable segment for interim financial reporting.

Effective for periods on or after 1 January 2013.
The Company does not expect the Amendments to have material impact on the future separate financial statements.

3.2.4. Presentation changes

In the year 2012 and comparable periods, no material changes in the presentation of financial data occurred.

3.2.5. Functional currency and presentation currency of financial statements

The functional currency and presentation currency of the foregoing separate financial statements is Polish Złoty ("PLN"). The data is presented in PLN thousand in the separate financial statements.
Accounting policies for foreign currency transactions are disclosed in note 3.3.2.

3.3. Applied accounting policies

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

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

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

Items of financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The effects of changes in estimates are accounted prospectively in the statement of profit or loss and other comprehensive income.

The correction of a material prior period error is made to the equity.

When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred.

3.3.2. Transactions in foreign currency

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

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

3.3.2. Transaction in foreign currency continued

The Company recognises exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period in which they arise, except for the monetary items which hedge the currency risk and are accounted in accordance with the cash flow hedge accounting principles.

3.3.3. Business combinations

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

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

3.3.4. Operating segments

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

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

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

Segment revenues from sales to external customers or revenues from transactions with other segments that are directly attributable to a segment.

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

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

Segment result is calculated on the level of operating result.

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

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

3.3.5. Property, plant and equipment

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

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

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

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

Depreciation of an item of property, plant and equipment begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated useful life, considering the residual value. Fixed assets are depreciated with straight-line method and in justified cases units of production method of depreciation.
The depreciable amount of an asset is determined after deducting its residual value from the initial value.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its useful life.

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

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

The depreciation method, the residual value and the useful life of property, plant and equipment are verified at least at the end of each year. When necessary, the adjustments to depreciation expense are accounted for in next periods (prospectively).

The cost of major inspections and overhaul and replacement components programs is recognised as property, plant and equipment and depreciated in accordance with their useful lives. The cost of current maintenance of property, plant and equipment is recognised as an expense when it is incurred.

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

3.3.6. Intangible assets

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

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

3.3.6. Intangible assets continued

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the Company can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

After initial recognition, an intangible asset shall be presented in the financial statements in its net carrying amount, including grants related to assets.

Intangible assets with finite useful life are amortised using straight-line method. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life.

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

The following standard useful lives are used for intangible assets:

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

The amortisation method and useful life of intangible asset item are verified at least at the end of each year. When necessary, the adjustments to amortisation expense are accounted for in the future periods (prospectively).

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

3.3.6.1. Rights

Carbon dioxide emission rights (CO_2)

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.a. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. All mentioned entities are allowed to emit CO_2 in specified amount and are obliged to amortise those rights in the amount of the emissions of the given year.
CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.
Granted emission allowances should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.
For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

3.3.6.1. Rights continued

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the separate statement of profit or loss and other comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of estimated annual emission.
Granted/purchased CO_2 emission allowances are amortised against the book value of provision, as its settlement. Outgoing of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

Energy rights

The implementation of technologies which use renewable energy sources and the projects in the field of energy conservation are important activities allowing effectively reduce greenhouse gas emissions.
Energy rights are certificates of origin for electric energy, which are confirmation of electric energy production within licensed renewable energy sources (RES) or in sources working in combination (in high-efficiency cogeneration), including:
- produced in RES (green energy),
- produced in cogeneration heated with gas fuel or of total installed capacity up to 1 MW (yellow energy),
- produced in cogeneration heated with methane or gas obtained from biomass processing (violet energy),
- produced in other highly effective cogeneration units (red energy).

All energy companies that sell electricity to end-users are obliged to obtain certificates of origin and submit them for amortization or pay replacement fee.

Granted free of charge rights should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased energy rights should be presented as intangible assets at purchase price.
For the estimated amount of rights which are need to amortisation during the reporting period, a provision should be created as an adjustment of energy sales revenues.
Grants should be recognised on a systematic basis to ensure proportionality with the related amount of produced energy, thanks to which the rights were obtained. The settlement of the grant is recognized as other operating revenue.

3.3.6.2. Perpetual usufruct of land

Acquired perpetual usufruct of land is recognised at the acquisition cost and presented in a separate line of the statement of financial position.
As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost less any accumulated depreciation and impairment losses.

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

Perpetual usufruct of land is treated as operating leasing.

3.3.7. Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

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

Borrowing costs are capitalized based on so called net investment expenditures which means assets in the process of construction not funded through the use of investment commitments, but using other sources of external financing.
Borrowing costs may include:
- interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement,
- finance charges in respect of finance leases recognised in accordance with IAS 17 Lease, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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

3.3.7. Borrowing costs continued

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

Capitalising of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user are not the basis for the capitalization.
After putting an asset into use, the capitalized borrowing costs are depreciated/ amortized over the period reflecting economic useful life of the asset as part of the cost of the asset.

3.3.8. Impairment of assets

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

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs to sell.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units). Following assets are allocated to the cash generating unit:
- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

At the end of each reporting period an assessment shall be made whether an impairment loss recognised in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.
Reversal of an impairment loss is recognised in profit or loss.
An impairment loss recognised for goodwill shall not be reversed.

3.3.9. Inventories

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

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

Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

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

3.3.9. Inventories continued

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realisable value, after deducting any impairment losses.
Outgoings of finished goods, semi-finished products and work in progress is determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and materials are measured initially at acquisition cost.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any impairment allowances.
Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost.

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

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

3.3.10. Receivables

Receivables, including trade receivables, are initially valued at fair value plus transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.

3.3.11. 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 equivalents are rather part of the cash management process implemented by the entity nor investment or other.
Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (first in first out) method.

3.3.12. Non-current assets held for sale

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

The classification of asset into this category is made in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.
While a non-current asset is classified as held for sale it shall not be depreciated (or amortised).
A non-current assets held for sale (excluding financial assets) shall be measured at a lower of: book value or fair value less costs to sell.
A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

3.3.13. Equity

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

3.3.13.1. Share capital

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

3.3.13.2. Share premium

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

3.3.13.3. Hedging reserve

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

3.3.13.4. Revaluation surplus

Revaluation surplus comprises revaluation of items, which, according to the Company's regulations, relates to the revaluation surplus, including particularly:
- change of the fair value of the available-for-sale financial assets.
- differences between the net book value and the fair value of the investment property at the date of reclassification from the property occupied by the Company to the investment property.

3.3.13.5. Retained earnings

Retained earnings include:
- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/loss,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity.

Non repayable additional payments to equity with non-confirmed repayment date are presented in equity of receiving entity with a corresponding entry as investment in shares of entity making the additional payments.
Repayable additional payments to equity are presented in entity receiving payment as current and non-current liabilities based on the repayment date. Repayable additional payments to equity are presented as current or non-current receivables in entity transferring payment based on the repayment date, i.e. up to 12 months as current and above 12 months as non-current, initially recognized at fair value.

3.3.14. Liabilities

Liabilities, including trade liabilities, are initially valued at fair value plus transaction costs and subsequently at amortized cost using the effective interest method.

3.3.14.1. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.
Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

3.3.15. Provisions

A provision is a liability of uncertain timing or amount.

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

3.3.15. Provisions continued

The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognized.
When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financial expenses.
Provisions are not recognised for the future operating losses.

The provisions are created, among others, for (if the conditions of the reserve recognition listed above are met):
- environmental risk,
- jubilee bonuses and post-employment benefits,
- business risk,
- shield programs,
- CO_2 emission.

3.3.15.1. Environmental provision

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

3.3.15.2. Jubilee bonuses and post employment benefits

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

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years in service and an employee's average remuneration.
The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.
The provisions equal to the present value of these liabilities are estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The recognized provisions equal discounted future payments, considering the demographic and financial assumption including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

3.3.15.3. Business risk

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

3.3.15.4. Shield programs

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

3.3.15.5. CO_2 emissions costs

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

3.3.16. Goverment grants

Government grants are transfers of resources to the Company by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the activities of the entity.
Government grants shall not be recognised until there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.
Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.
Government grants related to assets, shall be presented net with the related asset and is recognised in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

3.3.17. Revenues from sale

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

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

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

3.3.17.2. Revenues from licenses, royalties and trade mark

Revenues from licences, royalties and trade mark arise from the use of Company’s assets by other business entities.
Revenues from licenses, royalties and trade mark are recognised on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Company are recognised as deferred income and settled in the periods when economic benefits are realized according to the agreements.

3.3.17.3. Franchise revenues

Franchise revenues arising from delivery to acquire the right to the contract matter, provides the purchasing side with those rights as a result of the franchise agreement.
Franchise revenues are recognised in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees, e.g. fixed charges recognized as the services are being provided or as the rights are being exercised, while sold assets after their delivery or after transferring the title deed.

3.3.18. Costs

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

3.3.18.1. Cost of sales

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

3.3.18.2. Distribution expenses

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

3.3.18.3. General and administrative expenses

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

3.3.19. Other operating revenues and expenses

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

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

3.3.20. Financial revenues and expenses

Financial revenues include, in particular, profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.
Revenues from dividends are recognised when the shareholders' right to receive payments is established.

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

3.3.21. Income tax expenses

Income tax expense comprises current tax and deferred tax.

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

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

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

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

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

3.3.21. Income tax expenses continued

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

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

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each reporting date).
Deferred tax assets and liabilities are not discounted.
Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in equity.
Deferred tax assets and liabilities are accounted for as non-current assets or liabilities.
Deferred tax assets and liabilities are offset in the statement of financial position, if the Company has a legally enforceable right to set off the recognised amounts. It is assumed that a legally enforceable right exists if the amounts are levied by the same taxation authority and concern the same tax payer, except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

3.3.22. Earnings per share

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

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

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

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

3.3.23. Statement of cash flows

The statement of cash flows is prepared using indirect method.

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

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

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

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

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

3.3.23. Statement of cash flow continued

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

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

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

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

3.3.24. Financial instruments

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

3.3.24.1. Recognition and derecognition in the statement of financial position

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

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

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

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

3.3.24.2. Measurement of financial assets and liabilities

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

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

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

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

3.3.24.2. Measurement of financial assets and liabilities continued

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

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

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

3.3.24.2.1. Fair value measurement of financial assets

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

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

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

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

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

3.3.24.2.2. Amortized cost measurement of financial assets

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

3.3.24.2.3. Fair value measurement of financial liabilities

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

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

3.3.24.2.4. Amortised cost measurement of financial liabilities

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

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

3.3.24.3. Transfers

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

3.3.24.4. Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is an objective indicator that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. effective interest rate determined at initial recognition).
If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss as revenue.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.
If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognised in statement of comprehensive income is removed from equity and recognised in profit or loss.
Impairment losses for an investment in an equity instrument classified as available for sale are not 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 occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3.3.24.5. Embedded derivatives

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

3.3.24.5. Embedded derivatives continued

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

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

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

3.3.24.6. Hedge accounting

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

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

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

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

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

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

The Company discontinues fair value hedge accounting if:

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

3.3.24.6. Hedge accounting continued

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

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

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

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

Net investment in a foreign operations is the amount of the reporting entity's interest in the net assets of that operations.
Hedges of a net investment in a foreign operations, including hedge of monetary item that is accounted for as a part of the net investment, shall be accounted for similarly to cash flow hedges:
- the portion of the gain or loss on the hedging instrument that is determined to be effective hedge shall be recognised in other comprehensive income; and
- the ineffective portion shall be recognised in profit or loss.

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

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

3.3.25. Lease

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

Assets used under the finance lease, that is the agreement that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessee.

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

3.3.25. Lease continued

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

The present value of the minimum lease payments is recognised in the statement of financial position as financial liability with the division into short and long-term part. The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and the initial direct costs if this is impossible to determine, the lessee's incremental borrowing rate, that is the rate, the lessee would have to pay on the similar lease agreement or – if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, with a similar security, the funds necessary to purchase the leased asset for the similar period of time and with similar guarantees.

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

If the Company conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognised in the statement of financial position as receivables with the division into short and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease.

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

Lease payments from the operating lease are recognised by lessor as revenues from sales of products, while by lessee as costs.

3.3.26. Contingent assets and contingent liabilities

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

Contingent assets are not recognised in the statement of financial position as it may lead to recognition of the income, which will never be gain. However, if the inflow of economic benefits is probable, the Company discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, as according to accounting principles for valuation of provisions.

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

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

Contingent liabilities are not recognised in the statement of financial position however the information on contingent liabilities is disclosed in the financial statements unless the probability of outflow of resources embodying economic benefits is remote.

Contingent liabilities assumed in a business combinations are recognized in the statement of financial position as provisions.

3.3.27. Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between end of the reporting period and date of when the financial statements are authorized for issue. Two types of subsequent events can be identified:

– those, that provide evidence of conditions that existed as the end of the reporting period (events after the reporting period requiring adjustments in the foregoing separate financial statements), and
– those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments in the foregoing separate financial statements).

4. Significant values based on professional judgment and estimates

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

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

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

Actual results may differ from the estimated values.

4.1. Professional judgement

Financial instruments

The Management Board assesses the classification of financial instruments, nature and extent of risks related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired asset. Additional information has been presented in the note 31.

Lease

The Management Board makes judgments of classifying lease agreements as finance or operating lease based on analysis of business nature. Additional information has been presented in the note 8 and 32.

4.2. Uncertainty of estimates

Estimated useful lives of property, plant and equipment and intangible assets

As described in note 3.3.5 and 3.3.6 the Company verifies useful lives of property, plant and equipment and intangible assets at least once a year. The effect of verification performed in the current reporting year was disclosed in note 6 and 7.

Impairment of non-current assets

The Management Board assesses whether there is any indicator for impairment of assets or cash generating units. If there is an impairment, the recoverable amount of an asset or cash generating units is required by determing higher of fair value less costs to sell or value in use by applying the proper discount rate, depending, which one is higher. Additional information has been presented in note 12.

Impairment of inventories

The Management Board assesses whether there is any indicator for impairment of inventories according to the note 3.3.9. If there is an impairment, estimation of the net realizable value of inventories, which are damaged or obsolete is required. Additional information has been presented in note 13.

Impairment of trade and other receivables

The Management Board assesses whether there is any indicator for impairment of trade and other receivables. The estimate of present value of future cash flow discounted with the initial effective interest rate of receivables is required. Additional information has been presented in note 14.

4.2. Uncertainty of estimates continued

Provisions

As described in note 3.3.15. recognition of provisions requires estimates of the probability of outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing separate financial statements are disclosed in note 20.

Revenue recognition – loyalty program VITAY

For the unrealized and recorded on clients' accounts VITAY points deferred income is recognized, which adjust retail sales revenues. Deferred income is estimated based on point share indicators, on which the fuel and non-fuel awards were granted, the number of points to be realized in the future period and present cost of the VITAY program point. Additional information regarding VITAY program has been presented in note 23.

Deferred tax assets

Deferred tax assets are recognised according to the note 3.3.21. Recognition of deferred tax assets requires estimate of the projected dates and of future profits. Additional information has been presented in note 29.2

Methods of fair value measurement concerning financial instruments

Financial instruments valuation models commonly used by market experts is applied to estimate fair value of financial instruments. Additional information of applied assumptions and results of sensitivity analysis have been presented in note 31.

Contingent liabilities

As described in note 3.3.26. disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period. Additional information has been presented in note 34.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

EXPLANATORY NOTES TO SEPARATE FINANCIAL STATEMENTS

5. Operating Segments

Accounting principles applied in operating segments are in line with the Company's accounting principles, described in note 3.3.4. The results of operating segments and corporate functions are the results generated without the allocation of financial revenues and expenses as well as income tax expenses. The Management Board of PKN ORLEN assesses the segment financial results based on profit from operations of the segment (EBIT) and decides on the allocation of resources.

Revenues from transactions with external customers and transactions with other segments are arm's length transactions. Sales revenues from transactions with other segments presented to the Management Board are measured in line with the methods used in the statement of profit or loss and other comprehensive income.

5.1. Revenues and financial results by operating segments

for the year ended 31 December 2012

	NOTE	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales revenues from external customers	25	61 379 455	19 747 794	7 139 775	81 947	-	88 348 971
Sales revenues from transactions with other segments		23 817 975	-	3 307 735	71 870	(27 197 580)	-
Total sales revenues		85 197 430	19 747 794	10 447 510	153 817	(27 197 580)	88 348 971
Total operating expenses		(84 201 913)	(19 208 760)	(9 604 010)	(757 150)	27 197 580	(86 574 253)
Other operating revenues	27.1.	192 401	93 243	17 735	69 500	-	372 879
Other operating expenses	27.2.	(95 279)	(166 461)	(1 906)	(73 868)	-	(337 514)
Segment profit/(loss) from operations		**1 092 639**	**465 816**	**859 329**	**(607 701)**	**-**	**1 810 083**
Financial revenues	28.1.						1 639 570
Financial expenses	28.2.						(785 690)
Profit before tax							**2 663 963**
Income tax expense	29						(536 165)
Net profit							**2 127 798**
Depreciation and amortisation	26.2.	**422 631**	**212 843**	**342 954**	**77 514**	**-**	**1 055 942**
Additions to non-current assets	6	**335 965**	**367 404**	**187 075**	**85 743**	**-**	**976 187**

for the year ended 31 December 2011

	NOTE	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales revenues from external customers	25	54 823 726	17 695 991	6 454 132	63 272	-	79 037 121
Sales revenues from transactions with other segments		21 374 669	-	2 901 326	62 135	(24 338 130)	-
Total sales revenues		76 198 395	17 695 991	9 355 458	125 407	(24 338 130)	79 037 121
Total operating expenses		(73 857 147)	(17 328 409)	(8 409 004)	(690 290)	24 338 130	(75 946 720)
Other operating revenues	27.1.	183 897	51 795	23 640	175 826	-	435 158
Other operating expenses	27.2.	(71 420)	(167 489)	(4 762)	(107 950)	-	(351 621)
Segment profit/(loss) from operations		**2 453 725**	**251 888**	**965 332**	**(497 007)**	**-**	**3 173 938**
Financial revenues	28.1.						2 999 717
Financial expenses	28.2.						(3 777 208)
Profit before tax							**2 396 447**
Income tax expense	29						(1 010 281)
Net profit							**1 386 166**
Depreciation and amortisation	26.2.	**427 469**	**186 990**	**309 088**	**67 858**	**-**	**991 405**
Additions to non-current assets	6	**515 493**	**228 303**	**184 614**	**82 323**	**-**	**1 010 733**

Additions to non-current assets of operating segments and corporate functions include capital expenditure and borrowing costs.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

5.2. Other segment data

5.2.1. Assets by operating segments

	AS AT 31/12/2012	AS AT 31/12/2011
Refining Segment	19 247 518	21 044 325
Retail Segment	3 378 639	3 342 511
Petrochemical Segment	6 348 922	6 392 544
Total segment assets	**28 975 079**	**30 779 380**
Corporate Functions	12 431 890	15 089 703
	41 406 969	**45 869 083**

including:

Non-current assets classified as held for sale

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
Refining Segment		45 115	-
Total segment assets		**45 115**	**-**
Corporate Functions		6 519	6 519
	17	**51 634**	**6 519**

Operating segments include all assets except for financial assets (disclosed in notes 9,10,11,15,16) and tax assets (note 29.2.). Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

5.2.2. Recognition and reversal of impairment allowances

	NOTE	Recognition		Reversal	
		FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Refining Segment		(33 113)	(12 087)	3 724	26 091
Retail Segment		(44 367)	(103 777)	24 787	21 514
Petrochemical Segment		(869)	(656)	4 852	366
Impairment allowances by segment		**(78 349)**	**(116 520)**	**33 363**	**47 971**
Corporate Functions		(44 905)	(73 842)	46 070	58 486
Impairment allowances in operating activities	*13, 27.1,27.2.*	**(123 254)**	**(190 362)**	**79 433**	**106 457**
Impairment allowances in financing activities	*28.1,28.2.*	**(422 074)**	**(1 557 937)**	**4 208**	**6 693**
		(545 328)	**(1 748 299)**	**83 641**	**113 150**

Impairment allowances by segments recognised in the statement of profit or loss and other comprehensive income include receivables allowances, the value of inventories valued at net realizable value and non-current assets impairment allowances.

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

In 2012 allowances recognised in the refining segment concerned mainly decrease in the value of receivables and impairment of rights to energy. Allowances recognised in the retail segment mainly resulted from changes in the efficiency of the various petrol stations including changes in the transportation system and the construction of competing petrol stations in the nearby surroundings. Allowances for receivables, idle assets and obsolete raw materials were recognised in corporate functions.

In 2012 and 2011 allowances recognised in the financing activities related mainly to impairment of shares in AB ORLEN Lietuva.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

5.2.3. Geographical information

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

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Poland		49 771 731	44 776 905
Germany		903 878	660 710
Czech Republic		10 250 880	9 227 788
Lithuania, Latvia, Estonia		22 935 778	21 217 545
Other countries		4 486 704	3 154 173
	25	**88 348 971**	**79 037 121**

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

As at 31 December 2012 and as at 31 December 2011 non-current assets of the Company (included in the notes 6,7,8) were located in Poland.

5.3. Sales revenues

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Refining Segment			
Light distillates		5 219 877	4 541 065
Medium distillates		15 061 612	15 075 001
Heavy fractions		2 933 286	2 178 099
Crude oil		34 700 132	29 900 918
Other		3 464 548	3 128 643
		61 379 455	**54 823 726**
Retail Segment			
Light distillates		6 322 365	5 686 876
Medium distillates		11 405 717	10 023 752
Other		2 019 712	1 985 363
		19 747 794	**17 695 991**
Petrochemical Segment			
Monomers		3 363 172	3 268 378
Aromas		693 845	654 244
PTA		1 875 273	1 237 102
Other		1 207 485	1 294 408
		7 139 775	**6 454 132**
Corporate functions		**81 947**	**63 272**
	25	**88 348 971**	**79 037 121**

5.4. Information about major customers

In 2012 and 2011, the Company generated revenues from sale of products and finished goods in the refining segment from three customers of PLN 41,904,047 thousand and PLN 38,161,191 thousand, respectively, which individually exceeded 10% of total revenues from sales. These customers were entities related to PKN ORLEN.

6. Property, plant and equipment

	AS AT 31/12/2012	AS AT 31/12/2011
Land	275 195	269 609
Buildings and constructions	6 723 008	6 796 374
Machinery and equipment	4 332 015	4 206 507
Vehicles and other	345 600	367 908
Construction in progress	411 963	549 949
	12 087 781	**12 190 347**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

6. Property, plant and equipment continued

Changes in property, plant and equipment by class

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2012	272 083	10 398 237	9 365 001	714 486	579 365	21 329 172
Investment expenditures	-	9 404	83 017	8 749	862 649	963 819
Other increases	-	2 128	1 970	357	-	4 455
Borrowing costs	-	7 991	9 888	408	(5 919)	12 368
Reclassifications	5 129	381 443	532 493	42 786	(988 870)	(27 019)
Sale	(57)	(1 144)	(2 116)	(662)	-	(3 979)
Liquidation	(73)	(61 530)	(229 685)	(57 403)	-	(348 691)
Other decreases	-	(3 941)	(4 553)	(2 014)	(3 281)	(13 789)
31 December 2012	**277 082**	**10 732 588**	**9 756 015**	**706 707**	**443 944**	**21 916 336**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2012	2 474	3 601 166	5 158 487	346 566	29 416	9 138 109
Depreciation	-	448 751	493 338	71 813	-	1 013 902
Other increases	-	591	1 399	206	-	2 196
Impairment allowances	(587)	7 705	138	(6 006)	2 565	3 815
Reclassifications	-	35	(35)	-	-	-
Sale	-	(972)	(1 857)	(547)	-	(3 376)
Liquidation	-	(46 211)	(223 459)	(49 111)	-	(318 781)
Other decreases	-	(2 158)	(4 018)	(1 826)	-	(8 002)
Government grants - settlement	-	64	1	4	-	69
31 December 2012	**1 887**	**4 008 971**	**5 423 994**	**361 099**	**31 981**	**9 827 932**
Gross book value						
1 January 2011	269 446	8 066 217	6 832 461	547 462	4 986 665	20 702 251
Investment expenditures	-	110	55 903	13 524	891 937	961 474
Other increases	-	12 184	1 177	171	34 588	48 120
Borrowing costs	-	110 192	120 651	8 726	(190 310)	49 259
Reclassifications	3 002	2 283 583	2 465 258	210 654	(5 134 496)	(171 999)
Sale	-	(2 557)	(84)	(347)	-	(2 988)
Liquidation	(181)	(64 416)	(102 682)	(63 015)	-	(230 294)
Other decreases	(184)	(7 076)	(7 683)	(2 689)	(9 019)	(26 651)
31 December 2011	**272 083**	**10 398 237**	**9 365 001**	**714 486**	**579 365**	**21 329 172**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2011	2 432	3 166 623	4 784 644	340 574	28 199	8 322 472
Depreciation	-	412 649	474 757	67 706	-	955 112
Other increases	-	8 530	834	140	-	9 504
Impairment allowances	42	70 476	4 080	297	1 217	76 112
Reclassifications	-	583	(573)	(10)	-	-
Sale	-	(2 224)	(62)	(327)	-	(2 613)
Liquidation	-	(52 571)	(98 713)	(59 390)	-	(210 674)
Other decreases	-	(2 964)	(6 481)	(2 428)	-	(11 873)
Government grants - settlement	-	64	1	4	-	69
31 December 2011	**2 474**	**3 601 166**	**5 158 487**	**346 566**	**29 416**	**9 138 109**
Government grants						
1 January 2012	**-**	**697**	**7**	**12**	**-**	**716**
31 December 2012	**-**	**609**	**6**	**8**	**-**	**623**
1 January 2011	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2011	**-**	**697**	**7**	**12**	**-**	**716**
Net book value						
1 January 2012	**269 609**	**6 796 374**	**4 206 507**	**367 908**	**549 949**	**12 190 347**
31 December 2012	**275 195**	**6 723 008**	**4 332 015**	**345 600**	**411 963**	**12 087 781**
1 January 2011	**267 014**	**4 899 594**	**2 047 817**	**206 888**	**4 958 466**	**12 379 779**
31 December 2011	**269 609**	**6 796 374**	**4 206 507**	**367 908**	**549 949**	**12 190 347**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

6. Property, plant and equipment continued

Impairment allowances of property, plant and equipment

	NOTE	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2012		2 474	184 818	14 765	7 309	29 415	238 781
Recognition	27.2.	43	35 172	2 112	265	2 922	40 514
Reversal	27.1.	(630)	(26 644)	(1 640)	(4 958)	(322)	(34 194)
Usage		-	(823)	(334)	(1 313)	(35)	(2 505)
		1 887	**192 523**	**14 903**	**1 303**	**31 980**	**242 596**
net increase/(decrease)		(587)	7 705	138	(6 006)	2 565	3 815
1 January 2011		2 432	114 342	10 685	7 012	28 198	162 669
Recognition	27.2.	289	91 990	5 322	681	2 000	100 282
Reversal	27.1.	(247)	(21 280)	(1 132)	(376)	(783)	(23 818)
Usage		-	(234)	(110)	(8)	-	(352)
		2 474	**184 818**	**14 765**	**7 309**	**29 415**	**238 781**
net increase		42	70 476	4 080	297	1 217	76 112

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

As at 31 December 2012 and as at 31 December 2011 impairment allowances of property, plant and equipment retired from active use of PLN 34,897 thousand and PLN 42,630 thousand respectively was recognized.

Other information on property, plant and equipment

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
The gross book value of all fully depreciated property, plant and equipment still in use		1 606 805	1 737 418
Net book value of property, plant and equipment retired from active use and not classified as held for sale		7 658	6 707
The carrying amount of property, plant and equipment under the finance lease	32.1.	69 838	61 618

The Company reviews economic useful lives of property, plant and equipment and adjustment to depreciation expense is made prospectively.
Should the rates from 2011 be applied depreciation expense for 2012 would be higher by PLN 41,666 thousand.

7. Intangible assets

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
Patents, trade marks and licenses		223 007	239 291
Rights	7.2.	380 409	123 500
		603 416	**362 791**

As at 31 December 2012 and as at 31 December 2011 the Company has no internally generated intangible assets.

(all amounts in PLN thousand)

7. Intangible assets continued

7.1. The changes in other intangible assets other than internally generated

	Patents, trade marks and licenses	Rights	Other	Total
Gross book value				
1 January 2012	510 092	138 080	1 204	649 376
Increases	581	569 680	-	570 261
Reclassifications	24 241	-	-	24 241
Sale	-	(17 868)	-	(17 868)
Liquidation	(458)	(14 580)	(6)	(15 044)
Other decreases	(93)	(279 709)	-	(279 802)
31 December 2012	**534 363**	**395 603**	**1 198**	**931 164**
Accumulated amortisation and impairment allowances				
1 January 2012	270 801	14 580	1 204	286 585
Amortisation	40 840	-	-	40 840
Other increases	13	-	-	13
Impairment allowances	220	15 194	-	15 414
Liquidation	(435)	(14 580)	(6)	(15 021)
Other decreases	(83)	-	-	(83)
31 December 2012	**311 356**	**15 194**	**1 198**	**327 748**
Gross book value				
1 January 2011	363 759	267 686	2 166	633 611
Increases	15 044	409 917	-	424 961
Reclassifications	137 215	34 768	(180)	171 803
Sale	-	(204 372)	-	(204 372)
Liquidation	(5 617)	(15 715)	(779)	(22 111)
Other decreases	(309)	(354 204)	(3)	(354 516)
31 December 2011	**510 092**	**138 080**	**1 204**	**649 376**
Accumulated amortisation and impairment allowances				
1 January 2011	232 718	15 537	2 166	250 421
Amortisation	35 107	-	-	35 107
Other increases	8 761	14 758	-	23 519
Impairment allowances	32	-	-	32
Liquidation	(5 592)	(15 715)	(789)	(22 096)
Other decreases	(225)	-	(173)	(398)
31 December 2011	**270 801**	**14 580**	**1 204**	**286 585**
Net book value				
1 January 2012	**239 291**	**123 500**	**-**	**362 791**
31 December 2012	**223 007**	**380 409**	**-**	**603 416**
1 January 2011	**131 041**	**252 149**	**-**	**383 190**
31 December 2011	**239 291**	**123 500**	**-**	**362 791**

Impairment allowances of intangible assets other than internally generated

	NOTE	Patents, trade marks and licenses	Rights	Total
1 January 2012		3 023	-	3 023
Recognition	*27.2.*	874	15 194	16 068
Reversal	*27.1.*	(654)	-	(654)
		3 243	**15 194**	**18 437**
net increase		220	15 194	15 414
1 January 2011		2 991	-	2 991
Recognition	*27.2.*	32	-	32
		3 023	**-**	**3 023**
net increase		32	-	32

(all amounts in PLN thousand)

7. Intangible assets continued

In 2012 impairment allowances related mainly to the impairment of energy rights granted free of charge due to the decrease in quotation as compared to the price from the date of recognition.

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

Other information on intangible assets

	AS AT 31/12/2012	AS AT 31/12/2011
The gross book value of all fully depreciated intangible assets still in use	143 178	157 274
Net book value of intangible assets with an indefinite useful life	5 126	5 152

The Company reviews economic useful lives of intangible assets and adjustment of amortisation expense is made prospectively.
Should the rates from 2011 be applied, amortisation expense for 2012 would be higher by PLN 1,165 thousand.

Net book value of intangible assets with an indefinite useful life includes expenses related to registration of produced or imported chemicals (described in Regulation No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorization and Restriction of Chemicals) - so called REACH. Due to the fact that registration is indefinite and period of production or import of particular chemicals is unknown, indefinite useful life was assumed.

7.2. Rights

7.2.1. CO_2 emission rights

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

Change in CO_2 emission rights (EUA, ERU and CER) in 2012

	Quantity (in tonnes)	Value
At the beginning of the period	1 976 763	105 436
Granted free of charge	6 800 240	261 070
Settled for the year 2011	(5 973 589)	(231 906)
Purchase/(Sale) net	7 354 517	179 028
	10 157 931	**313 628**
CO_2 emission in 2012	5 833 701	192 595

In 2010-2011 the Company concluded transaction to hedge future purchase price of allowances. In 2012 CO_2 allowances were re-purchased and forward contracts were settled.

As at 31 December 2012 the market value of one EUA amounted to PLN 26.28 (representing EUR 6.43) (source: www.theice.com).

As at 31 December 2012 the Company possesses 9,908,440 tonnes of CO_2 emission rights.

Within the allowed exchange limit up to 10% of allocation of EUA, the Company realizes purchase transactions of less expensive rights ERU from Anwil. Purchased ERU rights are amortised first.
As at 31 December 2012 the Company possessed purchased ERU rights from Anwil of 249,491 tonnes granted free of charge by Anwil that concerned accomplished in 2008 investment in Nitric Acid Plant reducing emission of nitrous suboxide. As at 31 December 2012 the market value of one ERU allowance amounted to PLN 0.49 (representing EUR 0.12) translated with exchange rate as at 31 December 2012.

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7.2.2. Energy rights

Change in energy rights in 2012

	Yellow	Red	Violet	Green	Total
	Quantity (in MWh)				value
At the beginning of the period	-	2 257 879	-	-	18 064
Granted free of charge	741 474	1 630 445	-	-	102 314
Settled for the year 2011	(3 921)	(108 062)	(621)	(4 552)	(2 687)
Purchase/(Sale)	5 000	-	3 500	51 801	13 165
Reclassifications/conversion	(360 000)	(470 763)	-	-	(48 881)
Impairment allowances	-	-	-	-	(15 194)
	382 553	**3 309 499**	**2 879**	**47 249**	**66 781**

Additional information is disclosed In note 3.3.6.1.

8. Perpetual usufruct of land

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
At the beginning of the period	89 692	90 812
Increases	50	-
Reclassifications	2 778	196
Amortisation	(1 200)	(1 186)
Liquidation	(1)	(130)
	91 319	**89 692**

According to the amended Act of 29 July 2005 on the transformation of perpetual usufruct into real estate ownership (consolidated text Official Journal 2012, item. 83) any natural or legal person (with certain exceptions) may request conversion of perpetual usufruct into real estate ownership right, as long as on 13 October 2005 was the user of perpetual usufruct or is the legal successor of such user. The amendment of the Act has been effective since 9 October 2011. The amendment of the Act should be considered by the lessee as a change to the contract that requires re-evaluation of the classification of the lease, due to the introduction of the option allowing the transformation of perpetual usufruct right of ownership by legal persons. The Company carried out the appropriate analysis. Re-evaluation confirms current classification of the perpetual usufruct agreements as operating leases.

As at 31 December 2012 and as at 31 December 2011 the Company recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 888,129 thousand and PLN 893,116 thousand, respectively. These rights were valued based on the fair value.

The total amount of perpetual usufruct charges, recognised as expenses in 2012 and 2011 amounted to PLN (42,777) thousand and PLN (41,232) thousand, respectively.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

9. Shares in related entities

	Seat	as at 31/12/2012	as at 31/12/2011	Company's share in capital / voting rights as at 31/12/2012	Company's share in capital / voting rights as at 31/12/2011	Principal activity
Subsidiaries and jointly controlled entities						
AB ORLEN Lietuva	Lithuania – Juodeikiai	4 541 790	4 957 834	100%	100%	crude oil processing, production of refining products and whole and retail sale
UNIPETROL a.s.	Czech Republic – Praha	1 812 882	1 812 882	62.99%	62.99%	asset management of the Unipetrol Group
ORLEN Deutschland GmbH	Germany – Elmshorn	503 803	503 803	100%	100%	asset management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Plock	453 699	453 699	50%	50%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Wloclawek	399 144	322 108	100%	95.14%	production of nitrogen fertilizers, plastic and chemicals
Rafineria Trzebinia S.A.	Poland – Trzebinia	109 424	109 424	86.35%	86.35%	crude oil processing, production and sale of biofuels, oils
Rafineria Nafty Jedlicze S.A.	Poland – Jedlicze	88 366	79 376	100%	89.95%	crude oil processing, waste oils regeneration, production and sale of oil bases, heating oils
ORLEN Paliwa Sp. z o.o.	Poland – Plock	83 631	83 631	100%	100%	liquid fuels trade
Petrolot Sp. z o.o.	Poland - Warsaw	67 220	10 220	100%	51%	aviation refueling services
ORLEN Oil Sp. z o.o.	Poland – Cracow	57 144	57 144	51.69%	51.69%	production, distribution and sale of grease oils, maintenance liquids
ORLEN Asfalt Sp. z o.o.	Poland – Plock	50 000	50 000	82.46%	82.46%	manufacture and sale of road bitumens and specific bitumen products
Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Poland – Inowroclaw	47 879	46 296	100%	98.17%	storage of crude oil, fuels and gases, extraction and supply of brine
ORLEN KolTrans Sp. z o.o.	Poland – Plock	40 796	40 796	99.85%	99.85%	rail services
ORLEN Transport S.A.	Poland – Plock	39 362	39 362	100%	100%	transport services
ORLEN PetroTank Sp. z o.o.	Poland – Widelka	36 246	36 246	100%	100%	distribution and sale of liquid fuels
Płocki Park Przemysłowo-Technologiczny S.A.	Poland – Plock	31 959	31 959	50%	50%	renting real estate for its own account and reinvoicing costs of energy and water
ORLEN Projekt S.A.	Poland – Plock	27 939	765	99.63%	51%	design services in the refining, petrochemical, chemical, environmental protection, energy
ORLEN Upstream Sp. z o.o.	Poland - Warsaw	24 950	24 950	100%	100%	exploration and prospecting of hydrocarbon deposits, extraction of crude oil and natural gas
ORLEN Gaz Sp. z o.o.	Poland – Plock	24 824	24 824	100%	100%	wholesale of liquid gas, distribution of gas in cylinders
ORLEN Eko Sp. z o.o.	Poland – Plock	23 047	23 047	100%	100%	waste management, processing of nonmetallic waste
Other subsidiaries		73 919	74 137			
Additional repayable payments to subsidiaries' equity		464 997	269 203			
		9 003 021	**9 051 706**			

As at 31 December 2012 and as at 31 December 2011 impairment allowances of shares in related entities amounted to PLN 3,715,073 thousand and PLN 3,299,029 thousand, respectively and related mainly to impairment of shares in AB ORLEN Lietuva.

10. Financial assets available for sale

	AS AT 31/12/2012	AS AT 31/12/2011
Quoted shares	**996**	**690**
Wodkan S.A.	982	674
Ideon S.A. (previously Centrozap Katowice S.A.)	14	16
Unquoted shares	**39 638**	**39 638**
Naftoport Sp. z o.o.	39 502	39 502
Other	136	136
	40 634	**40 328**

As at 31 December 2012 and as at 31 December 2011 impairment allowances of financial assets available for sale amounted to PLN 71,166 thousand and PLN 71,478 thousand, respectively.

(all amounts in PLN thousand)

11. Other long-term assets

	AS AT 31/12/2012	AS AT 31/12/2011
Cash flow hedge instruments	28 071	81
foreign currency forwards	*-*	*81*
commodity swaps	*26 042*	*-*
currency interest rate swap	*2 029*	*-*
Loans granted	619 892	682 882
Other	-	164
Financial assets	**647 963**	**683 127**

12. Impairment of non-current assets

Indicator for performing impairment tests of non-current assets in 2012 was worsening macroeconomic situation, the decline in economic growth, weaker prospects for growth inducted by another wave of global crisis, the reduction of fuel consumption growth, sustaining high crude oil prices and consequently products (including fuels) and growing pressure on refining and petrochemical margins.

As at 31 December 2012 an impairment test was carried out for all identified cash generating units.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets of PKN ORLEN S.A. was considered. Lack of number of market transactions for similar assets to those held by the Company which would allow to reliably estimate their fair value makes, makes this method of valuation not possible to implement. The current market capitalization does not reflect the fair value as a value dependent on fluctuations in the stock market, which in the case of the global crisis is characterized by high volatility. As a result, it was concluded that the best estimate of the actual values of individual assets of the Company will be its value in use.

The analysis were performed based on financial projections for years 2013-2017 based on strategy of ORLEN Group published for this period adjusted by level and effects of capital expenditures.

After 5-year projection period a fixed cash flow growth rate for the individual geographical markets at the level of long-term inflation was used.

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

In the calculation of value in use, future cash flows are discounted to its present value using pre-tax discount rate, that reflects current market assessment of the time value of money and the risk specific to the asset. For the purpose of calculation of discount rate the Company used available as at 31 December 2012 publications of prof. Aswath Damodaran regarding macroeconomic indicators. (source: http://pages.stern.nyu.edu)

The structure of discount rates used in impairment testing of assets of particular operating segments of PKN ORLEN as at 31 December 2012

	Czech Republic			Germany	Poland			Lithuania	
	Rafinery	Petrochemistry	Retail	Retail	Rafinery	Petrochemistry	Retail	Rafinery	Retail
Cost of capital	10.92%	10.99%	9.53%	7.04%	13.11%	13.19%	11.68%	12.39%	10.84%
Cost of debt after tax	3.37%	3.37%	3.37%	2.39%	5.35%	5.35%	5.35%	5.51%	5.51%
Capital structure	0.62	0.30	1.22	1.22	0.62	0.30	1.22	0.62	1.22
Nominal discount rate	**8.03%**	**9.22%**	**6.15%**	**4.49%**	**10.14%**	**11.36%**	**8.20%**	**9.76%**	**7.91%**
Long-term rate of infation	2.50%	2.50%	2.50%	1.88%	3.02%	3.02%	3.02%	2.32%	2.32%

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12. Impairment of non-current assets continued

Cost of capital is determined by the profitability of government bonds that are risk-free, adding both market and segment risk premiums (beta).

Cost of debt includes the average level of credit margins and expected market value of money for each country.

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

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

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

For cash generating units in refinery and petrochemical segments 25-year useful life period was assumed. For units within retail segment average 15-year useful life period was assumed.

After 5-year projection period a fixed cash flow growth rate for the individual geographical markets at the level of long-term inflation was used.

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

12.2. Impairment of shares in related entities

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

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

As a result at 31 December 2012 an impairment allowance of PLN (416,044) thousand was recognized on AB ORLEN Lietuva shares

Above impairment is eliminated during standard consolidation proceedings and has no impact on consolidated financial statements of ORLEN Group.

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

13. Inventories

	AS AT 31/12/2012	AS AT 31/12/2011
Raw materials	5 284 578	6 699 775
Work in progress	706 474	861 360
Finished goods	3 814 447	2 950 581
Merchandise	340 903	831 905
Spare parts	229 069	205 422
Inventories, net	**10 375 471**	**11 549 043**
Impairment allowances of inventories revalued at net realizable	11 557	11 501
Inventories, gross	**10 387 028**	**11 560 544**

(all amounts in PLN thousand)

13. Inventories continued

Change in impairment allowances of inventories revalued at net realizable value

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
At the beginning of the period		11 501	12 200
Recognition	5.2.2.	1 476	3 398
Reversal	5.2.2.	(1 420)	(4 097)
		11 557	**11 501**

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

On 31 January 2012 the agreement with Maury Sp. z o.o. (that has been concluded on 23 December 2010) regarding gathering and keeping of mandatory reserves of crude oil, upon which a part of mandatory reserves of crude oil for PLN 909,592 thousand translated based on exchange rate from the date of transaction (representing USD 299,968 thousand) has expired.

Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Maury Sp. z o.o. The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 202,707 thousand translated based on exchange rate from the date of transaction (representing USD 63,283 thousand).

As a result PKN ORLEN recognised the purchase of crude oil of PLN 1,010,450 thousand translated based on exchange rate from the date of transaction (representing USD 310,767 thousand) in the I quarter of 2012. The transfer of ownership of the raw material to PKN ORLEN has been made on 31 January 2012, after settlement of full amount of the transaction.

On 28 March 2012 within the process of changing the formula of mandatory reserves of crude oil maintenance by PKN ORLEN, the Company has signed the contract for sale of part of mandatory reserves and the contract for gathering and keeping of crude oil reserves with Ashby Sp. z o.o., with its registered office in Warsaw.
Based on the sale agreement PKN ORLEN has sold crude oil to Ashby Sp. z o.o. The value of crude oil sold was PLN 1,252,300 thousand translated with exchange rate as at 28 March 2012 (representing USD 402,669 thousand). The price of raw material was determined based on market quotations.
Based on the agreement regarding gathering and keeping of crude oil reserves Ashby Sp. z o.o. will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 1 year, whereby the Company takes into account the possibility of its renewal for another period.

On 28 December 2012 within the process of changing the formula of maintenance of mandatory reserves of crude oil by PKN ORLEN, the Company has signed the contract for sale of part of mandatory reserves and the contract for gathering and keeping of crude oil reserves with Whirlwind Sp. z o.o., with its registered office in Warsaw.

Based on the sale agreement PKN ORLEN has sold crude oil to Whirlwind. The value of crude oil sold was PLN 1,181,698 thousand translated with exchange rate as at 28 December 2012 (representing USD 383,469 thousand). The price of raw material was determined based on market quotations.
Based on the agreement regarding gathering and keeping of crude oil reserves Whirlwind will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 13 months, however PKN ORLEN shall have an option to repurchase the crude oil stocks at any time. At the conclusion of the arrangement, Whirlwind shall have an option to sell the stocks to PKN ORLEN. Parties may also agree the possibility of extending the agreement for another period.

Additionally, PKN ORLEN signed with Whrilwind an agreement with market interest rate for granting short-term loan amounting to PLN 271,791 thousand. As at the day of publication of the financial statements the loan was repaid.

(all amounts in PLN thousand)

14. Trade and other receivables

	AS AT 31/12/2012	AS AT 31/12/2011
Trade receivables	5 854 815	6 738 417
Receivables due to sale of non-current non-financial assets	88	873
Additional payments to equity	-	8 641
Other	9 308	7 902
Financial assets	**5 864 211**	**6 755 833**
Excise tax and fuel charge receivables	128 377	155 801
Other taxes, duty and social security receivables	154 901	123 409
Advances for construction in progress	113 864	8 173
Prepayments for deliveries	7 337	8 713
Prepayments	126 823	153 214
Other	-	66 298
Non-financial assets	**531 302**	**515 608**
Receivables, net	**6 395 513**	**7 271 441**
Receivables impairment allowance	279 597	266 021
Receivables, gross	**6 675 110**	**7 537 462**

As at 31 December 2012 and as at 31 December 2011 trade and other receivables denominated in foreign currencies amounted to PLN 2,702,401 thousand and PLN 3,313,596 thousand, respectively.
Information about receivables from related parties is disclosed in note 36.4.
Information about currency structure of financial assets was disclosed in note 31.6.3.1.

Change in impairment allowances of trade and other receivables

	Note	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
At the beginning of the period		266 021	277 776
Recognition	*27.2, 28.2.*	71 048	90 912
Reversal	*27.1, 28.1.*	(46 895)	(84 430)
Usage		(10 577)	(18 237)
		279 597	**266 021**

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

15. Other short-term financial assets

	AS AT 31/12/2012	AS AT 31/12/2011
Cash flow hedge instruments	43 425	204 423
foreign currency forwards	*41 912*	*4 411*
commodity swaps	*1 513*	*200 012*
Derivatives not designated as hedge accounting	-	1 317
foreign currency forwards	*-*	*1 317*
Embedded derivatives	744	179
currency swaps	*744*	*179*
Loans granted	912 725	4
Cash pool	124 655	114 557
	1 081 549	**320 480**

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16. Cash and cash equivalents

	AS AT 31/12/2012	AS AT 31/12/2011
Cash on hand and in bank	941 369	3 244 710
Cash in transit	30 810	93 658
Other financial assets (treasury bills)	-	952 819
	972 179	**4 291 187**

Components of cash and cash equivalents in statement of cash flows and statement of financial position are the same.

17. Non-current assets classified as held for sale

	AS AT 31/12/2012	AS AT 31/12/2011
Energy rights	45 115	-
Items of non-current assets	6 519	6 519
	51 634	**6 519**

In 2012 the Company classified yellow energy right granted free of charge which were not used for own purposes as assets held for sale.

As at 31 December 2012 and as at 31 December 2011 items of non-current assets comprise mainly buildings and constructions, land, machinery and equipment and vehicles.

In 2012 there was nor recognition or reversal of the impairment allowances of non-current assets classified as held for sale, while in 2011 the Company used and reversed the impairment allowances of non-current assets classified as held for sale of PLN 1,182 thousand and PLN 490 thousand, respectively.

18. Shareholders' equity

18.1. Share capital

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2012 and as at 31 December 2011 amounted to PLN 534,636 thousand. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

The share capital consisted of the following series of shares

	Number of shares issued		Number of shares authorized	
	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
A Series	336 000 000	336 000 000	336 000 000	336 000 000
B Series	6 971 496	6 971 496	6 971 496	6 971 496
C Series	77 205 641	77 205 641	77 205 641	77 205 641
D Series	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	**427 709 061**	**427 709 061**	**427 709 061**

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

	AS AT 31/12/2012	AS AT 31/12/2011
Share capital	534 636	534 636
Share capital revaluation adjustment	522 999	522 999
	1 057 635	**1 057 635**

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

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18.2. Share premium

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

	AS AT 31/12/2012	AS AT 31/12/2011
Nominal share premium	1 058 450	1 058 450
Share premium revaluation adjustment	168 803	168 803
	1 227 253	**1 227 253**

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

18.3. Hedging reserve

The amount of the hedging reserve results from valuation and settlement of derivatives meeting the requirements of cash flows hedge accounting.
The Company uses cash flow hedge accounting to hedge the currency risk, interest rate risk and commodity risk arising from the Company's operations.

The Company designates derivatives as cash flow hedges. Changes in the fair value of the hedging instrument, which are an effective part of the hedging relationship is recognized directly in equity as hedging reserve, while the ineffective part of the profit or loss on the hedging instrument is recognized in the separate statement of profit or loss and other comprehensive income.

Profit and losses included in equity (effective hedge) at the time of recognition of an asset or liability arising from the hedged forecast transaction may be moved to:
- profit or loss and other comprehensive income or;
- the initial value of fixed assets and in future periods is recognized in the statement of profit or loss and other comprehensive income as depreciation.

18.4. Retained earnings

	AS AT 31/12/2012	AS AT 31/12/2011
Reserve capital	17 692 713	16 306 547
Other capital	883 740	883 740
Net profit for the period	2 127 798	1 386 166
	20 704 251	**18 576 453**

18.5. Suggested distribution of the Parent Company's profit for 2012

In line with the strategy of PKN ORLEN for the years 2013 - 2017 the level of dividends will depend on the average share price of PKN ORLEN for the previous year and includes the strategic objectives and maintaining secure financial ratios (such as net financial leverage, net debt / operating profit before depreciation and amortization (EBITDA), and forecasts of the macroeconomic environment).

The target level of dividends is expected to be up to 5% of the average annual capitalization of PKN ORLEN in the previous year. Linking dividend to an annualized share price decoupling the amount of momentary fluctuations in the share price.
This method does not require to link the level of dividends with the net profit, which in the refining industry is highly variable and often contains non-monetary elements, such as the revaluation of inventories and loans, which are not fully reflecting the cash flow earn by the Group.

Considering the average capitalization of PKN ORLEN in 2012 PLN 16,796,135 thousand, levels of financial leverage of 26.0% and net debt / EBITDA of 1.58, the Management Board proposes to distribute the net profit for the year 2012 of PLN 2,127,797,966.06 as follows: the amount of PLN 641,563,591.50, e.g. 3.82% of average capitalization of the Parent Company will be allocated to the dividend and remaining amount of net profit of PLN 1,486,234,374.56 to reserve capital of the Parent Company.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

18.6. Distribution of the Company's profit for 2011

Pursuant to article 395 § 2 point 2 of the Commercial Companies Act and § 7 art. 7 point 3 of the Company's Articles of Association, on 30 May 2012 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, decided to distribute the total net profit for 2011 of PLN 1,386,165,827.51 to the Company's reserve capital.

18.7. Capital management policy

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

- net financial leverage (net debt to equity ratio) of the Group. As at 31 December 2012 and as at 31 December 2011 net financial leverage amounted to 26.0% and 30.2%, respectively;
- net debt to profit before interest, taxes, depreciation and amortisation. As at 31 December 2012 and as at 31 December 2011 this ratio for the Group amounted to 1.58 and 1.62, respectively;
- dividend per ordinary shares – dividend amount depends on current finance condition of the Group. In 2012 and 2011 no dividends were paid. Description of dividends policy is disclosed in note 18.5.

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

19. Loans, borrowings and debt securities

	Long-term		Short-term		Total	
	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
Bank loans	5 945 809	9 346 203	219 443	477 120	6 165 252	9 823 323
Borrowings	-	-	185 721	501 026	185 721	501 026
Debt securities	1 022 716	-	898 333	1 342 715	1 921 049	1 342 715
	6 968 525	**9 346 203**	**1 303 497**	**2 320 861**	**8 272 022**	**11 667 064**

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

19.1. Bank loans

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

	AS AT 31/12/2012	AS AT 31/12/2011
PLN	879 775	614
EUR	1 999 745	3 385 003
USD	3 285 732	6 437 706
	6 165 252	**9 823 323**

– **by interest rate**

	AS AT 31/12/2012	AS AT 31/12/2011
WIBOR	879 775	614
EURIBOR	1 999 745	3 385 003
LIBOR	3 285 732	6 437 706
	6 165 252	**9 823 323**

At the end of the reporting period unused credit lines increased by short-term receivables (note 14) and cash and cash equivalents, exceeded short term liabilities (note 22) by PLN 7,277,840 thousand.

(all amounts in PLN thousand)

19.1. Bank loans continued

The Company hedges cash flows from interest payments connected with external financing in EUR and USD, using interest rate swaps (IRS).

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

19.2. Borrowings

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

	AS AT 31/12/2012	AS AT 31/12/2011
EUR	185 639	162 261
USD	82	338 765
	185 721	**501 026**

– **by interest rate**

	AS AT 31/12/2012	AS AT 31/12/2011
EONIA	185 639	162 261
LIBOR	82	338 765
	185 721	**501 026**

As at 31 December 2012 and as at 31 December 2011 the Company presented liability relating to borrowings from ORLEN Finance AB within international cash pool agreement of PLN 185,721 thousand and PLN 501,026 thousand, respectively.

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

19.3. Debt securities

– **by currency**

	AS AT 31/12/2012	AS AT 31/12/2011
PLN	1 921 049	1 342 715
	1 921 049	**1 342 715**

– **by interest rate**

	Floating rate bonds		Fixed rate bonds		Total	
	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
Nominal value	1 000 000	750 000	908 100	583 000	1 908 100	1 333 000
Carrying amount	1 022 716	763 428	898 333	579 287	1 921 049	1 342 715
Expiration date	2019-02-27	2012-02-27	2013-05-10	2012-03-09	-	-

(all amounts in PLN thousand)

20. Provisions

	Long-term		Short-term		Total	
	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
Environmental provision	229 453	202 493	32 797	32 149	262 250	234 642
Jubilee and post-employment benefits provision	130 854	125 254	20 829	22 616	151 683	147 870
Business risk provision	-	-	7 725	18 706	7 725	18 706
Shield programs provision	-	-	28 305	29 692	28 305	29 692
Provision for CO_2 emission	-	-	192 595	225 679	192 595	225 679
Other	-	-	118 543	113 339	118 543	113 339
	360 307	**327 747**	**400 794**	**442 181**	**761 101**	**769 928**

Change in provisions in 2012

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other	Total
1 January 2012	234 642	147 870	18 706	29 692	225 679	113 339	769 928
Recognition	49 818	17 497	4 323	-	198 822	44 703	315 163
Usage	(22 029)	(13 576)	(10 127)	(1 338)	(231 906)	(3 960)	(282 936)
Reversal	(181)	(108)	(5 177)	(49)	-	(35 539)	(41 054)
	262 250	**151 683**	**7 725**	**28 305**	**192 595**	**118 543**	**761 101**

Change in provisions in 2011

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

20.1. Environmental provision

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

In 2012 the environmental provision increased mainly due to increase in the rate of remediation processes at petrol stations and a substantial increase in the average cost of remediation at petrol stations. Based on previous assumptions environmental provisions would be lower by PLN 9,369 thousand.

Additional information concerning estimates for environmental risk are disclosed in note 3.3.15.1.

20.2. Provision for jubilee bonuses and post-employment benefits

Change in employee benefits obligations in 2012

	NOTE	Jubilee bonuses provision	Post-employment benefits	Total
1 January 2012		88 919	58 951	147 870
Current service cost		5 388	1 704	7 092
Interest expense		4 095	2 787	6 882
Actuarial gains and losses net		6 142	(3 205)	2 937
Benefits paid		(10 823)	(2 275)	(13 098)
	20	**93 721**	**57 962**	**151 683**

Change in employee benefits obligations in 2011

	NOTE	Jubilee bonuses provision	Post-employment benefits	Total
1 January 2011		83 817	57 602	141 419
Current service cost		4 996	1 455	6 451
Interest expense		4 509	3 132	7 641
Actuarial gains and losses net		4 264	(471)	3 793
Benefits paid		(8 667)	(2 767)	(11 434)
	20	**88 919**	**58 951**	**147 870**

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20.2. Provision for jubilee bonuses and post-employment benefits continued

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2012 and as at 31 December 2011.

as at	NOTE	Present value of the above mentioned employee benefits obligation
31/12/2012	*20*	151 683
31/12/2011	*20*	147 870
31/12/2010		141 419
31/12/2009		130 064
31/12/2008		139 917

Total expense recognised in profit or loss

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Current service cost	(7 092)	(6 451)
Interest expense	(6 882)	(7 641)
Actuarial gains and losses net	(2 937)	(3 793)
	(16 911)	**(17 885)**

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

In 2012 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate, projected inflation and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be higher by PLN 17,948 thousand.

For updating the provision at as at 31 December 2012 the Company adopted the following actuarial assumptions: discount rate: 4%, expected inflation rate: 2.7% in 2013 and 2.5% in the following years, remuneration increase rates 0% in 2013 - 2017 and 2.5% in following years.

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

Additional information concerning jubilee bonuses and post-employment benefits are disclosed in note 3.3.15.2.

20.3. Business risk provision

Decrease of the business risk provision in 2012 results mainly from the verification of the status of administration and court proceedings concerning the land.

20.4. Shield programs provision

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

The assumptions used in calculation of shield programs provision did not change in 2012 in comparison to 2011.

20.5. Provision for CO_2 emission

The Company recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision in the profit or loss is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. Detailed description of applied accounting principles is disclosed in notes 3.3.6.1. and 31.6.3.4.

(all amounts in PLN thousand)

20.6. Other provisions

As at 31 December 2012 and as at 31 December 2011 other provisions concerned mainly provisions for tax liabilities of PLN 45,799 thousand and PLN 45,037 thousand, respectively and provisions for negative outcome of legal proceedings of PLN 32,414 thousand and PLN 14,516, respectively.

21. Other long-term liabilities

	AS AT 31/12/2012	AS AT 31/12/2011
Cash flow hedge instruments	71 323	113 602
currency swaps	*58 963*	*113 602*
currency interest rate swap	*12 360*	-
Financial lease	62 304	56 832
Financial liabilities	**133 627**	**170 434**

22. Trade and other liabilities

	AS AT 31/12/2012	AS AT 31/12/2011
Trade liabilities	6 287 621	8 558 341
Investment liabilities	527 941	449 201
Financial lease liabilities	13 282	9 975
Declared payments to equity	-	66 298
Other	87 176	60 198
Financial liabilities	**6 916 020**	**9 144 013**
Payroll liabilities	100 928	98 206
Environmental liabilities	9 524	10 290
Special funds	5 729	5 729
Excise tax and fuel charge	986 437	1 111 839
Value added tax	517 712	580 881
Other taxation, duties, social security and other benefits	19 156	16 569
Holiday pay accruals	19 559	15 000
Other	10 541	15 509
Non-financial liabilities	**1 669 586**	**1 854 023**
	8 585 606	**10 998 036**

Information about currency structure of financial liabilities was disclosed in note 31.6.3.1.
Non-financial liabilities relate to balances of settlements in PLN.

23. Deferred income

	AS AT 31/12/2012	AS AT 31/12/2011
VITAY program	74 684	72 632
Government grants	60 213	39 956
Other	2 451	5 835
	137 348	**118 423**

VITAY is a loyalty program created for individual customers operating on the Polish market since 14 February 2001. While making purchases, customers are granted with VITAY points that can be subsequently exchanged for gifts or rebates on the purchase of selected products, including fuel (source: http://www.vitay.pl).
Additional information concerning VITAY loyalty program are disclosed in note 4.2.

23.1. Government grants

	AS AT 31/12/2012	AS AT 31/12/2011
CO_2 emission rights granted free of charge	60 180	39 938
Other	33	18
	60 213	**39 956**

(all amounts in PLN thousand)

24. Other financial liabilities

	AS AT 31/12/2012	AS AT 31/12/2011
Cash flow hedge instruments	85 521	109 761
foreign currency forwards	*183*	*107 220*
currency swaps	*-*	*1 507*
commodity swaps	*85 338*	*1 034*
Derivatives not designated as hedge accounting	-	229 526
foreign currency forwards	*-*	*223 589*
commodity swaps	*-*	*5 937*
Embedded derivatives	98	7 240
currency swaps	*98*	*7 240*
Cash pool	271 768	338 765
	357 387	**685 292**

25. Sales revenues

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Sales of finished goods	48 940 086	44 030 078
Sales of services	379 784	386 100
Revenues from sales of finished goods and services, net	**49 319 870**	**44 416 178**
Sales of merchandise	36 556 895	34 313 435
Sales of raw materials	2 472 206	307 508
Revenues from sales of merchandise and raw materials, net	**39 029 101**	**34 620 943**
	88 348 971	**79 037 121**

26. Operating expenses

26.1. Cost of sales

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Costs of finished goods and services sold	(45 093 148)	(39 069 675)
Cost of merchandise and raw materials sold	(38 660 614)	(34 257 944)
	(83 753 762)	**(73 327 619)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

26.2. Cost by kind

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Materials and energy		(44 477 305)	(38 173 644)
Cost of merchandise and raw materials sold		(38 660 614)	(34 257 944)
External services		(2 196 894)	(2 086 467)
Payroll, social security and other employee benefits	*26.3.*	(644 162)	(612 048)
Depreciation and amortisation	*6,7.1,8*	(1 055 942)	(991 405)
Tax and charges		(348 339)	(302 450)
Other		(530 204)	(527 679)
		(87 913 460)	**(76 951 637)**
Change in inventories		708 980	486 310
Cost of products and services for own use		292 713	166 986
Operating expenses		**(86 911 767)**	**(76 298 341)**
Distribution expenses		2 065 565	1 947 915
General and administrative expenses		754 926	671 186
Other operating expenses	*27.2.*	337 514	351 621
Cost of sales		**(83 753 762)**	**(73 327 619)**

In 2012 and 2011 external services included research and development expenditures of PLN (23,652) thousand and PLN (7,851) thousand, respectively.

26.3. Employee benefits costs

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Payroll expenses		(524 556)	(502 671)
Future benefits expenses		(3 813)	(6 451)
Social security expenses		(85 502)	(74 006)
Other employee benefits expenses		(30 291)	(28 920)
	26.2.	**(644 162)**	**(612 048)**

Future employee benefits include change in provision for jubilee bonuses and post-employment benefits.

27. Other operating revenues and expenses

27.1. Other operating revenues

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Profit on sale of non-current non-financial assets		13 501	41 878
Reversal of provisions		40 944	17 981
Reversal of receivables impairment allowances	*14*	43 165	78 052
Reversal of impairment allowances of property, plant and equipment and intangible assets		34 848	24 308
Penalties and compensations earned		23 226	97 200
Other		217 195	175 739
		372 879	**435 158**

In 2012 and 2011, in the line “other” the Company mainly recognized the effect of energy rights recognition in relation to the fulfillment by PKN ORLEN of requirements related to high-efficiency cogeneration in electricity production of PLN 130,032 thousand and PLN 21,045 thousand, respectively.

Additionally, the line “other” in 2012 and 2011 includes the updated provision for estimated CO_2 emissions of PLN 48,513 thousand and PLN 130,591 thousand, respectively.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

27.2. Other operating expenses

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Loss on sale of non-current non-financial aasets		(45 764)	(34 992)
Recognition of provisions		(83 061)	(40 562)
Recognition of receivables impairment allowances	*14*	(65 196)	(86 650)
Recognition of impairment allowances of property, plant and equipment and intangible assets		(56 582)	(100 314)
Costs of losses and breakdowns		(13 586)	(8 926)
Other		(73 325)	(80 177)
		(337 514)	**(351 621)**

In 2012 and 2011, the line "other" mainly includes the effect of update of provision for CO_2 emissions and settlement of inventory count differences and the cost of disposal of current assets of PLN (37,544) thousand and PLN (51,935) thousand, respectively.

Additional information of impairment allowances is disclosed in notes 6, 7.1., 12 and 14.

28. Financial revenues and expenses

28.1. Financial revenues

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Interest		153 748	68 774
Foreign exchange gain surplus		1 248 718	-
Dividends		173 085	400 702
Profit from sale of shares		-	2 506 611
Settlement and valuation of financial instruments		42 586	8 871
Reversal of receivables impairment allowances	*5.2.2,14*	3 730	6 378
Revaluation of assets available for sale	*5.2.2.*	478	315
Other		17 225	8 066
		1 639 570	**2 999 717**

28.2. Financial expenses

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Interest		(345 198)	(328 979)
Foreign exchange loss surplus		-	(1 583 487)
Loss on sale of shares		(202)	(453)
Settlement and valuation of financial instruments		(14 933)	(301 798)
Recognition of receivables impairment allowances	*5.2.2,14*	(5 852)	(4 262)
Recognition of impairment allowances of shares in related entities	*5.2.2,12.2.*	(416 044)	(1 552 852)
Revaluation of assets available for sale	*5.2.2.*	(172)	(815)
Other		(3 289)	(4 562)
		(785 690)	**(3 777 208)**

Recognition of impairment allowances of shares in related entities in 2012 and 2011 concerns AB ORLEN Lietuva. According to IAS 23 Borrowing cost, the Company capitalizes those borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in 2012 and 2011 amounted to PLN (12,368) thousand and PLN (49,259) thousand, respectively. In 2012 and in 2011 capitalization rate that was used to calculate borrowing costs capitalization amounted to 2.98% per annum and 3.10% per annum, respectively.

(all amounts in PLN thousand)

29. Income tax expense

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Income tax expense in the statement of profit or loss		
Current income tax	(272 226)	(804 464)
Deferred income tax	(263 939)	(205 817)
	(536 165)	**(1 010 281)**
Income tax expense in other comprehensive income		
Hedging instruments	12 787	18 411
	12 787	**18 411**
	(523 378)	**(991 870)**

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

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Profit before tax	**2 663 963**	**2 396 447**
Corporate income tax for 2012 and 2011 by the valid tax rate	(506 153)	(455 325)
Impairment allowance of AB ORLEN Lietuva shares	(79 048)	(623 700)
Current tax adjustment relating to previous years	(5 608)	702
Dividends received	32 727	76 685
Energy rights granted free of charge	23 859	4 005
Provisions not deductible for tax purposes	5 071	59
Receivables impairment allowances	3 210	(2 400)
Other	(10 223)	(10 307)
Income tax expense	**(536 165)**	**(1 010 281)**
Effective tax rate	**20%**	**42%**

29.2. Deferred tax

Change in deferred tax assets/liability, net

	AS AT 31/12/2011	Deferred tax recognized in profit or loss	Deferred tax recognized in other comprehensive income	AS AT 31/12/2012
Deferred tax assets				
Impairment allowances	67 648	(272)	-	67 376
Provisions and accruals	159 377	44 955	-	204 332
Unrealized foreing exchange differences	249 307	(185 567)	-	63 740
Valuation of financial instruments	48 284	(44 978)	12 787	16 093
Other	31 455	6 453	-	37 908
	556 071	**(179 409)**	**12 787**	**389 449**
Deferred tax liabilities				
Investment relief	48 343	(4 903)	-	43 440
Difference between carrying amount nad tax base of property plant and equipment	433 133	96 325	-	529 458
Surplus of contribution in kind over the value of shares	42 870	-	-	42 870
Other	20 445	(6 892)	-	13 553
	544 791	**84 530**	**-**	**629 321**
	11 280	**(263 939)**	**12 787**	**(239 872)**

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30. Explanatory notes to the statement of cash flows

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

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	**911 092**	**(2 060 296)**
Change in investment receivables from:	(1 859)	668 952
advances for construction in progress	*105 691*	*(20 731)*
sale of non-current non-financial assets	*(1 005)*	*(16 596)*
sale of non-current financial assets	*(100)*	*(100)*
repayable payments to subsidiaries' equity	*(74 939)*	*59 218*
long-term loans granted	*(62 990)*	*643 279*
energy rights granted free of charge	*31 484*	*3 882*
Change in cash flow hedge instruments	27 990	81
Change in prepayments regarding bank commisions	(13 153)	34 109
Other	(4 489)	(1 524)
Change in receivables in the statement of cash flows	**919 581**	**(1 358 678)**
Change in inventories presented in the statement of financial position	**1 173 572**	**(4 098 256)**
Reclassification of inventories from/to property, plant and equipment	10 139	14 322
Change in inventories in the statement of cash flows	**1 183 711**	**(4 083 934)**
Change in other long-term liabilities, trade liabilities and other liabilities presented in the statement of financial position	**(2 449 237)**	**1 079 654**
Change in investment liabilities from:	(12 442)	213 135
investment expenditures	*(78 740)*	*279 433*
declared repayable payments to subsidiaries' equity	*66 298*	*(66 298)*
Change in cash flow hedge instruments	42 279	(113 602)
Change in financial liabilities due to finance lease	(9 124)	(11 755)
Other	5 509	(7 362)
Change in liabilities in the statement of cash flows	**(2 423 015)**	**1 160 070**
Change in provisions presented in the statement of financial position	**(8 827)**	**(105 695)**
Usage of prior year provision for CO_2 emission	231 906	354 204
Usage of prior year provision for energy rights	2 687	-
Change in provisions in the statement of cash flows	**225 766**	**248 509**

Other adjustments in cash flows from operating activities

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
CO_2 emission rights granted free of charge	(261 070)	(391 853)
Energy rights granted free of charge	(130 032)	(21 945)
Change in deferred income	18 925	53 814
Other	(8 520)	6 719
	(380 697)	**(353 265)**

(all amounts in PLN thousand)

31. Financial instruments

31.1. Financial instruments by category and class

Financial assets

as at 31 December 2012

		Financial instruments by category				
Financial instruments by class	NOTE	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Quoted shares	*10*	-	-	996	-	996
Unquoted shares	*10*	-	-	39 638	-	39 638
Trade receivables	*14*	-	5 854 815	-	-	5 854 815
Receivables from sale of non-current non-financial assets	*14*	-	88	-	-	88
Loans granted	*11,15*	-	1 532 617	-	-	1 532 617
Embedded derivatives and hedging instruments	*11,15*	744	-	-	71 496	72 240
Cash	*16*	-	972 179	-	-	972 179
Cash pool	*15*	-	124 655	-	-	124 655
Other	*14*	-	9 308	-	-	9 308
		744	**8 493 662**	**40 634**	**71 496**	**8 606 536**

as at 31 December 2011

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

Financial liabilities

as at 31 December 2012

		Financial instruments by category				
Financial instruments by class	NOTE	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Debt securities	*19.3.*	-	1 921 049	-	-	1 921 049
Loans	*19.1.*	-	6 165 252	-	-	6 165 252
Borrowings	*19.2.*	-	185 721	-	-	185 721
Finance lease	*21,22*	-	-	-	75 586	75 586
Trade liabilities	*22*	-	6 287 621	-	-	6 287 621
Investment liabilities	*22*	-	527 941	-	-	527 941
Embedded derivatives and hedging instruments	*21,24*	98	-	156 844	-	156 942
Cash pool	*24*	-	271 768	-	-	271 768
Other	*22*	-	87 176	-	-	87 176
		98	**15 446 528**	**156 844**	**75 586**	**15 679 056**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.1. Financial instruments by category and class continued

as at 31 December 2011

Financial instruments by class	NOTE	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
		Financial instruments by category				
Debt securities	19.3.	-	1 342 715	-	-	1 342 715
Loans	19.1.	-	9 823 323	-	-	9 823 323
Borrowings	19.2.	-	501 026	-	-	501 026
Finance lease	21,22	-	-	-	66 807	66 807
Trade liabilities	22	-	8 558 341	-	-	8 558 341
Investment liabilities	22	-	449 201	-	-	449 201
Declared payments to equity	22	-	66 298	-	-	66 298
Embedded derivatives and hedging instruments	21,24	236 766	-	223 363	-	460 129
Cash pool	24	-	338 765	-	-	338 765
Other	22	-	60 198	-	-	60 198
		236 766	**21 139 867**	**223 363**	**66 807**	**21 666 803**

31.2. Income and expense, gains and losses in the separate statement of profit or loss and other comprehensive income

for the year ended 31 December 2012

	NOTE	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
		Financial instruments by category						
Interest revenue	28	-	153 748	-	-	-	-	153 748
Interest expense	28	-	(2 109)	-	(285 496)	(53 918)	(3 675)	(345 198)
Foreign exchange gain/loss	28	-	(385 874)	-	1 626 156	9 270	2	1 249 554
Recognition/reversal of receivables and borrowings impairment allowances recognized in:								
- other operating revenues/expenses	27	-	(10 381)	-	-	-	-	(10 381)
- financial revenues/expenses	28	-	(2 128)	-	-	-	-	(2 128)
Settlement and valuation of financial instruments	28	27 651	-	-	-	2	-	27 653
Valuation of financial assets available for sale	28	-	-	306	-	-	-	306
Dividends	28	-	-	1 419	-	-	-	1 419
Other	28	-	17 225	-	(3 283)	-	-	13 942
		27 651	**(229 519)**	**1 725**	**1 337 377**	**(44 646)**	**(3 673)**	**1 088 915**
other, excluded from the scope of IFRS 7								
Dividends from related parties, including:	28							170 830
exchange differences realized	28							*(836)*
Disposal of shares in related entities	28							(202)
Impairment allowances of shares in related entities	28							(416 044)
Recognition/reversal of receivables impairment allowances recognized in:								
- other operating revenues/expenses	27							(11 650)
								(257 066)

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.2. Income and expense, gains and losses in the separate statement of profit or loss and other comprehensive income continued

for the year ended 31 December 2011

	NOTE	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
		Financial instruments by category						
Interest revenue	28	-	68 774	-	-	-	-	68 774
Interest expense	28	-	(951)	-	(271 715)	(53 009)	(3 304)	(328 979)
Foreign exchange gain/loss	28	-	493 595	-	(2 159 880)	79 907	(9)	(1 586 387)
Recognition/reversal of receivables and borrowings impairment allowances recognized in:								
- other operating revenues/expenses	27	-	(8 654)	-	-	-	-	(8 654)
- financial revenues/expenses	28	-	2 109	-	-	-	-	2 109
Settlement and valuation of financial instruments	28	(292 117)	-	-	-	(810)	-	(292 927)
Valuation of financial assets available for sale	28	-	-	(500)	-	-	-	(500)
Dividends	28	-	-	1 277	-	-	-	1 277
Other	28	-	3 511	-	-	-	-	3 511
		(292 117)	**558 384**	**777**	**(2 431 595)**	**26 088**	**(3 313)**	**(2 141 776)**
other, excluded from the scope of IFRS 7								
Dividends from related parties, including:	28							402 325
realized exchange differences	28							*2 900*
Disposal of shares in related entities	28							2 506 611
Impairment allowances of shares in related entities	28							(1 552 852)
Profit/(loss) on sale of shares	28							(453)
Recognition/reversal of receivables impairment allowances recognized in:								
- other operating revenues/expenses	27							56
								1 355 687

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

	NOTE	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Quoted shares	28.2.	(172)	(815)
Trade recivables	28.2.	(5 852)	(4 262)
		(6 024)	**(5 077)**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.4. Fair value of financial instruments

	NOTE	AS AT 31/12/2012		AS AT 31/12/2011	
		Fair value	Carrying amount	Fair value	Carrying amount
Financial assets					
Quoted shares	10	996	996	690	690
Unquoted shares	10, 31.4.1.	-	39 638	-	39 638
Trade receivables	14	5 854 815	5 854 815	6 738 417	6 738 417
Receivables from sale of non-current non-financial assets	14	88	88	873	873
Loans granted	11,15	1 533 465	1 532 617	684 330	682 886
Repayable payments to subsidiaries' equity	14	-	-	8 641	8 641
Embedded derivatives and hedging	11,15	72 240	72 240	206 000	206 000
Cash	16	972 179	972 179	4 291 187	4 291 187
Cash pool	15	124 655	124 655	114 557	114 557
Other	14	9 308	9 308	8 066	8 066
		8 567 746	**8 606 536**	**12 052 761**	**12 090 955**
Financial liabilities					
Debt securities	19.3.	1 923 173	1 921 049	1 342 729	1 342 715
Loans	19.1.	6 167 240	6 165 252	9 829 086	9 823 323
Borrowings	19.2.	185 721	185 721	501 026	501 026
Finance lease	21,22	66 396	75 586	58 315	66 807
Trade liabilities	22	6 287 621	6 287 621	8 558 341	8 558 341
Investment liabilities	22	527 941	527 941	449 201	449 201
Declared payments to equity	22	-	-	66 298	66 298
Embedded derivatives and hedging	21,24	156 942	156 942	460 129	460 129
Cash pool	24	271 768	271 768	338 765	338 765
Other	22	87 176	87 176	60 198	60 198
		15 673 978	**15 679 056**	**21 664 088**	**21 666 803**

31.4.1. Financial instruments for which fair value cannot be measured reliably

As at 31 December 2012 and as at 31 December 2011 the Company held unquoted shares in entities, for which fair value cannot be reliably measured. There are no active markets for these entities and no comparable transactions in the same type of instruments were noted. The value of shares were recognised in the Company's statement of financial position of PLN 39,638 thousand and measured at acquisition cost less impairment allowances. As at the period end there are no binding decisions relating to ways and dates of disposal of those assets.

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

The Company measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets. As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.
Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price. Forward rates of exchange are not modeled as a separate risk factor, but they are a result of spot rate and applicable forward interest rate for foreign currency in relation to PLN.

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

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

(all amounts in PLN thousand)

31.4.3. Fair value hierarchy

	NOTE	AS AT 31/12/2012		AS AT 31/12/2011	
		Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	10	996	-	690	-
Embedded derivatives and hedging instruments	11,15	-	72 240	-	206 000
		996	**72 240**	**690**	**206 000**
Financial liabilities					
Embedded derivatives and hedging instruments	21,24	-	156 942	-	460 129
		-	**156 942**	**-**	**460 129**

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

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

Financial liabilities due to debt securities issued, interest-bearing loans and borrowings and finance lease liabilities are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates as at 31 December 2012 and as at 31 December 2011 according to quotations of 1-month, 3-months and 6-months interest rates, respectively, increased by margins proper for particular financial instruments. For the majority of financial instruments recognized as at 31 December 2012 and as at 31 December 2011 1-month interest rate quotations were applied.

	AS AT 31/12/2012	AS AT 31/12/2011
WIBOR	4.2100%	4.7700%
EURIBOR	0.1090%	1.0240%
LIBOR	0.2087%	0.2953%

31.5. Hedge accounting

31.5.1. Cash flow hedge accounting

The Company hedges its cash flows:

- from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/PLN for sale and USD/PLN for purchases and sale);
- from investment projects (EUR/PLN, USD/PLN) against changes in exchange rates, using foreign exchange forwards;
- from sales/purchases of crude oil and diesel oil using commodity swaps;
- from interest payments concerning external financing in EUR and USD, using interest rate swaps (IRS). The Company revaluated PLN bonds to the fixed rate in EUR by concluding a cross currency swap transaction (CCS).

Hedging transactions, settlement and fair value measurement of which influence the foregoing separate financial statements were concluded in the years 2009 - 2012.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.5.1. Cash flow hedge accounting continued

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

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

	AS AT 31/12/2012	AS AT 31/12/2011
Planned realization date of hedged cash flow		
Currency operating exposure		
2012	-	(102 728)
2013	41 912	-
Interest rate exposure		
until 1 quarter 2012	-	(1 507)
until 1 quarter 2014	(58 963)	(113 602)
until 1 quarter 2019	(10 331)	-
Commodity risk exposure		
2012	-	198 979
2013	(83 825)	-
2014	26 042	-
	(85 165)	**(18 858)**

In case of interest rate exposure cross currency swap transactions are based on 6-month WIBOR, whereas interest rate swaps hedging loans in EUR and USD are based on 1-month EURIBOR and 1-month LIBOR.

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

	AS AT 31/12/2012	AS AT 31/12/2011
Planned realization date of hedged cash flow		
2013 (currency investment exposure)	(183)	-
	(183)	**-**

As at 31 December 2012 and as at 31 December 2011, in respect of cash flow hedges that meet the conditions of hedge accounting, the ineffective part amounted to PLN 3 thousand and PLN (810) thousand, respectively.

31.5.2. Settlement of hedge instruments, valuation of which was earlier recognized in the hedging reserve

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Revenue from sales of finished goods	74 979	(34 420)
Foreign exchange differences	9 270	79 907
Interest	(53 918)	(53 009)
Construction in progress	-	(1 185)
Inventories	253 358	337 790
	283 689	**329 083**

In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2012 and 2011 amounting to PLN 814 thousand and PLN 810 thousand, respectively.

(all amounts in PLN thousand)

31.6. Financial risk management

The Company is exposed particularly to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices);
- other, disclosed in details in the Management Board Report on the Operations of PKN ORLEN in point 3.5.

31.6.1. Credit risk

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

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

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

As at 31 December 2012 and as at 31 December 2011 the carrying amount of loans granted amounted to PLN 1,532,617 thousand and PLN 682,886 thousand, respectively.

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

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

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
Group I		5 090 473	6 054 479
Group II		588 683	553 960
	14	**5 679 156**	**6 608 439**

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

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
Up to 1 month		163 742	202 230
From 1 to 3 months		10 310	9 080
From 3 to 6 months		6 333	2 382
From 6 to 12 months		4 670	-
	14	**185 055**	**213 692**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the domestic and foreign economy.

Credit risk associated with cash and bank deposits is assessed by the Company as low. All entities in which the Company's free cash are deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (96% of deposited cash) or good credibility (4% of deposited cash).

Rating A-1 in Standard & Poor's, F1 in Fitch and Prime-1 in Moodys are treated as the highest credibility, while A-2 in Standard & Poor's, F2 and F3 in Fitch and Prime-2 and Prime-3 in Moodys are considered to be good credibility. The source of information on ratings are web site publications of each of the banks, where the Company invest its free cash.

31.6.1. Credit risk continued

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

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

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments. Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount. In order to reduce the risk, as at 31 December 2012 and as at 31 December 2011 the Company received from its customers securities such as: bank and insurance guarantees amounting to PLN 849,052 thousand and PLN 799,690 thousand, respectively. Additionally, the Company receives from its customers securities such as blockade of cash on bank accounts, mortgages and bills of exchange.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of financial assets is disclosed in the notes 31.2., 31.3.

The Company is exposed to credit risk related to guarantees issued for the business partners. The maximum level of exposure due to guarantees issued is the maximum amount, which the Company would be obliged to pay in case of guarantee payment demand by the business partner. The value of the guarantees and sureties related to third party liabilities issued in its day-to-day operations as at 31 December 2012 and as at 31 December 2011 amounted to PLN 108,352 thousand and PLN 102,114 thousand, respectively. Guarantees and sureties concerned mainly performance guarantees.
Based on the forecasts as at the end of the reporting period, the Company recognized the probability of payment of the above amounts as low.

31.6.2. Liquidity risk

The goal of the Company is to maintain the balance between continuity and flexibility of financing. To achieve this goal the Company uses different sources of financing such as bank loans, borrowings, debt securities and cash pool.
The Company maintains the ratio of current assets to short-term liabilities (current ratio) on a safe level. As at 31 December 2012 and as at 31 December 2011 ratio amounted to 1.8 and 1.5, respectively.

In 2007 the Company entered into Bond issuance program. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the Group. During 2012 and 2011 bond issues were made only on the domestic market.

In order to optimize financial expenses the Company uses cash pool facility. As at 31 December 2012 the domestic cash pool facility (in PLN) comprised 23 entities belonging to the Group, while cross border cash pool facility denominated in EUR, USD and PLN held in foreign bank comprised PKN ORLEN and foreign entities belonging to the Capital Group (ORLEN Finance, ORLEN Lietuva, ORLEN Deutschland, Unipetrol a.s. together with Unipetrol Capital Group entities).

Information regarding loans, borrowings and debt securities is disclosed in the note 19.

As at 31 December 2012 and as at 31 December 2011 the maximum possible indebtedness due to loans amounted to PLN 14,776,329 thousand and PLN 16,089,813 thousand, respectively. As at 31 December 2012 and as at 31 December 2011 PLN 8,495,754 thousand and PLN 5,697,530 thousand respectively remained unused.

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31.6.2. Liquidity risk continued

Maturity analysis for financial liabilities

	NOTE	AS AT 31/12/2012 up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Debt securities	19.3.	898 333	-	-	1 023 198	1 921 531	1 921 049
floating rate bonds- undiscounted value		-	-	-	*1 023 198*	*1 023 198*	*1 022 716*
fixed rate bonds- undiscounted value		*898 333*	-	-	-	*898 333*	*898 333*
Loans- undiscounted value	19.1.	214 321	-	5 952 864	-	6 167 185	6 165 252
Borrowings - undiscounted value	19.2.	185 721	-	-	-	185 721	185 721
Finance lease	21,22	13 282	21 715	11 649	28 940	75 586	75 586
Trade liabilities	22	6 287 621	-	-	-	6 287 621	6 287 621
Investment liabilities	22	527 941	-	-	-	527 941	527 941
Embedded derivatives and hedging instruments	21,24	85 619	58 963	-	12 360	156 942	156 942
gross settled amounts		*281*	-	-	-	*281*	*281*
net settled amounts		*85 338*	*58 963*	-	*12 360*	*156 661*	*156 661*
Cash pool	24	271 768	-	-	-	271 768	271 768
Other	22	87 176	-	-	-	87 176	87 176
		8 571 782	**80 678**	**5 964 513**	**1 064 498**	**15 681 471**	**15 679 056**

	NOTE	AS AT 31/12/2011 up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Debt securities	19.3.	1 342 879	-	-	-	1 342 879	1 342 715
floating rate bonds- undiscounted value		*763 592*	-	-	-	*763 592*	*763 428*
fixed rate bonds- undiscounted value		*579 287*	-	-	-	*579 287*	*579 287*
Loans- undiscounted value	19.1.	462 022	-	8 621 857	742 734	9 826 613	9 823 323
Borrowings - undiscounted value	19.2.	501 026	-	-	-	501 026	501 026
Finance lease	21,22	9 975	19 461	10 798	26 573	66 807	66 807
Trade liabilities	22	8 558 341	-	-	-	8 558 341	8 558 341
Investment liabilities	22	449 201	-	-	-	449 201	449 201
Declared payments to subsidiaries' equity – undiscounted value	22	66 298	-	-	-	66 298	66 298
Embedded derivatives and hedging instruments	21,24	346 527	113 602	-	-	460 129	460 129
gross settled amounts		*338 049*	-	-	-	*338 049*	*338 049*
net settled amounts		*8 478*	*113 602*	-	-	*122 080*	*122 080*
Cash pool	24	338 765	-	-	-	338 765	338 765
Other	22	60 198	-	-	-	60 198	60 198
		12 135 232	**133 063**	**8 632 655**	**769 307**	**21 670 257**	**21 666 803**

31.6.3. Market risks

The Company is exposed to market risks connected with currency rates, interest rates risks and raw materials and petroleum products prices and CO_2 emission rights prices.

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

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

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

(all amounts in PLN thousand)

31.6.3.1. Currency risk

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

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. For the EUR/PLN exchange rate, natural hedge exists to the limited extent because the revenues from sales of products dependent on EUR exchange rate are partially balanced by the interests from loans and investment purchases denominated in the same currency.

Currency structure of financial instruments as at 31 December 2012

Financial instruments by class	EUR	USD	JPY	GBP	Total after translationto PLN
Financial assets					
Trade receivables	89 867	753 149	-	-	2 701 856
Loans granted	-	406 720	-	-	1 260 668
Embedded derivatives and hedging instruments	7 843	12 299	668	-	70 211
Cash	9 567	267 913	-	-	869 534
Other	119	-	-	-	487
	107 396	**1 440 081**	**668**	**-**	**4 902 756**
Financial liabilities					
Loans	489 151	1 060 050	-	-	5 285 477
Borrowings	45 408	27	-	-	185 721
Trade liabilities	42 066	1 645 140	51 007	128	5 273 727
Investment liabilities	7 546	2 153	102 320	27	41 340
Embedded derivatives and hedging instruments	9 306	34 371	-	-	144 583
Other	526	-	-	-	2 151
	594 003	**2 741 741**	**153 327**	**155**	**10 932 999**

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31.6.3.1. Currency risk continued

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2012) arising from hypothetical changes in exchange rates of relevant currencies in relation to presentation currency (PLN) on profit before tax and hedging reserve:

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(305 945)	-15%	305 945
USD/PLN	+15%	(595 085)	-15%	595 085
JPY/PLN	+15%	(847)	-15%	847
		(901 877)		**901 877**

	Influence on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(264 474)	-15%	264 474
USD/PLN	+15%	(5 768)	-15%	5 768
		(270 242)		**270 242**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(570 419)	-15%	570 419
USD/PLN	+15%	(600 853)	-15%	600 853
JPY/PLN	+15%	(847)	-15%	847
		(1 172 119)		**1 172 119**

Currency structure of financial instruments as at 31 December 2011

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

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.6.3.1. Currency risk continued

Sensitivity analysis for currency risk

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

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

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

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

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

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/decreases in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates. Fair value of forwards is calculated based on discounted future cash flows calculated based on difference between forward price and transaction price.

31.6.3.2. Interest rate risk

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

Structure of financial instruments subject to interest rate risk

Financial instruments by class	NOTE	WIBOR		LIBOR		EURIBOR		Total	
		AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011	AS AT 31/12/2012	AS AT 31/12/2011
Loans granted	11,15	271 949	-	1 260 668	682 886	-	-	1 532 617	682 886
Repayable payments to subsidiaries' equity	14	-	8 641	-	-	-	-	-	8 641
Hedging instruments	11	2 029	-	-	-	-	-	2 029	-
Cash pool	15	124 655	114 557	-	-	-	-	124 655	114 557
Other		-	7 624	-	-	-	442	-	8 066
		398 633	**130 822**	**1 260 668**	**682 886**	**-**	**442**	**1 659 301**	**814 150**
Debt securities	19.3.	1 022 716	763 428	-	-	-	-	1 022 716	763 428
Loans	19.1.	879 775	614	3 285 732	6 437 706	1 999 745	3 385 003	6 165 252	9 823 323
Borrowings	19.2.	-	-	82	338 765	-	-	82	338 765
Declared payments to equity	22	-	-	-	66 298	-	-	-	66 298
Hedging instruments	21,24	12 360	1 507	21 056	48 857	37 907	64 745	71 323	115 109
Cash pool	24	271 768	338 765	-	-	-	-	271 768	338 765
		2 186 619	**1 104 314**	**3 306 870**	**6 891 626**	**2 037 652**	**3 449 748**	**7 531 141**	**11 445 688**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.6.3.2. Interest risk continued

As at 31 December 2012 and as at 31 December 2011 the Company holds a borrowing denominated in EUR received from ORLEN Finance AB within cash pool agreement of PLN 185,639 thousand and PLN 162,261 thousand, respectively, for which EONIA rate is applied. Due to low EONIA interest rate as at the end of 2012 and 2011, the borrowing from ORLEN Finance AB is not subject to sensitivity analysis.

Sensitivity analysis for interest rate risk

The analysis of potential change in carrying amount of financial instruments on profit before tax and hedging reserve due to hypothetical changes in significant interest rates

Interest rate	Assumed variation		Influence on profit before tax		Influence on hedging reserve		Total	
	as at 31/12/2012	as at 31/12/2011	2012	2011	2012	2011	2012	2011
WIBOR	+50	+50	(8 888)	(4 860)	(1 787)	930	(10 675)	(3 930)
LIBOR	+50	+50	(10 126)	(30 799)	6 823	17 981	(3 303)	(12 818)
EURIBOR	+50	+50	(9 999)	(16 923)	33 698	15 932	23 699	(991)
			(29 013)	**(52 582)**	**38 734**	**34 843**	**9 721**	**(17 739)**
WIBOR	-50	-50	8 888	4 860	1 817	(932)	10 705	3 928
EURIBOR	-	-50	-	16 923	-	(16 271)	-	652
			8 888	**21 783**	**1 817**	**(17 203)**	**10 705**	**4 580**

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

The Company does not take the potential decrease of EURIBOR and LIBOR into consideration because of market forecasts and low level of EURIBOR and LIBOR interest rates as at the end of 2012 and market forecast.

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

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2012 and as at 31 December 2011, the impact of interest rate changes is presented on annual basis.

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

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

31.6.3.3. Risk of changes in raw materials and petroleum products prices

The operating activity of the Company includes the following risks:
- price change of crude oil processed;
- the obligation to maintain reserves of crude oil and fuels;
- Ural/Brent differential fluctuations (difference between quotations of these crude oil types);
- price changes of refining and petrochemical products, which depend on the quotations of crude oil and products on international markets.

As at 31 December 2012 there were financial instruments hedging the risk of changes in raw materials and commodity prices relating to the hedge of cash flows resulting from crude oil and diesel oil sale/purchase settlements.

Hedged raw material/finished good	Unit of measure	AS AT 31/12/2012	AS AT 31/12/2011
Crude oil	BBL	7 842 164	5 529 035
Diesel oil	MT	10 000	49 240
Gasoline	MT	-	12 737

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

31.6.3.3. *Risk of changes in raw materials and petroleum products prices continued*

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

The analysis of influence of potential changes in the carrying amounts of financial instruments (as at 31 December 2012) and hedging reserve due to changes in raw materials and petroleum products prices

	Influence on hedging reserve			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+22%	546 683	-22%	(546 683)
Diesel oil USD/MT	+19%	(5 596)	-19%	5 596
		541 087		**(541 087)**

As at 31 December 2012 all instruments that hedge change of crude oil and diesel fuel prices meet the conditions for cash flow hedge accounting, changes in fair value was fully recognized in hedging reserve.

The analysis of influence of potential changes in the carrying amounts of financial instruments (as at 31 December 2011) on profit before tax and hedging reserve due to changes in raw materials and petroleum products prices:

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

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

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

The above variations of crude oil, diesel oil prices described above were calculated based on historical volatility for 2012 and 2011 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2012 and as at 31 December 2011. The influence of price changes was presented on annual basis. The fair value of commodity swaps is calculated based on discounted cash flows method calculated as a difference between term and transaction price.

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

The carrying amount of hedging instruments for crude oil, diesel oil and gasoline deliveries as at 31 December 2012 and as at 31 December 2011 amounted to PLN (57,783) thousand and PLN 193,041 thousand, respectively.

(all amounts in PLN thousand)

31.6.3.4. Risk of changes in CO_2 emission rights prices

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

The Company performs verification of the number of rights annually and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation.
In 2012 the Company concluded transactions to hedge future purchase price of allowances, which will be amortised as CO_2 emission rights settlement in the future. Valuation of these transactions is not subject to recognition in the separate financial statement, as purchased emission rights will be used for own purposes.
As at 31 December 2011 financial liabilities due to negative valuation of CO_2 emission rights forwards amounted to PLN 222,449 thousand, in 2012 forwards were settled.

More information regarding CO_2 emission rights allowances is disclosed in note 7.2.1.

32. Leases

32.1. The Company as a lessee

Operating lease

As at 31 December 2012 and as at 31 December 2011, the Company possessed non-cancellable operating lease agreements as a lessee, related mainly to leased caverns and building. Agreements include clauses concerning contingent rent payables and they can be prolonged.

The total lease payments related to non-cancellable operating lease agreements recognised as expenses of the period, in 2012 and 2011 amounted to PLN (27,447) thousand and PLN (31,355) thousand, respectively.

Future minimum lease payments under non-cancellable operating lease agreements as at 31 December 2012 and as at 31 December 2011

	AS AT 31/12/2012	AS AT 31/12/2011
Up to 1 year	29 672	30 565
Between 1 and 5 years	183 048	110 644
Above 5 years	42 463	26 495
	255 183	**167 704**

Additional information regarding perpetual usufruct of land under operating lease is disclosed in note 8.

Finance lease

As at 31 December 2012 and as at 31 December 2011 the Company possessed finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of petrol stations, cars and car wash.
In concluded lease agreements, the general conditions of finance lease are effective. There are no special restrictions or additional terms of contract and there is a renewal option included. The finance lease contracts do not contain any clauses concerning contingent rent payahaables and provide purchase option.

Future minimum lease payments under finance lease agreements as at 31 December 2012 and as at 31 December 2011

	AS AT 31/12/2012	AS AT 31/12/2011
Up to 1 year	16 744	12 227
Between 1 and 5 years	41 727	38 337
Above 5 years	34 549	31 973
	93 020	**82 537**

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

32.1. *The Company as a lessee continued*

Present value of future minimum lease payments under finance lease agreements as at 31 December 2012 and as at 31 December 2011

	NOTE	AS AT 31/12/2012	AS AT 31/12/2011
Up to 1 year		13 282	9 975
Between 1 and 5 years		33 364	30 259
Above 5 years		28 940	26 573
	21,22	**75 586**	**66 807**

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

Net carrying amount for each class of assets under finance lease as at 31 December 2012 and as at 31 December 2011

	AS AT 31/12/2012	AS AT 31/12/2011
Property, plant and equipment	**69 838**	**61 618**
Buildings and constructions	43 790	39 176
Machinery and equipment	8 639	5 333
Vehicles	17 409	17 109

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

32.2. The Company as a lessor

Operating lease

As at 31 December 2012 and as at 31 December 2011 the Company did not possess material non-cancellable operating lease agreements as a lessor.

Finance lease

As at 31 December 2012 and as at 31 December 2011 the Company did not possess finance lease agreements as a lessor.

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

Total investment expenditures together with borrowing costs incurred in 2012 and 2011 amounted to PLN 976,187 thousand and PLN 1,010,733 thousand, respectively. This includes environmental protection related investments of PLN 55,116 thousand and PLN 57,742 thousand, respectively.
As at 31 December 2012 and as at 31 December 2011 future liabilities resulting from contracts signed until this date amounted to PLN 1,754,353 thousand and PLN 253,076 thousand, respectively.

34. Contingent liabilities

	AS AT 31/12/2011	Increases/ (Decreases)	AS AT 31/12/2012
Anti trust proceedings of the OCCP	14 000	(14 000)	-
Legal cases	13 778	(13 568)	210
	27 778	**(27 568)**	**210**

Anti-trust proceedings of the OCCP were disclosed additionally in note 40.1.2.1.

(all amounts in PLN thousand)

35. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2012 and as at 31 December 2011 amounted to PLN 1,215,724 thousand and PLN 958,411 thousand, respectively.

Additional information regarding guarantees is disclosed in note 31.6.1.

36. Related party transactions

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

In 2012 and 2011 there were no material related party transactions in the Company concluded on other than market terms.

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

In 2012 and 2011 the Company did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or other agreements obliging to render services to the Company and its related parties.
As at 31 December 2012 and as at 31 December 2011 there were no loans granted by the Company to managing and supervising persons and their relatives.

In 2012 and 2011 there were no significant transactions concluded with members of the Management Board, Supervisory Board of the Company, their spouses, siblings, descendants, ascendants or their own relatives.

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

In 2012 key management personnel of the Company did not conclude any transaction with related parties. In 2011 key management personnel of the Company concluded sale transaction with related party of PLN 1 thousand.

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

for the year ended 31 December 2012

	Subsidiaries	Jointly controlled entities	Associates	Total
Sales	43 972 197	2 982 321	4 533	46 959 051
Purchases	3 410 625	25 487	5 277	3 441 389
Financial income, including:	220 568	5	15	220 588
dividends	*171 666*	-	-	*171 666*
Financial expense	57 043	-	-	57 043

as at 31 December 2012

	Subsidiaries	Jointly controlled entities	Associates	Total
Other non-current assets	619 892	-	-	619 892
Trade and other receivables	3 159 114	700 677	70	3 859 861
Other short-term financial assets	765 431	-	-	765 431
Other long-term liabilities	16 475	-	-	16 475
Trade and other liabilities	1 300 341	3 369	118	1 303 828
Borrowings	185 721	-	-	185 721
Other financial liabilities	271 678	-	-	271 678

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

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

for the year ended 31 December 2011

	Subsidiaries	Jointly controlled entities	Associates	Total
Sales	40 130 238	2 976 876	16 297	43 123 411
Purchases	4 120 850	24 782	82 627	4 228 259
Financial income, including:	175 787	1 713	250 061	427 561
dividends	*149 411*	-	*250 013*	*399 424*
Financial expense	32 041	-	-	32 041

as at 31 December 2011

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

The above transactions with related parties include sale and purchase of refinery and petrochemicals products, crude oil and purchase of repair, transportation and other services. Sales and purchases transactions with related parties were concluded on market terms.

The Company granted guarantees and sureties to related parties as at 31 December 2012 and as at 31 December 2011 of PLN 2,088,979 thousand and PLN 2,132,512 thousand, respectively. They concerned guarantee payments by subsidiaries. Revenues from guarantees granted for 2012 and 2011 amounted to PLN 12,299 thousand and PLN 9,648 thousand, respectively.

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

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

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Remuneration of the Management Board Members	**11 502**	**11 952**
Remuneration and other benefits	6 454	6 498
Bonus paid for previous year	4 186	5 454
Remuneration of the Management Board Members performing the function in the previous years [1)]	862	-
Bonus potentially due to the Management Board Members, to be paid in next year [2)]	**5 718**	**5 460**
Remuneration due to the Management Board Member, to be paid in next year [3)]	**570**	**1 140**
Remuneration and other benefits of the key executive personnel of the Company	**31 023**	**32 762**
Remuneration of the Supervisory Board Members	**1 222**	**1 322**

1) paid remuneration due to non-competition clause and paid bonuses for prior year
2) bonus estimated assuming full realization of the Management Board Members goals
3) remuneration due to severance pay for the year ended 31 December 2012 and remuneration due to severance pay and non-competition clause for the year ended 31 December 2011

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2012 (all amounts in PLN thousand)

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

In 2012 key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to PKN ORLEN Management Board and reporting directly to the Board, and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the PKN ORLEN.

The goals so-said are qualitative or quantitative and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to results generated by the Company.

Since January 2012 there has been an amendment to the Bonus Regulation to to Legal Counselor and Directors that are directly subordinating to Management Board of PKN ORLEN. The purpose of an amendment was to further increase the flexibility and incentive nature of the system.

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

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

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

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

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Remuneration of KPMG Audyt Sp. z o.o.	**1 668**	**1 645**
Audit of the annual financial statements	620	647
Reviews of financial statements	558	572
Related services, including:	490	425
tax advisory services	*15*	*80*

39. Employment structure

39.1. Average employment in persons

	FOR THE YEAR ENDED 31/12/2012	FOR THE YEAR ENDED 31/12/2011
Blue collar workers	1 989	1 992
White collar workers	2 438	2 487
	4 427	**4 479**

(all amounts in PLN thousand)

39.2. Employment in persons

	AS AT 31/12/2012	AS AT 31/12/2011
Blue collar workers	2 002	1 999
White collar workers	2 443	2 446
	4 445	**4 445**

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

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

As at 31 December 2012 the Company was a party in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

40.1. Proceedings in which the Company acts as a defendant

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

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

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 3,172,709 thousand translated using exchange rate as at 31 December 2012 (representing CZK 19,464,473 thousand) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.
The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL a.s. shares by PKN ORLEN.
On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.

On 16 January 2012 PKN ORLEN submitted a response to Agrofert's claim. In its response PKN ORLEN appealed to dismiss all Agrofert Holding a.s's claim and adjudge it with proceeding costs refund.
On 10 January 2013 there was the first hearing in front of the court in Prague. During the hearing the rules of the proceeding have been arranged. The District Court in Prague set the next hearing for 23-25 April 2013.

In the opinion of PKN ORLEN the decision included in judgment of the arbitration court dated 21 October 2010 is correct and there is no ground for its reverse.

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

40.1.2.1. Anti-trust proceedings

Anti-trust proceedings was held due to suspision that in the years 1996 – 2007, PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. On 16 July 2010 the President of the Office of Competition and Consumer Protection issued a decision, in which PKN ORLEN and Petrol Station Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN of PLN 52,700 thousand. On 2 August 2010 PKN ORLEN appealed from the decision of the President of the OCCP dated 16 July 2010 to the Court of Competition and Consumer Protection. In the decision dated 25 September 2012 the Court included partially the Company's appeal from the decision imposing a fine and decreased the amount of the fine to PLN 26,368 thousand. PKN ORLEN appealed from the sentence, demanding to revoke the decision in the matter of taking part in anti-competition actions, possibly by reducing the fine. The case is being considered by the Warsaw Court of Appeal.

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

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

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

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002.

The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA – OPERATOR S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.

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

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

On 10 September 2009 after examination of ENERGA - OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA - OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment. On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In March 2011 ENERGA – OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand. On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 ENERGA – OPERATOR S.A. paid to PKN ORLEN the amount of PLN 45,716 thousand, as a partial return of the original amount paid by PKN ORLEN due to the sentence of Court of Appeals in Warsaw dated 10 September 2009.
The hearings were conducted on 30 April 2012 and 19 November 2012. The District Court decided that an expert has to give an opinion regarding the case. Once the opinion is issued, the new hearing date will be announced.

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

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

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

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

On 21 September 2011 the Court of Appeals pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plaintiff was requested to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA - OPERATOR S.A.

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

The Companies PSE Operator S.A. and ENERGA - OPERATOR S.A. submitted cassations to Supreme Court. On 11 January 2013 the Supreme Court issued a sentence, in which revokes the appeal of ENERGA OPERATOR S.A., partially agrees to the appeal of PSE Operator, revokes the previous sentence and passes the case back to the Appeal Court for reexamination, which should include the statement of the cassation costs.

The Court ruling does not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case, but it may influence other court decisions in ENERGA OPERATOR S.A.'s claims against PKN ORLEN described above.

40.2. Court proceedings in which the Company acts as plaintiff

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

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN. Demands of PKN ORLEN concern reimbursement of the amount of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand) deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

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

On the first seating of the arbitration court in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule, PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of approximately PLN 774,900 thousand at exchange rate as at 31 December 2012 (representing USD 250,000 thousand) with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs. On 11 July 2011 PKN ORLEN pleaded the surrebutter in which replied to Yukos International arguments. Between 28 November and 8 December 2011 an evidentiary seating in front of the Court of Arbitration was held in London, during which representatives of PKN ORLEN and Yukos International summed up the opinions of the parties, witnesses have been heared and experts have been appointed by the parties. At the closing of the seating the Court of Arbitration obliged the parties to submit final pleadings and proceeding costs refund in March and April 2012.
On 29 February 2012 PKN ORLEN submitted final pleading. Yukos International submitted as well the pleading. On 30 March 2012 PKN ORLEN and Yukos International submitted the response to the above-mentioned pleadings. On 13 and 27 April 2012 the parties submitted motions for the proceeding cost refund. After the submission of above mentioned pleadings, PKN ORLEN is expecting for the final decision of the Court of Arbitration.

40.2.2. Arbitration proceedings against Basell Europe Holding B.V.

On 20 December 2012 PKN ORLEN S.A. sent an arbitration call to Basell Europe Holding B.V. regarding *ad hoc* proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN S.A. and Basell Europe Holding B.V. PKN ORLEN seeks compensation in its own favour or, depending on the court's decision, in favor of Basell Orlen Polyolefins Sp. z o.o. of PLN 112,110 thousand (representing approximately EUR 27,423 thousand) plus interest. The compensation regards the price of goods manufactured by Basell Orlen Polyolefins sp. z o.o. which are sold to Basell Sales & Marketing Company B.V. (entity related to Basell Europe Holdings B.V. in the meaning of Joint Venture Agreement) with the purpose of re-sell. The arbitration proceeding will take place in London Court of *ad hoc* Arbitration, acting based on Regulations of United Nation Commission on International Trade Law (UNCITRAL). The process of selecting members of the Court of Arbitration is in progress.

41. Significant events after the end of the reporting period

PKN ORLEN announced that the deposit agreement dated 26 November 1999 (with further amendments) constituting the Company's global depositary receipts ("GDRs") concluded with The Bank of New York Mellon was terminated on 27 February 2013. The termination of the Deposit Agreement resulted from the notice of termination of the Deposit Agreement sent by PKN ORLEN to the Depositary Bank on 29 November 2012 and expiration of the 90-day notice period from the date of delivery of the above mentioned notice, as stipulated in the Deposit Agreement.
According to the terms of the Deposit Agreement, the Depositary Bank shall, as soon as possible after the termination of the Deposit Agreement, sell the PKN ORLEN shares held by the Depositary Bank and related to outstanding GDRs. The Depositary Bank shall deliver cash from such sale to holders of these GDRs, proportionally to the number of shares represented by GDRs held by them.
In connection with the termination of the Deposit Agreement the listing of the GDRs on the Official List of the London Stock Exchange was cancelled and the GDRs were removed from trading on the London Stock Exchange plc Main Market for listed securities as of 27 February 2013.

PKN ORLEN announced that the deposit agreement dated 10 April 2001 (with further amendments) constituting the Company's American depositary receipts ("ADRs") concluded with The Bank of New York Mellon was terminated on 4 March 2013. The termination of the Deposit Agreement resulted from:
- the notice of termination of the Deposit Agreement sent by the Company to the Depositary Bank on 29 November 2012;
- the notice of termination sent by the Depositary Bank to holders of the ADRs on 3 December 2012; and
- expiration of a notice period of at least 90 days commencing on the date of providing the above mentioned notice to holders of the ADRs, as stipulated by the Deposit Agreement.

According to the terms of the Deposit Agreement holders of ADRs may exchange ADRs for the Company's shares within one year following the termination of the Deposit Agreement, i.e. until 4 March 2014. Thereafter, the Depositary Bank may sell any remaining shares related to outstanding ADRs. Holders of ADRs may exchange ADRs for a proportional share of cash from such sale or for the Company's shares, if the Depositary Bank does not perform the sale.

On 28 March 2013 expired the agreement between PKN ORLEN and Ashby Sp. z o.o. (that has been concluded on 28 March 2012) regarding gathering and keeping of mandatory reserves of crude oil. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Ashby Sp. z o.o. The value of the transaction was PLN 1,194,552 thousand translated using exchange rate as at 27 March 2013 (representing USD 366,034 thousand). The price of raw material was determined based on market quotations.
The transfer of ownership of the raw material to PKN ORLEN has been made on 28 March 2013, after settlement of full amount of the transaction. The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction increased the value of the acquired raw material by PLN 123,615 thousand translated using exchange rate as at 27 March 2013 (representing USD 37,878 thousand). As a result PKN ORLEN recognized the purchase of crude oil of PLN 1,318,167 thousand translated using exchange rate as at 27 March 2013 (representing USD 403,912 thousand) in the 1 quarter of 2013. Additionally, within the duration of the contract regarding gathering and maintenance of crude oil reserves, Ashby Sp. z o.o. incurred charges to PKN ORLEN for inventory maintenance guarantees.

In the reporting period there were no factors or events other then described above, that may influence future results of the Company.

42. Approval of the financial statement

The foregoing separate financial statements were authorized by the Management Board on 28 March 2013.

....
Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

....
Piotr Chełmiński
Member of the Board

....
Krystian Pater
Member of the Board

....
Marek Podstawa
Member of the Board

Signature of a person responsible for
keeping accounting books

....
Rafał Warpechowski

Executive Director
Planning and Reporting