POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
TOGETHER WITH AN INDEPENDENT AUDITOR'S OPINION

SECURITIES AND EXCHANGE COMMISSION

Unconsolidated yearly report R 2005

(current year)

(in accordance with § 86 section 2 and § 87 section 1 of the Minister of Finance Decree of 19 October 2005, Journal of Laws No. 209, item 1744)
(**for issuers of securities whose business activity embraces manufacture, construction, trade and services)**

for the reporting year 2005, that is for the period from 1 January 2005 to 31 December 2005 and for the reporting year 2004, that is for the period from 1 January 2004 to 31 December 2004 which includes financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN)

on 28 April 2006
(submission date)

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

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

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KPMG AUDYT SP. Z O.O.
(entity authorized to conduct audit)

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POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	thousand PLN		thousand EUR	
	2005	2004	2005	2004
Data in respect of MSSF unconsolidated financial statement				
I. Total sales revenues	22 789 106	18 938 790	5 664 282	4 707 278
II. Profit/(Loss) from operations	2 693 771	2 443 238	669 543	607 272
III. Profit before tax	3 158 663	2 637 283	785 093	655 502
IV. Net profit	2 527 214	2 117 167	628 145	526 226
V. Net cash provided by operating activities	2 311 982	2 927 154	574 648	727 551
VI. Net cash used in investing activities	(1 319 192)	(1 827 501)	(327 888)	(454 229)
VII. Net cash provided by / (used in) financing activities	(995 273)	(873 785)	(247 377)	(217 182)
VIII. Net change in cash and cash equivalents	(2 483)	225 868	(617)	56 140
IX. Basic and diluted earning per share for 12 months (in PLN/EUR)	5,91	4,95	1,47	1,23
	as of 31.12.2005	**as of 31.12.2004**	**as of 31.12.2005**	**as of 31.12.2004**
X. Non-current assets	11 921 862	9 921 602	3 088 725	2 570 496
XI. Current assets	7 288 258	6 292 011	1 888 248	1 630 139
XII. Total assets	19 210 120	16 213 613	4 976 973	4 200 636
XIII. Non-current liabilites	2 302 788	2 222 663	596 608	575 849
XIV. Current liabilities	4 042 629	2 716 282	1 047 367	703 736
XV. Equity	12 864 703	11 274 668	3 332 997	2 921 050
XVI. Share capital*	1 057 635	1 057 635	274 013	274 013
XVII. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XVIII. Book value and diluted book value per share (in PLN/EUR)	30,08	26,36	7,79	6,83

* Share capital after revaluation in accordance with IAS 29.

The above data were translated into EUR by the following exchange rates:
- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 31 December 2005 - 3.8598 PLN/EUR
- specific items in profit and loss and cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January - 31 December 2005) - 4.0233 PLN/EUR

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

	Notes	31 December 2005	31 December 2004
		(in thousand PLN)	
ASSETS			
Non-current assets			
Property, plant and equipment	5	7 808 558	7 622 069
Intangible assets	6	29 100	31 218
Long-term financial investments	7	40 144	76 562
Investments in associates	7	3 915 547	2 108 279
Loans (granted)	7	1 744	-
Perpetual usufruct of land		61 057	51 172
Other non-current assets		65 712	32 302
Total non-current assets		**11 921 862**	**9 921 602**
Current assets			
Inventory	8	4 021 063	2 621 975
Trade and other receivables	9	2 726 092	1 889 784
Income tax receivable		22 128	10 206
Short-term investments	10	-	1 016 899
Short-term prepayments	11	58 702	68 329
Cash and cash equivalents	12	283 509	285 952
Other financial assets	13	104 295	398 866
Non-current assets clasiffied as held for sale		**72 469**	**-**
Total current assets		**7 288 258**	**6 292 011**
Total assets		**19 210 120**	**16 213 613**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Equity			
Share capital	18	534 636	534 636
Share capital revaluation adjustment	18	522 999	522 999
Share capital*	**18**	**1 057 635**	**1 057 635**
Nominal share premium	18	1 058 450	1 058 450
Share premium revaluation adjustment	18	168 803	168 803
Nominal share premium		**1 227 253**	**1 227 253**
Hedging reserve	18	78 440	104 396
Retained earnings	18	10 501 375	8 885 384
incl. net profit		2 527 214	2 117 167
accumulated profit/loss from previous years - effects of changes in accounting policy		858 231	1 016 709
Total equity		**12 864 703**	**11 274 668**
Non-current liabilities			
Interest-bearing loans and borrowings	14	1 374 165	1 407 707
Provisions	15	605 100	498 334
Deferred tax liabilities	26	323 523	316 622
Total non-current liabilities		**2 302 788**	**2 222 663**
Current liabilities			
Trade and other liabilities and accrued expenses	16	3 436 942	2 447 574
Provisions	15	574 472	235 447
Interest-bearing loans and borrowings	14	30 007	5 863
Deferred income	17	1 168	6 048
Other current financial liabilities		40	21 350
Total current liabilities		**4 042 629**	**2 716 282**
Total equity and liabilities		**19 210 120**	**16 213 613**

* Share capital after revaluation in accordance with IAS 29.

	Notes	for the year ended 31 December 2005	for the year ended 31 December 2004
		(in thousand PLN)	
Operating activities			
Net sale revenues			
Sales of goods		30 463 431	26 941 670
Excise tax and other charges		(10 053 564)	(10 057 499)
Revenues from sale of finished goods		20 409 867	16 884 171
Revenues from sale of merchandise and raw materials		2 379 239	2 054 619
Total sales revenues		**22 789 106**	**18 938 790**
Cost of finished goods sold		(15 756 877)	(12 643 834)
Cost of merchandise and raw materials sold		(1 815 612)	(1 565 564)
Gross profit on sales		**5 216 617**	**4 729 392**
Distribution expenses		(1 479 349)	(1 505 915)
General and administrative expenses		(537 863)	(552 391)
Other operating revenues	24	185 287	211 682
Other operating expenses	24	(690 921)	(439 530)
Profit from operations		**2 693 771**	**2 443 238**
Financial revenues		654 981	545 122
Financial expenses		(190 089)	(351 077)
Net financial revenues and expenses	25	**464 892**	**194 045**
Profit before tax		**3 158 663**	**2 637 283**
Income tax expense	26	(631 449)	(520 116)
Net profit		**2 527 214**	**2 117 167**
Basic and diluted earnings per share in Polish Zloty	18	**5,91**	**4,95**

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
UNCONSOLIDATED STATEMENTS OF CASH FLOWS
(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

	Notes	for the year ended 31 December 2005	for the year ended 31 December 2004
		(in thousand PLN)	
Cash flows - operating activities			
Net profit		**2 527 214**	**2 117 167**
Adjustments for:			
Depreciation and amortisation		893 043	1 005 595
Interest and dividend income, net		(160 920)	(51 828)
Income tax expense		631 449	520 116
(Profit) / Loss on investing activities		(19 919)	79 051
(Increase) in receivables	20	(619 755)	(127 328)
(Increase) in inventories		(1 399 088)	(114 467)
Increase/(Decrease) in liabilities and accruals	20	898 521	(119 021)
Increase in provisions	20	456 964	208 886
Other	20	(254 020)	(58 197)
Income tax paid		(641 507)	(532 820)
Net cash provided by operating activities		**2 311 982**	**2 927 154**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 026 053)	(986 310)
Proceeds from the sale of property, plant and equipment		28 043	106 537
Proceeds from the sale of shares in Naftoport Sp. z o.o.		67 692	-
Proceeds from the sale of other shares		12 854	31 482
Acquisition of shares *		(1 820 522)	(61 826)
Acquisition of liabilities of the Unipetrol Group		(241 174)	-
Proceeds from liabilities of the Unipetrol Group		193 034	-
Proceeds from the sale of short-term securities		1 010 986	-
Acquisition of short-term securities		-	(1 010 986)
Interest and dividends received		221 768	109 140
loan granted to subsidiary		(2 700)	(244 800)
Proceeds from repayment of loan granted to subsidiary		245 081	-
Proceeds from return of additional payments to subsidiaries' equity		-	230 299
Other		(8 201)	(1 037)
Net cash used in investing activities		**(1 319 192)**	**(1 827 501)**
Cash flow - financing activities			
Proceeds from long and short-term borrowings and loans		260 679	724 207
Repayment of long and short-term borrowings and loans		(293 873)	(1 265 120)
Interest paid		(51 059)	(54 737)
Dividends paid		(911 020)	(278 011)
Other		-	(124)
Net cash provided by / (used in) financing activities		**(995 273)**	**(873 785)**
Net change in cash and cash equivalents		**(2 483)**	**225 868**
Effect of exchange rate changes		40	2 451
Cash and cash equivalents, beginning of the period	**13**	**285 952**	**57 633**
Cash and cash equivalents, end of period, incl.	**13**	**283 509**	**285 952**
Cash and cash equivalents not available for use		-	174 987

*In 2005 PLN (1,802,254) thousand related to acquisition of Unipetrol Group

(all amounts in PLN thousand)

	Share capital	Nominal share premium	Hedging reserve	Retained earnings	Total equity
1 January 2005	**1 057 635**	**1 227 253**	**104 396**	**8 885 384***	**11 274 668**
Dividend	-	-	-	(911 020)	(911 020)
Net profit	-	-	-	2 527 214	2 527 214
Valuation of hedging instruments at fair value	-	-	(25 956)	-	(25 956)
Other	-	-	-	(203)	(203)
31 December 2005	**1 057 635**	**1 227 253**	**78 440**	**10 501 375**	**12 864 703**

	Share capital	Nominal share premium	Hedging reserve	Retained earnings	Total equity
1 January 2004	**1 057 635**	**1 227 253**	**-**	**7 047 316***	**9 332 204**
Dividend	-	-	-	(278 011)	(278 011)
Net profit	-	-	-	2 117 167	2 117 167
Valuation of hedging instruments at fair value	-	-	104 396	-	104 396
Other	-	-	-	(1 088)	(1 088)
31 December 2004	**1 057 635**	**1 227 253**	**104 396**	**8 885 384**	**11 274 668**

* Including retained earnings due to changes in accounting policies in the amount of PLN 858,231 thousand as at 1 January 2005 and PLN 1,016,709 thousand as at 1 January 2004.

The statement of changes in equity regarding profits and losses of 2005 and 2004

	2005	2004
Cash flow hedges	(25 956)	104 396
Other	(203)	(1 088)
Net profits / (losses) recognized directly in equity	(26 159)	103 308
Net profit for the period	2 527 214	2 117 167
Total profits and losses recognized in the period	2 501 055	2 220 475

1. Name, address, main operating segments of the Company

Polski Koncern Naftowy ORLEN S.A. seated in Plock, Chemikow 7 ("Company", "PKN ORLEN") was formed through transformation of a state-owned enterprise into a joint stock company, on the basis of the Public Notary Act of 29 June 1993. The Company was registered as Mazowieckie Zaklady Rafineryjne i Petrochemiczne "Petrochemia Plock" S.A. in the District Court in Plock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spolka Akcyjna.
On 7 September 1999, Centrala Produktów Naftowych "CPN" Spolka Akcyjna was incorporated, thus CPN was removed from the commercial register. Effective 12 April 2000, the Company changed its business name to Polski Koncern Naftowy ORLEN Spolka Akcyjna.

According to the Articles of Association dated 7 October 2005, the Company's activity includes:

- processing of crude oil and manufacturing of oil-derivative (refinery and petrochemical) products and semi finished products,
- domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade of crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, sale of industrial and consumer goods,
- research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil products, derivative chemical products as well as transportation: by land, by rail, water and by pipeline,
- transportation activity including road, rail, water and pipeline transport,
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations,
- services connected to the principal activity, especially:
  - land and sea reloading,
  - refining of gas and oil including ethylization, dyeing and blending of components,
- purchase, trade and processing of used lubricant oils and other chemical waste,
- manufacturing, transportation and trade in electrical and heating energy,
- overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation,
- metal production and manufacturing of plastics,
- operation of petrol stations, bars, restaurants and hotels,
- capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade,
- activities in the area of education, professional training and internal human capital services,
- activities in the area of accounting and bookkeeping as well as activities related to databases and its processing,
- financial agency services, including receipt of money orders and transference of liabilities to cheque drawers,
- providing services in respect of the clearance of electronic fuel cards,
- geodetic and cartographic activities,
- crude oil exploration,
- natural gas exploration,
- manufacturing of prefabricated buildings of metal, excluding service activities,
- production of metal construction excluding service activities,
- service in respect of metal constructions installation,
- performance of general civil work relating to building construction,
- performance of general civil work in the area of line constructions: pipelines, power supply lines, electric traction line and telecommunication – long-distance transmission lines,
- performance of general civil work in the area of construction of distribution lines: pipelines, power supply lines, electric traction line and telecommunication – local lines,
- performance of general civil work in the area of mining and production.

As at 31 December 2005, Nafta Polska S.A. held directly or indirectly 17.32% of shares in the Company, the Polish State Treasury 10.20%, Bank of New York (as a depositor) 11.33%, and other shareholders 61.15% of the Company's shares.

The composition of the Management Board

The composition of the Management Board of the Company as at 31 December 2005 was the following:

Igor Chalupec - President of the Management Board, General Director
Wojciech Heydel - Vice-President of the Management Board of Sales
Jan Maciejewicz - Vice-President of the Management Board of Cost Management
Cezary Smorszczewski - Vice-President of the Management Board, Chief Investment Officer
Paweł Szymański - Member of the Management Board, Chief Financial Officer
Dariusz Witkowski - Member of the Management Board of Organization

During the year 2005 the following changes in composition of the Management Board of PKN ORLEN S.A. took place:

On 29 June 2005, due to the elapse of the 3-year term of the Management Board of PKN ORLEN S.A., mandates of all members of the Management Board had expired. Hence, the Supervisory Board of PKN ORLEN S.A., at the meeting held on 30 June 2005, appointed the Management Board of PKN ORLEN S.A. for the next 3-year term.

On 30 June 2005 the Supervisory Board of PKN ORLEN S.A. appointed for 3-year term Mr Igor Chalupec to the position of the President of the Management Board – General Director of PKN ORLEN S.A. and, after his motion, Mr Wojciech Heydel, Mr Jan Maciejewicz and Mr Cezary Smorszczewski to the position of Vice-President of the Management Board of PKN ORLEN S.A. and Mr Pawel Szymański to the position of Member of the Management Board.

On 19 July 2005 the Supervisory Board of PKN ORLEN S.A., after a motion of the Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, appointed Mr Dariusz Witkowski to the position of Member of the Management Board of PKN ORLEN S.A., effective 1 August 2005.

On 21 December 2005 the Supervisory Board of PKN ORLEN S.A., after a motion of Minister of State Treasury, in accordance with paragraph 9.1.3 of Articles of Association, appointed Mr Cezary Stanisław Filipowicz to the position of Vice-President of the Management Board of PKN ORLEN S.A, effective 2 January 2006.

The following changes to the composition of the Management Board took place after 31 December 2005:

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

The composition of the Management Board of PKN ORLEN as at the day of publication of the financial statements was the following:

Igor Chalupec - President of the Management Board, General Director
Cezary Filipowicz - Vice-President of the Management Board, Upstream & Crude Oil Procurement
Wojciech Heydel - Vice-President of the Management Board of Sales
Jan Maciejewicz - Vice-President of the Management Board of Cost Management
Cezary Smorszczewski - Vice-President of the Management Board, Chief Investment Officer
Paweł Szymański - Member of the Management Board, Chief Financial Officer
Krzysztof Szwedowski - Member of the Management Board of Organization and Capital Group

The composition of the Supervisory Board

The composition of the Supervisory Board as at 31 December 2005 was as follows:
Jacek Bartkiewicz - Chairman of the Supervisory Board*
Andrzej Olechowski – Deputy Chairman of the Supervisory Board
Raimondo Eggink - Member of the Supervisory Board
Maciej Gierej - Member of the Supervisory Board
Krzysztof Obłój - Member of the Supervisory Board
Małgorzata Okońska-Zaremba – Member of the Supervisory Board
Adam Maciej Pawłowicz – Member of the Supervisory Board
Adam Sęk – Member of the Supervisory Board
Ireneusz Wesołowski – Secretary of the Supervisory Board

* On 8 December 2005, the Appeals Court in Warsaw, after examining the appeal of Bengodu Finance S.A., stated that the resolution no 14 dated 5 August 2004 of General Shareholder Meeting of PKN ORLEN S.A., concerning appointment of Mr Jacek Bartkiewicz for a position of the President of the Supervisory Board. The Company submitted an annulment in the respective case which was not regarded until the date of preparation of these financial statements.

During the year 2005 the following changes in the composition of the Supervisory Board of PKN ORLEN S.A. took place:

On 30 March 2005 the Management Board of PKN Orlen was informed of the resignation of Mr Krzysztof Żyndul from the position of Member of the Supervisory Board of PKN ORLEN S.A.

On 29 June 2005 Ordinary General Shareholders Meeting of PKN ORLEN S.A. appointed to the Supervisory Board Mr Adam Sęk and Mr Andrzej Olechowski.

Due to the appointment by Shareholders Meeting of PKN ORLEN S.A. new members of Supervisory Board: Mr Andrzej Olechowski and Mr Adam Sęk and resignation of Mr Michał Stępniewski from the position of Deputy-Chairman of the Supervisory Board of PKN ORLEN S.A., the Supervisory Board at the meeting held on 7 July 2005 appointed Mr Andrzej Olechowski to the position of Deputy-Chairman of the Supervisory Board.

On 6 September 2005 the Management Board of PKN Orlen was informed on the resignation of Mr Piotr Osiecki from the position of Member of the Supervisory Board of PKN ORLEN S.A. effective from the date of first subsequent Shareholders Meeting.

On 14 October 2005 Extraordinary Shareholders Meeting PKN ORLEN S.A. appointed Professor Krzysztof Obłój to Supervisory Board of PKN ORLEN S.A..

On 15 November 2005 the Management Board of PKN ORLEN S.A. was informed on resignation of Mr. Michal Stepniewski from the position of member of the Supervisory Board of PKN ORLEN S.A. effective 14 November 2005.

On 2 December 2005 the Management Board of PKN ORLEN S.A. was informed by the Minister of State Treasury that, due to resignation of Mr Michal Stepniewski, he appointed, on behalf of the shareholder – State Treasury, Mr Adam Maciej Pawlowicz to Supervisory Board of PKN ORLEN from 1 December 2005 effective.

The following changes to the composition of the Supervisory Board took place after 31 December 2005:

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

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

The composition of the Supervisory Board as at the day of publication of the financial statements was the following:

Dariusz Dąbski - Chairman of the Supervisory Board
Andrzej Olechowski – Deputy-Chairman of the Supervisory Board
Raimondo Eggink - Member of the Supervisory Board
Zbigniew Macioszek - Member of the Supervisory Board
Maciej Mataczyński - Secretary of the Supervisory Board
Wojciech Pawlak – Member of the Supervisory Board

2. Principles of presentation

Information on principles adopted for preparation of yearly report for 2005

As of 1 January 2005, the amended Polish Accounting Act enables preparation of financial statements of the Company in accordance with International Financial Reporting Standards (“IFRSs”).

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

The International Accounting Standards Board issued International Financial Reporting Standard No. 1 ("IFRS 1") "First-time Adoption of International Financial Reporting Standards" which is applicable for the preparation of financial statements for periods beginning on or after 1 January 2004. In addition to entities preparing their first financial statements in accordance with IFRSs, IFRS 1 is also applicable to entities such as PKN ORLEN, which have already applied IFRSs yet their statements contained a comment on non-compliance with particular standards. In particular, IFRS 1 requires that an entity would disclose in its IFRS financial statements all assets and liabilities which are to be recognized under IFRSs. In accordance with IFRS 1, an entity may state its property, plant and equipment at fair value as of IFRSs adoption date i.e. 1 January 2004 and recognize the fair value as the cost of the property, plant and equipment as at that date.

From 1 January 2005 the Company has prepared its financial statements for the first time in compliance with IFRS 1 as it complies with conditions defined in that standard.

The financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards adopted by the European Union and in the scope required under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal no. 209, item 1744). The statements cover the period from 1 January to 31 December 2005 and the comparative period from 1 January to 31 December 2004.

In preparation of these financial statements the Company applied International Financial Reporting Standards adopted by the European Union (IFRSs) in force as at 31 December 2005.

The carrying amount of property, plant and equipment was revalued as of 1 January 2004 by an independent expert. The Company recognized the effect of the measurement. The revaluation covered non-current assets, in accordance with the principles discussed under section 4, Accounting Principles "Property, plant and equipment" in order to achieve full compliance with the International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) and the International Accounting Standard 16 "Property, Plant and Equipment" (IAS 16), applying IFRS 1. The Company recognized the revalued amount as the deemed cost as at the date of measurement.

The financial statements are compliant with all IFRS requirements adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2005 and 31 December 2004, results of its operations and cash flows for the year ended 31 December 2005 and 31 December 2004.

The 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 financial statements there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

Statement of the Management Board

Under the Minister of Finance Decree of 19 October 2005 on current and periodical information provided by issuers of securities, the Management Board of PKN ORLEN S.A. hereby honestly and sincerely declares that the foregoing financial statements and comparative data were prepared in compliance with accounting principles in force and that they reflect true and fair view on financial status and its financial result of PKN ORLEN and that the Management Board Commentary on the Company's Operations presents true overview of PKN ORLEN's development, achievement and business situation of PKN ORLEN, including basic risks and exposures.

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

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

3. Functional currency and presentation currency of financial statements

Functional currency of the Company and presentation currency of the foregoing financial statements is polish zloty.

4. Accounting principles

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

(all amounts in PLN thousand)

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

Finance lease

A lease contract, under IAS 17, is regarded as a finance lease if it transfers substantially all risks and rewards incidental to ownership of the leased asset.

Assets used under lease, tenancy, rental or similar contracts which meet the criteria defined in IAS 17, “Leases”, are regarded as non-current assets and recognized at the lower of fair value of the leased asset at the commencement of the lease term and the present value of the minimum lease payments.

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

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

Goodwill

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

Intangible assets with indefinite useful lives and intangible assets which are not yet in use are tested for impairment once a year.

Other intangible assets are tested for impairment only if there are indications that their carrying amount may not be recoverable. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or the related cash-generating units is decreased to the recoverable amount. The recoverable amount of those assets is the higher of the assets' net selling price and their value in use.

The titles to perpetual usufruct of land obtained under an administrative decision are recognised by the Company at fair value as off balance sheet items.

Investment property

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

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

Inventories

Inventories are measured at the lower of cost and net realizable value, considering any inventory allowances. The net realizable value is the selling price estimated in the ordinary course of business activity less the estimated costs of completion and the estimated selling costs.

Cost of usage is determined based on the weighted average costs formula. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.

Receivables

Trade and other receivables are recognized when they arise at the present value of the expected proceeds and are stated in subsequent periods at amortized cost using the effective interest method less allowances for doubtful receivables.

If there is objective evidence that an impairment loss has been incurred, the amount of difference between the asset’s carrying amount and the present value of estimated future cash flows is recognized in profit and loss.

Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of an entity’s cash management.

Revenue from sale

Revenue from sale is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company and the amount of revenue can be measured reliably. Sale of goods and merchandise includes excise tax and fuel charges.

The net revenue from the sale of finished goods and merchandise is recognized after deducting value added tax (VAT), excise tax, fuel charges and discounts.

Revenue from the sale of finished goods and merchandise is recognized when the finished goods/merchandise are issued and related risks and rewards have been transferred. Revenue from settlement of cash flow hedge instruments adjusts the sales revenue.

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

Revenue from dividends

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

Equity

Equity is stated in the accounting books by type, in accordance with legal regulations and the Company’s Articles of Association.

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

Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

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

Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized cost of issue.

The amounts arising at profit distribution, transfer from revaluation reserve (the difference between the fair value and the acquisition cost, net of deferred tax, of assets available for sale is transferred to the revaluation reserve if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods), the undistributed result for prior periods and the current period net profit are presented in the financial statements as retained earnings.

Interest-bearing bank loans and borrowings

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

External financing costs

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

Retirement benefits and jubilee bonuses

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

Foreign currency transactions

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

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

b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and

c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

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

Financial instruments

Financial assets are classified in the following categories: financial assets held to maturity, financial assets at fair value through profit and loss, loans and receivables and financial assets available for sale. Financial assets held to maturity are investments with determined or determinable payments and a fixed maturity date, which the Company intends and has the ability to hold to the maturity date, except for the Company's own receivables and loans. Financial assets acquired in order to generate profits on short-term price fluctuations are classified as financial assets at fair value through profit and loss.

All other financial assets, which are not borrowings or receivables of the Company, are classified as financial assets available for sale.

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

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

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

Financial assets held to maturity are measured at amortized cost using the effective interest rate.

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

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

Granted loans are recognized at amortized cost.

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

Derivatives treated as cash flow hedging instruments are carried at fair value with changes in value accounted for in the following way:

- the portion determined to be an effective hedge is recognized directly in equity through the statement of changes in equity;

- the portion determined to be an ineffective hedge is recognized in the profit and loss;

- revenues or expenses on settlement of cash flow hedging instruments adjust sales revenues when recognized in the profit and loss.

Embedded derivatives are separated from the host contracts and accounted for as derivatives if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative;
- is not the hybrid (combined) instrument.

The hybrid (combined) instrument is not measured at fair value and changes in fair value are not recognized in the net profit or loss.

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

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

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

Derivatives used by the Company in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.

The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.

When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognized asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognized asset or liability.

If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion of the gain or loss is recognized in the profit and loss.

The gain or loss from the re-measurement of the derivative instruments at fair value that do not comply with the hedge accounting criteria are recognized directly in the profit and loss.

The Company discontinues hedge accounting when the underlying instrument expires or is sold, terminated or realized, or when the hedge no longer meets the criteria for hedge accounting. In such a case, total gain or loss on the hedging instrument, previously recognized in equity, is recognized in equity until the forecast transaction takes place. If the Company no longer expects the forecast transaction to take place, the total net gain or loss recognized in equity is presented in the financial result of the current period.

Shares

Shares are stated at acquisition cost, including transaction costs. If, based on conducted analyses, indications exist at the balance sheet date that the assets would not generate significant majority or all of forecasted economic benefits in the future, an impairment allowance is recognized.

Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.

Deferred tax assets are recognized for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.

Deferred tax liabilities are recognized for all positive temporary tax differences.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.

Deferred tax assets and liabilities are not discounted and they are accounted for as non-current assets or long-term liabilities in the balance sheet.

Non-current assets held for sale/disposal

Non-current assets held for sale are those which comply with the following criteria:

- a decision was declared by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active program to locate a buyer has been initiated;

- the sale transaction is highly probable and could be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.

Assets held for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

Earnings per share

Basic earnings per share for each period are calculated by dividing the net profit for a given period by the weighted average number of shares outstanding during that period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of shares.

Provisions

The Company shall recognize a provision when it has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate may be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognized as external financing costs.

Environmental provisions

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

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it. If the grant relates to an expenditure, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate. If the grant concerns assets, its fair value is recognized as deferred income and on a systematic basis recorded in the profit and loss over the estimated useful life of the underlying asset.

Liabilities

Trade and other liabilities are stated at the amount due, and financial liabilities, which contractual settlement is to be made by way of issue of non-monetary financial assets or due to exchange for financial instruments, are recognised at fair value.

Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

Contingent receivables are not recognized in the balance sheet, however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Business segments

The scope of financial information in the Company segment reporting is defined based on requirements of IAS 14.

The Company adopted a business segments as the primary reporting format i.e. as the dominant source of risks and benefits related to sale of goods and services. A secondary reporting format is geographical segments that are associated with activity conducted in different geographical areas.

The operations of the Company are divided into two main segments: Refining Segment and Chemical Segment.

- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products,
- The Chemical Segment encompasses production and sales of petrochemicals.

The other operations of PKN ORLEN include mainly support functions.

Segment assets (liabilities) are those operating assets (liabilities) that are employed by that segment in operating activity (result from operating activity) and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The segment result is determined at the level of profit from operations. The revenues, result, assets and liabilities of a given segment are defined before inter-segment adjustments are made.

Settlements between segments of PKN ORLEN (plants, departments, etc.) are valued on the basis of the following prices:

- controlling prices (e.g. semi-finished products)
- estimated prices (e.g. utilities)
- inter-settlements cost (services rendered to other segments).

Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated expenses, reconciling total segment results to profit from operations.

The Company’s Management Board estimates

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

In the matters of considerable weight, the Company’s Management Board bases its estimates on opinions of independent experts.

Actual results may differ from the estimated values.

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

Application of the accounting principles

The above principles are applicable for comparative data, except for principles concerning treatment of assets held for sale, which have been applied since 1 January 2005.

(all amounts in PLN thousand)

Impact of new Standards and interpretations on the Company's financial statements

As at 31 December 2005 the Company recognized new Standards and interpretations to International Financial Reporting Standards, regarding:

- IFRS 6 "Exploration for and Evaluation of Mineral Resources" – in force from 1 January 2006
- IFRS 7 "Financial Instruments: Disclosure" – in force from 1 January 2007
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" – in force from 1 January 2006
- IAS 1 "Presentation of Financial Statements" – in force from 1 January 2007
- IAS 19 "Employee Benefits" – in force from 1 January 2006
- IAS 39 "Financial Instruments: Recognition and Measurement" – in force from 1 January 2006
- IAS 21 "The Effects of Changes in Foreign Exchange Rates" – in force from 1 January 2006
- IFRIC 4 – interpretation: Determining Whether an Agreement Contains a Lease – in force from 1 January 2006
- IFRIC 5 – interpretation: Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds – in force from 1 January 2006
- IFRIC 6 – interpretation: Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment - in force from 1 January 2005
- IFRIC 7 – interpretation: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies – in force from 1 March 2006
- IFRIC 8 – interpretation: IFRS 2 "Share-based payment" – in force 1 May 2006
- IFRIC 9 - Reassessment of Embedded Derivatives – in force from 1 June 2006

Acceptance of IFRIC 7, IFRIC 8 and IFRIC 9 by the European Union is pending.

The Company assessed the impact of application of the above interpretations and determined that the changes in IFRS 6, IFRS 7, IAS 1, IAS 19, IAS 21, IAS 39, IFRIC 4, IFRIC 7 and IFRIC 9 might have impact on the financial statements when applied. According to a preliminary assessment, the application of changes would not have a significant influence on the financial statements.

5. Property, plant and equipment

	31 December 2005	31 December 2004
Land	201 694	162 618
Buildings and constructions	4 299 542	3 923 924
Machinery and equipment	2 724 985	2 116 218
Vehicles and other	178 399	180 342
Construction in progress	403 938	1 238 967
Total property, plant and equipment	**7 808 558**	**7 622 069**

(all amounts in PLN thousand)

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2004	137 359	5 073 538	4 585 049	375 640	734 933	10 906 519
Increase	25 788	244 593	107 384	10 674	991 059	1 379 498
Reclassification	-	(763)	446	317	-	-
Decrease	(529)	(172 366)	(215 011)	(12 969)	(441 114)	(841 989)
31 December 2004	**162 618**	**5 145 002**	**4 477 868**	**373 662**	**1 284 878**	**11 444 028**
1 January 2005	162 618	5 145 002	4 477 868	373 662	1 284 878	11 444 028
Increase	39 359	742 207	1 098 310	49 810	1 076 063	3 005 749
Reclassification	-	40	(30)	(10)	-	-
Decrease	(283)	(42 353)	(62 319)	(22 531)	(1 916 435)*	(2 043 921)
31 December 2005	**201 694**	**5 844 896**	**5 513 829**	**400 931**	**444 506**	**12 405 856**
Accumulated depreciation and impairment allowances						
1 January 2004	-	984 395	1 963 488	186 415	37 111	3 171 409
Depreciation	-	353 588	607 135	18 250	-	978 973
Other increases	-	-	389	11	-	400
Impairment allowances	-	9 121	(555)	253	8 800	17 619
Reclassification	-	(86)	10	76	-	-
Decrease	-	(125 940)	(208 817)	(11 685)	-	(346 442)
31 December 2004	**-**	**1 221 078**	**2 361 650**	**193 320**	**45 911**	**3 821 959**
1 January 2005	-	1 221 078	2 361 650	193 320	45 911	3 821 959
Depreciation	-	345 283	480 218	46 470	-	871 971
Other increases	-	-	689	-	-	689
Impairment allowances	-	6 557	342	(427)	(5 343)	1 129
Reclassification	-	1	(1)	-	-	-
Decrease	-	(27 565)	(54 054)	(16 831)	-	(98 450)
31 December 2005	**-**	**1 545 354**	**2 788 844**	**222 532**	**40 568**	**4 597 298**
Net book value						
1 January 2004	**137 359**	**4 089 143**	**2 621 561**	**189 225**	**697 822**	**7 735 110**
31 December 2004	**162 618**	**3 923 924**	**2 116 218**	**180 342**	**1 238 967**	**7 622 069**
1 January 2005	**162 618**	**3 923 924**	**2 116 218**	**180 342**	**1 238 967**	**7 622 069**
31 December 2005	**201 694**	**4 299 542**	**2 724 985**	**178 399**	**403 938**	**7 808 558**

* including in 2005 e.g. transfers to specific groups of property, plant and equipment that amounted to PLN 1,889,509 thousand.

Impairment allowances for property, plant and equipment as at 31 December 2005 and 31 December 2004 amounted to PLN 144,628 thousand and PLN 143,500 thousand respectively.

In 2005 the Company reviewed economic useful lives of property, plant and equipment applied afore. Should the economic useful lives from previous years be applied, depreciation expense would be higher by PLN 150,953 thousand. The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2005 and as at 31 December 2004 amounted to PLN 910,937 thousand, and PLN 658,996 thousand respectively.
Impairment allowances disclosed in property, plant and equipment movement table are equal to the difference between its carrying amount and its recoverable amount. The impairment allowances are charged to operating expenses. The allowances concern mainly liquid fuels storage facilities and petrol stations.

As at 31 December 2005 and 31 December 2004 no property, plant and equipment were used as a pledge for the Company's liabilities.

(all amounts in PLN thousand)

As at 31 December 2005 the Company adjusted the carrying amounts of property, plant and equipment disclosed in financial statements in compliance with previously applied accounting principles. The below table presents differences identified and reported by the Company between IFRSs and Polish Accounting Standards (PASs) in force as at 31 December 2004.

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total property, plant and equipment
Balance sheet amounts reported in financial statements for 2004 in compliance with previously applied accounting principles	165 314	3 490 214	1 524 714	50 364	1 240 011	6 470 617
Reclassification of catalysts and decoration of petrol stations cost to property, plant and equipment	-	57 092	-	65 364	-	122 456
Separate presentation of rights to perpetual usufruct of land	(24 931)	-	-	-	-	(24 931)
Value of precious metals previously disclosed as inventories.	-	-	-	59 205	-	59 205
Application of benchmark treatment of IAS 23 “Borrowing costs”	-	-	(28 851)	-	(1 044)	(29 895)
Revaluation of property, plant and equipment at fair value	22 235	376 618	620 355	5 409	-	1 024 617
Balance sheet amounts reported as comparative data in the financial statements as at 31 December 2005 in compliance with IFRSs	162 618	3 923 924	2 116 218	180 342	1 238 967	7 622 069

(all amounts in PLN thousand)

As of 31 December 2005 and 31 December 2004 construction in progress included:

	31 December 2005	31 December 2004
Construction of desulphurization of cracking petrol installation	113 254	15 834
Modernization of WB (warehouse base) nr 21,51,61,91,93,111	82 475	5 817
Construction of tanks 41D and 43 A,B,C,D	24 274	1 484
Modernization of sewerage installation I and II	8 417	422
Construction of utilization of liquid sediment junction	7 525	482
Loyalty cards consumer system	6 518	2 014
Modernization of condensate treatment station	6 278	213
Revamping and infrastructure of Olefins II production unit	5 499	958 297
Intensification of Aromatics Extraction Installation	1 400	45 597
Intensification of IFP, Pyrotol, Butadiene	531	79 797
Infrastructure of PP III and PE III	61	40 984
Construction of SP Gdynia	-	4 270
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Total specified construction in progress	**256 232**	**1 155 211**
Other*	147 706	83 756
Total construction in progress	**403 938**	**1 238 967**
	==========	=========

*Other includes individually insignificant investment projects.

6. Intangible assets

The movements of intangible assets were as follows:

	31 December 2005	31 December 2004
Acquired licenses, patents and similar intangible assets	29 098	31 206
Acquired computer software	2	8
Other	-	4
	---------------	---------------
Total intangible assets	**29 100**	**31 218**
	========	========

(all amounts in PLN thousand)

The changes of intangible assets were as follows:

	Acquired computer software	Acquired licenses, patents and similar intangible assets	Other	Total
Gross book value				
1 January 2004	3 517	147 675	189	151 381
Increase	-	8 927	-	8 927
Decrease	(47)	(64)	-	(111)
31 December 2004	**3 470**	**156 538**	**189**	**160 197**
1 January 2005	3 470	156 538	189	160 197
Increase	-	18 318	1 517	19 835
Decrease	(136)	(647)	-	(783)
31 December 2005	**3 334**	**174 209**	**1 706**	**179 249**
Accumulated depreciation and impairment allowances				
1 January 2004	3 498	99 351	139	102 988
Depreciation	12	26 040	46	26 098
Impairment allowances	-	5	-	5
Decrease	(48)	(64)	-	(112)
31 December 2004	**3 462**	**125 332**	**185**	**128 979**
1 January 2005	3 462	125 332	185	128 979
Depreciation	6	20 411	4	20 421
Other increases	-	-	1 517	1 517
Impairment allowances	(1)	(26)	-	(27)
Decrease	(135)	(606)	-	(741)
31 December 2005	**3 332**	**145 111**	**1 706**	**150 149**
Net book value				
1 January 2004	**19**	**48 324**	**50**	**48 393**
31 December 2004	**8**	**31 206**	**4**	**31 218**
1 January 2005	**8**	**31 206**	**4**	**31 218**
31 December 2005	**2**	**29 098**	**-**	**29 100**

Impairment allowances for intangible assets as at 31 December 2005 and 31 December 2004 amounted to PLN 47 thousand and PLN 74 thousand.

In 2005 the Company reviewed economic useful lives of intangible assets applied afore. Should the economic useful lives from previous years be applied, adjustment to depreciation expense would not be material. The gross book value of all fully depreciated intangible assets still in use as at 31 December 2005 and as at 31 December 2004 amounted to PLN 115,496 thousand, and PLN 57,251 thousand respectively.

The Company recognized as the off balance sheet items the rights to perpetual usufruct of land obtained under an administrative decision at fair value that amounted to PLN 959,412 thousand.

(all amounts in PLN thousand)

As at 31 December 2005 the Company adjusted the carrying amounts of intangible assets disclosed in financial statements in compliance with previously applied accounting principles. The below table presents differences identified and reported by the Company between IFRSs and Polish Accounting Standards (PASs) in force as at 31 December 2004.

	Acquired licences, patents and similar intangible assets	Acquired computer software	Other	Total intangible assets
Balance sheet amounts reported in financial statements for 2004 in compliance with previously applied accounting principles	29 393	8	4	29 405
Revaluation of intangible assets at fair value	1 813	-	-	1 813
Balance sheet amounts reported as comparative data in the financial statements as at 31 December 2005 in compliance with IFRSs	31 206	8	4	31 218

(all amounts in PLN thousand)

7. Financial assets

a) Significant shares in related parties

Name	Seat	31 December 2005	31 December 2004	Company's interest in capital/ in voting rights as at 31 December 2005	Company's interest in capital/ in voting rights as at 31 December 2004	Principal Activity
UNIPETROL a.s.	Czech Republic – Prague	1 812 882	-	62.99%	-	parent Company of Unipetrol Group
ORLEN Deutschland AG	Germany - Elmshorn	503 803	503 803	100%	100%	asset management and retail fuel sales
Basell ORLEN Polyolefins Sp. z o.o.	Poland - Plock	453 699	453 699	50%	50%	production, distribution and sale of polyolefines
Polkomtel S.A.	Poland – Warsaw	436 495	436 495	19.61%	19.61%	rendering mobile telecommunication services
Anwil S.A.	Poland - Wloclawek	176 200	176 200	84.49%	76.27%	production of nitric fertilizers, polyvinyl chloride
Niezależny Operator Międzystrefowy Sp.z o.o.*	Poland – Warsaw	84 004	-	35.00%	-	rendering ground telecommunication services
Rafineria Trzebinia S.A.	Poland - Trzebinia	74 503	74 503	77.15%	77.07%	processing of paraffin, production and sale of fuel and oils
Rafineria Nafty Jedlicze S.A.	Poland - Jedlicze	64 000	64 000	75%	75%	processing of paraffin, production and sale of processing derivatives
ORLEN Oil Sp. z o.o.	Poland – Krakow	57 144	50 591	51.69%	48.27%	commercial activity in the field of chemical, refining and petrochemical products
ORLEN Asfalt Sp. z o.o.	Poland - Plock	50 000	56 838	82.46%	17.54%	production and processing of products of crude oil refining
Other		392 105	396 110			
		---------------	---------------			
Total		**4 104 835**	**2 212 239**			
Impairment allowances						
ORLEN Deutschland AG		(75 000)	(89 094)			
Niezależny Operator Międzystrefowy Sp. z o.o*		(65 790)	-			
Other		(48 318)	(14 866)			
		---------------	---------------			
Total impairment allowances		**(189 288)**	**(103 960)**			
		---------------	---------------			
Net value of significant shares in related parties		**3 915 547**	**2 108 279**			
		=========	=========			

* Detailed information in Note 30 j

(all amounts in PLN thousand)

Name	Seat	31 December 2005	31 December 2004	Company's interest In capital/ in voting rights as at 31 December 2005	Company's interest In capital/ in voting rights as at 31 December 2004	Principal Activity
b) Significant shares in other parties						
Telewizja Familijna S.A.	Poland – Warsaw	26 004	26 004	11.96%	9.61%	radio and television related activity
AWSA Holland II B.V.*	The Netherlands - Amsterdam	-	61 400	9.22%	9.22%	parent company of Autostrada Wielkopolska S.A.
Other		50 711	25 770			
		-------------	-------------			
Total		**76 115**	**113 174**			
Impairment allowances						
Telewizja Familijna S.A.		(26 004)	(26 004)			
Other		(10 567)	(10 608)			
		-------------	-------------			
Total impairment allowances		**(36 571)**	**(36 612)**			
		-------------	-------------			
Net value of significant shares in other parties		**40 144**	**76 562**			
		========	========			
c) Loans granted						
Related parties		**1 744**	**-**			
		========	========			

* As at 31 December 2005 PKN ORLEN held 165,924 shares standing for 9.218% stake in AW S.A. Holland II BV ("AWSA"). Shares in AWSA have been classified as held for sale. The value of shares was increased by the effect of valuation of the put option and presented separately in assets, due to it being a subject to sale of shares agreement concluded on 27 February 2006 between PKN ORLEN and Kulczyk Holding S.A. The conclusion of the Pledged Sale Agreement resulted from exercising by PKN ORLEN of an option to sell the shares that was determined in the Supplementary Agreement signed on 14 November 2002 between PKN ORLEN S.A. and Kulczyk Holding S.A. The Supplementary Agreement provided that the put option is exercisable on each demand until 31 December 2006. The relevant demand was submitted to Kulczyk Holding S.A. on 28 December 2005. Upon fulfillment of agreed provisions of the Pledged Sale Agreement, that are expected to be fulfilled at latest upon elapse of 3-month period from the date the agreement was signed, PKN ORLEN shall transfer its rights to shares in AWSA to Kulczyk Holding S.A. On 27 February 2006 PKN ORLEN received PLN 73,007 thousand in cash to the bank account. The above described shares had been purchased by PKN ORLEN from Orbis S.A. in November 2002 for the amount of PLN 61,400 thousand. AWSA, through its subsidiary, controls Autostrada Wielkopolska S.A., a concessionaire for the construction of A2 motorway in Poland. Shares of AWSA are not quoted on an active market.

Non-current assets held for sale are valued at cost less impairment allowances as they are not listed on the active market and therefore their fair value can not be reliably assessed using alternative methods.

(all amounts in PLN thousand)

Name	Seat	31 December 2005	31 December 2004	Company's interest In capital/ in voting rights as at 31 December 2005	Company's interest In capital/ in voting rights as at 31 December 2004	Principal Activity
d) Investments held to maturity						
Telewizja Familijna S.A. bonds *	Poland – Warsaw	26 000	26 000			
Impairment allowances		(26 000)	(26 000)			
Net value of investments held to maturity		-	-			
Total net value of financial assets		**3 957 435**	**2 184 841**			
		========	========			

* As at 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was declared; book value of shares and bonds as at 31 December 2005 and 31 December 2004 was fully covered by an allowance.

(all amounts in PLN thousand)

8. Inventories

	31 December 2005	31 December 2004
Raw materials*	2 303 974	1 404 775
Work in progress*	424 076	229 105
Finished goods*	1 176 000	878 372
Merchandise	117 013	109 723
	----------------	----------------
Total inventory, net	**4 021 063**	**2 621 975**
	========	========

* Starting from 2002, mandatory reserves are established based on the schedule in accordance with the Minister of Economy Decree (the decree of 19 December 2005 currently in force, Official Journal no 266. item 2240) to arrive at the end of 2008 at the level equal to 76 days of average daily production, import and intra-Community acquisitions less export and intra-Community supplies (in addition the relevant economy Minister is obliged to establish the reserves of liquid fuels in the amount equal to consumption of fuels in 14 days on average in a given year). The value of mandatory reserves held by the Company as at 31 December 2005 and 31 December 2004 amounted to PLN 1,894,254 thousand and PLN 1,250,836 thousand respectively.

The value of inventories valued at net realizable value amounted to PLN 632 thousands at 31 December 2005 and PLN 209 thousands at 31 December 2004.
The inventory allowances to net realizable value amounted to PLN 2,524 thousand in 2005 and PLN 3,710 thousand in 2004.

As at 31 December 2005 and 31 December 2004 there no inventories were used as a pledge for the Company's liabilities.

9. Trade and other receivables

	31 December 2005	31 December 2004
Trade receivables	2 400 876	1 966 130
Taxation, duty and social security receivables	56 658	29 721
Receivables from sale of property, plant and equipment	16 469	37 629
Prepayments for property, plant and equipment	3 416	20 169
Other receivables*	481 296	174 173
Total trade and other receivables, gross	**2 958 715**	**2 227 822**
Receivables allowances	(232 623)	(338 038)
	----------------	----------------
Total trade and other receivables, net	**2 726 092**	**1 889 784**
	=========	=========

* including as at 31 December 2005 the balance of acquired receivables due from Unipetrol Group entities (PLN 286,255 thousand)

Trade and other receivables include PLN 396,128 thousand of amounts denominated in foreign currencies as at 31 December 2005 and PLN 33,132 thousand as at 31 December 2004. Trade receivables result primarily from the sales of finished goods and sales of merchandise.
Concentration of credit risk relating to trade receivables is limited due to a large number of customers with specified trade credit limits and their dispersion across many different industries principally in Poland, Germany and Czech Republic.
The assumed repayment period of receivables involved with the usual course of sales operations is 14 to 30 days.
Maximum trade credit limit risk amounted to PLN 2,669,434 thousand as at 31 December 2005. The Management Board believes that the risk of doubtful receivables is reflected by the relevant allowance.
No transfers of rights to receivables as a security for the Company's liabilities have been made as at 31 December 2005 and as at 31 December 2004.

(all amounts in PLN thousand)

The receivables allowances:

	31 December 2005	31 December 2004
Beginning of period	338 038	218 988
Allowance made during the period	99 685	204 134
Allowance reversed during the period	(194 899)	(77 010)
Allowance used during the period	(10 201)	(8 074)
End of period	**232 623**	**338 038**

10. Short-term investments

	31 December 2005	31 December 2004
Held to maturity	-	1 016 899
Total	**-**	**1 016 899**

Short-term investments as at 31 December 2004 included government bonds and bills.

11. Prepayments

	31 December 2005	31 December 2004
Leases	14 846	14 729
Insurances	35 816	16 789
Other	8 040	36 811
Total	**58 702**	**68 329**

12. Cash and cash equivalents

	31 December 2005	31 December 2004
Cash on hand and in bank	243 914	264 064
Other cash (incl. cash in transit)	39 595	21 888
Total	**283 509**	**285 952**
incl. cash and cash equivalents not available for use	-	174 987

Total cash and cash equivalents denominated in foreign currencies amounted to PLN 70,874 thousand as at 31 December 2005 and to PLN 203,110 thousand as at 31 December 2004.

Cash and cash equivalents not available for use as at 31 December 2004 amounted to PLN 174,987 thousand, being an equivalent of CZK 1,304,900 thousand. The cash was blocked on a restricted deposit account in Prague in relation to the planned acquisition of UNIPETROL in accordance with the Escrow Agreement of 21 June 2004 between the Czech Republic National Property Fund (FNM), the Czech Consolidation Agency (CKA), PKN ORLEN and Komercni Banka.
Taking into account cooperation of the Company mainly with well-established Polish and international banks, the risk relating to depositing cash and cash equivalents is considerably limited.

(all amounts in PLN thousand)

13. Other long-term financial investments

	31 December 2005	31 December 2004
Loans granted	675	244 848
Financial instruments	103 620	154 018
	----------------	----------------
Total long-term financial investments	**104 295**	**398 866**
	========	========

14. Interest-bearing loans and borrowings

	Note	31 December 2005	31 December 2004
Bank loans	(a)	1 404 172	1 413 570
		=======	=======
Including:			
short-term		30 007	5 863
long-term		1 374 165	1 407 707
		=======	=======

Maturities of principal installments as at 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	31 December 2004
Up to 1 year	30 007	5 863
Between 1 and 5 years	1 374 165	1 407 707
	------------	------------
Total	**1 404 172**	**1 413 570**
	=======	=======

The value of interest-bearing loans and borrowings drawn by the Company decreased in 2005 by PLN 9,398 thousand net. The change in indebtedness level resulted primarily from:

- drawing of foreign currency loans translated to PLN:
  - CZK 750,000 thousand (PLN 103,500 thousand) in PKO BP S.A.
  - CZK 750,000 thousand (PLN 103,500 thousand) in BH w Warszawie S.A.
- drawing of loans in PLN:
  - PLN 30,000 thousand in PKO BP S.A.
  - PLN 13,734 thousand in BH w Warszawie S.A.
  - PLN 9,932 thousand in BPH PBK S.A.
  - PLN 13 thousand in SG S.A.
- increase in indebtedness by PLN 23,796 thousand resulting from foreign exchange differences and accrued interest
- repayment of foreign currency loans translated to PLN:
  - CZK 750,000 thousand (PLN 102,716 thousand) in BH w Warszawie S.A.
  - CZK 750,000 thousand (PLN 99,625 thousand) in PKO BP S.A.
  - USD 18,411 thousand (PLN 61,532 thousand) of a consortium double currency loan (ING acting as Agent)
- repayment of loans in PLN
  - PLN 30,000 thousand in PKO BP S.A.

(all amounts in PLN thousand)

Bank loans by currency (translated to PLN)

		31 December 2005	31 December 2004
PLN	(1)	26 299	2 621
USD	(2)	713 387	708 733
EUR	(3)	664 486	702 216
		------------	--------
Total		**1 404 172**	**1 413 570**
		=======	=======

As at 31 December 2005 and 31 December 2004 the level of interest rates and loan margins relating specifically to loans used as at the given balance sheet dates were as follows:

31 December 2005	**PLN (1)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	26 299	
T/N WIBOR		to 0.06%
1M WIBOR		0.07% - 0.10%
Total PLN	**26 299**	

31 December 2005	**USD (2)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	713 387	
3M LIBOR		to 0.40%
Total USD	**713 387**	

31 December 2005	**EUR (3)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	664 486	
3M EURIBOR		to 0.40%
Total EUR	**664 486**	

Total	**1 404 172**	
	=========	

31 December 2004	**PLN (1)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	2 621	
T/N WIBOR		to 0.09%
1T WIBOR		to 0.07%
Total PLN	**2 621**	

31 December 2004	**USD (2)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	708 733	
3M LIBOR		to 0.40%
Total USD	**708 733**	

31 December 2004	**EUR (3)** **Indebtedness balance**	**Margin/rate within the range**
Floating rate	702 216	
3M EURIBOR		to 0.40%
Total EUR	**702 216**	

Total	**1 413 570**	
	=========	

(all amounts in PLN thousand)

As at 31 December 2005 and 31 December 2004 interest rates for specific bases were as follows:

	31 December 2005	**31 December 2004**
T/N Wibor	4.60%	6.67%
1W Wibor	4.60%	6.66%
3M Euribor	2.4870%	2.1550%
3M Libor (USD)	3.5362%	2.5644%

As at 31 December 2005 and 31 December 2004, in accordance with agreements concluded with banks, the Company had unutilized amount of bank loans and borrowings at floating rate of PLN 2,987,430 thousand and PLN 1,120,229 thousand respectively.
In 2005 the effective interest rate for loans denominated in PLN was formed at the level of 5.46%, and for loans denominated in foreign currencies at 2.97%.
As at 31 December 2005 bank loans and borrowings were not pledged on the Company's assets.

15. Provisions

Long-term provisions

	31 December 2005	**31 December 2004**
Land reclamation provision	404 714	347 531
Retirement benefits and jubilee bonuses	115 972	104 614
Business risk provision	3 800	17 757
Shield programmes provision	68 718	25 464
Other provisions	11 896	2 968
Total	**605 100**	**498 334**

Short-term provisions

	31 December 2005	**31 December 2004**
Land reclamation provision	46 350	106 143
Retirement benefits and jubilee bonuses	9 143	9 013
Business risk provision	361 727	46 384
Shield programmes provision	130 500	44 536
Other provisions	26 752	29 371
Total	**574 472**	**235 447**

The Company has legal or constructive obligation to reclaim contaminated land in area of production plants, petrol stations and warehouse bases. In the period 2000-2004 an assessment of the contaminated objects and estimation of future expenditures on land reclamation were conducted by independent experts. The amount of the environmental provision was reassessed by the Management Board on the basis of analyses of independent experts. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities constituting basis of creating the provision.

(all amounts in PLN thousand)

The changes in provisions in particular periods were as follows:

Change in long-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	**347 531**	**104 614**	**17 757**	**25 464**	**2 968**	**498 334**
Provision made during the period	57 636*	13 890	14 783	43 254	9 428	**138 991**
Provision used during the period	(86)	(2 532)	-	-	-	**(2 618)**
Provision reversed during the period	(367)	-	(28 740)	-	(500)	**(29 607)**
	=======	=======	======	======	======	=======
31 December 2005	**404 714**	**115 972**	**3 800**	**68 718**	**11 896**	**605 100**
	=======	=======	======	======	======	=======

*incl. the amount of PLN 51,561 of land reclamation provision reclassified from short to long term portion

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	**354 261**	**76 394**	**3 800**	**-**	**3 785**	**438 240**
Provision made during the period	76 506	35 943	13 957	25 464	153	**152 023**
Provision used during the period	(1 011)	(7 458)	-	-	(145)	**(8 614)**
Provision reversed during the period	(82 225)	(265)	-	-	(825)	**(83 315)**
	=======	======	======	======	======	======
31 December 2004	**347 531**	**104 614**	**17 757**	**25 464**	**2 968**	**498 334**
	=======	======	======	======	======	======

Change in short-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	**106 143**	**9 013**	**46 384**	**44 536**	**29 371**	**235 447**
Provision made during the period	-	8 347	338 264**	122 746	13 880	**483 237**
Provision used during the period	(7 989)	(8 217)	-	(36 782)	(10 500)	**(63 488)**
Provision reversed during the period	(51 804)*	-	(22 921)	-	(5 999)	**(80 724)**
	======	======	=======	=======	======	=======
31 December 2005	**46 350**	**9 143**	**361 727**	**130 500**	**26 752**	**574 472**
	======	======	=======	=======	======	=======

*incl. the amount of PLN 51,561 of land reclamation provision reclassified from short to long term portion

**incl. provision for the negative financial impact of execution of the agreements concerning the disposal of portion of of assets and liabilities of Unipetrol Group

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2004	**39 873**	**11 348**	**17 860**	**-**	**15**	**69 096**
Provision made during the period	82 141	9 037	36 602	44 536	29 372	**201 688**
Provision used during the period	(13 373)	(11 348)	(8 078)	-	-	**(32 799)**
Provision reversed during the period	(2 498)	(24)	-	-	(16)	**(2 538)**
	=======	======	======	======	=======	=======
31 December 2004	**106 143**	**9 013**	**46 384**	**44 536**	**29 371**	**235 447**
	=======	======	======	======	=======	=======

(all amounts in PLN thousand)

16. Trade and other liabilities and accrued expenses

Trade and other liabilities comprised of the following:

	31 December 2005	31 December 2004
Trade liabilities	2 250 871	1 307 540
Holiday pay accrual	17 711	17 374
Payroll liabilities	12 769	2 855
Loyalty programme VITAY	61 858	54 157
Excise tax and fuel charge liabilities	646 989	736 973
Other taxation, duty and social security liabilities	319 138	268 692
Other liabilities and accrued expenses	127 606	59 983
Total	**3 436 942**	**2 447 574**

Trade and other liabilities and accrued expenses denominated in foreign currencies amounted to PLN 1,508,796 thousand as at 31 December 2005 and PLN 782,203 thousand as at 31 December 2004. The carrying amount of short-term trade liabilities is equal to its fair value by virtue of its short-term characteristics.

The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for fuel or VITAY gifts.

The Company creates provision for the number of points granted to customers but not yet exchanged for gifts. The cost is recognized in the profit and loss in the period points had been granted. The provision is estimated on the basis of total unrealized amount of points and current cost per one VITAY point and equals 75% of the value of unrealized points (75% being a ratio for points' realizability).

17. Deferred income

	31 December 2005	31 December 2004
Subventions	1 168	1 258
Other	-	4 790
Total	**1 168**	**6 048**

18. Shareholders' equity

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2005 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2005 and 31 December 2004 consisted of the following series of shares:

Share series	Number of shares issued as at 31 December 2005	Number of shares issued as at 31 December 2004	Number of shares authorized as at 31 December 2005	Number of shares authorized as at 31 December 2004
A series	336 000 000	336 000 000	336 000 000	336 000 000
B series	6 971 496	6 971 496	6 971 496	6 971 496
C series	77 205 641	77 205 641	77 205 641	77 205 641
D series	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	427 709 061	427 709 061	427 709 061

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

(all amounts in PLN thousand)

The balance of the hedging reserve (for cash flow hedges) results from valuation of derivatives meeting the criteria for hedge accounting (for cash flow hedges).

The shareholder structure as at 31 December 2005 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17.32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10.20%
Bank of New York (as a depositary)	48 467 578	48 467 578	60 584 473	11.33%
Other*	261 531 287	261 531 287	326 914 108	61.15%
Total	**427 709 061**	**427 709 061**	**534 636 326**	**100.00%**

* In accordance with the regulatory announcement no. 33/2005 issued on 25 May 2005, FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,436,944 PKN ORLEN shares as at 24 May 2005, which is 5.01% of the share capital and gives title to 21,436,944 votes at the General Shareholders' Meeting and 5.01% of the total votes at the General Meeting of PKN ORLEN.

In accordance with the regulatory announcement no. 7/2006 issued on 24 January 2006, FMR Corp. with its direct and indirect subsidiaries, seated in Boston and Fidelity International Limited with its direct and indirect subsidiaries, seated in Bermuda, held 21,023,196 PKN ORLEN shares, which is 4.92% of the share capital and gives title to 21,023,196 votes at the General Shareholders' Meeting and 4.92% of the total votes at the General Meeting of PKN ORLEN.

Retained earnings comprise of the following titles:

	31 December 2005	31 December 2004
Reserve capital	6 252 397	4 887 773
Revaluation reserve from revaluation of property, plant and equipment in 1995	638 062	638 264
Reserve capital from disposal of property, plant and equipment revalued in 1995	171 995	171 995
Privatization Fund created with the privatization of Petrochemia Plock S.A.	53 476	53 476
Undistributed profit from changes in accounting policies	858 231	1 016 709
Net profit	2 527 214	2 117 167
	---------------	---------------
Total retained earnings:	10 501 375	8 885 384
	=========	=========

The share capital and share premium as at 31 December 1996, in accordance with IAS 29.24 and 29.25, were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand revaluation of share capital and PLN 168,803 thousand revaluation of share premium). The afore were presented as share capital revaluation adjustment and share premium revaluation adjustment in the balance sheet.

In 2005 the Company paid dividends to shareholders. The Company's General Shareholders' Meeting held on 29 June 2005 adopted a resolution to pay a dividend from the net profit of 2004 in the amount of PLN 911,020,299.91. The date of payment was defined in the following way:
- the first installment of PLN 457,648,695.27, giving PLN 1.07 per share, was paid on 1 September 2005;
- the second installment of PLN 453,371,604.64, giving PLN 1.06 per share, was paid on 1 December 2005.
Calculation of earnings per share and diluted earnings per share is presented below:

(all amounts in PLN thousand)

	for the year ended 31 December 2005	for the year ended 31 December 2004
Weighted average number of ordinary shares issued	427 709 061	427 709 061
Earnings and diluted earnings per share (in PLN)	5.91	4.95

As at 31 December 2005 and 31 December 2004 there was no dilutive effect that could have had impact on the above calculation.

Method of calculation of earnings per share and diluted earnings per share for the years ended 31 December 2005 and 31 December 2004

		2005	2004
Net profit for the year (in PLN)	(A)	2 527 214 367.72	2 117 167 137.99
Weighted average number of ordinary shares	(B)	427 709 061	427 709 061
Earnings per ordinary share (in PLN)	(A/B)	5.91	4.95
Weighted average number of expected ordinary shares	C	427 709 061	427 709 061
Diluted earnings per ordinary share (in PLN)	(A/C)	5.91	4.95

The Company calculated earnings per share and diluted earnings per share in accordance with the IFRSs.

19. Suggested distribution of the Company's profit for 2005, retained earnings and distribution of profit for 2004 (amounts in PLN)

a) Suggested distribution of profit for 2005

The current dividend policy sets a target of the payment on the level of 30% of a net profit of the Company.

A new dividend policy communicated in a revised development strategy of PKN ORLEN for 2006-2009, announced in January 2006, assumes setting recommended dividend level in comparison to free cash flow for shareholders after realization of investment budget and capital structure optimization („Free Cash Flow to Equity" – FCFE). According to the new policy the Management Board set the target of the payment at a level not lower than 50% of FCFE since 2007 (dividend for 2006).

PKN ORLEN is currently participating in a bid for sales of Mažeikiu Nafta (including binding offer for purchase of 95% of shares from Lithuanian government). Shoud PKN ORLEN win the bid, considerable capital engagement will be necessary. Uncertainty related to the possibility of potential liability resulting from the bid, limits opportunities to unequivocal assessment of the dividend as at the date of the publication of this report.

Provided that PKN ORLEN terminates its participation in a bid, the Management Board proposes to apply new dividend policy already from 2006 (payment from the 2005 profit) and assign 76% of net result for 2005 amounting to 2,527,214,367.72, e.g. 1,924,690,774.50 for dividend. The Management Board proposes to assign the residual amount, decreased by 5,000,000.00 of Social Fund charge, to the reserve capital. Such dividend level would amount to 50% of FCFE, which amounts to PLN 3.8 billion.

Dividend (PLN 4.50 per share)	1,924,690,774.50
Reserve capital	597,523,593.22
Distribution to Social Fund	5,000,000.00

Total	2,527,214,367.72
	=============

In the Management's point of view, purchase of Mažeikiu Nafta would represent higher value for shareholders of PKN ORLEN than the dividend payment. In relation to the above, in case of continuance of the bid process related to purchase of Mažeikiu Nafta, the Management Board proposes to assign net profit for 2005 amounting to 2,527,214,367.72, decreased by 5,000,000.00 of Social Fund charge, e.g. 2,522,214,367.72 to reserve capital.

(all amounts in PLN thousand)

Reserve capital	2,522,214,367.72
Distribution to Social Fund	5,000,000.00

Total	2,527,214,367.72
	==============

b) Suggested distribution of retained earnings from changes in accounting policies

Reserve capital	858 231 159.18

c) According to resolution of Company's General Shareholders' Meeting, profit for 2004 was distributed as follows:

Dividend (PLN 2.13 per share)	911 020 299.91
Reserve capital	1 360 624 690.01
Distribution to Social Fund	4 000 000.00

Total	2 275 644 989.92
	===========

Method of calculation of book value and diluted book value per share as at 31 December 2005 and 31 December 2004

		2005	2004
Book value (in PLN)	(A)	12 864 705 361.26	11 274 669 976.21
Number of shares	(B)	427 709 061	427 709 061
Book value per share (in PLN)	(A/B)	30.08	26.36
Expected number of shares	C	427 709 061	427 709 061
Diluted book value per share (in PLN)	(A/C)	30.08	26.36

The Company calculated book value per share and diluted book value per share in accordance with the IFRSs.

20. Explanation of differences between changes in the balance sheet positions and changes presented in the cash flow statement

	2005	2004
Balance sheet change in other non-current assets and trade and other receivables	(869 718)	147 495
Change in investment receivables	(21 031)	(20 862)
Change in receivables due from Unipetrol Group entities	293 708	-
Change in receivables concerning repayment of additional payments to capital of ORLEN Powiernik	-	(230 299)
Change in advances for construction in progress	(16 753)	(17 851)
Other	(5 961)	(5 811)
	-----------------	-----------------
Change in receivables in the cash flow statement	**(619 755)**	**(127 328)**
	==========	==========

	2005	**2004**
Balance sheet change in other long-term liabilities and trade and other liabilities and accrued expenses	989 368	(114 175)
Change in investment liabilities	(74 230)	(1 435)
Other	(16 617)	(3 411)
	-----------------	-----------------
Change in liabilities and accrued expenses in the cash flow statement	**898 521**	**(119 021)**
	==========	==========

	2005	**2004**
Balance sheet change in provisions	445 791	226 445
Change in deferred tax liabilities recognized directly in equity	6 136	(17 559)
Reclassification of deferred tax charge recognized in equity in the prior period to the net result	5 037	-
	-----------------	-----------------
Change in provisions in the cash flow statement	**456 964**	**208 886**
	==========	==========

The amount of PLN (254,020) thousand, presented in 2005 as "other" in operating activities in the cash flow statement, comprised of:

Change in acquired receivables due from Unipetrol a.s. Group entities	(293 708)
Proceeds/outflows from acquisition of receivables due from Unipetrol Group entities	48 140
Loss on foreign exchange differences	27 573
Change in prepayments and deferred income	(20 543)
Other	(15 482)

Total	**(254 020)**
	========

Sale of shares in subsidiaries and associates

In 2005 PKN ORLEN sold shares in 7 subsidiaries and associates. The cumulative impact of the transactions amounted to:

Proceeds from sale of shares	79 356
Agreed sales price	77 376
Net assets of entities sold	34 398
Result on sale	42 978
Net cash and cash equivalents proceeds	36 378

(all amounts in PLN thousand)

21. Segment data

Revenues, costs and financial result by business segments

	Refining Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the year		for the year		for the year		for the year		for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Revenues										
Sales to external customers	19 841 360	15 985 893	2 430 296	2 527 305	413 710	364 241			22 685 366	18 877 439
Transactions with other segments	3 391 765	3 023 224	2 000 353	1 473 553	650 988	626 651	(6 043 106)	(5 123 428)	-	-
Settlement of hedging transactions			103 740	61 351					103 740	61 351
Total revenues	**23 233 125**	**19 009 117**	**4 534 389**	**4 062 209**	**1 064 698**	**990 892**	**(6 043 106)**	**(5 123 428)**	**22 789 106**	**18 938 790**
Total operating cost	**(20 239 953)**	**(16 518 105)**	**(3 913 165)**	**(3 450 038)**	**(1 082 265)**	**(1 008 616)**	**6 043 106**	**5 123 428**	**(19 192 277)**	**(15 853 331)**
Other operating revenues	118 514	114 913	36 655	21 546	20 671	41 922			175 840	178 381
Other operating expenses	(184 093)	(263 660)	(54 693)	(58 015)	(88 630)	(87 617)			(327 416)	(409 292)
Result										
Segment result	2 927 593	2 342 265	603 186	575 702	(85 526)	(63 419)	-	-	3 445 253	2 854 548
Unallocated revenues									9 447	33 301
Unallocated costs									(760 929)	(444 611)
Profit from operations									**2 693 771**	**2 443 238**
Financial revenues									654 981	545 122
Financial expenses									(190 089)	(351 077)
Profit before tax									**3 158 663**	**2 637 283**
Income tax expense									(631 449)	(520 116)
Net profit									**2 527 214**	**2 117 167**

(all amounts in PLN thousand)

Other information by business segments

	Refining Segment for the year ended		Chemical Segment for the year ended		Other operations for the year ended		Total for the year ended	
	31 December 2005	31 December 2004	31 December 2005	31 December 2004	31 December 2005	31 December 2004	31 December 2005	31 December 2004
Other information								
Segment assets employed	9 627 641	8 139 666	3 122 068	2 435 110	1 586 145	1 452 213	14 335 854	12 026 989
Unallocated assets							4 874 266*	4 186 624
Total assets							19 210 120	16 213 613
Segment liabilities	2 726 986	1 685 905	178 754	103 355	407 217	287 000	3 312 957	2 076 260
Unallocated liabilities							3 032 460	2 862 685
Total liabilities							6 345 417	4 938 945

* including assets held for sale in the amount of PLN 72,469 thousand (shares in AW S.A. Holland II B.V.)

(all amounts in PLN thousand)

Other information by business segments – continued

	Refining Segment		Chemical Segment		Other operations		Total	
	for the year		for the year		for the year		for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Cost incurred to acquire segment property, plant and equipment and intangible assets	658 869	297 288	328 358	626 503	87 420	33 272	1 074 647	957 063
Unallocated cost incurred to acquire property, plant and equipment and intangible assets							42 444	34 455
Total cost incurred to acquire property, plant and equipment and intangible assets							1 117 091	991 518
Segment depreciation	525 859	694 704	175 983	107 576	159 641	167 885	861 483	970 165
Depreciation of unallocated assets							31 560	35 430
Total depreciation							893 043	1 005 595
Non-cash expenses other than depreciation	73 803	187 458	57 963	15 381	462 975	75 881	594 741	278 720

(all amounts in PLN thousand)

	Refining Segment		Segment Chemiczny		Pozostała działalność		Total	
	for the year		for the year		for the year		for the year	
	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004	ended 31 December 2005	ended 31 December 2004
Impairment allowances	42 702	96 408	41 326	11 089	15 053	32 440	99 081	139 937
Unallocated allowances							9 971	1 232
Total impairment allowances							109 052	141 169
Reversal of impairment allowances	34 862	81 844	35 507	9 782	8 990	12 230	79 359	103 856
Unallocated reversal of unallocated allowances							15 088	5 766
Reversal of impairment allowances							94 447	109 622

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:
- receivables allowances;
- inventories allowances;
- property, plant and equipment impairment allowances.

Allowances and reversals were performed in conjunction with occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment.
Allowances made in the Refining Segment concerned primarily impairment of petrol stations and warehouse bases. Allowances for idle assets and obsolete raw materials were recognized in other activities segment.

(all amounts in PLN thousand)

Geographical segments

The below table presents the Company's sales revenues by geographical segments for the periods ended 31 December 2005 and 31 December 2004.

	Revenues from sale by geographical area	
	for the year	
	ended 31 December 2005	**ended 31 December 2004**
Poland	21 116 848	17 726 880
Germany	334 741	185 795
Czech Republic	491 415	657 252
Other countries	846 102	368 863
Total revenues from sale by geographical area	**22 789 106**	**18 938 790**

(all amounts in PLN thousand)

22. Financial instruments

a) Transactions within derivatives

According to „Market risk management policy in PKN ORLEN S.A.", the reduction of the volatility of cash flows and potential losses resulting from events which could have a negative impact on the Company's result is the Company's major goal in terms of market risk management. Market risk management includes identification, measurement and definition of risk mitigation, taking into consideration fluctuation of exchange rates, interest rates and prices of goods.

As at the end of 2005 the Company's portfolio comprised hedging instruments (concluded in 2003), hedging sales revenues of petrochemical products. As a consequence, the Company significantly reduced fluctuations of revenues from sale of the above mentioned products in 2005. The Company applies currency-interest EUR/PLN swap transactions. The principles of cash flows hedge accounting are applied to the instruments. The portion determined to be an effective hedge, recognized directly in equity, decreased by PLN 32,045 thousand in comparison to 2004 and amounted to PLN 96,840 thousand. The portion determined to be an ineffective hedge was recognized in the profit and loss of 2005 in the amount of PLN 7,894 thousand. The cash flows resulting from the settlement of the instruments in 2005 amounted to PLN 103,740 thousand.

In June 2004 the Company signed a conditional agreement for purchase of shares in Unipetrol a.s. with the Czech government bodies. In conjunction with the transaction the Company decided to hedge CZK/PLN exchange rate on the futures market. Currency forward contracts were used to minimize foreign exchange rate risk resulting from the future liability corresponding with realization of the above agreement. The instruments were settled in May 2005 with a loss of PLN 153 thousand. Principles of hedge accounting were not applied to this group of transactions.

In September and October 2005 the Company applied currency forward contracts to hedge the repayment of a bank loan drawn in CZK for the purposes of Unipetrol a.s. holding‘s entities. In October 2005 the Company hedged the currency exposure in CZK on the futures market. The exposure related to the adjustment to acquisition price of Unipetrol a.s. Currency forward contracts were used to minimize foreign exchange risk corresponding with repayment of these liabilities. Principles of hedge accounting were not applied to the forwards due to its short-term characteristics. The instruments were settled in October and November 2005 with a profit of PLN 4,143 thousand.

The Company values derivatives at fair value using financial instruments valuation models that utilize widely available data from active markets. The transactions can only be concluded with reliable partners that were authorized to participate in transactions as a result of procedures obliging in the Company and within limits granted. In accordance with the "Market risk management policy in PKN ORLEN S.A." conclusion of transactions for speculation is unallowable. All the concluded transactions are reflected in the physical transactions and hedge risk resulting directly from relevant actual transactions or belong to the group of probable transactions.

Recognition of hedging transactions:

	Financial assets – hedging transactions – derivatives	**Financial liabilities – hedging transactions – derivatives**
Fair value as at 31 December 2004	**146 784**	**-**
INCREASE	-	-
- purchase, creation, drawing	-	-
- valuation	-	-
- revaluation	-	-
- reclassification	-	-
DECREASE	50 662	-
- sale, release, repayment	-	-
- valuation	-	-
- revaluation	50 662	-
- reclassification	-	-
Fair value as at 31 December 2005	**96 122**	**-**

As at the end of 2005 fair value of hedging instruments decreased in comparison to the end of 2004. The change resulted from settlement of profit on transactions realized in the current period (decrease in value) and revaluation to fair value of transactions to be realized in forthcoming periods (increase in value).

(all amounts in PLN thousand)

Derivative transactions – continued
Characteristics of term transactions

Company	Type of term transaction	Transaction concluded on	Period of transaction	Contracted amount of PLN in sales transaction of EURO	Interest rate for nominal amount**	Exchange rate**
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	08.10.2003	20.10.2003-29.09.2006	224 136.0	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	10.10.2003	20.10.2003-29.09.2006	224 284.5	2.4%	4.5
PKN ORLEN	Currency-interest swap (EUR/PLN) depreciated using the straight-line method*	15.10.2003	20.10.2003-29.09.2006	225 720.0	2.4%	4.6
PKN ORLEN	Currency swap (EUR/PLN) depreciated using the straight-line method*	17.12.2003	18.12.2003-30.11.2006	814 968.0	0.0%	5.5

Payment date of interest from the amount bought forward	Payment date of interest from the amount sold forward	Amount of interest received by the PKN ORLEN in the year ended 31 December 2005	Amount of interest paid by the PKN ORLEN in the year ended 31 December 2005	Fair value as at 31 December 2005	Fair value as at 31 December 2004
Last working day of a month	-	103 740	-	96 122	146 784

* Derivatives as at the end of the period are valued at fair value, whereas every month interest is accrued on unamortized portion of base value of the financial instrument.
** Interest rates and exchange rates rounded to one decimal.

(all amounts in PLN thousand)

b) Financial instruments by class:

	31 December 2005	31 December 2004
1. Financial assets at fair value through profit and loss	7 498	6 969
2. Financial assets held to maturity	-	1 016 899
3. Financial assets available for sale	168 591	147 049
4. Loans and receivables	2 403 295	2 210 978
- loans granted	2 419	244 848
- trade receivables	2 400 876	1 966 130
5. Cash and cash equivalents	283 509	285 952
6. Financial liabilities at fair value through profit and loss	40	21 350
7. Trade liabilities	2 250 871	1 307 540
8. Interest-bearing loans and borrowings	1 404 172	1 413 570

The value of long-term financial assets stated at cost less impairment charges as at 31 December 2005 amounted to PLN 13,148 thousand and as at 31 December 2004 to PLN 685,519 thousand and included mainly shares and stakes not quoted in an active market.
The Company presents derivative transactions with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.
The value of financial assets available for sale stated at fair value as at 31 December 2005 includes hedging derivative instruments.
The value of short-term financial assets held to maturity as at 31 December 2004 amounted to PLN 1,016,899 thousand and included “buy-sell back” transactions concerning treasury bonds and bills.

c) Interest rate risk

The Company’s financial liabilities are held to maturity. The effective interest rate is similar to nominal interest rate (the Company did not pay commission on majority of loans received; loan margins are at relatively low level). Cash flow surpluses are deposited primarily in treasury securities i.e. State Treasury bills and/or bonds.

The Company uses bank loan financing. The fluctuation of interest rates impacts both financial expenses and financial revenues. Hence an increase in interest rates would result in an increase in the Company’s financial expenses, in particular interest on loans and borrowings, as well as it would contribute to an increase in interest from deposited investments.

d) Credit risk

The Management Board believes that no significant credit risk in respect of receivables from financial instruments or loans granted by PKN ORLEN S.A. to the Capital Group companies exists for the Company.

(all amounts in PLN thousand)

23. Cost by kind

	for the year ended 31 December 2005	for the year ended 31 December 2004
Materials and energy	15 066 699	11 404 567
Cost of merchandise and materials sold	1 815 612	1 565 564
External services*	1 421 232	1 381 303
Payroll, social security and other employee benefits	475 237	573 866
Depreciation**	893 043	1 005 595
Taxes and charges	204 924	225 904
Other	908 314	644 650
Total	**20 785 061**	**16 801 449**
Adjustments:		
Change in inventory and prepayments	(407 202)	(27 749)
Cost of products and services for own use	(97 237)	(66 466)
Operating cost	**20 280 622**	**16 707 234**

* including PLN 13,012 thousand in 2005 and PLN 19,966 thousand in 2004 of research and development cost

** The decrease in depreciation in 2005 in comparison to 2004 resulted from lengthening of economic useful life of property, plant and equipment effective 1 January 2005, due to revision of previously adopted depreciation periods.

24. Other operating revenues and expenses

Other operating revenues

	for the year ended 31 December 2005	for the year ended 31 December 2004
Profit on sale of non-financial non-current assets	1 057	44 449
Provision reversal	28 989	3 422
Allowances reversal*	94 447	109 622
Penalties and compensations earned	11 922	19 131
Other	48 872	35 058
Total	**185 287**	**211 682**

* including reversal of allowances for:	for the year ended 31 December 2005	for the year ended 31 December 2004
Receivables	67 086	73 279
Inventories	-	19
Property, plant and equipment	27 361	36 324
	94 447	109 622

(all amounts in PLN thousand)

Other operating expenses

	for the year ended 31 December 2005	for the year ended 31 December 2004
Loss on sale of non-financial non-current assets	15 207	10 506
Revaluation of non-financial non-current assets	30 476	60 930
Creation of provisions *	519 148	226 590
Receivables allowances	78 576	80 239
Donations	4 129	13 497
Nonculpable shortages in non-current assets	10 243	8 003
Other	33 142	39 765
Total	**690 921**	**439 530**

* Described in detail in Note 30 f, 30 g and 35 c.

25. Net financial income and expenses

	for the year ended 31 December 2005	for the year ended 31 December 2004
Interest paid	(59 306)	(65 406)
Negative foreign exchange surplus	(47 583)	-
Interest received	77 466	36 766
Positive foreign exchange surplus	-	395 840
Gains on trade in shares and other securities	47 333	16 613
Dividends received	177 294	92 994
Discount on the acquisition of liabilities of Unipetrol Group	245 697	-
Decrease in receivables allowances	14 034	11 804
Increase in receivables allowances	(19 107)	(122 885)
Other	29 064	(171 681)
Total	**464 892**	**194 045**

26. Income tax

	for the year ended 31 December 2005	for the year ended 31 December 2004
Current tax	(618 412)	(593 764)
Deferred tax	(13 037)	73 648
Total	**(631 449)**	**(520 116)**

(all amounts in PLN thousand)

The difference between reported income tax expense in the profit and loss statement and the amount calculated based on profit before tax results from the following items:

	for the year ended 31 December 2005	for the year ended 31 December 2004
Profit before tax	**3 158 663**	**2 637 283**
Corporate income tax for 2005 and 2004 by the valid tax rate (19% in Poland)	600 146	501 084
Adjustments to the current tax calculation, resulting from previous years	(6 793)	(127)
The impact of taxation on permanent and temporary diffrences, incl.	20 379	(11 691)
dividends received	(33 686)	(17 669)
business risk provision	66 300	2 886
other permanent differences	(12 235)	3 092
The excess of tax depreciation	24 132	8 198
Valuation of financial instruments	(5 037)	(3 418)
Other	(1 378)	26 070
Corporate income tax	**631 449**	**(520 116)**
Effective tax rate	20%	20%

The net deferred tax liability as at 31 December 2005 and 31 December 2004 consisted of the following:

	31 December 2005	31 December 2004
Deferred tax assets		
Land reclamation provision	85 702	86 198
Other receivables allowances	10 942	11 904
Retirement benefits and jubilee bonuses	23 704	21 779
Impairment of non-current assets	17 973	16 664
Impairment of long-term investments	37 091	25 988
Other provisions	45 553	28 760
Accrued costs of wages	11 629	-
Accrued costs of Vitay loyalty programme	11 753	10 289
Accrued other costs	7 230	4 711
Financial instruments	-	4 056
Other	23 487	50 087
Total deferred tax assets	**275 064**	**260 436**
Deferred tax provision		
Investment relief *	137 155	162 082
Difference between carrying amount and tax base of property, plant and equipment	309 152	270 906
Unrealised positive foreign exchange differences	49 214	60 871
Financial instruments	19 419	28 066
Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o.	42 870	39 890
Other	40 777	15 243
Total deferred tax provision	**598 587**	**577 058**
Deferred tax provision, net (Deferred tax provision - deferred tax assets)	**323 523**	**316 622**

* According to the Polish tax regulations, taxpayers were entitled to deduct qualified investment expenditures in a given tax year from the taxable income (investment relief). Taxable income could have been decreased additionally by 50% of investment relief in proceeding year (investment premium). This was described in detail in note 30 b.

(all amounts in PLN thousand)

27. Leases

a) The Company as a lessee

- operating lease

Lease agreements and other agreements of an operating nature regard the lease of four tanks and a gas facility. The minimum lease payments recognized as costs of 2005 amounted to PLN 31 thousand and PLN 33 thousand in 2004.

Future minimum lease payments under non-cancelable operating lease agreements as at 31 December 2005 and 31 December 2004 were as follows:

	31 December 2005	31 December 2004
Up to 1 year	31	32
Between 1 and 5 years	21	58
Above 5 years	-	-
	-------	-------
Total minimum lease payments	**52**	**90**
	====	====

- finance lease

The Company has not concluded financial lease agreements as a lessee.

b) The Company as a lessor

- operating lease

Operating lease agreements regard the lease of machinery, equipment, buildings and land owned by the Company. The minimum lease payments amounted to PLN 32,694 thousand in 2005 and PLN 39,963 thousand in 2004.

The lease agreements were concluded for an indefinite period hence there is no possibility to define future minimum lease payments. The parties of the agreements provided that each party may terminate the agreement in six months notice of termination.

- finance lease

Finance lease agreements regard the lease of distributors and steering devices owned by the Company. The agreements were concluded for an indefinite period. The lease term is for the major part of the economic life of the asset. After expiration of a lease agreement a lessee can purchase the object of the lease on mutually agreed conditions.

Gross investments in the lease due as at 31 December 2005 and 31 December 2004 for future periods were as follows:

	31 December 2005	31 December 2004
Up to 1 year	878	3 967
Between 1 and 5 years	301	1 461
Above 5 years	-	-
	-------	-------
Total gross lease investments in the lease	**1 179**	**5 428**
	====	====

Unearned finance income as at 31 December 2005 amounted to PLN 109 thousand and as at 31 December 2004 to PLN 522 thousand.

As at 31 December 2005 and 31 December 2004 the Company did not record contingent rents recognized in the profit and loss and allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the lessor.

(all amounts in PLN thousand)

28. Commitments resulting from investment expenditures

Investment expenditures in 2005 accounted for PLN 1,083,902 thousand, including PLN 179,351 thousand of environmental protection related investments. Planned investment expenditure in the period of 12 months from the balance sheet date amounts to PLN 1,247,096 thousand, including PLN 161,929 thousand of environmental protection related investments. As at 31 December 2005 future liabilities resulting from signed contracts amounted to PLN 220,016 thousand.

29. Related party transactions

a) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

As at 31 December 2005 and 31 December 2004 the Company did not grant any loans to managing and supervising persons and their relatives.
In the years ended 31 December 2005 and 31 December 2004 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

b) Transactions with related parties concluded through the supervising persons

In 2005 the Company obtained statements on transactions concluded in 2005 with related parties extended in scope in regard of the amended IAS 24 “Related Party Disclosures”.

	Sale	Purchase	Receivables	Liabilities	Dividend paid
Legal persons *	221 823	411 028	38 103	49 437	-
Natural persons**	781	61	106	-	-

* Transactions in the period of performing duties as supervising persons in the Company.
** In the period covered by the financial statements the recorded transactions comprised of those below EUR 500 thousand.

In the period presented in the financial statements 13 persons served as members of the Supervisory Board.

c) Transactions with related parties concluded through the managing persons

In 2005 members of the Company’s key executive personnel did not conclude any significant transactions with related parties in regard of IAS 24 “Related Party Disclosures”.

(all amounts in PLN thousand)

d) Transactions of the Company with related parties in the period from 1 January to 31 December 2005 and the settlement balances as at 31 December 2005

	Consolidated subsidiaries [1]	Consolidated associates [2]	Non-consolidated subsidiaries [1]	Non-consolidated associates [2]	Consolidated jointly controlled entities [3]	Total related parties
Sales	4 226 071	20 934	4 538	1 144	885 552	5 138 239
Purchases	959 039	98 753	90 489	3 058	7 663	1 159 002
Financial revenues from interest	5 731	12	4	312	121	6 180
Financial expenses on interest	7	2	(3)	-	-	6
Gross short-term receivables	803 627	1 530	2 581	421	295 819	1 103 978
Short-term liabilities	136 637	7 176	10 382	698	1 529	156 422
Gross long-term receivables	64 894	-	561	-	-	65 455
Long-term liabilities	-	-	-	-	-	-

[1] Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members.
[2] Parent Company exercises significant influence on the entity's supervisory bodies via its representatives.
[3] Parent Company exercises a joint control over the entities under the deed of association.

(all amounts in PLN thousand)

30. Contingent liabilities and risks

a) Guarantees and other contingent liabilities

The Company granted the following guarantees and sureties:

	31 December 2005	Expiration of liability
Guarantees and sureties granted to:		
consolidated related entities, including:	**1 317 417**	
Guarantees and sureties of repayment of borrowings, overdraft credits, operating loans, and receivables resulting from the sale-purchase agreement by consolidated related entities	1 317 417	till 31.12.2013
non-related entities, including:	**36 940**	
performance bond	33 947	till 01.12.2008
security, duty, lottery, payment guarantees	2 993	till 03.03.2008

Total guarantees and sureties	**1 354 357**	
	==========	
Other contingent liabilities:		
excise tax guarantees, including collaterals submitted on behalf of third parties in respect of movements of harmonized excise goods under the excise tax suspension procedure and excise tax liability on goods kept in warehouses under the excise tax suspension procedure	820 197	
legal cases	33 546	
letters of credit	14 491	

Total other contingent liabilities:	**868 234**	
	==========	
Total contingent liabilities	**2 222 591**	
	==========	

b) Investment relief

In accordance with the Polish tax regulations, in force in previous years, PKN ORLEN S.A. reduced the taxable income for the purposes of corporate income tax by the following titles:
- investment expenditures incurred in a given tax year (investment relief)
- 50% of the previous year's investment relief (investment premium)

During the period 2001 -2003 the Company reduced the taxable income by investment relief and investment premium in the following amounts:

Year of deduction	Investment relief	Investment premium
2001	98 444	40 485
2002	13 845	49 222
2003	-	6 923
Total	**112 289**	**96 630**
	=======	======

Despite the fact that the investment relieves and investment premiums are of contingent nature, the Company does not identify a risk that its right to the deductions might be denied by the tax authorities.
The Management Board does not also identify a risk of losing the right to relieves and premiums due to breach of conditions which in effect oblige to return the amounts deducted.

c) Excise tax contingent liability of Rafineria Trzebinia S.A.

- On 15 October 2004, the Head of the Customs Office in Kraków instituted tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all necessary expert opinions confirming correctness of the applied classification of goods taxed with 0% rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter in the court of second instance.
On 5 May 2005, in reply to its motion to suspend execution of a decision until the date of settling the matter, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.
On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined the Company's appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.
On 28 July 2005 the Head of the Customs Office in Kraków, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total amount of about PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary legal opinions confirming correctness of the applied classification of goods taxable with 0% rate, which according to the Management Board guarantees a positive outcome of the proceedings.
On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and filed a motion to suspend execution of the decisions until the case would be decided by the second instance authority. On 11 August 2005, the Head of the Customs Office in Kraków, having examined the Company's appeal of 8 August 2005, suspended the decision in respect of setting the excise tax liability for the period of May-August 2004 at about PLN 100 million. On 14 November 2005 the Head of the Customs Office in Krakow had refused to accept evidence from the hearings of witnesses using argument that it does not constitute any significant circumstances in respect of the case. In addition, the Customs Office declined to accept corrections to excise tax declarations submitted by the company for the period May-September 2004, resulting from the change in excise tax rate for technological oils from 60 PLN/Mg to 0%. The Office declined acceptance based on the fact that there were proceedings in progress in respect of the case.
On 30 December 2005 the Head of the Customs Office in Krakow issued a decision keeping the first instance authority's decision in force. Rafineria Trzebinia S.A. prepared a complaint to the Woivodship Administrative Court against the decision of the Head of the Customs Office in Krakow together with a motion to suspend execution of the decision. The complaint and a motion to suspend execution of the decision were submitted to the Woivodship Administrative Court in Kraków on 3 February 2006.
- The Tax Control Office in Kraków, acting under the authorization from the General Tax Control Inspector of 18 January 2005, is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003. The deadline for completion of control proceedings is 30 June 2006. As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods were not yet known.

On 25 November 2004, the Supervisory Board of Rafineria Trzebinia S.A. adopted a resolution on performing a tax audit for the period from 2000 to 2004, including a review of correctness of procedures and correctness of tax settlements to be summarized in "Report on agreed upon procedures concerning review of control procedures at Rafineria Trzebinia S.A.". The 2000-2004 tax audit was completed and its results were presented to the Supervisory Board of Rafineria Trzebinia S.A. On 22 April 2005, having received the report from the first phase of the audit of procedures, the Supervisory Board of Rafineria Trzebinia S.A. has recommended carrying out the second, more detailed phase of the "Report on agreed upon procedures", encompassing the analyzes of transactions in selected areas of the company's activity. As at the date of preparation of these financial statements, the Supervisory Board of Rafineria Trzebinia S.A. has got acquainted with the results of the second phase of the audit and issued appropriate recommendations regarding the assessment of internal control to the Management Board. As at the date of preparation of the financial statements the Management Board of Rafineria Trzebinia S.A. has undertaken legal measures against persons responsible for deficiencies identified in the report.

d) Power transfer fee in settlements with Zakład Energetyczny Płock S.A.

According to the paragraph 36 of the Decree of Ministry of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations (Official Journal No. 1 dated 15 January 2001), the method of settlement of system fee, constituting an element of a power transfer fee was changed. According to the paragraph 37 of the Decree a different method of system fee calculation has been allowed. Following the decision of the Chairman of the Energy Regulatory Office, the electricity sale agreement between Zakład Energetyczny Plock S.A. ("ZEP S.A.") and PKN ORLEN was signed. The agreement did not determine contentious issues concerning system fees for the period from 5 July 2001 to 30 June 2002, as it was regarded as a civil case to be settled by an appropriate court. ZEP S.A. called on PKN ORLEN to compromise agreement, while the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case Polskie Sieci Energetyczne against ZEP S.A. The Company's Management Board estimated the claim and in 2002 set up an accrual in the amount of PLN 8,272 thousand for liability to ZEP S.A., and created a provision for that purpose in the amount of PLN 9,781 thousand.
As a consequence of the court decision PKN ORLEN was obliged to pay a liability connected with the system fee to ZEP S.A. in the amount of PLN 46,232 thousand. In relation to that in 2004 the provision for the business risk was increased by PLN 28,179 thousand to cover the whole claim.
The proceedings were suspended by the ruling of the District Court in Warsaw of 2 June 2005 until the case of PSE S.A. against ZEP S.A., where PKN ORLEN S.A. is an outside intervener, is decided. On 3 August 2005 a complaint was filed against the above decision of stay of proceedings. On 12 December 2005 the Court of Appeal in Warsaw, I Civil Department, dismissed the complaint regarding the decision of stay of proceedings.
In conjunction with the fact that the above described proceedings have not yet been ended, in 2005 PKN Orlen increased the provision for potential interest on the principal amount by PLN 8,900 thousand.

e) Anti-trust proceedings

As at the date of the preparation of the report, the Company is a party in two anti-trust proceedings.

Upon to the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") from 21 March 2005, an anti-trust proceedings were started in connection with an allegation that Polski Koncern Naftowy ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdansk which limited competition on the domestic sale market of universal petrol U95 through an unanimous decision to give up production and distribution of U95 and thus eliminating competition on the domestic U95 sale market as well as excluding the risk of the market take-over by the competitor. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by the Chairman of OCCP.
The proceedings to take evidence are pending. They have been prolonged due to motions filed by PKN ORLEN S.A. in order to limit access rights to evidence and due to relative decisions that were issued in this respect by the Chairman of OCCP and which were sued at the Consumer and Competition Court by the Lotos Group S.A. On 22 February 2006 the proxy of PKN ORLEN S.A. filed complaint against the decision of Chairman of OCCP refusing taking into account one of the PKN ORLEN's motions concerning limitation of access rights to evidence by Lotos Group S.A. On 14 April 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 31 May 2006.
By virtue of the actual course of the proceedings, which is limited to court verification of decisions issued by the Chairman of OCCP, it is difficult to assess the risk that PKN ORLEN S.A. may be fined. However, in the light of lack of evidence that would indicate concluding of prohibited agreement, the Company assesses the risk of a penalty as low.
On 21 March 2005, the Company received a letter in which the Chairman of OCCP requested information on monoethylene glycol and radiator liquid market in the years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze "Petrygo" liquid to radiators and prices for monoethylene glycols. In these proceedings OCCP issued a decision of 19 July 2000 imposing penalty in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the negative decision of OCCP. On 13 August 2001 the Anti-Trust Court annulled fully the decision of OCCP, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the cash penalty. Consequently, in 2001 due to this fact the provision was fully reversed. OCCP applied on 4 October 2001 to annul the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the District Court dated 13 August 2001.
The case was conducted again by the District Court in Warsaw and the Consumer and Competition Court (former Anti-Trust Court), which at the hearing on 21 July 2004 pronounced the judgment again revoking the appealed decision of OCCP.
Due to the received letter, PKN ORLEN S.A. answered the questions of OCCP on 11 April 2005. Simultaneously OCCP approved prolongation of the period for responding to queries up to 6 May 2005 concerning determining the proper geographical market of monoethylene glycol. A response defining the adequate geographical market of monoethylene glycol was sent to OCCP on 6 May 2005. Upon the OCCP's request, additional information was provided on 18 May 2005 and 7 December 2005. On 14 March 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 30 April 2006 due to necessary completion of evidence from proceedings.

The proceedings to take evidence are still pending. They are prolonged due to motions filed by PKN ORLEN S.A. and the petitioner in order to limit access rights to evidence and due to respective decisions issued in this respect by the Chairman of OCCP and which may be sued at the Consumer and Competition Court.
By virtue of the actual course of the proceedings it is difficult to assess the risk that PKN ORLEN S.A. may again be fined. However, in the light of time passed and significant changes in PKN ORLEN's market environment, the Company assesses the risk of a penalty as low.
In both proceedings PKN ORLEN S.A. is represented by the legal office Kancelaria Adwokacka Prawa i Konkurencji based on the power of attorney granted by the Company's Management Board.
The financial statements do not include provisions related to the above proceedings as in the view of PKN ORLEN S.A. Management Board, supported by independent legal opinions, a risk that the Company is charged with a fine is remote.

f) Compensation program for employees

On 14 June 2005, in connection with the announcement of Regional Organizational Units Restructuring Program, Regulations for Group Redundancy in Regional Organizational Units has been issued.
All employees, who are employed in areas mentioned in the Regulations and declare to dissolve the employment agreement by mutual consent or will be dismissed due to reasons independent from employees, are subject to the Regulations.
In the period the Regulations are in force, employees are entitled to single money consideration due to dissolution of the employment agreement by mutual consent due to reasons independent from employees. The money consideration is equal to 12 monthly remunerations or the amount of PLN 50 thousand increased by PLN 4 thousand for every started year of service with an employer operating in PKN ORLEN S.A. or its legal predecessors.
The above described money consideration includes money considerations granted to employees in accordance with obligatory law regulations, in particular in accordance with "Particular principles of dissolution of employment agreement due to reasons independent from employees act" of 13 March 2003 (Official Journal no. 90 item 844 with later amendments) and other considerations for the benefit of employees in accordance with other internal regulations and agreements in force.

In addition, in order to facilitate getting other employment or starting of economic activity, the employee is entitled to participate in a selected training – organized by PKN ORLEN S.A. – which will be financed or partially financed by employer up to PLN 2 thousand.

g) Shield programs

To support the restructuring process conducted in PKN ORLEN S.A. the Voluntary Leave Programme (VLP) was launched in the Company. VLP provides additional money considerations for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Due to the above, the Company created a provision in the amount of PLN 236,000 thousand, including:

- for realization of Employment Restructuring Program in the period 2005-2006 the amount of PLN 167,000 thousand,
- for realization of Employment Restructuring Program in 2007 the amount of PLN 69,000 thousand

The above provision was created in accordance with the Management Board's Resolution No 2537/05 of 22 December 2005.

h) Claims and court proceedings – Tankpol Sp. z o.o.

In accordance with an agreement of 20 December 2002, Tankpol Sp. z o.o. ("Tankpol") transferred to PKN ORLEN ownership of 40% shares in ORLEN PetroTank Sp. z o.o. ("Petrotank") in exchange for receivables due from Tankpol. In a law suit dated 11 August 2003 Tankpol demanded obligation of PKN ORLEN to transfer ownership of 324 shares in Petrotank and compensation of PLN 198 thousand. The demand was modified several times. Finally, in a note dated 22 January 2004, Tankpol modified its suit demanding compensation of PLN 36,384 thousand with interest from the date of law suit until the payment date. In case of PKN ORLEN's refusal to compensate, Tankpol demanded that the court obliged PKN ORLEN to transfer ownership of 253 shares in Petrotank to Tankpol.

On 22 March 2005 the District Court in Warsaw dismissed Tankpol's suit and adjudged PKN ORLEN with a compensation of relevant costs. On 4 May 2005 Tankpol appealed against the verdict, on 27 June 2005 PKN ORLEN submitted its response to the appeal. The Court of Appeals in Warsaw declared that the Tankpol's appeal will be recognized on 21 March 2006. The Court of Appeals postponed pronouncing the judgment till 31 March 2006. On

31 March 2006 the Court of Appeals changed the verdict of the District Court in Warsaw (which dismissed Tankpol's suit as a whole). The Court of Appeals declared that PKN ORLEN is obliged to transfer ownership of 26 shares in Petrotank. According to verbal justification of the verdict, the Court of Appeals is convinced that PKN ORLEN has appropriately executed the transfer of ownership agreement of 20 December 2002. The verdict of the Court of Appeals is legally binding and feasible, however both parties are entitled to submit an annulment to the Supreme Court.

i) Polish tax regulations

Taxes in Poland are imposed both by the central government and by local authorities (to a little extent). The notion of a "tax" has been defined in the Tax Order Act, as a civic-public, free of charge, compulsory, non-returnable money consideration for the benefit of the State Treasury, voivodship, or district, resulting from an act on taxation.

The current taxation system in Poland comprises of eleven tax titles, covered by specific material tax law: common income tax, tax on goods and services (value added tax, VAT), excise tax, real estate tax, tax on means of transportation and civil law activity tax (e.g. sale of shares or real estates).

Beside corporate income tax stated at 19% rate in 2005, majority of companies conducting business activity are taxpayers of the value added tax (VAT). In principle, VAT should be neutral to an entrepreneur. The basic VAT rate amounts to 22%, reduced rates are 7%, 3% and 0%, whereas some goods and services are exempt from VAT.

Business activity involves also excise tax. Excise goods are precisely defined in the act. The goods comprise e.g. engine fuels, heating oil, natural gas, alcoholic beverages, tobacco products and electricity. By virtue of PKN ORLEN's business activity, excise tax is a significant economic cost for PKN Orlen and group companies. Activities under excise tax include: production of harmonized excise tax goods, release of harmonized excise tax goods from a tax consignment warehouse, sale of excise tax goods on Polish territory, export and import of excise tax goods, intra Community supply and intra Community acquisition of goods, acquisition and possession of excise tax goods with an excise tax unsettled in the proper amount, which does not indicate excise tax to be a multiphase tax. Excise tax rates are described as: percentage of tax base, amount per unit of excise tax goods and percentage of maximum retail price. In practice, tax rates described in decrees issued by the Minister of Finance are applied, whereas maximum tax rates were defined in the excise tax act.

In the common view of entrepreneurs, Poland qualifies as a country with an exceptionally high level of tax risk. The tax law is often amended, which results in lack of clarity as well as inconsistencies. In addition, frequent discrepancies in tax law interpretations provided within tax authorities and administrative judiciary are observed.

Tax system in Poland is judged as unstable, with highly formalized tax regulations combined with rigorous laws in respect of sanctions. Tax settlements and other regulated areas of activity (e.g. customs or currency exchange control) might be subject to a control from the relevant authorities, entitled to impose severe penalties and sanctions with interests. Tax settlements may be subject to a tax control over five years since the end of the calendar year when the tax liability reaches its maturity. Considering the above described rationales, activities of PKN ORLEN and other entities of the group, that conduct business activity in Poland, may be subject to a tax risk.

j) Disposal of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezależny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,500 thousand and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between NOM shareholders.

On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce (PCC) in Warsaw, regarding the determination of the invalidity of the sale of shares agreement by PKN ORLEN.

On 26 April 2005 the Company received a verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw. The verdict of the arbitration court is unfavorable for PKN ORLEN. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable were changed. The Company provided an allowance for the receivable in the amount of PLN 111,500 thousand presented in the financial statements for the year 2004.

On 20 May 2005 the Company issued a complaint to the District Court in Warsaw regarding waiving of the above verdict of the Court of Arbitration together with a motion to suspend execution of the verdict. On 26 June 2005 the District Court issued a decision to dismiss the motion to suspend execution.

The District Court set a trial date on 23 March 2006. On 6 April the District Court in Warsaw, XX Commercial Department, issued a verdict in respect of PKN ORLEN S.A. complaint against the verdict of Court of Arbitration of the Polish Chamber of Commerce in Warsaw, dated 14 April 2005, in the case against PSE S.A. regarding sale of shares in

NOM. The District Court dismissed PKN ORLEN's complaint and adjudged the return of proceeding's expenses of PLN 7 thousand for the benefit of PSE. The verdict is not legally binding and may be appealed against. The attorney of PKN ORLEN in the described case has issued a motion in respect of preparation and submission of justification of the verdict.
On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111,500 thousand.
On 8 August 2005 PKN ORLEN received a letter from PSE where PSE stated it was not bound to settle the penalty.
On 15 September 2005 PKN ORLEN filed at the Court of Arbitration of PCC in Warsaw a suit for adjudication of the contractual penalty of PLN 33,453 thousands.
According to the declaration of the Court of Arbitration of 7 December 2005, PKN ORLEN submitted a letter with motions of evidence and the statement regarding eventual suspension of the proceedings. PKN ORLEN's attorney received analogous letter from PSE. The Court of Arbitration did not declare the date of next seating.

As of 31 December 2005, shares in NOM were presented in the financial statements as investments in associates in the net amount of PLN 18 million, after consideration of an impairment of shares allowance based on independent expert's valuation.

k) Collateral for shares of Basell ORLEN Polyolefins Sp. z o.o. („BOP")

Under the share pledge agreement of 19 December 2003 PKN ORLEN pledged all own shares of BOP, i.e. 907,398 shares of nominal value of PLN 500 per each, representing 50% of share capital of BOP and having 50% of voting rights at the Shareholders' Meeting. The pledge was for the benefit of Kredyt Bank S.A., seated in Warsaw, operating as a Pledge Agent. The condition for the pledge to be effective included its registration in a collateral register held by the registry court, which was completed on 23 January 2004.
Collateral set by the pledge agreement of 19 December 2003 secures repayment of current and future claims by BOP, to which Pledge Agent is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.

l) Tax audit in ORLEN Oil Sp. z o.o.

On 13 December 2004, the Supervisory Board of Orlen Oil Sp. z o.o. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarized in "Report on agreed upon procedures concerning review of control procedures in Orlen Oil Sp. z o.o." . The Supervisory Board got acquainted with the conclusions of audit. Both the tax audit and "Report on agreed upon procedures concerning review of control procedures in Orlen Oil Sp. z o.o." did not reveal any material risks or discrepancies.

m) Tax audit in Rafineria Nafty Jedlicze S.A.

On 17 December 2004 the Supervisory Board of Rafineria Nafty Jedlicze S.A. adopted a resolution to conduct a tax audit for the period from 2000 to the present date, including the control of correctness of the Company's procedures and controls of settling tax liabilities which would be summarized in "Report on agreed upon procedures concerning review of control procedures in Rafineria Nafty Jedlicze S.A." The Supervisory Board got acquainted with the conclusions of audit. The tax audit did not disclose risks which initially estimated value would have a significant impact on the company's further operations.

n) Court proceedings against Benzina a.s. ("Benzina")

As a part of court proceeding in progress since August 2001, the Anti-Trust Bureau declared a disposition in respect of violation of the Economic Competition Protection Act. Due to the disposition, Benzina was imposed with a penalty of CZK 98 million.

The penalty was returned to Benzina as at 29 July 2004.
The disposition of the first instance of the Anti-Trust Bureau was annulled due to the serious legal faults mentioned in the appeal submitted by Benzina. The Management Board of Benzina believes that Regional Court will pronounce the judgment in favour of Benzina.

However, taking into account the repeated dispositions of the Anti-Trust Bureau in respect of the penalty and the fact that the court has not yet announced its verdict, Benzina created a provision for penalty in the amount of CZK 98 million.

(all amounts in PLN thousand)

o) Other risks

As it has been presented in note 15 to the financial statements, the Company reported in the balance sheet as at 31 December 2005 the balance of reclamation of land provision on the basis of independent experts' analyses taking into consideration the legal and constructive obligations concerning the reclamation of contaminated land. Potential future changes in legal and constructive obligations concerning environmental protection can affect the amount of the provision in future periods.

31. Compensation, together with profit-sharing paid and due to the Management Board, Supervisory Board and the key executive personnel in accordance with IAS 24.

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

a) Remuneration of Management Board, Supervisory Board Members and key executive personnel of the Company in 2005

	2005
The Management Board of the Company, including:	26 147
compensation paid to Management Board Members performing the function as at 31 December 2005	7 422
remuneration potentially due to Management Board Member performing the function as at 31 December 2005	4 597
remuneration paid to other Management Board Members	14 128
remuneration potentially due to other Management Board Members*	-
The Supervisory Board of the Company	854
Key executive personnel of the Company, including:	26 212
remuneration paid	18 604
remuneration due	7 608

* The Supervisory Board did not assess realization of set goals, therefore potentially due bonus was not estimated.

Remuneration of Supervisory Board of the Company	**2005**
Jacek Bartkiewicz	118
Raimondo Eggink	101
Maciej Gierej	101
Krzysztof Lis	8
Krzysztof Obłój	22
Małgorzata Okońska – Zaremba	101
Andrzej Olechowski	51
Piotr Osiecki	79
Adam Pawłowicz	8
Adam Sęk	51
Michał Stępniewski	88
Ireneusz Wesołowski	101
Krzysztof Żyndul	25

Total remuneration of Supervisory Board of the Company	**854**
	====

(all amounts in PLN thousand)

Remuneration paid in 2005 to Management Board Members performing the function as at 31 December 2005

	Salary	bonus	Insurance policies	Potentially due*
Igor Chalupec	1 939	315	107	1 250
Wojciech Heydel	1 162	-	76	1 140
Jan Maciejewicz	1 093	-	42	776
Cezary Smorszczewski	1 335	-	80	626
Paweł Szymański	863	-	55	609
Dariusz Witkowski	355	-	-	196

* Potentially due, not paid remuneration to Management Board Members is due to the new bonus policy - Management by Objectives (MBO) in force from 1 January 2005. Bonus was calculated based on preliminary appraisal of Management Board of the Company performed by the Supervisory Board.

Remuneration paid in 2005 to other Management Board Members of the Company

	Salaries	Bonus	insurance policies	Post-employment compensation / prohibition from competition
Sławomir Golonka	-	1 500	-	1 325
Krzysztof Kluzek	-	824	-	513
Andrzej Macenowicz*	420	1 752	103	490
Andrzej Modrzejewski	112	-	-	-
Jacek Strzelecki	-	1 500	-	1 234
Janusz Wiśniewski*	703	1 752	100	1 800

* The Supervisory Board did not performed an appraisal of realization of set goals, therefore potentially due bonus was not assessed

In 2005 new incentive system for key executive personnel of PKN ORLEN S.A. and Capital Group was introduced – Management by Objectives (MBO). New incentive system concerns Management Board and key executive personnel. Individuals participating in MBO are rewarded for individual goals realization and solidarity goal (SVA), set at the beginning of the period. The Supervisory Board sets goals for each Management Board Members. Set goals are of qualitative and quantitative nature and are assessed on the basis of Bonus Policy, after the end of a year to which they relate.

Compensation paid in 2005 to Management Board and Supervisory Board Members of the Company for acting as a Supervisory Board or Management Board Members of subsidiaries, jointly-controlled companies and associates

Management Board Members of PKN ORLEN S.A., acting in 2005 as Board Members or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where compensations paid is transferred to ORLEN Dar Serca foundation.
Supervisory Board Members did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled companies or associates of PKN ORLEN in 2005.
The Management Board's remuneration includes in 2005 an estimate of potential bonus for Board Members, not included in costs of 2005 and compensation (including annual bonuses) paid to 5 former Board Members that amounted to PLN 12,802 thousand, including PLN 5,362 thousand of post-employment compensations (money consideration for serving as a Board Member due after termination/expiration of a contract, as specified in those contracts, among others

(all amounts in PLN thousand)

due to prohibition from competition). Part of compensation paid to former Board Members in 2005 amounting to PLN 10,500 thousand was included in prior year's costs.
The Management Board's remuneration for 12 months of 2004 includes questionable part of compensation as at 31 December 2004 amounting to PLN 9,252 thousand.
During 12 months of 2005 40 persons, taking into consideration changes during the year, served as key executive personnel (additionally 7 members of key executive personnel engaged in 2004 were included in 2005 year's remuneration) and 36 in 2004, respectively.

b) Remuneration of Management Board, Supervisory Board and key executive personnel of the Company in 2004

	2004
The Supervisory Board of the Company	882
The Management Board of the Company, including:	45 159
compensation paid to Management Board Members performing the function as at 31 December 2004	10 549
compensation paid to other Board Members	34 610
Key executive personnel of the Company	16 021

Remuneration of Supervisory Board of the Company	**2004**
Jacek Bartkiewicz	67
Marian Czekański	17
Raimondo Eggink	40
Maciej Gierej	74
Edward Grzywa	27
Krzysztof Kluzek	31
Andrzej Kratiuk	27
Maciej Andrzej Kruk	2
Krzysztof Lis	40
Ryszard Ławniczak	59
Grzegorz Mroczkowski	8
Oresta Andrzej Nazaruk	27
Małgorzata Okońska - Zaremba	40
Piotr Osiecki	40
Michał Stępniewski	51
Andrzej Studziński	32
Krzysztof Szlubowski	59
Jan Waga	67
Jacek Walczykowski	30
Ireneusz Wesołowski	40
Andrzej Wieczorkiewicz	32
Janusz Zieliński	32
Krzysztof Żyndul	40

Total remuneration of Supervisory Board of the Company	**882**
	====

(all amounts in PLN thousand)

Remuneration paid in 2004 to Management Board Members of the Company performing the function as at 31 December 2004

	Salaries	Bonus	Other contributions	Post-employment compensation / prohibition from competition	Insurance policies
Igor Chalupec	483	-	-	-	16
Wojciech Heydel	180	-	-	-	13
Andrzej Macenowicz	844	1 990	1	1 752	50
Jan Maciejewicz	90	-	-	-	4
Cezary Smorszczewski	220	-	-	-	13
Paweł Szymański	170	-	1	-	8
Janusz Wiśniewski	917	1 990	8	1 752	47

Remuneration paid in 2004 to other Management Board Members of the Company

	salaries	bonus	Other contributions	Post-employment compensation / prohibition from competition	Insurance policies
Sławomir Golonka	845	2 416	663	2 825	53
Krzysztof Kluzek	407	415	256	1 313	43
Jacek Strzelecki	714	2 214	639	2 734	46
Jacek Walczykowski*	55	13	-	5 966	-
Zbigniew Wróbel*	1 052	2 554	3 857	5 387	143

* The remuneration includes questionable amount of PLN 9,252 thousand.

Compensation paid to Management Board and Supervisory Board Members of the Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled companies or associates for the year 2004

Compensation in subsidiaries	**2004**
Sławomir Golonka	98
Jacek Strzelecki	63
Andrzej Macenowicz	79
Janusz Wiśniewski	159

Total	**399**
	====

Compensation in jointly controlled companies	**2004**
Andrzej Macenowicz	42
	-

Total	**42**
	====

(all amounts in PLN thousand)

32. Auditors' remuneration due or paid, resulting from audit and review of financial statements resulting from the agreement with the entity authorized to audit of financial statements

In the period covered in these financial statements change of an auditor took place in the Company. In 2004 presented remuneration relates to the agreement dated 10 July 2003 concluded between the Company and Ernst & Young Audit Sp. z o.o. for audit and review of interim stand-alone and consolidated financial statements for the period 2003-2004. On 18 January 2005 agreement with Ernst & Young Sp. z o.o. was concluded for review of stand-alone and consolidated financial statements for the first quarter of 2005.
Beginning from second quarter of 2005 interim reviews and audit of stand-alone and consolidated financial statements are performed by KPMG Audyt Sp. z o.o. according to the agreement dated 30 May 2005 for the period 2005-2007.

	for the year ended 31 December 2005	for the year ended 31 December 2004
Audit fees of Ernst & Young Audit Sp. z o.o.*	1 285	2 168
Fees for audit related services of Ernst & Young Audit Sp. z o.o.**	1 451	10 138
Audit fees of KPMG Audyt Sp. z o.o.*	1 537	-
Fees for audit related services of KPMG Audyt Sp. z o.o.**	811	-
	-----------------	-----------------
	5 084	12 306
	=========	=========

* Audit fees include amounts paid to an auditor for professional services related to an audit of the stand-alone and consolidated financial statements of the Company and reviews of interim stand-alone and consolidated financial statements.

** Fees for audit related services include other amounts paid to an auditor that include services performed in connection with audit or review of stand-alone or consolidated financial statements, but not disclosed under "Audit fees" position.

In 2005 the procedure for additional orders for an auditor and auditor's related parties was set up in the Company. The Audit Committee of the Supervisory Board makes decisions about ordering additional services from an Auditor.

33. Employment structure

Average employment by groups was as follows:

	For the year ended 31 December 2005	For the year ended 31 December 2004
Blue collar workers	2 176	2 282
White collar workers	3 343	3 528
	----------	----------
	5 519	**5 810**
	======	======

Employment level as of 31 December 2005 and 31 December 2004 amounted to 5,369 and 5,701 persons, respectively.

34. Events after the balance sheet date

Changes in the Supervisory Board of PKN ORLEN S.A.

The Management Board of PKN ORLEN announced in its regulatory announcement no 10/2006 that the Extraordinary General Meeting of 31 January 2006 dismissed Mr. Jacek Bartkiewicz from the position of the Chairman of the Supervisory Board and from the Supervisory Board of PKN ORLEN S.A.
EGM of PKN ORLEN has also dismissed the following members of the Supervisory Board: Mr. Maciej Gierej, Professor Krzysztof Obłój, Mrs. Małgorzata Okońska-Zaręba, Mr. Adam Sęk, Mr. Ireneusz Wesołowski.

At the same time the Extraordinary General Meeting appointed to the Supervisory Board of PKN ORLEN S.A.: Mr. Dariusz Dąbski as the Chairman of the Supervisory Board, Mr. Maciej Mataczyński as an independent Member, and Mr. Zbigniew Macioszek and Mr. Wojciech Pawlak as Members of the Supervisory Board.

As at 31 December 2005 the Supervisory Board of PKN Orlen included two independent members: Mr. Ireneusz Wesołowski and Mr. Andrzej Olechowski, while as at 27 February 2006 The Supervisory Board of PKN ORLEN included three independent members: Mr. Raimondo Eggink, Mr. Andrzej Olechowski and Mr. Maciej Mataczyński.

The Management Board of PKN ORLEN announced in its regulatory announcement no 20/2006 that on 28 March 2006 it received a note informing that the Minister of the State Treasury dismissed Mr. Adam Maciej Pawłowicz, performing a role of the State Treasury's representative in the PKN ORLEN Supervisory Board, from the position of the PKN ORLEN Supervisory Board Member. The reason for the dismissal was the resignation of Mr. Pawłowicz from the position of the PKN ORLEN Supervisory Board Member.

Changes in the Management Board of PKN ORLEN S.A.

The Management Board of PKN ORLEN announced in its regulatory announcement no 21/2006 that the Supervisory Board, at its seating of 31 March 2006 has dismissed Mr. Dariusz Witkowski from the position of the Management Board Member of PKN ORLEN S.A., effective 31 March 2006.
Simultaneously, the Supervisory Board has appointed Mr. Krzysztof Szwedowski to the position of the Management Board Member with the effect from 31 March 2006.
Mr. Krzysztof Szwedowski, born in 1965, graduated from the Nicolaus Copernicus University in Toruń, Master in Law, advocate, completed public prosecutor application in 1992 and controller application in 2004.

Bid for purchase of shares in Mažeikiu Nafta

As a consequence of participation in the public tender, on 27 January 2006 PKN ORLEN made a bid for purchase of 53.7022% shares in Mažeikiu Nafta (MN) offered by Yukos International UK B.V. The bid included also a declaration to purchase, on the same terms, MN's shares owned by the Lithuanian government. The bid was conditional and dependent upon fulfillment of several legal conditions, including formal and technical status of logistics assets of Mažeikiu Nafta.

Due to the change in the legal status of Yukos Oil Corporation and in effect of conducted negotiations, on 13 April 2006 PKN ORLEN S.A. has submitted a complex offer to purchase 40.6621% share in AB Mažeikiu Nafta from the Lithuanian government. In addition, should the Lithuanian government buy 53.7022% share currently owned by Yukos International UK B.V., PKN ORLEN has offered to purchase these shares from the Lithuanian government for a price per share equal to the price offered for the 40.6621% stake. Pursuant to the expectations of the Lithuanian government, the offer comprises all components deemed significant by the Lithuanian government in respect of selection of a strategic shareholder of Mažeikiu Nafta, including the price, information on preservation of crude oil supplies to Mažeikiu Nafta, investment program and a description of the proposed management method.

According to PKN ORLEN's assessment, the acquisition of MN would allow PKN to strengthen its position in the region and perform further optimization of current operations. Inclusion of MN into PKN ORLEN capital group would enable to utilize synergies from combining of activities performed in neighboring countries. In addition, the purchase of Lithuanian assets would allow development of production infrastructure and a significant increase in processing power of the Capital Group. Moreover, acquisition of MN would allow optimization of crude oil supply policies. The enlarged capital group would considerably increase energetic security of the region.

The planned investment would not confine PKN's investment plans, including investment in the upstream activities which was described in the update of PKN ORLEN strategy for 2006-2009.

Withdrawal from contracts with Agrofert Holding a.s.

The Management Board of PKN ORLEN announced in its regulatory announcement no 12/2006 that on 20 February 2006 it has decided to withdraw (in accordance with Czech Republic commercial code) from the Cooperation Agreement concluded on 19 November 2003 and General Agreement on terms of future share purchase concluded on 7 April 2004 with Agrofert Holding a.s. ("Agreements"). The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the Agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s and ALIACHEM a.s. shares.
The fact of execution of the option has been confirmed by public announcement of Unipetrol a.s. dated 15 December 2005.
(see also: regulatory announcement no 85/2003 dated 20 November 2003 and regulatory announcement no 41/2004 dated 4 June 2004).

35. Supplementary information

a) Restructuring of the southern assets

The restructuring and consolidation project embraces the following companies:

- Rafineria Nafty Jedlicze S.A.
- Rafineria Trzebinia S.A.
- Orlen Oil Sp. z o.o.
- Paramo a.s., where Unipetrol a.s. is the majority shareholder.

The objective of the project is to secure the value of assets engaged by PKN ORLEN S.A. by optimizing production structure in the above companies by matters of reorganization and restructuring of the possessed assets as well as combination of selected assets and capital consolidation of the companies. The project is intended also to protect assets of those companies against changes in the tax law, which may lead to discontinuation of crude oil processing in the southern Poland.

In July 2005 PKN ORLEN's Management Board approved a restructuring project for the southern assets designed by Investekspert which aims at:

- consolidation of activity related to oil and lubricant production in Orlen Oil Sp. z o.o.,
- targeted discontinuation of crude oil processing in the southern Poland and grouping assets relating to this activity within a separate business,
- buy-out of minority shareholders (provided that the transaction is economically effective),

On 2 December 2005, pursuant to sale of shares agreement, PKN ORLEN purchased 3,360 shares in Orlen Oil Sp. z o.o., seated in Kraków, from Rafineria Czechowice S.A. In effect of the transaction PKN ORLEN has increased its stake in Orlen Oil from 47.21% to 51.69%.

Effective 1 January 2006, Rafineria Nafty Jedlicze S.A. has leased Oil and Lubricants production line to Orlen Oil Sp. z o.o.

The business advisor for the restructuring and consolidation project submitted recommendations in respect of suggested action plan. The recommendations shall be consulted with the companies involved in the project until the end of May 2006.

The sale process is also being carried out in respect of subsidiaries of Rafineria Nafty Jedlicze S.A. and Rafineria Trzebinia S.A. which operations were determined as non-core activity of those entities.

b) Purchase of UNIPETROL shares

On 24 May 2005, the Company acquired 114,224,038 registered shares in UNIPETROL a.s., which is 62.99% of all issued UNIPETROL a.s shares. The acquisition was made under the agreement concluded by PKN ORLEN on 4 June 2004 with the National Property Fund of the Czech Republic.
In the financial statements these shares are valued at cost increased by purchase cost in amount of PLN 1,812,882 thousand.
Unipetrol is a group of companies operating in the chemical sector in the Czech Republic, mainly in activities related to processing of crude oil, fuel distribution, production of fertilizers and petrochemicals. In all those activities Unipetrol is a representative of the industry sector in the Czech Republic and Central Europe. The Unipetrol Group consists mainly of the following companies:

- Česka Rafinerska (a joint venture, combined with: AgipPetroli, Conoco and Shell) and Paramo – the largest manufacturer of fuels, bitumin and other products related to refining of the crude oil – and Unipetrol Rafinerie – the largest Czech company dealing with purchase of crude oil and sale of crude oil derived products;
- Chemopetrol, Kaučuk i Spolana – manufacturers of mainly petrochemical products and plastics;
- Benzina – the network of petrol stations in the Czech Republic.

The Unipetrol Group has the following associates: Lovochemie – an important manufacturer of industrial fertilizers and other non-organic chemical products; Aliachem – a group of enterprises engaged in organic and non-organic chemical and plastics production; and a few entities operating in the area of distribution, research and services.
The acquisition of the UNIPETROL Group was accounted under the purchase method in accordance with IFRS 3 "Business combinations". The settlement of the transaction was presented under the note 38 b in the consolidated financial statement for the year ended 31 December 2005.

c) Agreements for disposal of a portion of assets and liabilities related to purchase of Unipetrol shares

In 2003-2004, the former Management Board of PKN ORLEN concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.
In 2005, the present Management Board, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.
In relation to the agreements concluded with Agrofert Holding a.s., in the second quarter 2005 the Management Board of PKN ORLEN created provisions to cover the potential negative financial effects related to execution of the agreements.

Agrofert Holding a.s. agreed to disclose only portions of the agreements which it also presented at the press conference on 13 September 2005.

On 25 January 2006 PKN Orlen received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500. The court proceeding in front of Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress. The risk related to the above described proceeding has been recognized in these consolidated financial statements.

On 20 February 2006 the Management Board of PKN Orlen has decided to withdraw (in the understanding of Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the Agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE, a.s and ALIACHEM, a.s. shares.
On 3 April 2006 Agrofert Holding a.s. informed via the mass media that it filed another suit against PKN ORLEN to the Court of Arbitration of the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague. Until the date of preparation of the foregoing financial statements, the Company did not receive a copy of the suit. Consequently, both the subject and legal justification of the suit submitted by Agrofert Holding a.s. is unknown to the Company.

In respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V., as at the date of preparation of the financial statements the parties are conducting mediations aimed at amicable settlement of the dispute

d) Agreement with DEZA a.s.

In August and September 2005 UNIPETROL, a.s. received letters from DEZA a.s., requesting execution of the agreements regarding sale of shares in AGROBOHEMIE a.s. and ALIACHEM a.s. UNIPETROL a.s. and DEZA a.s. each own 50% shares in AGROBOHEMIE a.s. The shareholder structure in ALIACHEM a.s. is as follows: AGROBOHEMIE a.s. owns 55,01% shares, UNIPETROL a.s. – 38,79% and DEZA a.s. – 4,67%. The remainder of 1,53% is owned by minority shareholders of ALIACHEM a.s.
Letters received from DEZA regarded the agreements for future payable assignment of shares, concluded between UNIPETROL a.s. and DEZA a.s. in relation to shares in AGROBOHEMIE a.s. and ALIACHEM a.s. on 12 October 2000 and 15 August 2001, respectively. The Management Board of UNIPETROL a.s., having thoroughly analyzed concluded agreements and received letters, has determined that these documents contain vital legal faults as well as are incompliant with best market practice. In conjunction with this fact the Management Board of UNIPETROL a.s. has proposed that DEZA a.s. modified the transaction documents in order to ensure its compliance with binding Czech law as well as market standards and practices. In spite of endeavors of UNIPETROL a.s., DEZA a.s. has rejected proposals of the Management Board of UNIPETROL a.s. In such a situation the Management Board of UNIPETROL a.s. decided to submit the case to court. On 14 December 2005 UNIPETROL a.s. filed a law suit to the court in Ostrawa regarding invalidity of agreements concerning shares of AGROBOHEMIE a.s. and ALIACHEM a.s. As a response Deza a.s. claimed for penalty in amount of CZK 71,000 thousand for period 2 September 2005 – 11 November 2005 and CZK 18,000 thousand for period 6 October 2005 – 11 November 2005 calculated as at 11 November 2005. The amounts were calculated in line with above described agreements, which UNIPETROL a.s. considers as not valid.
On 24 March 2006 the Court in Ostrava rejected the motion of Unipetrol a.s. in respect of the declaration of invalidity. The rejection was substantiated by the fact that Deza a.s. filed a separate claim against Unipetrol a.s. in respect of settlement of contractual penalties. According to the view of the Court in Ostrava, proceedings related to declaration of invalidity are not necessary; hence it will be decided in front of the Court in Prague, prior to verdict in respect of the claim submitted by Deza a.s.
On 5 April 2006 Unipetrol received a warrant for payment of the contractual penalty from the Court in Prague. Unipetrol intends to submit an annulment to the warrant for payment to the Court as well as it plans to claim invalidity of the agreements again.

Legal and financial effects of claims submitted by DEZA a.s. and interpretation of provisions of the concluded agreements regarding assignment of shares of AGROBOHEMIE a.s. and ALIACHEM a.s. may include necessity of assignment of shares (for a price that is not yet determined) and payment of penalties and compensations. By virtue of faults in agreements and substantial doubts regarding its validity, the financial impact on UNIPETROL a.s. is difficult to be quantified. The Management of UNIPETROL a.s. has initiated the process of evaluation the risk.
Due to loss of significant influence of Unipetrol Group on associated companies: Aliachem, Agrobohemie and Lovochemie as of 30 September 2005, these assets were accounted for using the equity method and included in the consolidated balance sheet of UNIPETROL a.s. as at 31 December 2005 as long-term financial investments. By virtue of uncertainties in relation to future outcome of court proceedings as well as due to difficulties in determination of the fair value of shares in AGROBOHEMIE a.s. and ALIACHEM a.s., neither impairment provision in respect of the value of shares was recognized nor was provision for contractual penalties created in the financial statements.

e) Polkomtel S.A.

According to the announced strategy, activities on sale of shares in Polkomtel S.A. were in progress in 2005. PKN ORLEN S.A., KGHM Polska Miedź S.A., Polskie Sieci Elektroenergetyczne S.A. and Węglokoks S.A. concluded "Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital" in July 2005. Under the Agreement, Polish shareholders of Polkomtel S.A. with assistance of recognized advisors agreed on a negotiation strategy which was presented to foreign shareholders, i.e. TDC and Vodafone. In December 2005 a group of financial institutions announced public tender offer for TDC Shares. As a consequence of the settlement of the public tender offer, the control over TDC was changed. According to the Articles of Association of Polkomtel S.A., TDC has offered its shares owned in Polkomtel S.A., to other shareholders.
In accordance with §12.14 of the Articles of Association of Polkomtel S.A., pursuant to occurrence of the so-called Change in the Ownership Title in respect of TDC Mobile International A/S, other shareholders of Polkomtel S.A. (including Vodafone Americas Inc.) are entitled to acquire 4,019,780 shares of Polkomtel S.A. owned by TDC Mobile International A/S, in a proportion equal to the percentage of shares owned by each of Polkomtel S.A. shareholders, except for the shares owned by TDC Mobile International A/S. The offer to purchase shares from TDC Mobile International A/S has been issued to other Polkomtel S.A. shareholders on 8 February 2006. PKN ORLEN informed in its regulatory announcement no 17/2006 that on 10 March 2006 an agreement was concluded between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. i Węglokoks S.A. as buyers and TDC Mobile International A/S as a seller in respect of "Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A.". The conclusion of the above agreement was preceded by conclusion by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as shareholders of Polkomtel S.A. the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A.".
The conclusion of the Agreement was performed in conjunction with the execution by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. of the entitlement to acquire shares under the offer of TDC Mobile International A/S. The offer relates also to a dispute between Vodafone Americas Int. and TDC Mobile International A/S. As a result of the dispute, the below described pledge was established.
Pursuant to the Agreement, PKN ORLEN may acquire 980,486 shares in Polkomtel S.A., representing 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share (an equivalent of PLN 833, in accordance with the exchange rates table no 50/A/NBP/2006 of 10 March 2006), that is for the total purchase price not exceeding 209,863 thousand (an equivalent of PLN 816,473 thousand). In case KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. purchased the shares in result of the Agreement, these parties, together with currently owned shares, would hold over 75% shares in Polkomtel S.A. After the transaction is settled, PKN ORLEN would hold 24.4% stake in the share capital of Polkomtel S.A.
The parties agreed to vote jointly at General Shareholders Meetings of Polkomtel S.A. in favor of dividends distributed to the shareholders as allowed under the applicable laws from the retained net profits for years preceding 2005, 100% of net profit of Polkomtel S.A. for years 2005 and 2006 and at least 50% of the net profit for any subsequent financial year. The amount of dividend paid out to TDC Mobile International A/S, reduced by an interest on the maximum purchase price, would result in the decrease of the final shares' purchase price.
The Agreement was concluded under a suspending clause regarding termination or abatement of the pledge in respect of shares under the Agreement, established by verdict of the District Court in Warsaw of 24 February 2006, or any other pledge (or similar measure) established by other judgemental body that would disallow sale of shares under the Agreement in Polkomtel S.A. by TDC Mobile International A/S.
Pursuant to the Agreement, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as buyers are entitled to withdraw from execution of the Agreement for the purchase of shares in Polkomtel S.A. if by 10 March 2009 (or any other date agreed between parties) the above described suspending clause would not have been completed or if any circumstances exist related to the disputes between Vodafone Americas Inc. and TDC Mobile International A/S that may constitute an obstacle for the purchase of shares. As a consequence, the Agreement would dissolve at that date.
With the conclusion of the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A." the agreement signed by KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. i Węglokoks S.A. ("Shareholders'

(all amounts in PLN thousand)

Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital" of July 2005 with later amendments) is no longer in force.
With the conclusion of the "Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A." the agreement signed by KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. i Węglokoks S.A. ("Shareholders' Cooperation Agreement in Restructuring of Polkomtel S.A. Share Capital" of July 2005 with later amendments) is no longer in force.
On 10 march 2006 Vodafone Americas Inc. filed a suit to International Court of Arbitration by Federal Chamber of Commerce in Vienna, and suit six legal entities defining TDC Mobile International A/S as a Principle Respondend, Polkomtel S.A as a First Auxiliary Respondent ang KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as Second to Fifth Auxiliary Respondends). In above mentioned suit Vodafone Americas Inc. questioned above all the method of setting the price by TDC International A/S in the offer to other shareholders.

f) CO_2 Emission rights

In its financial statements, the Company recognized the CO_2 emission rights that were granted free of charge based on binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention On Climate Change, adopted by the European Union. Emission rights granted free of charge are recognized in the balance sheet as intangible assets. The Company has recognized emission rights granted for the period of 3 years, as a difference between deferred income related to receipt of free of charge emission rights and its fair value at the date rights were granted.
Sale of emission rights is recognized as profit or loss in other operating revenues / expenses in the reporting period when the rights were sold. Profit / loss on sales of emission rights is determined as a difference between the net sales revenues and its carrying amount.

Information on granted emission rights and its balance sheet presentation	**Quantity (Mg)**	**Value**
Emission rights acquired by the Company in 2005 for the 3-year accounting period	17 151 600	1 402 815
Emissions planned in 2005, including:	5 717 200	467 605
Estimated use of emission rights in 2005	5 519 407	451 428
Emissions planned in 2006	5 717 200	467 605
Emissions planned in 2007	5 717 200	467 605

The net value of granted emission rights as at 31 December 2005 in the balance sheet of the Company, being the difference between granted emission rights and deferred income related to receipt of rights free of charge, amounted to nil.

36. IMPACT OF IFRS ADOPTION ON PRIOR PERIOD RESULTS

Due to the fact that effective 1 January 2005 the Company has been preparing its financial statements in accordance with IFRSs for statutory purposes, the below table presents the major differences identified and reported by the Company between IFRSs adopted by the European Union and Polish Accounting Standards (PASs) with respect to changes in the opening balance of equity as at 1 January 2004 and 31 December 2004 and data in respect of the net profit for the respective period of 12 months ended 31 December 2004.

(all amounts in PLN thousand)

	Net profit for the year ended 31 December 2004
According to PASs	2 275 645
Application of the benchmark treatment of IAS 23 "Borrowing costs"	7 098
Deferred tax on capitalized borrowing costs	(1 349)
Valuation of property, plant and equipment at fair value	(162 296)
Deferred tax on valuation of property, plant and equipment at fair value	24 834
Revaluation of shares denominated in foreign currencies to historical cost	14 094
Distribution of profit other than dividends	(4 000)
Other	(36 859)
According to IFRSs	**2 117 167**

	Net assets as at 31 December 2004	Net assets as at 1 January 2004
According to PASs	10 416 439	8 399 405
Application of the benchmark treatment of IAS 23 "Borrowing costs"	(29 895)	(36 992)
Deferred tax on capitalized borrowing costs	5 680	7 029
Valuation of property, plant and equipment at fair value	1 107 750	1 270 046
Deferred tax on valuation of property, plant and equipment at fair value	(200 394)	(225 228)
Revaluation of shares denominated in foreign currencies to historical cost	14 094	(51 456)
Other	(39 006)	(30 600)
According to IFRSs	**11 274 668**	**9 332 204**

a) Capitalization of borrowing costs – application of benchmark treatment of IAS 23 „Borrowing costs"

In accordance with the PASs, borrowing costs resulting from investment loans were stated as investment expenditure. Other financial expenses were recognized in the profit and loss when incurred. In the financial statements prepared in accordance with the IFRSs, the cost of loans and borrowings, including foreign exchange differences related to loans and borrowings in foreign currencies, are recognized in the profit and loss statement in the period to which they refer.

b) Valuation of property, plant and equipment at fair value

In accordance with the IFRSs, the Company valued property, plant and equipment at fair value as at the date of application of the IFRSs and recognized the fair value as cost of property, plant and equipment as at that date.

(all amounts in PLN thousand)

c) Revaluation of shares denominated in foreign currencies to historical cost

In accordance with the PASs, shares denominated in foreign currencies were valued using the exchange rate as at balance sheet date. Incurred foreign exchange differences were recorded in revaluation reserve (in case of positive foreign exchange differences) or in the profit and loss (in case of negative foreign exchange differences). In the financial statements in accordance with the IFRSs shares denominated in foreign currencies are valued at the exchange rate as of the purchase date.

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

a) Differences as to data published in the condensed financial statements as at 28 February 2006, with the effect on net result and equity:

	Net profit for 2005	Equity as at 31 December 2005	Net profit for 2004
Data disclosed in condensed financial statements for IV quarters 2005	2 543 908	12 898 929	2 154 026
Financial instruments valuation adjustment	(26 512)	-	(35 127)
Fair value adjustment of shares	26 490	26 490	-
Provision for liquidation of warehouses base	(8 039)	(8 039)	-
Deferred tax from the above adjustments	6 167	1 129	6 674
Other	(9 766)	(48 772)	(8 406)
	-----------------	-----------------	-----------------
Data disclosed in annual financial statements for 2005	2 527 214	12 864 703	2 117 167
	==========	==========	==========

(all amounts in PLN thousand)

b) Differences as to data published in the condensed financial statements as at 28 February 2006, with the effect on the cash flow statement:

Data for 2005:

	Data for 2005 disclosed in the condensed financial statement for IV quarters 2005	Data for 2005 disclosed in the annual financial statement for 2005	Change
Net profit	2 543 908	2 527 214	(16 694)
Income tax expense	632 582	631 449	(1 133)
(Profit)/Loss on investment activity	6 570	(19 919)	(26 489)
Increase / (Decrease) in liabilities and accruals	888 756	898 521	9 765
Increase in provisions	448 925	456 964	8 039
Other	(280 532)	(254 020)	26 512

The change results from financial instruments valuation adjustment, creation of provision for liquidation of the warehouse base and adjustment to liabilities.

Data for 2004:

	Data for 2005 disclosed in the condensed financial statement for IV quarters 2005	Data for 2005 disclosed in the annual financial statement for 2005	Change
Net profit	2 154 026	2 117 167	(36 859)
Income tax expense	526 791	520 116	(6 675)
Depreciation and amortization	961 469	1 005 595	44 126
Dividends and interest	(57 230)	(51 828)	(5 402)
Increase/(Decrease) of lliabilities and accruals	(122 025)	(119 021)	3 004
Other	(93 325)	(58 197)	35 128
Net cash provided by operating activities	2 883 028	2 927 154	44 126
Acquisition of property, plant and equipment and intangible assets	(942 184)	(986 310)	(44 126)
Net cash used in investing activities	(1 783 375)	(1 827 501)	(44 126)

The change results from financial instruments valuation adjustment and adjustment to depreciation and amortization of components for property, plant and equipment.

38. Other

The financial statements were authorized by the Management Board in its seat on 27 April 2005.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

....
President
Igor Chalupec

....
Vice-President
Cezary Filipowicz

....
Vice-President
Wojciech Heydel

....
Vice-President
Jan Maciejewicz

....
Vice-President
Cezary Smorszczewski

....
Member of the Board
Krzysztof Szwedowski

....
Member of the Board
Paweł Szymański

Plock, 27 April 2006