ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Consolidated financial statements for the year ended 31 December 2006

prepared in accordance with International Financial Reporting Standards together with an independent auditor's opinion

SECURITIES AND EXCHANGE COMMISSION

Consolidated Annual Report RS 2006
(current year)

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

for the reporting year 2006, that is for the period from 1 January 2006 to 31 December 2006 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated In the Polish functional currency (PLN).

on 19 April 2007
(submission date)

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

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

* Share capital after revaluation in accordance with IAS 29.

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

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 31 December 2006 - 3,8312 PLN/EUR
- specific items in profit and loss and cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January - 31 December 2006) – 3,8991 PLN/EUR.

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

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

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

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

	Note	for the year ended 31 December 2006	for the year ended 31 December 2005
Operating activities			
Net sale revenues			
Sales of finished goods		50 089 786	41 015 030
Excise tax and other charges		(12 405 621)	(12 193 390)
Revenues from sale of finished goods, net		37 684 165	28 821 640
Sales of merchandise and raw materials		16 255 925	12 676 620
Excise tax and other charges		(1 072 901)	(309 993)
Revenues from sale of merchandise and raw materials, net		15 183 024	12 366 627
Total sales revenues		**52 867 189**	**41 188 267**
Cost of finished goods sold		(32 160 515)	(22 510 985)
Cost of merchandise and raw materials sold		(13 711 215)	(11 567 863)
Cost of finished goods, merchandise and raw materials sold	28	(45 871 730)	(34 078 848)
Gross profit on sales		**6 995 459**	**7 109 419**
Distribution expenses		(2 641 239)	(2 391 290)
General and administrative expenses		(1 170 927)	(1 039 333)
Other operating revenues	29	612 956	2 330 291
Other operating expenses	29	(1 221 477)	(1 090 863)
Profit on the sale of all or part of shares of related parties		1 835	29 396
Profit from operations		**2 576 607**	**4 947 620**
Financial revenues	30	602 877	669 028
Financial expenses	30	(670 838)	(480 195)
Net financial revenues and expenses		**(67 961)**	**188 833**
Share in profit from investments accounted for under equity method		220 701	202 768
Profit before tax		**2 729 347**	**5 339 221**
Income tax expense	31	(669 149)	(701 445)
Net profit		**2 060 198**	**4 637 776**
incl.			
Minority interest		74 232	59 320
Net profit attributable to equity holders of the parent		**1 985 966**	**4 578 456**

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

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

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

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

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

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

(all amounts in PLN thousand)

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

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

1. Principle activity of the group

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

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

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

- processing of crude oil and manufacturing of oil-derivative (refinery and petrochemical) products and semi finished products,
- domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade of crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, sale of industrial and consumer goods,
- research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil products, derivative chemical products as well as transportation: by land, by rail, water and by pipeline,
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations,
- services connected to the principal activity, especially:
  - land and sea reloading,
  - refining of gas and oil including ethylization, dyeing and blending of components,
- purchase, trade and processing of used lubricant oils and other chemical waste,
- manufacturing, transportation and trade in electrical and heating energy,
- overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation,
- operation of petrol stations, bars, restaurants and hotels,
- capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade,
- providing services in respect of the clearance of electronic fuel cards,
- crude oil exploration,
- natural gas exploration.

The Capital Group consists among others of:

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

The Parent Company jointly controls:

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

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

The composition of the Management Board

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

Igor Chalupec - President of the Management Board, General Director
Cezary Filipowicz – Vice-President of the Management Board of Crude Extraction and Trade
Wojciech Heydel - Vice-President of the Management Board of Sales
Piotr Kownacki – Vice-President of the Management Board of Audit and Regulation
Jan Maciejewicz - Vice-President of the Management Board of Cost Management
Cezary Smorszczewski - Vice-President of the Management Board, Chief Investment Officer
Paweł Szymański - Member of the Management Board, Chief Financial Officer
Krzysztof Szwedowski- Member of the Management Board of Organization and the Capital Group

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

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

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

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

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

On 18 January 2007 the Supervisory Board of PKN ORLEN S.A., with the majority of votes, dismissed Mr Igor Chalupiec from the position of the President of the Management Board, effective from 18 January 2006. Mr. Igor Chalupec held position of the President of the Management Board from 1 October 2004.
At the same time, the Supervisory Board of PKN ORLEN S.A. has appointed Mr. Piotr Kownacki, the Vice President till that day, responsible for Audit and Regulations of PKN ORLEN S.A. Management Board, for the position of the President of the PKN ORLEN S.A. Management Board.

On 15 March 2007 the Supervisory Board of PKN ORLEN S.A., with the majority of votes, dismissed Mr Jan Maciejewicz, on his request, from the position of the Vice-President of the Management Board of Cost Management as well as on request of the President of the Management Board, unanimously, Mr Cezary Smorszczewski from the position of the Vice-President of the Management Board of Capital Investment. Simultaneously, the Supervisory Board of PKN ORLEN S.A., on request of the President of the Management Board, appointed Mr Krystian Pater to the Member of the Management Board of PKN ORLEN S.A.

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

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

The Supervisory Board

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

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

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

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

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

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

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

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

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

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

2. Principles of presentation

Information on principles adopted for preparation of financial statement for 2006

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

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

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

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

Statement of the Management Board

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

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

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

Reorganization of the Group

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

In particular, this reorganization included the following significant transactions:

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

(all amounts in PLN thousand)

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

Entities included in consolidated financial statements

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

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

(all amounts in PLN thousand)

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

(all amounts in PLN thousand)

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

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

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

a. Functional currency and presentation currency

Functional currency of the Parent and presentation currency of the foregoing consolidated financial statements is Polish zloty.
Financial statements of foreign entities, for consolidation purposes, are translated into Polish zloty using the following procedures:
- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items in the income statement are translated at exchange rates at the dates of the transactions. All resulting exchange differences are recognized as a separate component of equity**.**

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

The financial data denominated in EUR were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2006 –3.8312 PLN / EUR, for 31 December 2005 –3.8598 PLN / EUR,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –3.8991 PLN / EUR; for the period from 1 January 2005 to 31 December 2005 the rate was 4.0233 PLN / EUR.

The financial data denominated in CZK were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2006 –0.1393 PLN / CZK, for 31 December 2005 –0.1329 PLN / CZK;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –0.1380 PLN / CZK, for the period from 1 January 2005 to 31 December 2005 the rate was 0.1345 PLN / CZK.

The financial data denominated in USD were translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2006 –2,9105 PLN / USD,
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2006 to 31 December 2006 –3.0898 PLN / USD.

4. Applied accounting principles

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

(all amounts in PLN thousand)

a. Accounting principles

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

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

Finance lease

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

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

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

Goodwill

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

Investment property

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

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

Inventories

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

Receivables

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

Cash and cash equivalents

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

Revenue from sale

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

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

Revenue from dividends

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

Equity

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

The stated outstanding share capital contributions are recognized as outstanding share capital contributions. Own shares and outstanding share capital contributions decrease the Company's equity.
Share premium is created by the surplus of the issuance value in excess of the nominal value of shares decreased by issuance costs.

Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value of shares, and the remaining portion is presented by the Group as retained earnings.
Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

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

Interest-bearing loans and borrowings

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

External financing costs

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

Retirement benefits and jubilee bonuses

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

Foreign currency transactions

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

a) foreign currency monetary items shall be translated using the closing rate;
b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

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

Financial instruments

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

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

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

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

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

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

Granted loans are recognized at amortized cost.

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

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

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

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

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

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

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

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

Derivatives used by the Group in order to hedge against foreign exchange risks comprise mainly of currency forwards. Such instruments are measured at fair value.
The fair value of currency forwards is estimated with reference to current futures rates for contracts of similar maturity.
When applying hedge accounting, hedges are classified as cash flow hedges against cash flow changes attributable to a particular type of risk related to a recognized asset, liability, or a forecast transaction. They may also be regarded as fair value hedges which are attributable to a particular type of risk related to a recognized asset or liability.
If the specific criteria for hedge accounting are met, a portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in equity and the ineffective portion of the gain or loss is recognized in the profit and loss.
The gain or loss from the re-measurement of the derivative instruments at fair value that do not comply with the hedge accounting criteria are recognized directly in the profit and loss.

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

Corporate income tax

Income tax is measured on gross profit considering deferred tax. The deferred tax is measured using the balance sheet liability method. The deferred tax reflects the net tax effect of temporary differences between the carrying amount of a given asset or liability and its tax base. The deferred tax assets and liabilities are measured at the effective tax rates enacted for subsequent years when the temporary differences are expected to be realized at tax rates enacted or substantially enacted as at the balance sheet date.
Deferred tax assets are recognized for negative temporary differences and unrealized tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be realized.
Deferred tax liabilities are recognized for all positive temporary tax differences.

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

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

Non-current assets held for sale/disposal

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

- a decision was declared by the Company's Management Board for the disposal;
- the assets are available for an immediate sale in their present condition;
- an active program to locate a buyer has been initiated;
- the sale transaction is highly probable and could be settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

If the criteria are met after the balance sheet date, the asset is not reclassified at the end of the reporting year prior to the designation for sale. The reclassification is reflected in the reporting period when the criteria are met. Depreciation is discontinued for the asset when it is designated for sale.
Assets held for sale are measured at the lower of the net carrying amount and the fair value less selling costs.

Earnings per share

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

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

Provisions

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

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

Environmental provisions

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

Government grants

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

Liabilities

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

Contingent liabilities and receivables

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

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

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

Operating segments

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

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

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

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

For the purpose of this report, the excess of fair value of the acquired net assets over the acquisition cost was allocated to particular business segments results proportionally to the value of segment assets of the Unipetrol Group.

The operations of the Group are divided into three main segments: Refining Segment, Petrochemical Segment and Chemical Segment.
- The Refining Segment comprises crude oil processing as well as wholesale and retail trade in refinery products,
- The Petrochemical Segment encompasses production and sales of petrochemicals,
- The Chemical Segment encompasses production and sales of fertilizers and PVC.

Other operations include mainly support functions in PKN ORLEN, transportation, service and maintenance activities and construction conducted by other subsidiaries of PKN ORLEN S.A..

Segment revenues and assets were defined before inter-segment adjustments. Sales prices in inter-segment transactions are similar to market prices. Segment operating costs have been allocated as appropriate. Other costs which cannot be reliably determined have been included as unallocated expenses of the Group, reconciling total segment results to profit from operations.

The Company's Management Board estimates

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

Actual results may differ from the estimated values.

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

Application of the accounting principles

The above principles are applicable for comparative data.

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

Until 31 December 2006 the following new Standards, changes and interpretations to International Financial Reporting Standards were published:
- IFRS 7 "Financial Instruments: Disclosure" – in force from 1 January 2007
- IFRS 8 "Operating Segments" – in force from 1 January 2009
- IAS 1 "Presentation of Financial Statements" – in force from 1 January 2007
- IFRIC 11 – "Group and Treasury Share Transactions" – in force from 1 March 2007
- IFRIC 12 – "Service Concession Arrangements" – in force from 1 January 2008.

Acceptance of IFRS 8, IFRIC 11 and IFRIC 12 by the European Union is pending.
The Group assessed the impact of application of the above interpretations and changes and determined that the changes in IFRS 7, IFRS 8 and IAS 1 might have impact on the presentation of financial statements when applied. According to a preliminary assessment, the most significant influence on the presentation of financial statements would have application of IFRS 8 "Operating Segments". Commencing 1 January 2009, following acceptance of IFRS 8 by European Union, the Group will publish segment data based on management segments.

According to a preliminary assessment, the application of IFRIC 11 and IFRIC 12 would not have a significant influence on the financial statements.

b. Principles of consolidation

Subsidiaries

The Group's consolidated financial statements include Polski Koncern Naftowy ORLEN S.A. and entities under its control. The control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. The minority interest is presented in equity. Net profit attributable to minority shareholders is presented in the profit and loss.
The purchase method is applied at acquisition of shares of business entities. Entities acquired or disposed of over the year are included in the consolidated financial statements from the acquisition date or to the disposal date, respectively.

Investments in associates

Investments in associated companies (overall investments ranging from 20% to 50% in a company's share capital) where the Group exercises significant influence on the financial and operating policies, yet does not have control over them, are accounted for using the equity method. Assessment of the value of investments in associates is performed when there are indications that the asset has been impaired or the impairment allowances recognized in prior years are no longer required.

Investments in jointly controlled entities

Investments in jointly controlled entities where the Group exercises joint control are accounted for using the proportionate method whereby a proportional share in a jointly controlled entity's assets, liabilities, revenues and expenses, after deduction of an impact of mutual transactions and settlements, is presented line by line with similar items in the consolidated financial statements.

Adjustments from consolidation

Intragroup balances and transactions and any related unrealized gains or losses as well as the Group income and expenses are eliminated at preparation of the consolidated financial statements. Unrealized gains resulting from transactions with associates and jointly controlled entities are excluded from the consolidated financial statements proportionally to the Group's share in those entities. Unrealized losses are excluded from the consolidated financial statements in the same manner as unrealized gains, until there are indications of impairment.

(all amounts in PLN thousand)

5. Property, plant and equipment

	31 December 2006	31 December 2005
Land	773 450	726 499
Buildings and constructions	8 839 615	8 067 518
Machinery and equipment	13 629 257	8 116 051
Vehicles and other	875 065	600 048
Construction in progress	1 082 294	1 000 638
Total property, plant and equipment	**25 199 681**	**18 510 754**

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2006	792 255	11 273 174	15 600 629	1 256 077	1 051 702	29 973 837
Increase	39 441	1 023 318	956 284	263 775	1 818 520	4 101 338
Reclassification	-	(32 032)	30 464	1 568	-	-
Decrease	(16 277)	(673 199)	(1 580 885)	(156 947)	(2 079 242)*	(4 506 550)
Increase due to acquisition of Mazeikiu Group	6 700	673 012	6 260 954	203 627	330 615	7 474 908
Foreign exchange differences on Unipetrol Group and Orlen Deutschland	15 857	143 806	357 999	17 147	9 728	544 537
31 December 2006	**837 976**	**12 408 079**	**21 625 445**	**1 585 247**	**1 131 323**	**37 588 070**
1 January 2005	383 008	7 221 806	6 333 928	835 812	2 002 973	16 777 527
Increase	52 746	1 006 949	1 741 177	162 076	1 969 368	4 932 316
Reclassification	-	3 082	(3 749)	667	-	-
Decrease	(31 010)	(136 082)	(289 002)	(80 143)	(3 076 701)	(3 612 938)
Increase due to acquisition of Unipetrol Group	377 794	3 155 815	7 796 749	337 055	155 877	11 823 290
Foreign exchange differences on Orlen Deutschland	9 717	21 604	21 526	610	185	53 642
31 December 2005	**792 255**	**11 273 174**	**15 600 629**	**1 256 077**	**1 051 702**	**29 973 837**
Accumulated depreciation and impairment allowances						
1 January 2006	65 756	3 205 656	7 484 578	656 029	51 064	11 463 083
Depreciation	716	572 156	1 317 523	144 430	-	2 034 825
Other increases	411	6 592	42 020	25 878	-	74 901
Impairment allowances	(3 421)	(89 837)	(215 372)	(1 543)	(2 523)	(312 696)
Reclassification	-	5 727	(4 896)	(831)	-	-
Decrease	(23)	(185 275)	(814 909)	(122 971)	-	(1 123 178)
Foreign exchange differences on Unipetrol Group and Orlen Deutschland **	1 087	53 445	187 244	9 190	488	251 454
31 December 2006	**64 526**	**3 568 464**	**7 996 188**	**710 182**	**49 029**	**12 388 389**
1 January 2005	40 430	1 673 026	3 117 547	421 756	46 526	5 299 285
Depreciation	908	563 350	1 028 977	118 193	-	1 711 428
Other increases	450	14 175	15 547	11 601	-	41 773
Impairment allowances	24 012	181 664	389 718	4 746	(7 151)	592 989
Reclassification	-	1 892	(2 436)	544	-	-
Decrease	(71)	(98 013)	(273 142)	(83 536)	-	(454 762)
Increase due to acquisition of Unipetrol Group	-	864 124	3 197 088	182 264	11 689	4 255 165
Foreign exchange differences on Orlen Deutschland	27	5 438	11 279	461	-	17 205
31 December 2005	**65 756**	**3 205 656**	**7 484 578**	**656 029**	**51 064**	**11 463 083**
Net book value						
1 January 2006	**726 499**	**8 067 518**	**8 116 051**	**600 048**	**1 000 638**	**18 510 754**
31 December 2006	**773 450**	**8 839 615**	**13 629 257**	**875 065**	**1 082 294**	**25 199 681**
1 January 2005	**342 578**	**5 548 780**	**3 216 381**	**414 056**	**1 956 447**	**11 478 242**
31 December 2005	**726 499**	**8 067 518**	**8 116 051**	**600 048**	**1 000 638**	**18 510 754**

* including in 2006 e.g. transfers to specific groups of property, plant and equipment that amounted to PLN 1,956,133 thousand
** including foreign exchange differences related to impairment allowances in the amount of PLN 26,783 thousand.

(all amounts in PLN thousand)

Impairment allowances for property, plant and equipment as at 31 December 2006 and 31 December 2005 amounted to PLN 571,795 thousand and PLN 857,708 thousand respectively.

In 2006 the Group reviewed economic useful lives of property, plant and equipment applied afore. Should the rates from previous years be applied, depreciation expense would be higher by PLN 28,498 thousand. The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2006 amounted to PLN 1,749,347 thousand and as at 31 December 2005 amounted to PLN 1,257,894 thousand.
Impairment allowances disclosed in property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded its recoverable amount. The impairment allowances are charged to other operating expenses. The impairment allowances relate primarily to liquid fuels warehouse bases and petrol stations.
Property, plant and equipment of PLN 1,263,602 thousand and PLN 1,314,215 thousand were used as a pledge for the Group's liabilities as at 31 December 2006 and 31 December 2005, respectively.

6. Investment property

The following changes were recognized in investment property in 2006 and 2005:

	2006	2005
Investment property, beginning of period	11 557	9 122
Property, plant and equipment reclassified	20 943	-
Increase due to entities consolidated for the first time	4 331	-
Purchase of land for resale	-	104
Property, plant and equipment reclassified	(1 445)	-
Fair value of investment property adjustment	(357)	2 331
Sale of land	(104)	-
	------------	------------
Investment property, end of period	**34 925**	**11 557**
	=======	=======

Investment property of the Group comprise: social-office buildings, partially designated for rent, with a carrying amount of PLN 34,737 thousand as at 31 December 2006 and PLN 11,453 thousand as at 31 December 2005, as well as land in the amount of PLN 188 thousand as at 31 December 2006 and PLN 104 thousand as at 31 December 2005.
Direct operating expenses arising from investment property accounted for PLN 4,943 thousand and PLN 1,016 thousand as at 31 December 2006 and 31 December 2005, respectively, including direct operating expenses that generated rental income of PLN 4,463 thousand and PLN 1,016 thousand, respectively.
The fair value of investment property was assessed and disclosed on the basis of the expertise prepared by an independent asset surveyor, authorized for valuation of investment property and experienced in valuation of investment property of a similar location and qualified within the same category. By virtue of characteristics of the investment property, revenue approach was applied to assess the fair value. Due to variability of revenues in foreseeable future, calculation was based on discounted cash flows method, using 5-year period forecasts. The discount rate reflected the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the valued objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for objects similarly located, in the same technical condition and standard and designated for similar purposes.

(all amounts in PLN thousand)

7. Goodwill

Goodwill on consolidation	31 December 2006	31 December 2005
Orlen PetroTank Sp. z o.o.	11 298	11 298
ShipService S.A.	3 145	3 145
PetroProfit Sp. z o.o.	1 175	1 175
Orlen Petrozachód Sp. z o.o.	9 886	-
Goodwill on Mazeikiu Group companies	1 301	-
Other	658	2 012
Total goodwill on consolidation	**27 463**	**17 630**

Goodwill on business combination	31 December 2006	31 December 2005
Basell ORLEN Polyolefins Sp. z o.o.	51 146	51 146
Goodwill on Unipetrol Group companies	34 472	35 617
Spolana a.s.	8 218	-
Orlen Deutschland AG	9 256	10 413
Mazeikiu Elektrine	12 509	-
Other	640	641
Total goodwill on business combination	**116 241**	**97 817**
Total	**143 704**	**115 447**

The changes of goodwill in 2006 and 2005 were as follows:	2006	2005
Goodwill on consolidation, beginning of the period	**17 630**	**20 501**
Additions during the period 1 January - 31 December	**316 292**	**629**
Orlen Petrozachód Sp. z o.o.	9 886	-
Mazeikiu Group **	305 105	-
Goodwill on Mazeikiu Group companies *	1 301	-
Other		629
Disposals during the period 1 January - 31 December	**(306 459)**	**(3 500)**
Mazeikiu Group **	(305 105)	
Ship Service S.A.	-	(3 500)
Other	(1 354)	-
Goodwill on consolidation, end of the period	**27 463**	**17 630**

	2006	2005
Goodwill on business combination, beginning of the period	**97 817**	**51 667**
Additions during the period 1 January - 31 December	**20 727**	**46 150**
Mazeikiu Elektrine	12 509	-
Spolana a.s.	8 218	-
Goodwill on Unipetrol Group companies	-	35 617
Orlen Deutschland AG	-	10 413
Other	-	120
Disposals during the period 1 January - 31 December	**(3 932)**	**-**
Goodwill on Unipetrol Group companies	(2 833)	-
Orlen Deutschland AG	(1 099)	-
Effect of exchange rate changes	1 629	-
Goodwill on business combination, end of the period	**116 241**	**97 817**

* goodwill on consolidation on Mazeikiu Group
** goodwill on acquisition of Mazeikiu shares. More information in note 37 a 5

(all amounts in PLN thousand)

8. Intangible assets

	31 December 2006	31 December 2005
Acquired licenses, patents and similar intangible assets	460 148	459 161
Acquired computer software	30 287	24 482
Other *	129 348	29 524
Total intangible assets	**619 783**	**513 167**

* including as at 31 December 2006 the valuation of acquired CO_2 emission rights of Mazeikiu Group amounting of PLN 88,771 thousand

The changes of intangible assets were as follows:

	Acquired computer software	Acquired licenses, patents and similar intangible assets	Other	Total
Gross book value				
1 January 2006	134 077	771 210	54 468	959 755
Increase	11 082	48 559	18 556	78 197
Decrease	(6 598)	(55 249)	(23 153)	(85 000)
Increase due to acquisition of Mazeikiu Group	8 491	1 337	102 916	112 744
Foreign exchange differences on Unipetrol Group and Orlen Deutschland	4 657	14 373	2 219	21 249
31 December 2006	**151 709**	**780 230**	**155 006**	**1 086 945**
1 January 2005	34 940	439 241	5 542	479 723
Increase	4 545	23 952	9 950	38 447
Decrease	(2 818)	(1 300)	(1 767)	(5 885)
Increase due to acquisition of Unipetrol Group	97 410	309 317	40 743	447 470
				-
31 December 2005	**134 077**	**771 210**	**54 468**	**959 755**
Accumulated depreciation and impairment allowances				
1 January 2006	109 595	312 049	24 944	446 588
Depreciation	13 717	49 623	4 627	67 967
Other increases	223	3 990	4 149	8 362
Impairment allowances	-	(33 844)	19	(33 825)
Decrease	(6 144)	(16 633)	(9 019)	(31 796)
Foreign exchange differences on Unipetrol Group and Orlen Deutschland *	4 031	4 897	938	9 866
31 grudnia 2006	**121 422**	**320 082**	**25 658**	**467 162**
1 January 2005	20 337	162 572	2 237	185 146
Depreciation	12 689	46 182	3 272	62 143
Other increases	1 766	3 798	1 516	7 080
Impairment allowances	987	32 596	584	34 167
Decrease	(4 397)	(2 124)	(351)	(6 872)
Increase due to acquisition of Unipetrol Group	78 213	69 025	17 686	164 924
31 December 2005	**109 595**	**312 049**	**24 944**	**446 588**
Net book value				
1 January 2006	**24 482**	**459 161**	**29 524**	**513 167**
31 grudnia 2006	**30 287**	**460 148**	**129 348**	**619 783**
1 January 2005	**14 603**	**276 669**	**3 305**	**294 577**
31 December 2005	**24 482**	**459 161**	**29 524**	**513 167**

* Including foreign exchange differences related to impairment allowances in the amount of PLN 1,331 thousand.

Impairment allowances for intangible assets as at 31 December 2006 and 31 December 2005 amounted to PLN 1,832 thousand and PLN 34,326 thousand, respectively.

In 2006 the Group reviewed economic useful lives of intangible assets applied afore. Should the rates from previous years be applied, adjustment to depreciation expense would not be material. The gross book value of all fully depreciated intangible assets still in use as at 31 December 2006 amounted to PLN 218,819 thousand and as at 31 December 2005 amounted to PLN 154,110 thousand.
The titles to perpetual usufruct of land obtained under an administrative decision were recognized by the Group at fair value as off balance sheet items in the amount of PLN 1,042,248 thousand as at the balance sheet date.

As at 31 December 2006 and 31 December 2005 the Group possessed concessions for public services due to which annual concession fees recognized in the profit and loss in a given period are paid.
The Group possesses concessions for the following activities:
- the trade of electrical energy for the period 05.11.1998 – 15.07.2009
- transportation and distribution of electrical energy for the period 05.11.1998 – 15.07.2009
- manufacturing and trade of heating energy for the period 05.11.1998 – 15.04.2013
- transportation and distribution of heat energy for the period 05.11.1998 – 25.02.2010
- manufacturing of electrical energy for the period 05.11.1998 – 15.10.2010

(all amounts in PLN thousand)

9. Financial assets

a) Significant shares in other parties

	Seat	31 December 2006	31 December 2005	Group's interest in capital/ voting rights as at 31 December 2006	Group's interest in capital/ voting rights as at 31 December 2005	Principal activity
Agrobohemie a.s.*	Czech Republic-Prague	263 201	251 169	50.00%	50.00%	wholesale
Synthesia a.s. (former Aliachem a.s.)*	Czech Republic-Pardubice	245 794	234 442	38.90%	38.90%	production of chemicals
Telewizja Familijna **	Poland - Warsaw	26 004	26 004	11.96%/ 9.61%	11.96%/ 9.61%	radio and television related activity
SK Eurochem Sp. z o.o.	Poland - Włocławek	25 203	25 203	17.37%	17.37%	production of chemicals
Naftoport Sp. z o.o.	Poland - Gdańsk	31 026	39 502	14.10%	17.95%	construction, operation and maintenance of loading station for liquid fuels
Other		23 150	47 089			
Total		**614 378**	**623 409**			
Impairment allowance for Telewizja Familijna **		(26 004)	(26 004)			
Other impairment allowances		(17 442)	(46 421)			
Total impairment allowances		**(43 446)**	**(72 425)**			
Net value of significant shares in other parties		**570 932**	**550 984**			

b) Investments held to maturity

	31 December 2006	31 December 2005
Telewizja Familijna S.A. bonds **	26 000	26 000
Impairment allowance**	(26 000)	(26 000)
Net value of investments held to maturity	-	-
Total net value of financial assets	**570 932**	**550 984**

* Share value in CZK does not change. Change during the period is due to translation of value of shares expressed in CZK into PLN.
** On 8 April 2003 the bankruptcy of Telewizja Familijna S.A. was declared; book value of shares and bonds as at 31 December 2006 and 31 December 2005 was fully covered by a relevant allowance.

(all amounts in PLN thousand)

10. Investments accounted for using equity method

As at 31 December 2006 and 31 December 2005 the Group's investments accounted for using equity method were as follows:

	Book value as at		Group's interest in capital/ voting rights as at	Group's interest in capital/ voting rights as at	Principal activity
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	
Polkomtel S.A.	687 694	929 035	19.61%	19.61%	rendering mobile telecommunication services
Niezależny Operator Międzystrefowy Sp. z o.o.*	18 033	18 033	35.00%	35.00%	rendering telecommunication services
Płocki Park Przemysłowo-Technologiczny S.A.	-	12 730	-	50.00%	business activity advisory
Other	10 576	65 279			
Total	**716 303**	**1 025 077**			

* Detailed information in Note 35 q

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2006 and 31 December 2005, revenues, financial expenses and profit for 2006 and 2005 in Polkomtel S.A. are described below:

Polkomtel S.A.

	31 December 2006	31 December 2005
Current assets	1 091 960	1 208 938
Non-current assets	6 588 996	6 388 196
Short-term liabilities	2 121 991	830 621
Long-term liabilities	842 176	862 068
Total sales revenues	7 359 014	6 495 963
Profit from operations	1 475 544	1 358 557
Financial expenses	(143 826)	(124 367)
Profit before tax	1 403 347	1 310 746
Income tax expense	(281 677)	(243 641)
Net profit	1 121 670	1 067 105

11. Other non-current assets

	31 December 2006	31 December 2005
Advances for construction in progress	83 467	-
Long term loans granted	22 002	-
Receivalbes due to sale of property, plant and equipment	8 561	5 816
Warranty deposits	-	2 532
Other	2 518	4 750
Total	**116 548**	**13 098**

(all amounts in PLN thousand)

12. Inventories

	31 December 2006	31 December 2005
Raw materials	3 706 674	3 200 388
Work in progress	752 141	714 968
Finished goods	2 495 637	1 840 782
Merchandise	444 404	357 099
Total inventory, net	**7 398 856**	**6 113 237**

The value of inventories valued at net realizable value amounted to PLN 1,388,299 thousand as at 31 December 2006 and PLN 846,202 thousand as at 31 December 2005. The inventory allowances to net realizable value amounted to PLN 74,151 thousand in 2006 and PLN 66,006 thousand in 2005.

As at 31 December 2006 and 31 December 2005 inventories of PLN 185,094 thousand and PLN 157,414 thousand, respectively, were used as a pledge for the Group's liabilities.

Starting from 2002, mandatory reserves are established based on the schedule in accordance with the Minister of Economy Decree (the decree of 19 December 2005 currently in force, Official Journal no 266. item 2240) to arrive at the end of 2008 at the level equal to 76 days of average daily production, import and intra-Community acquisitions less export and intra-Community supplies (in addition the relevant economy Minister is obliged to establish the reserves of liquid fuels in the amount equal to consumption of fuels in 14 days on average in a given year).
The detailed methods of calculation and formation of the mandatory reserves of liquid fuels are contained in the Minister of Economy Decree of 12 May 2006 (Official Journal no 92 item 642).
The new act on reserves of crude oil, refinery products and natural gas and the principles of proceeding in the event of threat to national liquid fuels security and disturbance on the oil market has been signed by the President of the Republic of Poland in March 2007. The act introduces additional provisions in force for the International Energy Agency (IEA). Poland is to become a member of IEA in 2007.
The new act introduced additional provisions such as:

- building up mandatory reserves by additional 10% with regard to the so-called inaccessible reserves,
- changes to methods of calculation of reserves, from quantities sold in the country to net imports of crude oil,
- building up a 30-days reserves of LPG.

Upon consideration of the above one may expect an increase in the cost of maintaining of reserves.

The value of mandatory reserves held by the Company as at 31 December 2006 and 31 December 2005 amounted to PLN 2,701,606 thousand and PLN 1,953,479 thousand, respectively.

13. Trade and other receivables

	31 December 2006	31 December 2005
Trade receivables	4 725 256	4 006 631
Excise tax and fuel charge receivables	215 777	158 649
Taxation, duty and social security receivables	549 676	374 303
Receivables from sale of property, plant and equipment	17 865	55 120
Prepayments for construction in progress	106 473	25 320
Receivables due to insurance compensations of Mazeikiu Group	566 412	-
Other receivables	112 213	157 615
Total trade and other receivables, net	**6 293 672**	**4 777 638**
Receivables allowances	591 275	581 077
Total trade and other receivables, gross	**6 884 947**	**5 358 715**

(all amounts in PLN thousand)

Trade and other receivables include PLN 3,303,455 thousand of amounts denominated in foreign currencies as at 31 December 2006 and PLN 1,905,490 thousand as at 31 December 2005. Trade receivables result primarily from the sales of finished goods and sales of merchandise.
Concentration of credit risk relating to trade receivables is limited due to a large number of customers with specified trade credit limits and their dispersion across many different industries principally in Poland, Germany, Czech Republic and Lithuania.
The assumed repayment period of receivables involved with the usual course of sales operations is 14 to 30 days.
Maximum trade credit limit risk amounted to PLN 5,528,219 thousand. The Management Board believes that the risk of doubtful receivables is reflected by the relevant allowance.
As at 31 December 2006 and 31 December 2005 transfers of rights to receivables as a security for the Group's liabilities amounted to PLN 469,587 and PLN 450,880 thousand, respectively, including due to collateral for the investment loan granted to IKS Solino in the form of endorsement of receivables due from PKN ORLEN S.A. for the lease of the underground warehouse of crude oil and liquid fuels in the amount of PLN 115,925 thousand as at 31 December 2006 and PLN 117,133 thousand as at 31 December 2005.

The receivables allowances:

	2006	2005
Receivables allowances, beginning of period	581 077	474 177
Allowance made during the period	167 280	413 289
Allowance reversed during the period	(120 136)	(258 187)
Allowance used during the period	(46 031)	(45 326)
Effect of exchange rate changes	9 085	(2 876)
Receivables allowances, end of period	**591 275**	**581 077**

14. Short-term investments

Short-term investments as at 31 December 2006 and 31 December 2005 included government bonds and bills, debt securities and other short-term investments of PLN 7,424 thousand and PLN 104,938 thousand, respectively, including:

	31 December 2006	31 December 2005
Financial instruments at fair value through profit and loss	48	89 465
Held to maturity	7 376	12 969
Available for sale	-	2 504
Total	**7 424**	**104 938**

15. Prepayments

	31 December 2006	31 December 2005
Leases	8 741	16 323
Insurances	60 816	67 883
Research and development	4 879	7 379
Payments due to perpetual usufruct of land	727	1 078
Other prepayments	17 548	27 353
Interperiod settlements of commissionary services	11 016	2 453
Other*	17 631	23 384
Total	**121 358**	**145 853**

* other prepayments include tax on means of transportation, toll fees and other.

(all amounts in PLN thousand)

16. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash on hand and in bank	2 246 710	1 031 657
Other cash (incl. cash in transit)	104 608	95 134
Other monetary assets	2	12
Total	**2 351 320**	**1 126 803**
Incl. cash and cash equivalents not available for use	69 440	100 535

Total cash and cash equivalents denominated in foreign currencies amounted to PLN 1,800,982 thousand as at 31 December 2006 and to PLN 735,429 thousand as at 31 December 2005.

Taking into account cooperation of the Group mainly with well-established Polish and international banks, the risk relating to depositing cash and cash equivalents is considerably limited.

Since 2001 the cash pooling system has been introduced in the Capital Group. The system comprised of 29 companies of Capital Group as at 31 December 2006. The accumulation of cash denominated in Polish zloty in cash pooling system is assisted by three banks, whereas accumulation of cash denominated in foreign currencies is assisted by one bank. Due to the application of the system the Group records considerable financial benefits.

Cash and cash equivalents not available for use as at 31 December 2006 and 31 December 2005 amounted to PLN 69,440 thousand and PLN 100,535 thousand, respectively (they relate mainly to amounts blocked on bank accounts in relation to credits granted).

17. Other financial assets

	31 December 2006	31 December 2005
Derivatives valuation	55 446	103 620
Short term bonds held as bank loan collateral	239 534	-
Other	7 027	8 279
Total	**302 007**	**111 899**

18. Assets classified as held for sale

As at 31 December 2006 and 31 December 2005 following assets were classified as held for sale by the PKN ORLEN Group:

	31 December 2006	31 December 2005
Assets of Kaucuk [1]	1 009 846	-
Shares in AW S.A. Holand II B.V.	-	72 469
Shares in Celio [2]	10 912	10 410
Shares in "Krystynka" [3]	2 262	-
Other assets held for sale [4]	7 588	5 965
Total	**1 030 608**	**88 844**

[1] As at 31 December 2006 UNIPETROL held 6,236,000 shares constituting 100% stake in share capital of Kaucuk. The company's activity includes production of plastic and synthetic rubber. It is part of petrochemical segment. Assets of Kaucuk valued at fair value less liabilities and cost of sales have been classified as held for sale. The sale agreement was signed on 30 January 2007.

[2] The share of UNIPETROL Group in CELIO, constituting 51.06 % stake in the share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and not by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be completed in the first half of 2007. The change in the value of shares results from change in exchange rates.

[3] Shares of ORLEN Medica in Sanatorium Uzdrowiskowe "Krystyna" constituting 98.54% stake in the share capital. The shares have been classified as held for sale after the resolution of the Management Board of ORLEN Medica dated 20 December 2006 about the beginning of a disinvestment process. The shares have been valued at cost, fair value amounts to PLN 5,891 thousand.

[4] Other assets held for sale comprise other items of property, plant and equipment: buildings and constructions, land, machinery and equipment, vehicles and other.

(all amounts in PLN thousand)

19. Interest-bearing loans and borrowings

	Note	31 December 2006	31 December 2005
Bank loans	(a)	9 893 499	3 956 721
Borrowings	(b)	2 885	13 065
Debt securities	(c)	592 721	547 011
		--------------	--------------
Total		**10 489 105**	**4 516 797**
		========	========
Including:			
short-term		4 277 912	1 110 819
long-term		6 211 193	3 405 978
		========	========

Maturities of principal installments as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	4 277 912	1 110 819
Between 1 and 5 years	5 625 832	2 664 921
Above 5 years	585 361	741 057
	--------------	--------------
	10 489 105	**4 516 797**
	========	========

The value of interest-bearing loans and borrowings drawn by the Group and debt securities issued increased in 2006 by 5,972,308 thousand net.

The change in indebtedness level resulted primarily from:

- drawing of foreign loans translated to PLN:
  - EUR 800,000 thousand (PLN 3,053,200 thousand) of a short term consortium multi currency bridge loan (BNP Paribas acting as Agent)
  - USD 348,269 thousand (PLN 1,069,912 thousand) of a consortium multi currency loan (BTM acting as Agent) – in 2006 there was a translation of portion of USD 215,910 thousand to EUR 181,061 thousand
  - USD 300,000 thousand (PLN 861,844 thousand) of a consortium multi currency loan (BNP Paribas acting as Agent)
  - EUR 230,000 thousand (PLN 877,795) of a long term consortium multi currency revolving loan (BNP Paribas acting as Agent)
  - EUR 171,596 thousand (PLN 663,098 thousand) of a consortium multi currency loan (BTM acting as Agent)
  - EUR 16,210 thousand (PLN 63,203 thousand) in consortium of banks (Societe Generale acting as Agent)
  - USD 2,473 thousand (PLN 7,198 thousand) in Bank Pekao S.A.
- drawings of loans by Unipetrol Group in the amount of CZK 19,078,646 thousand (PLN 2,632,853 thousand)
- increase of indebtedness in Unipetrol Group due to valuation of debt securities in the amount of CZK 393,117 thousand (PLN 54,250 thousand)
- drawing of loans by ORLEN Deutschland A.G. in the amount of EUR 40,018 thousand (PLN 156,033 thousand)
- drawings of loans by Mazeikiu Group in the amount of USD 470,236 thousand (PLN 1,368,621 thousand)

- drawing of loans in PLN:
  - PLN 128,176 thousand in PKO BP S.A.
  - PLN 32,477 thousand in BH w Warszawie S.A.
  - PLN 19,455 thousand in Bank Pekao S.A.
  - PLN 23,856 thousand in MILLENNIUM Bank S.A.
  - PLN 14,344 thousand in Bank Ochrony Śrotowiska S.A.
  - PLN 11,797 thousand in ING Bank Śląski S.A.
  - PLN 5,281 thousand in BPH S.A.
  - PLN 2,861 thousand in HVB Bank a.s.

Interest-bearing loans and borrowings (continued)

PLN 1,282 thousand in Fortis Bank S.A.
PLN 115 thousand in Wojewódzki Fundusz Ochrony Śrotowiska
PLN 61,863 thousand resulting from foreign exchange differences in PKN ORLEN S.A.
PLN 27,624 thousand resulting from foreign exchange differences in Unipetrol Group

- repayment of foreign currency loans translated to PLN:
  USD 218,269 thousand (PLN 695,993 thousand) of a consortium double currency loan (ING acting as Agent)
  EUR 171,596 thousand (PLN 663,098 thousand) of a consortium double currency loan (ING acting as Agent)
  EUR 11,190 thousand (PLN 44,034 thousand) in consortium of banks (Societe Generale acting as Agent)
  USD 2,358 thousand (PLN 7,476 thousand) of a consortium multi currency loan (BTM acting as Agent)
  CHF 2,225 thousand (PLN 5,633 thousand) in BPH S.A.
  USD 109 thousand (PLN 343 thousand) in BRE Bank S.A.
- repayment of loans by Unipetrol Group in the amount of CZK 22,887,138 thousand (PLN 3,158,425 thousand)
- repayment of loans by ORLEN Deutschland A.G. in the amount of EUR 74,327 thousand (PLN 289,809 thousand)
- decrease of indebtedness in Unipetrol Group due to repayment of interest of debenture bonds in the amount of CZK 254,081 thousand (PLN 35,063 thousand)

- repayment of loans and borrowings in PLN
  PLN 131,060 thousand in PKO BP S.A
  PLN 46,558 thousand in BH w Warszawie S.A.
  PLN 33,291 thousand in Bank Pekao S.A.
  PLN 17,113 thousand in BPH S.A.
  PLN 15,398 thousand in Bank Ochrony Środowiska S.A.
  PLN 10,295 thousand Narodowy Fundusz Ochrony Środowiska
  PLN 8,358 thousand in HVB Bank a.s.
  PLN 1,500 thousand in BGŻ S.A.
  PLN 1,315 thousand in BRE BANK S.A.
  PLN 45 thousand resulting from foreign exchange differences in ORLEN Deutschland A.G.
  PLN 23 thousand resulting from foreign exchange differences in Ship Service S.A.

a. Bank loans by currency (PLN thousand)

		31 December 2006	31 December 2005
PLN	(1)	504 704	510 743
USD	(2)	2 645 573	730 065
CHF	(3)	1 177	6 738
EUR	(4)	6 009 960	1 451 030
CZK	(5)	732 085	1 258 145
		9 893 499	**3 956 721**

As at 31 December 2006 and 31 December 2005 the level of flat interest rates and loan margins relating to bank loans with floating rates based interest were as follows:

PLN (1)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	504 704	
T/N WIBOR		0,06% - 0,70%
1M WIBOR		0,06% - 3,60%
3M WIBOR		0,55% - 1,90%
Total PLN	**504 704**	
USD (2)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	883 741	4,20% - 7,00%
Floating rate	1 761 832	
1M LIBOR		0,50% - 1,35%
6M LIBOR		0,15% - 0,90%
Total USD	**2 645 573**	
CHF (3)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	1 177	
3M LIBOR		to 1,00%
Total CHF	**1 177**	
EUR (4)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	186 731	2,60% - 6,40%
Floating rate	5 823 229	
1M EURIBOR		0,50% - 0,75%
3M EURIBOR		0,50% - 3,80%
6M EURIBOR		0,12% - 1,62%
Total EUR	**6 009 960**	
CZK(5)		
31 December 2006	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	732 085	
T/N PRIBOR		to 0,60%
1T PRIBOR		to 0,50%
14D PRIBOR		to 0,35%
1M PRIBOR		0,25% - 0,95%
3M PRIBOR		0,50% - 1,20%
6M PRIBOR		to 0,80%
Total CZK	**732 085**	
Total	**9 893 499**	

Bank loans by currency (PLN thousand) (continued)

PLN (1)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	510 743	
T/N WIBOR		0,06% - 1,00%
1M WIBOR		0,07% - 3,00%
3M WIBOR		0,55% - 3,00%
Total PLN	**510 743**	
USD (2)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	730 065	
1M LIBOR		0,40% - 1,35%
3M LIBOR		0,40% - 2,70%
6M LIBOR		to 0,15%
Total USD	**730 065**	
CHF (3)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Floating rate	6 738	
3M LIBOR		to 1,00%
Total CHF	**6 738**	
EUR (4)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	88 962	2,60% - 7,30%
Floating rate	1 362 068	
1M LIBOR		to 1,00%
1M EURIBOR		0,40% - 1,00%
3M EURIBOR		0,40% - 1,50%
6M EURIBOR		0,30% - 1,35%
Total EUR	**1 451 030**	
CZK (5)		
31 December 2005	**Indebtedness balance**	**Margin/rate within the range**
Flat rate	7 978	2,00% - 3,27%
Floating rate	1 250 167	
1D PRIBOR		to 0,30%
1W PRIBOR		to 0,30%
2W PRIBOR		0,25% - 0,70%
1M PRIBOR		0,45% - 0,90%
3M PRIBOR		0,60% - 0,80%
6M PRIBOR		0,48% - 0,90%
Total CZK	**1 258 145**	

Total	**3 956 721**	
	=========	

As at 31 December 2006 and 31 December 2005 interest rates for specific bases were as follows:

	31 December 2006	31 December 2005
T/N Wibor	4,11%	4,60%
1M Wibor	4,12%	4,60%
3M Wibor	4,20%	4,60%
1 M Euribor	2,4070%	2,4070%
3 M Euribor	2,4870%	2,4870%
6 M Euribor	2,6370%	2,6370%
1M Libor (USD)	5,3218%	4,3900%
3M Libor (USD)	5,3600%	4,5362%
6M Libor (USD)	5,3700%	4,7000%
1M Libor (EUR)	3,6335%	2,4021%
3M Libor (CHF)	2,1000%	1,0100%
Rediscount Interest rates of National Bank of Poland	4,25%	4,75%

As at 31 December 2006 and 31 December 2005 bank loans and borrowings of PLN 1,042,949 thousand and PLN 1,362,086 thousand, respectively, were pledged on the Group's assets.

(all amounts in PLN thousand)

b. Interest bearing loans

	31 December 2006	31 December 2005
Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej	115	-
Narodowy Fundusz Ochrony Środowiska	2 770	13 065
Total	2 885	13 065

Loans' floating interest rates amounted to 1.70%-3.00% and 1.90%-3.20% as at 31 December 2006 and 31 December 2005, respectively.

c. Debt securities

Debt securitities by kind	Flat rate bonds *	Zero coupons bonds
Face value **	278 600	181 090
Fair value measurement in relation to bonds quoted at the Stock Exchange in Prague	415 262	-
Discount in relation to zero coupons bonds	-	(3 631)
Book value	415 262	177 459
Interests terms	12,53	-
End of holding period	28.12.2013	01.04.2007
Type of surety	Unsecured	Unsecured

* Interest calculated on flat rate bonds are recognized in the amount of PLN 55,313 thousand as current liabilities.
** including forex difference in relation to 31 December 2005 from flat rate bonds in the amount of PLN 12,800 thousand and from zero coupons bonds in the amount of PLN 8,320 thousand.

As at 31 December 2006 the liabilities related to debt securities issued by the Group amounted to PLN 592,721 thousand.
The Group monitors opportunities to obtain loans and borrowings based on more favorable terms due to changes in market conditions.
The Group utilizes loans both in PLN and foreign currencies, subject mainly to floating interest rates.
As at 31 December 2006 and 31 December 2005, in accordance with agreements concluded with banks, the Group had unutilized amount of bank loans and borrowings at floating rate of PLN 5,066,919 thousand and PLN 3,896,154 thousand respectively.

19. Provisions

Long-term provisions

	31 December 2006	31 December 2005
Land reclamation provision	345 957	487 164
Retirement benefits and jubilee bonuses	190 264	197 219
Business risk provision	120 385	133 920
Shield programmes provision	99 428	68 718
Other provisions	58 158	69 970
Total	**814 192**	**956 991**

(all amounts in PLN thousand)

Short-term provisions

	31 December 2006	31 December 2005
Land reclamation provision	108 790	71 143
Retirement benefits and jubilee bonuses	25 550	19 186
Business risk provision	458 079	392 186
Shield programmes provision	24 492	130 500
Other provisions	117 116	70 258
Total	**734 027**	**683 273**

The Group has legal obligation to reclaim contaminated land in area of production plant in Płock, petrol stations and warehouse bases. In the period 2000-2006 an assessment of the contaminated objects and estimation of future expenditures on land reclamation were conducted by independent expert. The amount of the land reclamation provision was reassessed by the Management Board on the basis of analyses of independent expert. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities constituting basis of creating the provision.
The change in the average level of costs necessary to remove contamination has impacted the land reclamation provision in the amount of PLN 159,518 thousand. The main reason causing the change of the land reclamation provision is the decrease of soil requiring reclamation. Other valuation assumptions of independent expert remained unchanged (the statistical analysis of reclamation costs incurred to date).

In 2006 the Group changed the assumptions for calculation of retirement benefits and jubilee bonuses provision. Should the prior year's assumptions be taken into account, the provision would have been higher by PLN 25,819 thousand.

The changes in provisions in particular periods were as follows:

Change in long-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2006	487 164	197 219	133 920	68 718	69 970	956 991
Provision made during the period	12 301	18 397	7 892	30 710 *	23 594	92 894
Additions due to acquisition of Mazeikiu	7 145	-	-	-	-	7 145
Provision used during the period	(3 019)	(1 170)	-	-	(2 116)	(6 305)
Provision reversed during the period	(160 427)**	(24 475)	(20 686)	-	(34 640)	(240 228)
Effect of exchange rate changes	2 793	293	(741)	-	1 350	3 695
31 December 2006	**345 957**	**190 264**	**120 385**	**99 428**	**58 158**	**814 192**

* shield programmes provision reclassified from short to long term portion
** incl. the amount of PLN 59,299 thousand of land reclamation provision reclassified from long to short term portion

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	373 209	178 381	38 933	25 464	26 305	642 292
Provision made during the period	123 268	31 425	133 087	43 254	57 171	388 205
Provision used during the period	(1 689)	(4 451)	-	-	(1 690)	(7 830)
Provision reversed during the period	(7 624)	(8 059)	(32 299)	-	(11 253)	(59 235)
Effect of exchange rate changes	-	(77)	(5 801)	-	(563)	(6 441)
31 December 2005	**487 164**	**197 219**	**133 920**	**68 718**	**69 970**	**956 991**

(all amounts in PLN thousand)

Change in short-term provisions

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2006	71 143	19 186	392 186	130 500	70 258	683 273
Provision made during the period	68 408 **	-	72 455	-	92 761 ***	233 624
Additions due to acquisition of Mazeikiu	5 332	22 716	13 284	-	-	41 332
Provision used during the period	(15 920)	(15 830)	(11 171)	(75 298)	(25 411)	(143 630)
Provision reversed during the period	(20 206)	(522)	(8 778)	(30 710)*	(21 740)	(81 956)
Effect of exchange rate changes	33	-	103	-	1 248	1 384
	======	======	======	======	======	=======
31 December 2006	**108 790**	**25 550**	**458 079**	**24 492**	**117 116**	**734 027**
	======	======	======	======	======	=======

* shield programmes provision reclassified from short to long term portion
** incl. the amount of PLN 59,299 thousand of land reclamation provision reclassified from long to short term portion
*** including provision relating to change in customer loyalty program VITAY of PLN 43,534 thousand

	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
1 January 2005	128 493	19 065	49 049	44 536	42 299	283 442
Provision made during the period	14 254	16 853	431 715*	122 746	63 805	649 373
Provision used during the period	(17 710)	(16 037)	(734)	(36 782)	(10 956)	(82 219)
Provision reversed during the period	(53 754)	(695)	(86 941)	-	(24 888)	(166 278)
Effect of exchange rate changes	(140)	-	(903)	-	(2)	(1 045)
	=======	======	=======	======	======	=======
31 December 2005	**71 143**	**19 186**	**392 186**	**130 500**	**70 258**	**683 273**
	=======	======	=======	======	======	=======

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

Long-term and short-term provisions, total

31 December 2006	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
Long-term provisions	345 957	190 264	120 385	99 428	58 158	814 192
Short-term provisions	108 790	25 550	458 079	24 492	117 116	734 027
	=======	=======	=======	=======	=======	=========
Total	**454 747**	**215 814**	**578 464**	**123 920**	**175 274**	**1 548 219**
	=======	=======	=======	=======	=======	=========

31 December 2005	Land reclamation provision	Retirement benefits and jubilee bonuses	Business risk provision	Shield programmes provision	Other provisions	Total
Long-term provisions	487 164	197 219	133 920	68 718	69 970	956 991
Short-term provisions	71 143	19 186	392 186	130 500	70 258	683 273
	=======	=======	=======	=======	=======	=========
Total	**558 307**	**216 405**	**526 106**	**199 218**	**140 228**	**1 640 264**
	=======	=======	=======	=======	=======	=========

(all amounts in PLN thousand)

21. Other long-term liabilities

	31 December 2006	31 December 2005
Finance lease liabilities	60 506	70 693
Donations received	50 072	55 036
Waranties granted	13 328	8 331
Long term employee benefits	11 281	-
Hedge liability	7 800	23 715
Other	24 010	12 950
	-------------	-------------
Total	**166 997**	**170 725**
	========	========

22. Trade and other liabilities and accrued expenses

Trade and other liabilities comprised of the following:

	31 December 2006	31 December 2005
Trade liabilities	4 841 643	3 912 336
Liabilities due to acquisition of property, plant and equipment	427 422	347 973
Unused holidays accrual	39 421	29 669
Payroll liabilities	57 117	53 762
Loyalty programme VITAY *	23 534	61 858
Dividends liabilities	414	3 503
Excise tax and fuel charge liabilities	906 447	1 022 520
Other taxation, duty and social security liabilities	1 047 044	581 572
Liabilities due to prepayments for delieveries	89 954	44 298
Liabilities due to uninvoiced services	61 713	27 969
Environmental fees liabilities	10 446	9 566
Provison for liabilities relating to acquisition of Mazeikiu	29 510	-
Payroll liabilities	80 681	54 501
Special funds	17 607	17 023
Other financial liabilities	6 925	4 144
Provision for price reduction	63 803	3 034
Liabilities due to reimbursement of excise tax cost to supliers providing tax warehouse services	372 211	389 385
Other liabilities and accrued expenses	145 503	120 937
	--------------	----------------
Total	**8 221 395**	**6 684 050**
	========	=========

* The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for fuel or VITAY gifts.
From June 2006 fuel prize is available for customers in the form of discount of fuel price which is not current expense of Vitay program but decrease fuel sales.
The provision is created for the unrealized amount of points registered on customer's accounts. It is recognized in the period when the points were granted to customers. As a result of changes regarding the substance of gifts, separate provisions are created for fuel and non-fuel gifts.
The provision is estimated on the basis of proportion of fuel and non fuel gifts granted, total unrealized amount of points and current cost per one VITAY point. The provision is equal to 75% of the value of unrealized points (75% being a ratio for points' realizability).

Trade and other liabilities and accrued expenses denominated in foreign currencies amounted to PLN 5,900,952 thousand as at 31 December 2006 and PLN 3,712,599 thousand as at 31 December 2005. The carrying amount of short-term trade liabilities is equal to its fair value by virtue of its short-term characteristics.

(all amounts in PLN thousand)

23. Shareholders' equity

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2006 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2006 and 31 December 2005 consisted of the following series of shares:

Share series	**Number of shares issued as at 31 December 2006**	**Number of shares issued as at 31 December 2005**	**Number of shares authorized as at 31 December 2006**	**Number of shares authorized as at 31 December 2005**
A series	336 000 000	336 000 000	336 000 000	336 000 000
B series	6 971 496	6 971 496	6 971 496	6 971 496
C series	77 205 641	77 205 641	77 205 641	77 205 641
D series	7 531 924	7 531 924	7 531 924	7 531 924
	-----------------	-----------------	-----------------	-----------------
	427 709 061	427 709 061	427 709 061	427 709 061
	==========	==========	==========	==========

In 2006 and 2005 there was no additional issue of shares.

In Poland, each new issuance of shares is labeled as a new series of shares. All of the above series involve the exact same rights.
The balance of the hedging reserve results from valuation of derivatives meeting the criteria for hedge accounting (for cash flow hedges).
The shareholder structure as at 31 December 2006 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17.32%
Skarb Państwa	43 633 897	43 633 897	54 542 371	10.20%
Bank of New York (as a depositary)	23 919 466	23 919 466	29 899 333	5.59%
Other	286 079 399	286 079 399	357 599 249	66.89%
Total	**427 709 061**	**427 709 061**	**534 636 327**	**100.00%**

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

(all amounts in PLN thousand)

24. Minority interests

Minority interests represent part of the net assets of subsidiaries that is not owned, directly or indirectly, by the Group.

Minority interests by company:

	31 December 2006	31 December 2005
Anwil Group	277 887	214 641
Rafineria Trzebinia Group	105 101	96 301
Rafineria Nafty Jedlicze Group	43 979	44 184
Inowrocławskie Kopalnie Soli "Solino" S.A.	26 851	24 008
Petrolot Sp. z o.o.	24 932	30 834
Orlen Oil Sp. z o.o.	26 354	19 302
ORLEN PetroZachód Sp. z o.o.	-	11 506
Unipetrol Group	2 079 741	2 044 120
Spolana a.s.	50 004	59 190
Paramo a.s.	55 686	55 467
Other	41 088	41 599
Total	**2 731 623**	**2 641 152**

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

	2006	2005
Balance sheet change in other non-current assets and trade and other receivables	(1 619 484)	(2 201 159)
Change in Group structure	907 706	1 881 651
Change in advances for the Construction in Progress	81 153	(10 541)
Receivables classified as assets held for sale	(289 856)	-
Other	82 740	(27 886)
Change in receivables in the cash flow statement	**(837 741)**	**(357 935)**

	2006	2005
Balance sheet change in other long-term liabilities and trade and other liabilities and accrued expenses	1 533 617	3 374 108
Change in Group structure	(1 088 321)	(2 064 205)
Liabilities classified as the liabilities directly connected to the assets classified as held for sale	211 627	-
Other	796	25 928
Change in liabilities and accrued expenses in the cash flow statement	**657 719**	**1 335 831**

(all amounts in PLN thousand)

	2006	2005
Balance sheet change in inventories	(1 285 619)	(2 912 255)
Change in Group structure	1 082 965	1 133 660
Inventories classified to the assets held for sale	(168 824)	-
Other	58 740	(26 730)
	--------------	--------------
Change in inventories in the cash flow statement	**(312 738)**	**(1 805 325)**
	========	========

	2006	2005
Balance sheet change in provisions	(92 045)	714 530
Change in Group structure	(25 761)	(147 218)
Change in deferred tax liabilities relating to fair value adjustment of non-current assets	10 684	6 136
Provisions classified as the liabilities directly connected with assets held for sale	71 233	-
Recognition in income statement of deferred tax change recorded in equity in the prior period	-	5 037
Other	(2 114)	8 511
	--------------	--------------
Change in provisions in the cash flow statement	**(38 003)**	**586 996**
	========	========

Sale of shares in subsidiaries and associates

In 2006 the Group sold shares in 4 subsidiaries and associates.

The cumulative impact on the financial statement of these transactions amounted to	2006
Proceeds from sales of shares	21 235
Sales price	25 904
Net assets of entities sold	20 222
Result	5 682
Net Cash and Cash equivalents proceeds	15 553

In 2005 the Group sold shares in 8 subsidiaries and associates.

The cumulative impact on the financial statement of these transactions amounted to	2005
Proceeds from sales of shares	79 356
Sales price	77 376
Net assets of entities sold	34 398
Result	42 978
Net Cash and Cash equivalents proceeds	36 378

(all amounts in PLN thousand)

26. Segment data

Revenues, expenses and financial result by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Sales to external customers	40 066 040	33 520 927	9 354 088	5 003 059	2 381 069	1 747 013	938 214	813 528			52 739 411	41 084 527
Transactions with other segments	12 664 027	8 243 623	4 383 203	2 084 567	84 764	138 424	1 059 936	876 569	(18 191 930)	(11 343 183)	-	-
Settlement of hedging transactions	21 100	-	106 678	103 740	-	-	-	-			127 778	103 740
Total sales revenues	52 751 167	41 764 550	13 843 969	7 191 366	2 465 833	1 885 437	1 998 150	1 690 097	(18 191 930)	(11 343 183)	52 867 189	41 188 267
Total operating expenses	(50 433 982)	(38 518 411)	(12 744 995)	(6 460 484)	(2 263 806)	(1 758 857)	(1 959 043)	(1 710 174)	18 189 051	11 343 103	(49 212 775)	(37 104 823)
Other operating revenues	303 389	282 144	148 079	70 475	36 738	26 609	86 092	42 006			574 298	421 234
Other operating expenses	(567 058)	(504 389)	(405 258)	(92 039)	(14 795)	(4 311)	(117 256)	(119 066)	92		(1 104 275)	(719 805)
The excess of the fair value of acquired net assets over the acquisition price	-	753 141	-	934 112	-	136 755	-	249 713	-	(281 304)	-	1 792 417
Segment result	2 053 516	3 777 035	841 795	1 643 430	223 970	285 633	7 943	152 576	(2 787)	(281 384)	3 124 437	5 577 290
Unallocated revenues of the Group											38 658	14 120
Unallocated excess of the fair value of acquired net assets over the acquisition price											-	102 520
Unallocated expenses of the Group											(588 323)	(775 706)
Profit (loss) on the sale of all or part of shares of subsidiaries											1 835	29 396
Profit from operations											2 576 607	4 947 620
Financial revenues											602 877	669 028
Financial expenses											(670 838)	(480 195)
Share in profit from investments accounted for under equity method	(325)	985	-	-	1 098	(7 477)	219 928	209 260			220 701	202 768
Profit before tax											2 729 347	5 339 221
Income tax expense											(669 149)	(701 445)
Net profit											2 060 198	4 637 776

(all amounts in PLN thousand)

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Segment assets	28 743 044	16 890 756	8 153 089	9 492 755	2 460 579	2 348 817	4 584 588	3 698 874	(1 948 696)	(1 752 436)	41 992 604	30 678 766
Investments accounted for under equity method	(4 364)	13 960	18 968	-	8 805	7 312	692 894	1 003 805			716 303	1 025 077
Assets clasiffied as held for sale *	2 626	1 776	1 009 846	-	4 255	4 006	122	183			1 016 849	5 965
Unallocated assets clasiffied as held for sale *											13 759	82 879
Unallocated assets of the Group											1 679 569	1 611 624
Total consolidated assets											45 419 084	33 404 311
Segment liabilities	7 263 561	5 456 289	841 841	834 951	405 929	405 273	790 198	1 075 895	(1 833 366)	(1 599 824)	7 468 163	6 172 584
Liabilities related to assets clasiffied as held for sale	-	-	195 956	-	-	-	-	-	-		195 956	-
Unallocated liabilities of the Group											16 172 402	7 918 738
Total consolidated liabilities											23 836 521	14 091 322

*- assets in the Refining Segment classified as held for sale concern: fuel stations, real estate and movables

- assets in the Petrochemical Segment classified as held for sale concern assets of Kaucuk a.s.

- assets in the Chemical Segment classified as held for sale concern: real estate, movables and shares

- other operations Segment includes other assets classified as held for sale

- unallocated assets classified as held for sale concern: shares in Sanatorium Uzdrowiskowe “Krystynka” Sp. z o.o. of PLN 2,262 thousand, shares in Celio a..s. of PLN 10,410 thousand and shares in Agro Azoty II of PLN 507 thousand in 2006 and shares in AW S.A. Holland II B.V. of PLN 72,469 thousand and in Celio a.s. of PLN 10,410 thousand in 2005.

All of the Group’s assets as at 31 December 2006 and 31 December 2005 are located in Poland, Germany, Lithuania, Latvia, Estonia, Czech Republic, Malta, Switzerland, Austria and Spain, where also all capital expenditures were incurred in the years ended 31 December 2006 and 31 December 2005.

(all amounts in PLN thousand)

Other information by business segments – continued

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Cost incurred to acquire property, plant and equipment and intangible assets	1 165 156	995 443	320 223	386 544	174 338	294 766	218 363	158 726	1 878 080	1 835 479
Unallocated cost incurred to acquire property, plant and equipment and intangible assets									63 556	42 444
Total cost incurred to acquire property, plant and equipment and intangible assets									1 941 636	1 877 923
Segment depreciation	925 828	846 528	757 547	486 860	183 135	196 275	212 519	216 636	2 079 029	1 746 299
Depreciation of unallocated assets									29 098	33 645
Total depreciation									2 108 127	1 779 944
Non-cash expenses other than depreciation	409 459	335 881	298 576	78 255	4 770	4 019	53 228	145 134	766 033	563 289

(all amounts in PLN thousand)

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Additions of impairment allowances	(385 462)	(152 598)	(298 576)	(43 713)	(12 743)	(1 375)	(38 295)	(16 946)	(735 076)	(214 632)
Unallocated allowances									(39 175)	(5 937)
Total additions of impairment allowances									(774 251)	(220 569)
Reversal of impairment allowances	93 431	120 986	61 481	36 870	14 931	15 895	14 056	17 031	183 899	190 782
Unallocated reversal of impairment allowances									12 717	8 277
Reversal of impairment allowances									196 616	199 059

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

Allowances and reversals were performed in conjunction with occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as potential impairment of property, plant and equipment.
Allowances made in the Refining Segment concerned primarily impairment of petrol stations and warehouse bases. Allowances for idle assets and obsolete raw materials were recognized in other activities segment.
Impairment allowances include also impairment of goodwill on acquisition of Mazeikiu in the amount of PLN 305,105 thousand, including:
- PLN 274,207 thousand in Refining Segment;
- PLN 23,838 thousand in Other operations;
- PLN 7,060 thousand in unallocated segment.

(all amounts in PLN thousand)

Geographical segments

The below table presents the Group's sales revenues by geographical segments for the periods ended 31 December 2006 and 31 December 2005.

	Revenues from sale by geographical area for the year ended	
	31 December 2006	31 December 2005
Poland	28 438 380	21 149 179
Germany	11 790 349	9 904 008
Czech Republic	7 209 880	6 719 902
Other countries	5 428 580	3 415 178
Total revenues from sale by geographical area	52 867 189	41 188 267

27. Financial instruments

a. Transactions within derivatives of the Parent Company

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

According to market risk management policy revised in January 2006 the Company started to hedge its net operating exposure in EUR and USD systematically. Financial instruments used to hedge the above mentioned exposures have been currency forwards. The principles of cash flow hedge accounting were not applied to the instruments acquired and settled in the same quarter. In other cases, cash flow hedge accounting was applied to this group of financial instruments. The cash flows resulting from the settlement of the instruments hedging the net operating exposure in EUR and USD amounted to PLN 126.6 million in 2006.

In May and June 2006 PKN ORLEN S.A. had concluded share purchase agreements with Yukos International B.V. and the Government of the Republic of Lithuania with regard to purchase of shares in AB Mazeikiu Nafta. In conjunction with the fact that a significant part of financing of the transaction was to be arranged by means of bank loans denominated in EUR, from August 2006 the Company has been entering into EUR forward puts in order to accumulate USD required to settle the purchase price for the shares in Mazeikiu. In addition, in December 2006 the Company acquired USD in exchange for PLN. For both of the above transactions currency forwards had been used to minimize exchange rates fluctuations. In October 2006, part of the instruments was rolled over with a gain of PLN 52.8 million. In November and December 2006, due to the weakening of USD, the final settlement of instruments resulted in a loss of PLN 156.9 million. The principles of cash flow hedge accounting were not applied to the above described instruments.

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

(all amounts in PLN thousand)

Swap hedging transactions:

	Financial assets – hedging transactions - derivatives	Financial liabilities – hedging transactions - derivatives
Fair value as at 31 December 2005	**96 840**	-
Increase	-	-
Decrease	**96 840**	**-**
sale, release, repayment	96 840	-
Fair value as at 31 December 2006	**-**	**-**

Final settlement of the EUR/PLN currency-interest rate swap transactions acquired in 2003 and used as hedging transactions for revenues from petrochemical business was made in September and November 2006.

Forward hedging transactions:

	Financial assets – hedging transactions - derivatives	Financial liabilities – hedging transactions - derivatives
Fair value as at 31 December 2005	**-**	-
Increase	37 241	8 504
valuation	37 241	8 504
Decrease	**-**	**-**
Fair value as at 31 December 2006	**37 241**	**8 504**

As at the end of December 2006 the Company's portfolio comprised 116 currency forwards acquired in 2006, including 32 forwards concerning purchase of USD currency in the amount of USD 97.5 million, 41 forwards concerning sales of USD currency in the amount of USD 169.2 million and 43 forwards concerning sales of EUR currency in the amount of EUR 250.1 million. The joint existence of both purchase and sale forward transactions in USD resulted from the corrections to the portfolio of hedging transactions that reflected anticipated changes to the net operating exposure in USD. The principles of cash flows hedge accounting have been applied to these instruments.

(all amounts in PLN thousand)

b. Transactions within derivatives of subsidiaries and jointly controlled entities

Chemopetrol, a subsidiary, has acquired interest rate swaps in order to hedge against the interest rate risk.

The below table presents information on interest rate swaps as of 31 December 2006:

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value in CZK as at 31 December 2006
Chemopetrol	CITIBANK N.A.	Interest rate swap	06.09.00	15.02.01-15.08.08	USD 10,351 thousand	fix 6,70 - 6M USD LIBOR	CZK (5,314) thousand
Chemopetrol	CITIBANK N.A.	Interest rate swap	06.09.00	15.02.01-15.08.08	USD 10,351 thousand	fix 6,35 - 6M USD LIBOR	CZK (4,035) thousand

Principles of hedge accounting have been applied with regard to the above described instruments.

Chemopetrol has also acquired a cross currency swap for speculation purposes. The below table presents information on cross currency swaps as of 31 December 2006:

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value in CZK as at 31 December 2006
Chemopetrol	Česká spořitelna, a.s.	Cross currency swap	15.04.05	15.07.05-15.07.11	EUR 25,600 thousand - CZK 768,000 thousand	6M EURIBOR - 6M PRIBOR	CZK 51,892 thousand

Interest paid by the Chemopetrol Group in 2006 amounted to CZK 28,553 thousand. Principles of hedge accounting have not been applied with regard to the above described instruments

Basell ORLEN Polyolefins Sp. z o.o. ("BOP"), a jointly controlled entity, has acquired an interest rate swap denominated in EUR in order to hedge against interest charge cash outflows risk related to external financing of BOP.

The below table presents information on interest rate swap as of 31 December 2006 (the data represent 100% value of the transaction):

Company	Bank	Type of transaction	Transaction concluded on	Period of transaction	Amount	Base interest rate	Fair value as at 31 December 2006
Basell Orlen Polyolefins Sp. z o.o.	Rabobank	Depreciated interest rate swap (BOP is charged with a fixed interest rate)	21.12.2006	Until 31.12.2011	EUR 260 mio as of 31.12.2006, subsequently depreciated)	EURIBOR 6M	Liability of PLN (15,601) thousand

(all amounts in PLN thousand)

c. Financial instruments by class:

	31 December 2006	31 December 2005
1. Financial assets at fair value through profit and loss	22 668	96 962
2. Financial assets held to maturity	250 071	19 638
3. Financial assets available for sale	1 638 232	223 748
4. Loans and receivables, including:	4 748 393	4 077 160
-loans granted	5 272	15 409
-trade receivables	4 743 121	4 061 751
5. Cash and cash equivalents	2 351 320	1 126 803
6. Financial liabilities at fair value through profit and loss	8 525	40
7. Trade liabilities	5 269 065	4 260 309
8. Interest-bearing loans and borrowings	10 489 105	4 516 797

The value of long-term financial assets stated at cost less impairment charges as at 31 December 2006 amounted to PLN 24,790 thousand and as at 31 December 2005 to PLN 24,833 thousand and included mainly shares and stakes not quoted in an active market.
The Group recognized derivative transactions with positive fair value as financial assets at fair value through profit and loss and derivative transactions with negative fair value as financial liabilities at fair value through profit and loss.

The value of financial assets available for sale stated at fair value as at 31 December 2006 and 31 December 2005 includes, among others, hedging derivatives of PKN ORLEN.

d. Interest rate risk

The Group's financial liabilities are held to maturity. The effective interest rate is similar to nominal interest rate (loan margins and commissions are at relatively low level). Cash flow surpluses are deposited primarily in treasury securities i.e. State Treasury bills and/or bonds.

The Group uses bank loan financing. The fluctuation of interest rates impacts both financial expenses and financial revenues. An increase in interest rates results in an increase in the Group's financial expenses, in particular interest on loans and borrowings, as well as it contributes to an increase in interest from deposited cash.

e. Credit risk

The Group has implemented credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types. Each non-cash customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. In addition, trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt enforcement procedures implemented as described by the obliging procedures.
By virtue of the above, the Management Board of the Company believes that no significant credit risk exists, receivables considered difficult to recover have been covered by an allowance.

f. Currency risk

The main sources of currency risk influencing the Group are: purchases of raw materials, sales of refinery and petrochemical products, real and capital investments indexed to currencies other than the Group companies' functional currency or denominated in currencies other than the Group companies' functional currencies, as well as loans, borrowings and cash in foreign currency.

In 2006 the Company hedged its net EUR exposure with currency swaps and currency forwards stabilizing cash flows from sales of petrochemicals dependent on EUR/PLN exchange rate. In addition, the Company hedged its net operating exposure in USD with currency forwards stabilizing cash flows from sales of refinery products and purchases of REBCO crude oil dependent on USD/PLN exchange rate.

Pursuant to the fact that a significant part of share purchase of Mazeikiu was financed by bank loans denominated on EUR, the Parent Company had acquired EUR currency forward puts to accumulate USD required to settle the purchase price for the shares in Mazeikiu. For the above transactions currency forwards had been used to minimize exchange rates fluctuations.

(all amounts in PLN thousand)

28. Cost by kind

	for the year ended 31 December 2006	for the year ended 31 December 2005
Materials and energy	28 877 679	20 742 180
Cost of merchandise and materials sold	13 711 215	11 567 863
External services*	2 983 160	2 337 672
Payroll, social security and other employee benefits	1 512 016	1 267 120
Depreciation	2 108 127	1 779 944
Taxes and charges	300 302	284 154
Other	1 533 377	1 376 928
	51 025 876	**39 355 861**
Change in inventory and prepayments	6 149	(598 839)
Cost of products and services for own use	(126 652)	(156 688)
Operating cost	**50 905 373**	**38 600 334**
Distribution expenses	(2 641 239)	(2 391 290)
General and administrative expenses	(1 170 927)	(1 039 333)
Other operating expenses	(1 221 477)	(1 090 863)
Cost of finished goods, merchandise and raw materials sold	**45 871 730**	**34 078 848**

* including PLN 14,633 thousand in 2006 and PLN 13,012 thousand in 2005 of research and development cost

29. Other operating revenues and expenses

Other operating income

	for the year ended 31 December 2006	for the year ended 31 December 2005
Profit on sale of non-financial non-current assets	25 754	11 657
Provision reversal	174 405	52 944
Reversal of impairment allowances of assets	196 616	199 059
Proceeds from perpetual usufruct of land	5 563	-
Penalties and compensations earned	29 133	14 682
Revenue from sale of investments	51 617	712
Other *	129 868	2 051 237
Total	**612 956**	**2 330 291**

* including in 2005 the excess of share in the net consolidated assets of the Unipetrol Group over the cost of PLN 1,893,688 thousand

Allowance reversed for:	for the year ended 31 December 2006	for the year ended 31 December 2005
Receivables	116 705	128 214
Inventories	29 001	4 118
Property, plant and equipment and intangible assets	50 910	66 727
Total	**196 616**	**199 059**

(all amounts in PLN thousand)

Other operating expenses

	for the year ended 31 December 2006	for the year ended 31 December 2005
Loss on sale of non-financial non-current assets	16 315	19 281
Revaluation of non-financial non-current assets	288 732	40 180
Creation of provisions	129 812	701 740
Impairment allowances	485 519	180 389
Donations	8 750	6 204
Nonculpable shortages in current assets	13 756	16 894
Fair value measurement of Kaucuk	230 448	-
Other	48 145	126 175
Total	**1 221 477**	**1 090 863**

Impairment allowances for:	for the year ended 31 December 2006	for the year ended 31 December 2005
Receivables	152 004	165 060
Inventories	28 156	12 511
Property, plant and equipment and intangible assets *	305 359	2 818
Total	**485 519**	**180 389**

* incl. impairment of goodwill on acquisition of shares in Mazeikiu in the amount of PLN 305,105 thousand

30. Net financial income and expenses

	for the year ended 31 December 2006	for the year ended 31 December 2005
Interest paid	(255 270)	(203 612)
Negative foreign exchange differences surplus	(187 601)	(181 654)
Interest received	78 642	123 972
Positive foreign exchange differences surplus	381 561	172 434
Gains on trade in shares and other securities	6 826	7 069
Dividends received	10 662	8 899
Premium earned on the acquisition of liabilities of Unipetrol Group	8 755	245 696
Decrease in receivables allowances	14 100	17 998
Increase in receivables allowances	(13 804)	(28 436)
Settlement and valuation of financial instruments *	(79 232)	32 402
Other	(32 600)	(5 935)
Total	**(67 961)**	**188 833**

* incl. in 2006 PLN (104,154) thousand settlement of financial instruments hedging future payments with regard to the acquisition of Mazeikiu

(all amounts in PLN thousand)

31. Income tax

	for the year ended 31 December 2006	for the year ended 31 December 2005
Current tax	(783 704)	(713 999)
Deferred tax	114 555	12 554
Total	**(669 149)**	**(701 445)**

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

	for the year ended 31 December 2006	for the year ended 31 December 2005
Profit before tax	**2 729 347**	**5 339 221**
Corporate income tax for 2006 and 2005 by the valid tax rate (19% in Poland)	518 576	1 014 452
Difference between Polish and German (40%) tax rates	(5 139)	36 750
Difference between Polish and Czech (24%) tax rates	(8 779)	(8 851)
Increase in income tax expense due to return of the investment relief granted to Unipetrol a.s.	27 816	-
Taxation on the excess of the fair value of acquired net assets over cost	-	(360 038)
Business risk provision	13 277	83 244
Impairment of goodwill	57 970	-
Fair value measurement of Kaucuk	55 308	-
Valuation of financial instruments	1 911	(5 037)
The excess of tax depreciation	3 858	(34 316)
Subventions received	-	7 600
Valuation of entities accounted under the equity method	(41 933)	(39 759)
Penalties and compensations paid	16 886	513
Other	29 398	6 887
CORPORATE INCOME TAX	**669 149**	**701 445**
Effective tax rate	25%	13%

Effective tax rate in 2006 is mainly an effect of fair value measurement of Kaucuk and goodwill impairment due to acquisition of Mazeikiu. Effective tax rate in 2005 is an effect of the excess of fair value of the net identifiable assets, liabilities and contingent liabilities over the acquisition cost of Unipetrol a.s. shares.

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell ORLEN Polyolefins Sp. z o.o capital group which is also a tax capital group comprising Basell ORLEN Polyolefins Sp. z o.o. and Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.

As the companies in the Group are separate taxpayers, the deferred tax assets and liabilities in the individual companies must be evaluated on a standalone basis. As a result, the consolidated balance sheet presents deferred tax assets of PLN 165,928 thousand as at 31 December 2006 and PLN 62,131 thousand, as at 31 December 2005 and deferred tax liabilities of PLN 1,765,761 thousand as at 31 December 2006 and PLN 1,020,159 thousand as at 31 December 2005.

(all amounts in PLN thousand)

The net deferred tax liability as at 31 December 2006 and 31 December 2005 comprised of the following:

	31 December 2006	31 December 2005
Deferred tax assets:		
Land reclamation provision	78 650	88 674
Receivables allowances	26 344	10 942
Retirement benefits and jubilee bonuses	46 967	23 704
Expenses for loyalty programme prizes	12 601	11 753
Impairment of non-current assets	-	78 773
Financial instruments	11 498	(19 419)
Valuation of non-current financial assets	18 633	37 091
Impairment of property, plant and equipment and intangible assets	30 796	1 218
Other provisions	47 193	18 859
Valuation of property, plant and equipment	78 923	-
Unrealised negative foreign exchange differences	59 321	-
Bonds valuation	25 337	-
Impairment allowance for inventories valued at net realisable value	17 920	845
Wages and salaries, unpaid	18 354	15 887
Accrued expenses	24 530	11 154
Other	87 589	43 930
Total deferred tax assets	**584 656**	**323 411**
Deferred tax liabilities:		
Investment relief *	104 680	137 155
Difference between carrying amount and tax base of property, plant and equipment	1 057 234	978 068
Unrealised positive foreign exchange differences	-	49 214
Difference in contribution in kind to Basell Orlen Polyolefins Sp. z o.o.	42 870	42 870
Valuation of assets	901 275	-
Finance lease treated as operational for tax purposes	26 606	26 296
Other	51 824	47 836
Total deferred tax liabilities	**2 184 489**	**1 281 439**
Deferred tax liabilities, net	**1 599 833**	**958 028**

* According to the Polish tax regulations, taxpayers were entitled to deduct qualified investment expenditures in a given tax year from the taxable income (investment relief). In addition, taxable income could have been further reduced in the following year by 50% of previous year's deduction (investment premium). This was described in detail in Note 35 c.

32. Leases

a) The Group as a lessee

- operating lease

Lease agreements and other agreements of an operating nature regard mainly the lease of tanks, facility, buildings, cars, tractors, semi trailers, vehicle tanks, forklifts and computer equipment. The minimum lease payments recognized as costs of 2006 amounted to PLN 61,216 thousand and PLN 30,233 thousand in 2005.

Future minimum lease payments under non-cancelable operating lease agreements as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	58 387	21 215
Between 1 and 5 years	150 573	247 844
Above 5 years	-	-
Total minimum lease payments	**208 960**	**269 059**

(all amounts in PLN thousand)

- finance lease

Finance lease agreements regard mainly the lease of cars, computer equipment, vehicle tanks, wagons, buildings, tractors, semi trailers and forklifts.
Future minimum lease payments under non-cancelable operating lease agreements as at 31 December 2006 and 31 December 2005 were as follows:

	31 December 2006	31 December 2005
Up to 1 year	26 811	33 454
Between 1 and 5 years	49 458	81 804
Above 5 years	2 175	48 231
Total minimum lease payments	**78 444**	**163 489**

As at 31 December 2006 carrying amount of property, plant and equipment under finance lease amounted to PLN 155,587 thousand, including PLN 97 thousand with regard to buildings and constructions, PLN 54,118 thousand with regard to machinery and equipment, PLN 100,476 thousand with regard to vehicles and PLN 896 thousand with regard to other property, plant and equipment.
As at 31 December 2005 carrying amount of property, plant and equipment under finance lease amounted to PLN 150,369 thousand, including PLN 101 thousand with regard to buildings and constructions, PLN 59,569 thousand with regard to machinery and equipment, PLN 89,798 thousand with regard to vehicles and PLN 901 thousand with regard to other property, plant and equipment.

b) The Group as a lessor

- **operating lease**

Operating lease agreements regard the lease of machinery, equipment, buildings and cars. The minimum lease payments amounted to PLN 37,348 thousand in 2006 and PLN 16,683 thousand in 2005.

Gross investment in the lease due as at 31 December 2006 and 31 December 2005 for future periods were as follows:

	31 December 2006	31 December 2005
Up to 1 year	597	3 566
Between 1 and 5 years	2 975	13 588
Above 5 years	4 288	18 066
Total gross investments in the lease	**7 861**	**35 220**

- **finance lease**

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

The lease agreements were concluded for an indefinite period hence there is no possibility to define future minimum lease payments. Gross investments in the lease due as at 31 December 2006 and 31 December 2005 for future periods were as follows:

	31 December 2006	31 December 2005
Up to 1 year	310	878
Between 1 and 5 years	52	301
Above 5 years	-	-
Total gross investments in the lease	**362**	**1 179**

Unearned finance income as at 31 December 2006 amounted to PLN 168 thousand and as at 31 December 2005 to PLN 109 thousand.

(all amounts in PLN thousand)

As at 31 December 2006 and 31 December 2005 the Group companies did not record contingent rents recognized in the profit and loss and allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the Group.

33. Commitments resulting from investment expenditures

Investments expenditures in 2006 accounted for PLN 2,057,058 thousand, including PLN 172,722 thousand of environmental protection related investments. Planned investment expenditure in the Group in the period of 12 months from the balance sheet date amounts to PLN 3,478,083 thousand, including PLN 496,781 thousand of environmental protection related investments. As at 31 December 2006 future liabilities resulting from signed contracts amounted to PLN 1,157,896 thousand.

34. Related party transactions

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

In 2006 and 2005 the Group companies did not grant any advances, loans, guarantees and commitments, or other agreements obliging Management Board, Supervisory Board and their relatives, to render services to the Company and related parties.
As at 31 December 2006 and 31 December 2005 the Group companies did not grant any loans to managing and supervising persons and their relatives.
In the years ended 31 December 2006 and 31 December 2005 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

b. Transactions with related parties concluded through the supervising persons of the Company and supervising persons of the Companies from the Capital Group

In 2006 the Company obtained statements on transactions with related parties extended in scope in regard of the amended IAS 24 "Related Party Disclosures" from the supervising persons of the Company and supervising persons of the Companies from the Capital Group.

	Sale	Purchase	Receivables	Liabilities
Legal persons *	79 901	210 999	5 069	40 085
Natural persons	300	-	-	-

* Transactions in the period of performing duties as supervising persons in the Company.

c. Transactions with related parties concluded through the managing persons of the Company and managing persons of the companies from the Capital Group

In 2006 the managing persons of the Company and managing persons of the companies from the Capital Group did not conclude any significant transactions with related parties in regard of IAS 24 "Related Party Disclosures".

d. Transactions with related parties concluded through the key management personnel of the Company and key management personnel of the companies from the Capital Group

	Sale	Purchase	Receivables	Liabilities
Legal persons*	603	22	11	-
Natural persons	56	-	-	-

* Transactions in the period of performing duties as key management personnel

(all amounts in PLN thousand)

e. Transactions with related parties, not consolidated with the full method, were concluded on market conditions and are presented below:

	Companies consolidated with the equity method
Sale	
2006	28 369
2005	26 616
Purchase	
2006	160 652
2005	192 300
Short term receivables	
31 December 2005	3 748
31 December 2005	4 532
Short term liabilities	
31 December 2005	26 137
31 December 2006	18 256

The above transactions with related parties relate to sale and purchase of petrochemicals, and purchase of repair, transport and other services.

(all amounts in PLN thousand)

35. Contingent liabilities and risks

a. Guarantees and sureties of PKN ORLEN Group in 2006

	31 December 2005	Increase/ Decrease	31 December 2006	Expiration of guarantee/ surety
guarantee of payment for the benefit of Lithuanian Bank in relation to mandatory trade offering for shares attributable to minority shareholders of Mazeikiu Group (released at 29 January 2007)	-	1 283 452	1 283 452	29.01.2007
guarantees issued by PKN ORLEN Group for the benefits of legal persons	44 530	18 030	62 560	03.10.2009
customs guarantees issued by Unipetrol a.s. and the Parent Company as collateral of liabilities to Customs Office due to import of merchandise	14 755	(9 923)	4 832	03.03.2008
collateral for factoring with recourse and for customers' liabilities related to the PayLink Card Agreement issued by ORLEN Oil Sp. z o.o. and ORLEN PetroTank Sp. z o.o.	14 607	(10 515)	4 092	30.09.2007
bid guarantees issued by PKN ORLEN Group for the benefit of legal persons	2 011	(1 092)	919	12.02.2007
guarantee issued by Anwil S.A. for the benefit of UHDE GmbH related to the change in chlorine production technology investment	3 926	(3 926)	-	09.08.2006
Other*	2 211	694	2 905	31.12.2008
Total guarantees and sureties:	**82 040**	**1 276 720**	**1 358 760**	

* including guarantee of the loan for construction of a sewage-treatment plant for the city of Inowrocław in the amount of PLN 700 thousand as at 31 December 2005.

Contingent liabilities of Mazeikiu Group are presented in accordance with IFRS 3 "Business Combinations" as balance sheet liabilities arose at the day of acquisition.

b. Other contingent liabilities of PKN ORLEN Group in 2006

	31 December 2005	Increases/ Decreases	31 December 2006
excise tax guarantees (including collaterals submitted on behalf of PKN ORLEN Group and third parties in respect of movements of harmonized excise goods kept on warehouse under the excise tax suspension procedure)*	966 379	94 305	1 060 684
letter of credits	14 491	27 591	42 082
legal cases related to real estates with undefined legal status	15 518	7 635	23 153
anti trust proceeding of the Office for Competition and Consumers' Protection in respect of setting the price formula of anti-freeze engine coolant and glycol (detailed information in note 35 h)	-	14 000	14 000
legal cases	24 174	(14 176)	9 998
Total other contingent liabilities:	**1 020 562**	**129 355**	**1 149 917**
Total contingent liabilities (guarantees and sureties and other contingent liabilities)	**1 102 602**	**1 406 075**	**2 508 677**

*including as at 31 December 2006 excise tax guarantee of PKN Orlen S.A. in the amount of PLN 854,235 thousand related to products in production plant in Płock, tax warehouses and warehouse-bases (owned and belonging to third parties) as well as bank guarantees of PKN ORLEN S.A. in the amount of 103,000 thousand submitted on behalf of Operator Logistyczny Paliw Płynnych (former NAFTOBAZY Sp. z o.o.) as excise tax guarantees.

(all amounts in PLN thousand)

c. Investment relief

In accordance with tax regulations, in force in previous years, Group companies reduced the taxable income for the purposes of corporate income tax by the following titles:

- investment expenditures incurred in a given tax year (investment relief)
- 50% of the previous year's investment relief (investment premium).

During the period 2002-2003 Group companies reduced the taxable income by investment relief and investment premium in the following amounts:

Year of deduction	Investment relief	Investment premium
2002	14 234	49 222
2003	-	6 923
	---------	--------
Total	**14 234**	**56 145**

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

As at the date of preparation of these financial statements Unipetrol Group companies have utilized PLN 40,451 thousand of investment relieves.
As at the date of preparation of these financial statements Mazeikiu Group companies have utilized PLN 54,276 thousand of investment relieves.

d. Excise tax contingent liability of Rafineria Trzebinia S.A.

On 15 October 2004, the Head of the Customs Office in Kraków had decided to institute tax proceedings in order to determine the excise tax liability at Rafineria Trzebinia S.A. for May, June, July and August 2004. As a result of the proceedings, on 5 April 2005 Rafineria Trzebinia S.A. received decisions from the Head of the Customs Office in Kraków, where the total excise tax liability was set for the period of May-August 2004 at about PLN 60 million. According to the Management Board of Rafineria Trzebinia S.A., the company possesses all necessary expert opinions confirming correctness of the applied classification of goods taxed with 0 PLN rate. On 12 April 2005, the Management Board of Rafineria Trzebinia S.A. filed an appeal against the discussed decisions and a motion to suspend execution of the decision until the date of settling the matter by the second instance authority.

On 5 May 2005, in reply to its motion to suspend execution of a decision until the date of settling the matter, Rafineria Trzebinia S.A. received a decision from the Head of the Customs Office in Kraków suspending execution of the above decision.

On 9 June 2005 the Director of the Customs Chamber in Kraków, having examined Rafineria Trzebinia S.A.'s appeal of 12 April 2005 against the decision of the Head of the Customs Office in Kraków of 31 March 2005, quashed the decision of the first instance authority and submitted it for further examination.

On 28 July 2005 the Head of the Customs Office, upon receipt of the Customs Chamber decision, without providing any further evidence in the case determined an excise tax liability for May-September 2004 at total amount of about PLN 100 million. The above decisions were issued without any references to claims presented in the appeal of 12 April 2005. The Management Board of Rafineria Trzebinia S.A. still claims that it possesses all necessary opinions confirming correctness of the applied classification of goods taxable with 0 PLN rate, which according to the Management Board guarantees a positive outcome of the proceedings.

On 9 August 2005 the Management Board of Rafineria Trzebinia S.A. appealed against the above decisions and filed a motion to suspend execution of the decisions until the case is decided by the second instance authority. On 11 August 2005, the Head of the Customs Office in Kraków, having examined the appeal of Rafineria Trzebinia S.A. of 8 August 2005, suspended execution of the decision in respect of setting the excise tax liability for the period of May-August 2004 at about PLN 100 million. On 14 November 2005 the Head of the Customs Office in Kraków had decided to refuse to accept evidence from the hearings of witnesses using argument that it does not constitute any significant circumstances in respect of the case. In addition, the Customs Office declined to accept corrections to excise tax declarations submitted by Rafineria Trzebinia S.A. for the period May-September 2004, resulting from the change in excise tax rate for technological oils from 60 PLN/Mg to 0 PLN. The Office declined acceptance based on the fact that there were proceedings in progress in respect of the case.

On 30 December 2005 the Head of the Customs Office in Kraków issued a decision keeping the first instance authority's decision in force. Rafineria Trzebinia S.A. prepared a complaint to the Woivodship Administrative Court against the decision of the Head of the Customs Office in Kraków together with a motion to suspend execution of the decision. The complaint and a motion to suspend execution of the decision were submitted to the Woivodship Administrative Court in Kraków on 3 February 2006. On 14 February 2006 the Head of Customs Office in Kraków issued a decision on suspending execution of the decision until the case is decided by Woivodship Administrative Court.

Until the present moment the case regarding company's excise tax liability is in progress in front of Woivodship Administrative Court and the outcome is unknown.

On 19 March 2007 Rafineria Trzebinia S.A. received a notification from the Tax Chamber in Kraków in respect of a compulsory entry made in the mortgage register by the District Court in Chrzanów for the benefit of State Treasury. The mortgage register entry regarded both real estate owned and used under perpetual usufruct by Rafineria Trzebinia. The real estates pledge for the excise tax liability for the period May-September 2004 as determined by the decisions issued by the Head of the Customs Office in Kraków.

The Management Board, based on the opinions of recognized tax advisors, states that in connection with the excise tax for technological oils proceedings in progress, there is a high probability of positive outcome, based on the evidence and arguments raised by Rafineria Trzebinia S.A.. As a result Rafineria Trzebinia S.A. did not create a provision related to the case in the unconsolidated financial statement for the period ended 31 December 2006.

Submission of a certificate issued by tax authorities with regard to absence of outstanding liabilities related to taxes and charges stands as one of conditions required to obtain a permit to maintain tax consignment warehouse. At the present condition, Rafineria Trzebinia S.A. is unable to submit such certificate and as a result, in the beginning of 2007, the Management Board of Rafineria Trzebinia S.A. has decided that the sole solution to receive the permit for prolongation of tax consignment warehouse maintenance is to repay disputable liabilities.
On 6 March 2007, the Management Board of Rafineria Trzebinia S.A. filed a motion to the Customs Office in Kraków with regard to spread the payment of the disputable liabilities imposed based on decisions of the Head of the Customs Office in Kraków into installments

On 5 April 2007, a decision of the Head of the Customs Office in Kraków was received by Rafineria Trzebinia. The Head of Customs Office refused to accept the motion of the taxpayer, refusing to spread the tax liability into installments. On 6 April 2007, the Management Board of Rafineria Trzebinia S.A. appealed against the decision of the authority to the Head of the Tax Chamber in Kraków. Until the authorization date of the consolidated financial statements, the outcome of the appeal as well as its potential impact on the financial statements are not known.

Acting under the authorization from the General Tax Control Inspector of 18 January 2005, the Tax Control Office in Kraków is conducting control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of excise tax and value added tax for 2002 and 2003. On 30 November 2006 Rafineria Trzebinia S.A. received a control protocol related to the above period. On 14 December 2006 the Plenipotentiary of Rafineria Trzebinia S.A. raised reservations to the content of the protocol. The reservations regarded formal faults related to the protocol as well as to control proceedings. On 28 December 2006 the Head of Tax Control Office submitted the response to reservations raised by the Plenipotentiary of Rafineria Trzebinia S.A.

Termination date of control proceedings was extended to 29 June 2007.

On 12 May 2006 Rafineria Trzebinia S.A. received a decision of the Head of Tax Control Office in Kraków regarding institution of control proceedings with respect to reliability of the stated tax bases and correctness of calculation and settlement of value added tax and excise tax for the period from 1 January 2004 to 30 April 2004. On 15 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a control protocol related to the above described period. On 29 January 2007 the Plenipotentiary of Company raised reservations and considerations to this protocol which included, among other matters, lack of legal basis for the control proceedings related to the specified period in conjunction with the decision of the Head of Customs Office in Kraków dated 17 September 2004 that waived the proceedings on determination of excise tax liability for January, February and March 2004 due to lack of legal substance. In addition the Plenipotentiary raised reservations in respect of lack of legal opinion on the matter subject to control in the control protocol.

In a letter dated 6 February 2007, the Tax Control Inspector representing the Tax Control Office in Kraków presented the office's position in respect of reservations to the control protocol for the period January-April 2004 that had been raised by the Plenipotentiary.

Termination date of control proceedings was extended to 29 June 2007.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in the unconsolidated financial statement for the period ended 31 December 2006.

On 22 October 2006 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Małopolska regarding institution of control proceedings with respect to excise tax liability for the period of January, February and April – August 2005. The termination date of the above proceedings is 30 April 2007.

On 26 February 2007 the Head of Tax Office in Małopolska, seated in Kraków, had decided to institute tax control proceedings with regard to setting of value added tax (VAT) liability for March 2005.
The above proceedings concern intracommunity supplies of finished goods and merchandise.

On 10 January 2007 the Plenipotentiary of Rafineria Trzebinia S.A. received a decision of the Head of the Tax Office in Kraków regarding institution of control proceedings with respect to excise tax liability for the period of November-December 2004. The proceedings concern deducting of input excise tax on purchased components with excise tax paid by the party not being an excise tax taxpayer, from the output excise tax.

As at the date of preparation of these financial statements, the final outcome of the above control proceedings or potential impact of control extended to other periods are not yet known. The Management Board, based on the opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings will be favorable for Rafineria Trzebinia S.A. As a result, no provision for liabilities which might have arisen should the above control proceedings had unfavorable outcome for Rafineria Trzebinia has been created in the unconsolidated financial statement for the period ended 31 December 2006.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 459,962 thousand as at 31 December 2006. The share of PKN ORLEN in total voting rights at the General Meeting of Shareholders of Rafineria Trzebinia amounted to 77.15%.

e. The proceedings of the Energy Regulatory Office in Rafineria Trzebinia S.A.

On 24 March 2006 Rafineria Trzebinia S.A. received a notice from the Chairman of the Energy Regulatory Office regarding official institution of proceedings in respect of imposing a fine in connection with violating of concession obligations regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of Directive 2003/30/EC of the European Parliament and of the Council of 8 May 2003 on the promotion of the use of biofuels or other renewable fuels for transport and Directive 2003/17/EC of the European Parliament and of the Council of 3 March 2003 amending Directive 98/70/EC relating to the quality of petrol and diesel fuels while on one hand effective 1 May 2004 Poland has become a member of the European Union whereas on the other hand no decrees of the Minister of Economy in respect of quality requirements for biofuels were available.
On 8 September 2006 the Chairman of the Energy Regulatory Office issued a decision imposing a fine of PLN 1 million in connection with alleged violating of concession regarding production of liquid fuels by Rafineria Trzebinia S.A. On 26 September 2006 the Management Board of Rafineria Trzebinia S.A. appealed via the Chairman of the Energy Regulatory Office to the Court of Competition and Consumer Protection, District Court in Warsaw, against the decision of the Chairman of the Energy Regulatory Office. The appeal regarded complete waiver of the decision. Unless waived, the Management Board of Rafineria Trzebinia appealed that the decision was changed in respect of the merit by waiver of the proceedings in front of the Chairman of the Energy Regulatory Office due lack of legal substance as Rafineria Trzebinia S.A. violated neither laws nor the concession obligations. The motion submitted by Rafineria Trzebinia included also a prejudicial query to the Court of Justice of the European Communities in Luxembourg via the Competition and Consumers Protection Court, regarding the application of the acquis communautaire based on article 234 of the ECT. The query was as follows: “Was Rafineria Trzebinia – a business entity registered in the Republic of Poland – entitled in 2006 to production of biofuels with a 20% fraction of biocontent in line with the standard EN 14214 and trade in biofuels in the Republic of Poland and other countries of the European Union, in accordance with the law of European Communities, in particular in accordance with the Directive 2003/30/EC of the European Parliament and of the Council on the promotion of the use of biofuels or other renewable fuels for transport, whereas the Republic of Poland did not implement the provisions of the above stated Directive within the period specified in the Directive?”. On 6 December 2006 the Chairman of the Energy Regulatory Office submitted a response to the appeal, claiming waiver of the appeal as it identified no basis to change the decision in respect of the fine. Among other matters, the Chairman of the Energy Regulatory Office stated that the violation of the acquis communautaire as described by Rafineria Trzebinia S.A. did not occur as the fine was imposed on the Company in relation to trade of fuels not meeting quality standards defined in the decree dated 19 October 2005 in the Republic of Poland, and in conjunction with this case the decision was effective solely in the Republic of Poland and consequently it could not violate acquis communautaire. In accordance with article 130 § 2 of Administrative Proceedings Code the payment of the fine is suspended until the appeal is resolved.

On 2 April 2007 the Competition and Consumers Protection Court in Warsaw pronounced a sentence giving consideration to Rafineria Trzebinia S.A.'s appeal and changing the decision of the Chairman of the Energy Regulatory Office in respect of the fine of PLN 1,000 thousand by waiver of proceedings. The decision is appealable in front of the Court of Appeals in Warsaw.

f. Standing of Rafineria Trzebinia S.A. in connection with its management's decision to temporarily discontinue production and sales of the biofuel containing 20% of FAME esters

The immediate reason for the decision to temporarily discontinue production and sales of the biofuel containing 20% of FAME esters was the Decree of the Minister of Finance reducing allowances to excise tax liabilities. As a consequence, the financial standing of Rafineria Trzebinia, an owner of modern biofuel production installations, deteriorated and the bank creditors of Rafineria Trzebinia demanded additional collateral on Rafineria Trzebinia's property.
The establishing of collateral must have been preceded by conclusion of agreements between Rafineria Trzebinia S.A. and PKN ORLEN and banks: Pekao S.A. and BPH S.A.
PKN ORLEN as a strategic investor has actively engaged in financial standing improvement process of Rafineria Trzebinia.
On 5 March 2007, an agreement was signed in Warsaw between Rafineria Trzebinia S.A., PKN ORLEN, Pekao S.A. bank and BPH S.A. bank. The agreement regarded restructuring of indebtedness of Rafineria Trzebinia S.A. to banks and PKN ORLEN.

The agreement defined conditions for repayment of bank loan liabilities of Rafineria Trzebinia S.A. due to Pekao S.A. and BPH S.A. banks as well as amounts due to PKN ORLEN. It has also provided that Rafineria Trzebinia S.A. has to present satisfactory legal and property collaterals that would secure repayment of financial liabilities to the banks and PKN ORLEN. According to the schedule contained in the agreement, on 29 March 2007 Rafineria Trzebinia S.A. has partially repaid its bank loan liabilities to PEKAO S.A. and BPH S.A. in the amounts of PLN 20,000 thousand and PLN 5,000 thousand, respectively.

The above described conditions of cooperation with the banks as well as the support granted by PKN ORLEN as a major shareholder would enable Rafineria Trzebinia to conduct usual business activities, implement stabilization strategies and rebuild positive customer relations. The afore actions will be performed until a stable tax laws that support alternative energy sources are implemented as well as a long-term biofuels promotion program, that is being prepared by the Ministry of Economy, is introduced.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 459,962 thousand as at 31 December 2006. The share of PKN ORLEN in total voting rights at the General Meeting of Shareholders of Rafineria Trzebinia amounted to 77.15%.

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

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

On 3 August 2005 a complaint was filed against the above decision of stay of proceedings. On 12 December 2005 the Court of Appeal in Warsaw, I Civil Department, dismissed the complaint regarding the decision of stay of proceedings. The above described proceedings have not yet been ended. According to the decision of the Polish Constitutional Tribunal issued on 25 October 2006, suspended proceedings may again be opened.

On 8 March 2007 a first seating of the case where PKN ORLEN acts as an outside intervener took place. The parties were entitled to declare its positions in front of court. The next seating has been postponed for an indefinite period. The letter in proceedings on behalf of PKN ORLEN was sent to the court on 22 March 2007.

h. Anti-trust proceedings

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

Upon to the decision of the Chairman of the Office of Competition and Consumer Protection ("OCCP") from 21 March 2005, an anti-trust proceedings were started in connection with an allegation that PKN ORLEN S.A. in Płock concluded an agreement with the Grupa Lotos S.A. in Gdańsk which limited competition on the domestic sale market of universal petrol U95 through an unanimous decision to give up production and distribution of U95 and thus eliminating competition on the domestic U95 sale market as well as excluding the risk of the market take-over by the competitor. Relating to the received letter PKN ORLEN S.A. released a statement on put charges and gave answers to questions set by the Chairman of OCCP.
The proceedings to take evidence are pending. They have been prolonged due to motions filed by PKN ORLEN S.A. in order to limit access rights to evidence and due to relative decisions that were issued in this respect by the Chairman of OCCP and which were sued at the Consumer and Competition Court by Grupa Lotos S.A. On 22 February 2006 the proxy of PKN ORLEN S.A. filed complaint against the decision of Chairman of OCCP refusing taking into account one of the PKN ORLEN's motions concerning limitation of access rights to evidence by Grupa Lotos S.A. On 14 April 2006 OCCP informed the Company of the prolongation of the anti-trust proceedings until 31 May 2006, and subsequently until 31 August 2006. As at the date of preparation of these financial statements the proceedings were not finalized. The decision on prolongation of the proceedings was also not delivered.
By virtue of the actual course of the proceedings, limited to court verification of decisions issued by the Chairman of OCCP, it is difficult to assess the risk that PKN ORLEN S.A. may be fined. However, in the light of lack of evidence that would indicate concluding of prohibited agreement, the Company assesses risk of fine as low.

On 21 March 2005, the Company received a letter in which the Chairman of OCCP requested information on monoethylene glycol market and radiator liquid market in the years 2000-2004. The letter concerns the proceedings in the area of setting prices for antifreeze "Petrygo" liquid to radiators and prices for monoethylene glycols. In these proceedings the Chairman of OCCP issued a decision of 19 July 2000 imposing a fine in the amount of PLN 40 million. The Company appealed to Anti-Trust Court against the negative decision of the Chairman of OCCP. On 13 August 2001 the Anti-Trust Court annulled fully the decision of the Chairman of OCCP, which accused PKN ORLEN S.A. of applying monopolistic practice, at the same time annulling the fine. Consequently, in 2001 due to this fact the provision was fully reversed in PKN ORLEN. On 4 October 2001 the Chairman of OCCP submitted an annulment to the verdict. On 10 July 2003 the Supreme Court annulled the verdict of the Anti-trust Court dated 13 August 2001.
The case was conducted again by the District Court in Warsaw, the Consumer and Competition Court (former Anti-Trust Court), which at the seating on 21 July 2004 pronounced the judgment again revoking the appealed decision of the Chairman of OCCP.

Due to the letter from OCCP that had been received on 21 March 2005, PKN ORLEN S.A. answered the questions of OCCP on 11 April 2005. A response defining the adequate geographical market of monoethylene glycol was sent to OCCP on 6 May 2005. Upon the OCCP's request, additional information was provided on 18 May 2005, 7 December 2005 and 14 July 2006. On 5 October 2006 the Company submitted additional information concerning the method of calculation of base price of monoethylene glycol and explained the conditions concerning validity of price list for antifreeze liquid to radiators for packaging companies. On 19 October 2006 a notice from OCCP concerning conclusion of proceedings to take evidence was received. PKN ORLEN S.A. was given a fourteen-day period to get acquainted with the evidence gathered. On 3 November 2006, after getting acquainted with all gathered evidence, the Company submitted a motion to discontinue the proceedings or to issue a decision stating that no activities limiting competition described in art. 8 par. 1 and 2, point 5 and 6 of the Anti-trust Act occurred. The decision dated 29 December 2006 no. RWA-48/2006 was received on 16 January 2007. The Chairman of the Office for Competition and Consumers' Protection decided that PKN ORLEN violated laws by limiting competition and abusing dominant position on the domestic monoethylene glycols market. The violation regarded acting against the creation of the indispensable conditions for setting or development of the competition through unfair setting of the price formula of anti-freeze engine coolant Petrygo. The setting was acknowledged as inadequate to increase in price of monoethylene glycol (basis raw material for this coolant). The Chairman of OCCP ordered to abandon the practice and imposed a penalty in the amount of PLN 14,000 thousand.
On 29 January 2007 PKN ORLEN filed a cancellation to this decision to the District Court in Warsaw, Consumer and Competition Court. As at the present date, the date of the seating in respect of the cancellation has not yet been set.

The financial statements do not include provisions related to the above proceedings as in the view of the Management Board of PKN ORLEN S.A., upon receipt of independent legal opinions, a risk that the Company is charged with a fine is remote. However due to the actual status of proceedings related to PETRYGO the financial statement include contingent liability in the amount of PLN 14,000 thousand.

i. Compensation program for employees

On 27 March 2006 the Agreement on rules of cooperation of social partners in restructuring processes of Polski Koncern Naftowy ORLEN S.A. and on employees' rights connected with those processes, was signed. The agreement concerns employees of PKN ORLEN S.A. subject to restructuring and reorganization processes.
According to the Agreement, employee subject to the restructuring process is entitled to dissolve the employment contract by mutual consent due to reasons independent from employees and to receive a single money consideration of PLN 50 thousand increased by PLN 4 thousand for every started year of service with PKN ORLEN S.A. or its legal predecessors. In case of definite dismissal in accordance with "Particular principles of dissolution of employment contracts due to reasons independent from employees act" of 13 March 2003 (Official Journal no. 90, item 844 with later amendments), an employee is entitled to receive a consideration equal to 40% of the consideration in accordance with Voluntary Leave Program (VLP). In case of non-acceptance of new job or salary conditions, an employee is entitled to receive a consideration equal to 3-months' salary.

In addition, an employee taking part in Voluntary Leave Program has a possibility to participate in a selected training financed by the employer up to the limit of PLN 2 thousand.

Employees subject to the restructuring program, who agreed to change the workplace within the organizational structure of PKN ORLEN S.A., for such which is within the distance of more than 40 kilometers, are entitled to receive a relocation package comprising of: relocation bonus (PLN 8 thousand), refund of relocation costs, refund of real estate agency costs and refund of rent for the period of 12 months (maximum PLN 2 thousand monthly).

j. Shield programs

The Voluntary Leave Programme (VLP) was launched in PKN ORLEN S.A. to support the restructuring process conducted in the Company. VLP provides additional money considerations for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.
Due to the above, the Parent Company created a provision in the amount of PLN 236,000 thousand in accordance with the resolution of the Management Board no. 2537/05 dated 22 December 2005.
As at 31 December 2006 the shield programs provision amounted to PLN 123,921 thousand.

k. Claims and court proceedings – Tankpol Sp. z o.o.

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

On 22 March 2005 the District Court in Warsaw dismissed Tankpol's suit and adjudged PKN ORLEN with a compensation of relevant costs. On 4 May 2005 Tankpol appealed against the verdict, on 27 June 2005 PKN ORLEN submitted its response to the appeal. On 31 March 2006 the Court of Appeals changed the verdict of the District Court in Warsaw (which dismissed Tankpol's suit as a whole). The Court of Appeals pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in PetroTank to Tankpol. The Court of Appeals was convinced that PKN has appropriately executed the transfer of ownership agreement of 20 December 2002. The verdict of the Court of Appeals was legally binding and feasible, however both parties were entitled to submit an annulment to the Supreme Court. On 22 June 2006 Tankpol has submitted annulment from the verdict of the Court of Appeals. On 28 August 2006 PKN ORLEN responded to the annulment submitted by Tankpol. In its response PKN ORLEN disagreed with Tankpol's statement and claimed that it has appropriately executed the transfer of ownership agreement.

On 14 December 2006 the Supreme Court pronounced that it submitted the case for further examination to the Court of Appeals in Warsaw. According to justification of the verdict by Supreme Court, valuation of shares presented by Tankpol should be taken into consideration (whereas the Court of Appeals omitted the valuation in its verdict). On 6 March 2007 the seating in front of the Court of Appeals in Warsaw took place. The verdict was pronounced on 15 March 2007. The Court of Appeals dismissed Tankpol's claim in respect of money compensation. The case was revoked to repronouncement in front of District Court in Warsaw.

l. Polish tax regulations

Taxes in Poland are paid to the central government as well as, to a little extent, to local authorities. The notion of a "tax" has been defined in the Tax Order Act, as a civic-public, free of charge, compulsory, non-returnable money consideration for the benefit of the State Treasury, voivodship, or district, resulting from an act on taxation.
The current taxation system in Poland is based on the following taxes: personal income tax, corporate income tax, tax on goods and services (value added tax, VAT), excise tax and civil law activity tax (relating to e.g. establishing or changes in articles of association of a company, sale of shares or – in certain cases – sale of real estate). Business activities are also to a smaller extent influenced by inheritance and donation tax, tax on gambling as well as agricultural and forestry tax. Among local taxes the most important are: real estate tax, and tax on means of transportation.
Beside corporate income tax stated at 19% rate in 2006, majority of companies conducting business activity are taxpayers of the value added tax (VAT). The basic VAT rate amounts to 22%, reduced rates are 7%, 3% and 0%, whereas some goods and services are exempt from VAT.
Business activity involves also excise tax. Excise goods are precisely defined in the act. The goods comprise e.g. engine fuels, heating oil, natural gas, alcoholic beverages, tobacco products and electricity. By virtue of PKN ORLEN's business activity, excise tax is a significant economic cost for the Parent and group companies. Activities under excise tax include: production of harmonized excise tax goods, release of harmonized excise tax goods from a tax consignment warehouse, sale of excise tax goods on Polish territory, export and import of excise tax goods, intra Community supply and intra Community acquisition of excise goods, acquisition and possession of excise tax goods with an excise tax unsettled in the proper amount (which does not indicate excise tax to be a multiphase tax). Excise tax rates are described as one of the following: percentage of tax base, amount per unit of excise tax goods, percentage of maximum retail price or amount per unit of excise tax goods and percentage of maximum retail price. In practice, tax rates described in decrees issued by the Minister of Finance are applied, whereas maximum tax rates were defined in the excise tax act.
In the common view of entrepreneurs, Poland qualifies as a country with an exceptionally high level of tax risk. The tax law is often amended, which results in lack of clarity as well as inconsistencies and lack of certainty. In addition, frequent discrepancies in tax law interpretations provided within tax authorities and administrative judiciary are observed.
Tax system in Poland is judged as unstable, with highly formalized tax regulations combined with rigorous laws in respect of sanctions. Tax settlements and other regulated areas of activity (e.g. customs or currency exchange control) might be subject to a control from the relevant authorities, entitled to impose severe penalties and sanctions with interests. Tax settlements may be subject to a tax control over five years since the end of the calendar year when the tax liability reaches its maturity. Considering the above described rationales, activities of PKN ORLEN and other entities of the group, that conduct business activity in Poland, may be subject to a tax risk.

m. German tax regulations

The German tax system is similar to the Polish one, where beside direct income tax (corporate income tax), there are also indirect taxes such as value added tax and excise tax.
German tax system is more stable, where tax risks connected with business activity are mitigated by the taxpayer's entitlements.
Taxes in Germany may be imposed by state, federal and local authorities. Business activity is connected with the obligation to pay corporate income tax, personal income tax, social security charges, value added tax, excise tax, capital gains tax and real estate tax.
Calendar year is a fiscal year for the purpose of personal income tax. Tax rates amount from 15% up to 42%. Employers are obliged also to pay social security, health insurance and unemployment fund. Charges are co-financed by an employer and an employee. Due to the level of charges, employment costs are very high in Germany.
For the purposes of corporate income tax, companies seated in Germany or having the factual management headquarter in Germany are taxpayers on total income earned. Taxable income is calculated based on income on operating activity, which is increased and decreased by certain items. Basic corporate income tax rate amounts to 25%. Additionally, direct taxes are increased by the so-called solidarity charge (connected with the merger of two German states) amounting to 5.5% and tax on revenues, which is calculated considering so-called regional factor.
Value added tax is applied to goods and services. Basic rate amounts to 19% and reduced – 7%. The tax is based on the solutions applied in the EU. Similarly to VAT, excise tax regulations also reflect regulations applicable in the EU. This is the basis for imposing of excise tax on e.g. production and import of petrol or diesel oil in Germany.
Real estate tax is charged on all items of real estate (land and buildings) situated in Germany. There is also a tax on sale of real estate that amounts to 3.5%.
Tax regulations in Germany, similarly to other countries, might be subject to different interpretations from taxpayers and tax authorities. Expiration period for liabilities equals maximum 7 years. Regulations in respect of utilization of accumulated tax losses from prior years, which may be deducted from future income in a limited amount, are crucial for Orlen Deutschland A.G.'s activity in Germany.

n. Czech tax regulations

Group companies, conducting their business activity in the Czech Republic, are subject to value added tax, excise tax, corporate income tax, personal income tax and social security regulations. Corporate income tax rate, including capital gains tax equals 24% in 2006. Taxpayers can select a tax year that is different from the calendar year. Tax losses can be settled during the consecutive five years. Transactions between related parties must be based on market prices – tax authorities may assess the level of prices applied in intercompany transactions and impose severe fines, should the prices differ from the market level. Taxpayers might however request binding interpretation in respect of transfer pricing. Fee is charged for the issued interpretations.
Czech value added tax is based on EU standards. Supply of goods and rendering of services (including sale of rights) are subject to VAT. Taxpayer may, in most cases, deduct tax paid on purchases (input tax). Basic rate amounts to 19%, but some goods and services are subject to the reduced rate of 5% and some are exempt from VAT (e.g. insurance, financial, educational or healthcare services).
Legal entity conducting business activity may also be obliged to pay real estate tax, tax on sale of real estate (based on a 3% rate), tax on means on transportation used in business activity and excise tax. Similarly to other EU countries, petrol and diesel oils are subject to excise tax.
Tax regulations are frequently interpreted in a different manner. Tax authorities can adopt different interpretation of the tax law than the Group companies. Tax settlements may be subject to tax control over three years since the end of the calendar year when the taxpayer was obliged to submit the tax return. Should the tax authorities initiate the control before the end of the three year period, the expiration period is prolonged for the next three years. Maximum period of expiration may not exceed 10 years from the end of a given settlement period. For breaching of tax law leading to tax arrears, severe fines may be imposed, including even a possibility of suspension of business activity. Fines are also imposed when tax returns are submitted with any delay. Due to the above stated reasons business activity of Czech companies may be subject to tax risk.

o. Lithuanian tax regulations

Entities conducting business activity in Lithuania are subject to regulations in respect of corporate income tax, personal income tax, social security charges, value added tax (VAT), real estate tax, excise tax etc.
Companies registered in Lithuania are obliged to pay taxes on income and capital gains acquired both in Lithuania and abroad. The base rate of corporate income tax is 15% (whereas entities of a smaller size may be charged based on lower rates). Commencing 2007, capital gains on sale of shares that represent at least 25% of total voting rights and were held by at least 2 years prior to the sale are exempt from taxation. In the period 2006-2007 a temporary social tax has been introduced. The rate of the social tax was 4% and 3% in 2006 and 2007, respectively. The social tax base is analogous to tax base used for the purposes of corporate income tax.
The tax law in Lithuania is severe with regard to transactions with related parties seated both in Lithuania and abroad therefore maintaining of business relationships within market practice is crucial. When there is evidence that the transactions with related parties are inconsistent with market conditions, tax authorities may perform their own assessment of a tax base and a transactional value for taxation purposes.
There are two personal income tax rates: 15% and 27%. Depending on the type of income, personal income tax of natural persons may be transferred to the budget by companies (if it was acquired in these companies) or directly by the person that acquired such income.
The application of VAT is based on the Community laws, primarily in case of sale of goods and services. The base VAT rate is 18%, reduced rates are 9% and 5%, whereas some goods and services are exempt from VAT.
Commencing 2007, a real estate tax rate ranges from 0.3% to 1% (in 2006 it amounted to 1%). The rate is paid based on the cadastre value and applied to real estates located in Lithuania, owned either by Lithuanian or foreign companies.
Production, import and intra-Community acquisition of oil-derived products are subject to excise tax. The Lithuanian law in respect of excise tax reflects the regulations of the European Union. Lithuania was among the first EU countries that implemented an advanced system of electronic real-time monitoring of flow of goods subject to excise tax between tax consignment warehouses in Lithuania. Tax regulations in Lithuania may be subject to diverse interpretations by the taxpayers and tax authorities. Tax controls may regard the current reporting period as well as five prior years.

p. Maltese tax regulations

The tax system in Malta is based on the imputation rule combined with tax return which effectively means a low real tax rate and a high nominal tax rate. It should however be noted that Malta is currently under pressure of the European Union; EU considers tax regulations in Malta as detrimental to competition and will aim at its elimination.
The ‘captive insurance’ company is in principle subject to a corporate income tax with a 35% rate, however in the event of business activities related to insuring of risks abroad of Malta, the application of imputation rule combined with a tax credit may lead to effective decrease of tax rate even to 4.7%, provided that the dividend is paid to the shareholders. The revenues on technical reserves may be included as tax deductible costs in determination of taxable income.

VAT is another typical tax related to establishment and conduct of insurance activities in Malta. VAT regulations applicable in the European Union provide that insurance services are exempt from VAT which indicated also that input VAT on goods and services cannot be deducted.
The Maltese VAT system is based on the Community's regulations. VAT is in principle applied to sale of goods and services. The basic VAT rate amounts to 18%, reduced rate is 5%, whereas some goods and services are exempt from VAT.
Malta provides additional tax relieves applicable for the company that include deduction of 200% of expenses related to occupied office space and 200% expenses related to employee salaries paid in the course of first ten years of business activity.
Malta has implemented the European 'Parent-Subsidiary' Directive. Pursuant to the provisions of the Directive, upon completion of certain conditions, dividends paid to companies seated in the European Union are exempt from withholding tax. The practical application of the above rule in Maltese taxation system, which is based on imputation rule and tax return, is however unclear. The issue of simultaneous application of the two above systems as well as the agreement between Poland and Malta with regard to avoidance of double taxation requires further analyses.

q. Disposal of shares in NOM Sp. z o.o.

On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezależny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN ORLEN S.A. to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price amounted to PLN 111,500 thousand and was calculated as a sum of nominal value of the shares sold and a cumulative investment premium calculated according to the agreement dated 8 June 2000 regulating the cooperation between shareholders of NOM.
On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce ("PCC") in Warsaw, regarding the determination of the invalidity of the sale of shares agreement.
On 26 April 2005 the Company received a verdict of the Court of Arbitration of the Polish Chamber of Commerce in Warsaw. The verdict of the arbitration court is unfavorable for PKN ORLEN. As a consequence the estimations of the Management Board in relation to the assessment of the risk of non-collection of the above receivable were changed. The Company provided an allowance for the receivable in the amount of PLN 111,500 thousand presented in the financial statements for the year 2004.
On 20 May 2005 the Company issued a complaint to the District Court in Warsaw regarding waiving of the above verdict of the Court of Arbitration together with a motion to suspend execution of the verdict. On 26 June 2005 the District Court issued a decision to dismiss the motion to suspend execution.
On 6 April 2006 the District Court in Warsaw, XX Commercial Department, issued a verdict in respect of PKN ORLEN's complaint against the verdict of Court of Arbitration of the Polish Chamber of Commerce in Warsaw, dated 14 April 2005, in the case against PSE S.A. regarding sale of shares in NOM. The District Court dismissed PKN ORLEN's complaint and adjudged the return of proceeding's expenses of PLN 7 thousand for the benefit of PSE.
On 27 April 2006 PKN's attorney received the justification of a verdict from the District Court. Upon analysis of the justification, PKN decided not to appeal against the verdict. The verdict is legally binding.

On 29 July 2005, PKN ORLEN demanded that PSE would repay within a week the contractual penalty of PLN 111,500 thousand.
On 8 August 2005 PKN ORLEN received a letter from PSE where PSE stated it was not bound to settle the penalty.
On 15 September 2005 PKN ORLEN filed at the Court of Arbitration of PCC in Warsaw a suit for adjudication of the contractual penalty of PLN 33,453 thousand. On 7 August 2006 PKN ORLEN changed the suit by the letter submitted to the Court of Arbitration of PCC, demanding contractual penalty of PLN 111,511 thousand with interest.
According to the declaration of the Court of Arbitration of 7 December 2005, PKN ORLEN submitted a letter with motions of evidence and the statement regarding eventual suspension of the proceedings. PKN ORLEN's attorney received analogous letter from PSE. On the seatings dated 31 August 2006 and 1 September 2006 the Court of Arbitration acquainted with testimonies of both parties' witnesses.
On the following seatings dated 29 November 2006 and 14 December 2006 The Court acquainted with testimonies of both parties' witnesses.
At the seating dated 14 December 2006 the Court obliged both sides to prepare and submit letters with recapitulation of stands. The letter was submitted by PKN ORLEN.

As of 31 December 2006, shares in NOM were presented in the foregoing consolidated financial statements as investments in associates in the net amount of PLN 18 million, after recognition of an impairment of shares allowance based on independent expert's valuation.

r. Collateral with regard to shares in Basell ORLEN Polyolefins Sp. z o.o. („BOP")

Under the share pledge agreement of 19 December 2003 PKN ORLEN pledged all own shares of BOP, i.e. 907,398 shares of nominal value of PLN 500 per each, representing 50% of share capital of BOP and having 50% of voting rights at the Shareholders' Meeting. The pledge was for the benefit of Kredyt Bank S.A., seated in Warsaw, operating as a Pledge Agent. The condition for the pledge to be effective included its registration in a collateral register held by the registry court, which was completed on 23 January 2004.
Collateral set by the pledge agreement of 19 December 2003 secured repayment of current and future claims by BOP, to which Pledge Agent is entitled due to the financial collateral agreement concluded between entities financing BOP up to the highest securing amount of EUR 750 million.
On 18 December 2006 Basell ORLEN Polyolefins has concluded a new bank loan agreement. No collateral in the form of shares in BOP owned by PKN ORLEN is required with regard to the new agreement. Pursuant to that fact a procedure has been started in January 2007 to remove the pledge from the collateral register. The respective removal has been made based upon a decision issued on 7 March 2007.
The new bank loan agreement is pledged on the assets of BOP therefore the carrying amount of assets pledged for the purposes of bank loan agreement has been included in the total amount of pledged assets and presented in notes 5, 12 and 13 to the foregoing consolidated financial statement.

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

In 2003-2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the Unipetrol Group companies.
In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.
Agrofert Holding a.s. agreed that PKN ORLEN S.A. disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

On 25 January 2006 PKN ORLEN received a copy of a law suit issued by Agrofert Holding a.s. regarding the payment of contractual penalty of EUR 77,266,500 with interests. The court proceeding in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague is currently in progress.

On 20 February 2006 the Management Board of PKN ORLEN has decided to withdraw (in the understanding of Czech commercial code) from the agreements concluded with Agrofert Holding a.s. The reason for such withdrawal was breaching by Agrofert Holding a.s. the terms of the agreements by allowing DEZA a.s. to execute the share purchase option on AGROBOHEMIE a.s. and Synthesia a.s. (formerly: ALIACHEM a.s.) shares.

On 9 May 2006 the Company's attorney received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a second law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute, similarly to the first one commenced by Agrofert Holding a.s., amounts to EUR 77,266,500 with interests. The arbitration proceedings initiated by this law suit are currently in progress.

On 5 July 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a third law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of contractual penalty. The value of the dispute amounts to CZK 409,102,494 (approximately EUR 14 million) plus interests.
The arbitration proceedings initiated by this law suit are currently in progress.

On 13 December 2006 the Company received from the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague, a copy of a fourth law suit issued by Agrofert Holding a.s., seated in Prague, regarding the payment of compensation of loss related to unfair competition, illegal violation of reputation of Agrofert Holding a.s.
The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interests. The amount claimed by Agrofert Holding a.s. is currently analyzed by the Company's legal advisors, and the arbitration proceedings are at the initial stage i.e. organizational matters are being conducted.

As at the date of preparation of these financial statements, the parties are conducting mediations aimed at amicable settlement of the dispute in respect of the agreement with ConocoPhillips Central and Eastern Europe Holdings B.V. The Management Board of the Company hopes that, as a consequence of series of mediation meetings, the Company and ConocoPhillips will soon finalize the mediation process with favorable outcome to both parties.

(all amounts in PLN thousand)

The foregoing financial statements include the provision to cover the potential negative financial effects related to execution of the agreements.

t. Risk connected with agreements with DEZA a.s.

In August and September 2005 Unipetrol a.s. received letters from Deza a.s., requesting execution of the agreements regarding sale of shares in Agrobohemie a.s. and Aliachem a.s. (presently Synthesia a.s.) Unipetrol a.s. and Deza a.s. each own 50% shares in Agrobohemie a.s. The shareholder structure in Synthesia a.s. is as follows: Agrobohemie a.s. owns 55.01% shares, Unipetrol a.s. – 38.79% and Deza a.s. – 4.67%. The remainder of 1.53% is owned by minority shareholders of Synthesia a.s.
Letters received from Deza regarded the agreements for future payable assignment of shares, concluded between Unipetrol a.s. and Deza a.s. in relation to shares in Agrobohemie a.s. and Synthesia a.s. on 12 October 2000 and 15 August 2001, respectively. The Management Board of Unipetrol a.s., having thoroughly analyzed concluded agreements and received letters, has determined that these documents contain vital legal faults as well as are incompliant with best market practice. In conjunction with this fact the Management Board of Unipetrol a.s. has proposed that Deza a.s. modified the transaction documents in order to ensure its compliance with binding Czech law as well as market standards and practices. In spite of endeavors of Unipetrol a.s., Deza a.s. has rejected proposals of the Management Board of Unipetrol a.s. and on 26 January 2006 it issued a law suit in respect of settlement of contractual penalties arguing that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In accordance with the above mentioned agreements, Deza a.s. has calculated the amount of the penalty in the amount of CZK 1.5 million per day. On 22 August 2006 Deza a.s. issued a law suit in respect of execution of the agreements concerning assignment of shares and a law suit in respect of damages arguing in both cases that it had been a breach of the agreements by Unipetrol a.s. by failure to execute the assignment of shares. In the second half of 2006 Unipetrol a.s. and Deza a.s. commenced negotiations in order to achieve potential compromise in both cases aside court proceedings. Until the date of preparation of these consolidated financial statements the negotiations have not been finished and no agreement has been signed related to this cases. In spite of endeavors of Unipetrol a.s. related to conclusion of an agreement acceptable by both parties, probability of concluding of such an agreement is difficult to predict.
In relation to the fact that no compromise agreement has been signed between Unipetrol a.s. and Deza a.s., it may be suspected that the court proceedings presently in progress will be continued. The completion date for these proceedings as well as final decisions related to nullity of agreements, payment of contractual penalties or indemnities for the benefit of Deza a.s. are difficult to be defined. Court proceedings in the Czech Republic usually last a few years depending on circumstances.
In addition, Unipetrol a.s. has currently no access to any business information connected with future development of Agrobohemie a.s. and Synthesia a.s. and is unable to manage, control or influence the financial and operating standing of both entities due to the fact that they are controlled by Deza a.s. The feasibility of sale of shares by Unipetrol a.s. to any third party entities is limited in this situation.
The above described circumstances may have significant negative impact on value of shares of Unipetrol a.s. in Agrobohemie a.s. and Synthesia a.s. By virtue of uncertainties in relation to future outcome of court proceedings as well as due to difficulties in determination of the fair value of shares, neither impairment allowance in respect of the value of shares was recognized nor was provision for contractual penalties created in the financial statements.

Due to loss of significant influence of Unipetrol Group on associated companies: Synthesia a.s., Agrobohemie a.s. as of 30 September 2005, these assets were accounted for using the equity method and included in the consolidated balance sheet of Unipetrol a.s. as at 31 December 2006 as long-term financial investments of PLN 508,995 thousand (translated from CZK using the exchange rate applicable for 31 December 2006).

36. Employment structure

Average employment by groups was as follows:

	for the year ended 31 December 2006	**for the year ended 31 December 2005**
Blue-collar workers	14 488	11 643
White-collar workers	11 050	9 532
	----------	----------
	25 538	**21 175**
	======	======

Employment level as of 31 December 2006 24,113 persons and 31 December 2005 amounted to 20,805 persons.

37. Description of factor and events, especially of a non-usual nature, with significant impact on financial results

The following significant events impacting financial positions of the foregoing consolidated financial statements occurred in 2006:

a. Share purchase of Mazeikiu Group

1. Share purchase agreements of Mazeikiu

On 26 May 2006, PKN ORLEN, as the buyer, and Yukos International UK B.V., a private limited liability company seated in the Netherlands (‘Yukos International’), as the seller, concluded a share sale and purchase agreement (the ‘Yukos Agreement’) related to the purchase by PKN ORLEN of a 53.7022% stake in AB Mazeikiu Nafta, a public company with its seat in Lithuania (“Mazeikiu”). On 18 May 2006, PKN ORLEN unilaterally signed the Yukos Agreement and delivered it to the other party. Yukos International counter-signed the Yukos Agreement on 26 May 2006 after the New York Bankruptcy Court had revoked the temporary restraining order previously imposed on Yukos International with respect to selling any Mazeikiu shares.

In addition, on 19 May 2006 PKN ORLEN S.A. unilaterally signed and delivered the following documents to the Government of the Republic of Lithuania (the ‘GOL’): (a) a share sale and purchase agreement (the ‘GOL Agreement’) related to purchase of an additional 30.6615% shares of Mazeikiu by PKN ORLEN from the GOL; and (b) a put option agreement related to the 10.0006% shares of Mazeikiu (the ‘Put Option Agreement’) that would remain property of GOL subsequent to the sale of the 30.6615% stake to PKN ORLEN S.A. The GOL Agreement and the Put Option Agreement has been counter-signed by the GOL on 9 June 2006, upon approval of the Lithuanian Parliament.

1.1. Main provisions of share purchase agreements of Mazeikiu

Share purchase agreement with Yukos International UK B.V.

Pursuant to the Yukos Agreement, PKN ORLEN S.A. purchased 379,918,411 ordinary shares of Mazeikiu, with a nominal value of LTL1 each, representing approximately 53.7022% of Mazeikiu’s share capital, for the aggregate price of USD 1,492,000,000. The execution of the Yukos Agreement was subject to certain suspending clauses, i.e. (a) the receipt of all relevant consents, including in particular the European Commission’s concentration clearance, and (b) the GOL’s withdrawal from exercise of its right of first refusal with respect to the shares being purchased by PKN ORLEN from Yukos International. The agreement provided, that should any of the conditions precedent would not be fulfilled by 30 September 2006, each of the parties would be entitled to terminate the Yukos Agreement. However, each of the parties would have been entitled to claim for extension of the termination date to 31 March 2007 if the only condition not met by 30 September 2006 was the consent of the European Commission.

Upon the acquisition of shares of Mazeikiu from Yukos International, PKN ORLEN S.A. has become a party to certain agreements related to the two previous privatizations of Mazeikiu conducted in 1999 and 2002, in particular, the 1999 and 2002 privatization agreements and the shareholders’ agreement between the GOL and Yukos International. All agreements related to the previous privatizations of Mazeikiu, including both privatization agreements and the existing shareholders’ agreement that were assigned to PKN ORLEN S.A. were terminated immediately upon the closing of the transaction with Yukos International, and the parties thereto were fully discharged from any and all liabilities under these agreements.

In the period between signing of the Yukos Agreement and the transaction closing date, Yukos International represented that Mazeikiu and its subsidiaries will conduct operations within the ordinary course of business and do not take any action which would materially adversely affect the parties’ ability to accomplish the transaction.

Share purchase agreement with the Government of the Republic of Lithuania

Pursuant to the Agreement with the Government of the Republic of Lithuania, PKN ORLEN S.A. purchased an additional 216,915,941 ordinary Mazeikiu shares with the nominal value of LTL1 each, representing approximately 30.6615% of Mazeikiu’s share capital, for the aggregate price of USD 851,828,900.31. The execution of the GOL Agreement was subject to certain suspending clauses, i.e. (a) the acquisition by PKN ORLEN S.A. of 53.7022% of Mazeikiu’s shares from Yukos International; and (b) the receipt of the European Commission’s concentration clearance. The agreement provided, that should any of the conditions precedent would not be fulfilled by 30 September 2006, neither of the parties would be obliged to execute the GOL Agreement. However, both parties would have remained bound by the GOL Agreement until 31 March 2007 if the only condition not met by 30 September 2006 would have been the consent of the European Commission. On 29 September PKN ORLEN issued a letter to the Government of the Republic of Lithuania and informed about automatic prolongation of the agreement until 31 March 2007.

Furthermore, the previously existing shareholders' agreement was replaced by the new shareholders' agreement between PKN ORLEN S.A. and the GOL as of the closing date of the transaction with Yukos International. Pursuant to the new shareholders' agreement, PKN ORLEN S.A. maintains full operational control over Mazeikiu. The GOL is entitled to appoint one of the nine members of Mazeikiu's Supervisory Board and one of the seven members of Mazeikiu's Management Board. In addition, the GOL is entitled to request annulment of the resolutions of Mazeikiu's corporate authorities if such resolutions present a threat to the national security or the energy security policy of the Republic of Lithuania. The GOL is entitled to request that PKN ORLEN S.A. sold all its shares of Mazeikiu in any of the following circumstances: (a) Mazeikiu incurs a loss in each of any five consecutive financial years; (b) Mazeikiu's assets with a value exceeding USD 200,000,000 are seized in connection with an enforcement proceedings following a final and non-appealable court decision; (c) over 50% of voting rights in PKN ORLEN S.A. are acquired by an entity that, in the GOL's reasonable opinion, presents a threat to the national security of the Republic of Lithuania. Every disposal of shares of Mazeikiu by PKN ORLEN S.A. and/or the GOL will be subject to the other party's right of first refusal. The new shareholders' agreement will expire upon the disposal by the GOL of any of its 70,750,000 shares of Mazeikiu.

Pursuant to the Put Option Agreement, the GOL is entitled to sell to PKN ORLEN S.A. 70,750,000 ordinary Mazeikiu shares, with the nominal value of LTL 1 each, representing approximately 10.0006% of Mazeikiu's share capital. The put option will remain in force in the period of five years upon the sale of the 30.6615% stake related to the GOL Agreement. The aggregate price for all shares under Put Option Agreement amounts to USD 277,835 thousand. However, should the GOL exercise the put option within the period of three years from the sale of the 30.6615% stake to PKN ORLEN S.A., the aggregate price for all shares under put option would amount to USD 284,450 thousand.

All transaction documents are governed by the English law.

1.2. Mandatory tender offering for the remaining shares

Upon the acquisition of Mazeikiu shares from Yukos International, PKN ORLEN S.A. was obliged under the Lithuanian law to announce a mandatory tender offering for the remaining shares of Mazeikiu within 30 days from the date of acquisition of the Mazeikiu shares from Yukos International. The price per share offered in the mandatory tender offering must not be lower than the highest price paid by ORLEN S.A. for the Mazeikiu shares during the 12-month period preceding the announcement of the tender offer.

1.3. The receipt of the European Commission's and other anti-trust bodies consents for the transaction

On 29 September 2006 PKN ORLEN filed official motion to the European Commission in order to obtain consent for concentration of PKN ORLEN Capital Group's and Mazeikiu Nafta's assets as a result of share purchase agreement. The decision of the European Commission was expected in first half of November. As a result, on 30 September the agreement on prolongation of term of withdrawal from the agreement with Yukos until 31 December 2006, was signed. On 7 November 2006 PKN ORLEN S.A. obtained the European Commission's clearance for the acquisition of a controlling stake in AB Mazeikiu Nafta ("Mazeikiu").
Based on the analyses of AB Mazeikiu Nafta export activities it was determined that precedent to execution of the Yukos Agreement, aside from European Commission's clearance, obtaining of relevant consent from the Ukrainian Anti-Trust Committee as well as consent of anti-trust bodies of United States of America was required. The same provisions of the Yukos Agreement apply to the above consents as to the European Commission's consent. The motion to the Ukrainian Anti-Trust Committee was filed on 16 August 2006. On 21 August 2006 the Ukrainian Anti-Trust Committee agreed on share purchase transaction for Mazeikiu Nafta. In case of USA, motions were filed by PKN ORLEN and Yukos on 15 September 2006. Before statutory deadline, on 25 September 2006, the U.S. Federal Trade Commission has concluded its review of the planned acquisition by PKN ORLEN of a control over Mazeikiu. Early termination of the required waiting period for the possible objections of the U.S. anti-trust authorities means the receipt of the clearance under the Hart Scott-Rodino Antitrust Improvements Act of 1976 for the purchase by PKN ORLEN S.A. of the controlling stake in Mazeikiu.

1.4. Significant events after signing the share purchase agreements of Mazeikiu

On 12 July 2006, the Government of the Republic of Lithuania irrevocably elected not to exercise its right of first refusal with respect to the 53.7022% shares of Mazeikiu, governed by the Yukos Agreement. The GOL also expressed its irrevocable consent for the transaction between Yukos and PKN ORLEN S.A.

At the end of July 2006 the crude oil deliveries to Mazeikiu were stopped by Russian operator of crude oil pipeline system "Druzhba". The interruption in deliveries was caused by the technical breakdown in section Unecha-Polotsk. Till now the crude oil deliveries to Mazeikiu were not resumed through oil pipeline system "Druzhba". At the same time the crude oil is continuously delivered by sea transport.

On 12 October 2006, a fire accident occurred in the oil refinery belonging to AB Mazeikiu Nafta, leading to damage to a vacuum distillation unit.

2. Purchase of shares from Yukos International and the Government of Republic of Lithuania

On 15 December 2006, though brokerage of the Vilnius Stock Exchange, the share sale and purchase transaction was settled. PKN ORLEN S.A. purchased 379,918,411 shares of Mazeikiu from Yukos International. This determined that PKN ORLEN S.A. formally acquired ownership of 379,918,411 shares of Mazeikiu at that date. Thereby the last of the conditions precedent determined in the agreement dated 9 June 2006 between PKN ORLEN S.A. and the Government of the Republic of Lithuania related to sale of shares of Mazeikiu, was fulfilled. In conjunction, on 15 December 2006, without brokerage of the Vilnius Stock Exchange, the share sale and purchase transaction was settled – PKN ORLEN S.A. purchased 216,915,941 shares of Mazeikiu from the Government of the Republic of Lithuania.
Pursuant to settlement of transactions with Yukos International and the Government of the Republic of Lithuania, on 15 December 2006 PKN ORLEN S.A. has become a holder of a total number of 596,834,352 shares of Mazeikiu. The nominal value of one share of Mazeikiu is LTL 1 (which is equal to PLN 1.10 in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006). The shares held in Mazeikiu by PKN ORLEN S.A. constitute 84.36% of the share capital of Mazeikiu and entitle to 596,834,352 voting rights at the General Meeting of Shareholders (GM), which is equal to 84.36% of total voting rights at GM in Mazeikiu. The purchase price of shares acquired from Yukos International amounted to USD 1,492,000,000 (i.e. PLN 4,315,610 thousand in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006) whereas the purchase price of shares acquired from the Government of the Republic of Lithuania amounted to USD 851,829 thousand (i.e. 2,463,915 thousand in accordance with average exchange rate of the National Bank of Poland announced on 15 December 2006). The book value of shares of Mazeikiu acquired by PKN ORLEN S.A. was recognized in the accounting books of PKN ORLEN S.A. at cost including acquisition costs.
The share purchase of Mazeikiu was financed by means of revolving bank loan, bridge bank loan and cash owned of PKN ORLEN S.A. The purchase is of a long-term capital investment nature.
Yukos International is a holding company controlled by Stichting Administratiekantoor Yukos International fund.

In conjunction with the settlement of the purchase of Mazeikiu shares from Yukos International by PKN ORLEN S.A., the Shareholders Agreement dated 9 June 2006 between PKN ORLEN S.A. and the Government of the Republic of Lithuania came into force on 15 December 2006.
The Extraordinary Meeting of Shareholders of Mazeikiu held on 14 December 2006 changed the composition of Supervisory Board of Mazeikiu. Six persons nominated by PKN ORLEN S.A. – Mr Marek Moroz, Mr Czesław Bugaj, Mr Marcin Wasilewski, Mr Piotr Kearney, Mr Wojciech Wróblewski and Mr Rafał Zwierz – have been appointed members of the Supervisory Board of Mazeikiu. The Board elected Mr Marek Moroz for the position of its Chairman. Presently the Board is composed of nine members. The remaining three persons were nominated by the Government of the Republic of Lithuania.
During the meeting held on 14 December 2006 the Supervisory Board of Mazeikiu has made changes to the composition of the Management Board of Mazeikiu. Four representatives of Yukos International UK B.V. have been replaced by four persons nominated by PKN ORLEN S.A. The Supervisory Board appointed Mr Jan Maciejewicz and Mr Paweł Szymański to the Management Board of Mazeikiu, and again appointed Mr Krystian Pater and Mr Paul Nelson English (holding the position of General Director of Mazeikiu at that time). In addition, on 15 December 2006 the Supervisory Board of Mazeikiu appointed two other persons nominated by PKN ORLEN S.A.: Mr Igor Chalupec and Mr Piotr Kownacki to the Management Board. The Management Board is composed of seven members, which includes also a representative of the Government of the Republic of Lithuania. At the meeting held on 15 December 2006 the Management Board has elected Mr Igor Chalupec for the position of President of the Management Board.

3. Purchase of additional shares in Mazeikiu by PKN ORLEN S.A.

3.1. Mandatory tender offering for shares in Mazeikiu

In accordance with Lithuanian law, exceeding of the 40% voting rights at the General Meeting of Shareholders of Mazeikiu obliged PKN ORLEN S.A. to announce mandatory tender offering ('MTO') for all remaining shares in Mazeikiu attributable to investors other than PKN ORLEN S.A. Until receipt of relevant clearance with regard to the documentation related to MTO from the Stock Exchange Commission in Lithuania, PKN ORLEN S.A. was not able to execute its voting rights at the General Meeting of Shareholders, that were attributable to all shares held in Mazeikiu. Until that moment, however not longer than for the period of 100 days, the Government of the Republic of Lithuania assumed an obligation to execute voting rights attributable to shares held in Mazeikiu in conformity with instructions issued by PKN ORLEN S.A. Documentation related to MTO received clearance of the Stock Exchange Commission in Lithuania on 22 December 2006.
Prior to commencement of the subscription process under MTO, a merger of Mazeikiu with AB Mazeikiu Elektrine was registered on 28 December 2006. In consequence of the merger, 1,366,992 new shares of Mazeikiu were issued for the minority shareholders of AB Mazeikiu Elektrine. As a result of the new issue of shares, total number of shares of Mazeikiu is equal to 708,821,122.
Mandatory Tender Offering has been conducted in the period from 2 to 15 January 2007. Pursuant to the settlement of MTO, PKN ORLEN S.A. purchased 35,879,247 shares of Mazeikiu. The Company holds 632,713,599 shares which is equal to 89.2628% stake in share capital of Mazeikiu.

3.2. Constant call offer at the Vilniaus Stock Exchange

Due to the fact that MTO did not comprise the above mentioned new issue of shares, as well as in order to improve the preparatory process to squeeze out procedure related to shares of Mazeikiu attributable to minority shareholders other than the Government of the Republic of Lithuania, PKN ORLEN S.A. made a constant call offer at the Vilniaus Stock Exchange for shares of Mazeikiu at each day in the period from 26 January to 19 February 2007. The purchase price for shares was equal to the purchase price used for the purposes of MTO i.e. LTL 10.25 per share. In the described period PKN ORLEN purchased 1,895,952 shares of Mazeikiu and as at 19 February 2007 held 634,609,551 shares, constituting a 89.5303% stake in Mazeikiu. Except for 70,750,000 shares owned by the Government of the Republic of Lithuania, 3,461,571 shares representing 0.4884% stake in share capital are quoted at the market.

3.3. Squeeze out procedure related to shares in Mazeikiu held by minority shareholders

Acting under agreement with the Government of the Republic of Lithuania, on 20 February 2007 PKN ORLEN commenced a squeeze out procedure related to shares of Mazeikiu held by minority shareholders. The squeeze out will be conducted in accordance with the Lithuanian law. The provisions of the cooperation between PKN ORLEN and the Government of the Republic of Lithuania are included in the agreement dated 25 January 2007. At the first phase of the process, which will be effected until 21 May 2007, the shareholders of Mazeikiu are entitled to sell shares through broker house SEB Vilniaus Bankas. The price was set at LTL 10.25.
Unless the first phase leads to buyout of all shares held by minority shareholders, PKN ORLEN will put forward a motion to the court in Lithuania to issue a decision in accordance with the Lithuanian law related to squeeze out procedure. In effect of the decision all shares held by minority shareholders other than the Government of the Republic of Lithuania will become property of PKN ORLEN for a price equal to LTL 10.25 per share. The procedure will result in acquisition of all shares in Mazeikiu, except for shares held by the Government of the Republic of Lithuania.

4. Changes in the Management Board of Mazeikiu

In conjunction with the resignation of Mr Igor Chalupec from the position of the President of the Management Board of PKN ORLEN on 31 January 2007, the Supervisory Board of Mazeikiu dismissed Mr Igor Chalupec and at the same time appointed Mr Dariusz Formela to the Management Board. On 7 February 2007 the Management Board of Mazeikiu has elected Mr Piotr Kownacki for the position of President of the Management Board. On 16 March 2007 Mr. Jan Maciejewicz resigned from the position of Member of the Management Board. In accordance with the Lithuanian law, the resignation came into force after a lapse of 14 days. Until 17 April 2007, one vacancy in the composition of the Management Board of Mazeikiu existed.

5. Settlement of acquisition of Mazeikiu

On 15 December 2006 the Company purchased 596,834,352 ordinary shares of AB Mažeikių Nafta („Mažeikių”), which constituted 84.36% of all issued shares of Mažeikių. The purchase was realized on the basis of two agreements concluded by PKN ORLEN: the share sale and purchase agreement with Yukos International UK B.V dated 26 May 2006 on purchase of 379,918,411 shares, that stood for 53.7022% of all issued shares and share sale and purchase agreement with the Government of Republic of Lithuania dated 19 May 2006 on purchase of 216,915,941 shares, that stood for 30.6615% of all issued shares. On 28 December 2006 Mažeikių merged with Mažeikių Elektrine. The share of PKN ORLEN declined by 0.16 percentage points.
In relation to conclusion of the put option agreement in respect of 70,750,000 shares in Mazeikiu owned by the Government of the Republic of Lithuania by PKN ORLEN S.A. as well as due to mandatory tender offer regarding shares held by minority shareholders, the settlement of the business combination for the purposes of the foregoing consolidated financial statements has been performed in accordance with IAS 32 ‘Financial instruments: Disclosure and Presentation’ paragraphs 22-23 – financial liabilities were disclosed and minority interest were not disclosed. The share of PKN ORLEN in Mazeikiu Group was assumed at 100% for the purposes of these financial statements.

Mažeikių Group is composed of group of companies operating in the refining sector in the Republic of Lithuania, mainly involved in crude oil processing, distribution of fuels and crude oil derived products. In all those activities Mažeikių is a representative of the industry sector in the Republic of Lithuania and Central Europe. Mažeikių Group consists mainly of the following companies:

- AB Mažeikių Nafta – Crude oil refining, transportation services of crude oil and crude oil derivate products, service and loading of tanker ships, sale of refined products.
- AB Ventus-Nafta – Retail sale of crude oil products.
- UAB Mažeikių naftos prekybos namai – Sale and marketing of products of AB Mažeikių Nafta in Lithuania.
- SIA Mažeikių Nafta Tirdzniecibas nams – Wholesale trade of crude oil products in Latvia.
- OU Mazeikiu Nafta Trading House – Wholesale trade of crude oil products in Estonia
- Mažeikių Nafta Trading House Sp. z.o.o. – Wholesale trade of crude oil products in Poland
- UAB Juodeikių nafta – Loading of truck vehicles with crude oil; entity under liquidation proceedings.
- UAB Uotas – Lease of gas stations, entity under liquidation proceedings.
- UAB Naftelf – Sale of aviation fuels (joint venture with ‘Corelf’)

(all amounts in PLN thousand)

The acquisition of Mažeikių was accounted under the purchase method in accordance with IFRS 3 'Business combinations'. In consequence of the fact that the cost of business combination (purchase price increased by any costs directly attributable to the combination) exceeded the share of PKN Orlen in the fair value of net identifiable assets, liabilities and contingent liabilities, the Company recognized goodwill in the balance sheet as of 31 December 2006.

As a result of purchase of Mažeikių shares, the following categories of assets, liabilities and contingent liabilities were acquired and the transaction was settled in accordance with the purchase method in the following way:

Fair value of assets and liabilities by main categories:	
Cash and cash equivalents	1 030 556
Propery, plant and equipment	7 474 909
Intangible assets *	112 741
Inventories	1 082 965
Receivables	980 329
Other assets	462 982
Provisions	(25 761)
Long-term liabilities	(1 359 934)
Short-term liabilities	(1 097 009)
Other liabilities	(910 155)
Net assets of Mażeikiu Nafta at fair value	7 751 623
Share of PKN ORLEN in net assets of Mazeikiu Nafta	7 751 623
Cost od business combination**	8 056 728
Goodwill	305 105
Impact of the net cash flow (i.e. excluding financial liabilities)	(6 759 742)
Acquired cash and cash equivalents	1 030 556
Net cash outflow until 31 December 2006, related to purchase of Mazeikiu Group, net of acquired cash and cash equivalents.	(5 729 186)

* including acquired CO2 emission rights in the amount of PLN 88,771 thousand
** including the financial liability of PLN 1,296,986 thousand recognized in connection with the put option agreement concluded between the Government of the Republic of Lithuania and PKN ORLEN and mandatory tender offer regarding shares held by minority shareholders and PLN 24,047 thousand related to costs of advisory services, business trips etc. directly attributable to the combination

In conjunction with acquisition of assets and liabilities of Mažeikių Group, the process of their valuation to fair value is pending. The Group recognized an effect of the valuation of the acquired net assets. For the purposes of the foregoing consolidated financial statements the Company performed an impairment test of goodwill on consolidation of Mazeikiu Group. The Company analyzed and assessed the risk related to the resumption date of crude oil deliveries. An impairment loss of goodwill amounted to PLN 305,105 thousand. The impairment charge was recognized in the profit and loss of 2006 as other operating revenues.

In conjunction with the fact that the transaction was closed on 15 December 2006, the consolidated balance sheet of Mažeikių Group as at 31 December 2006 as if at acquisition date has been included in the consolidated balance sheet of PKN ORLEN Group. Due to insignificant impact, the consolidated income statement of Mažeikių Group for the period from 15 December 2006 to 31 December 2006 has not been included in the consolidated income statement of PKN ORLEN Group for 2006.

(all amounts in PLN thousand)

The condensed consolidated income statement of Mažeikių Group for the period from 15 December to 31 December 2006, without the effect of fair value and impairment of goodwill in the amount of PLN 305,105 thousand, is presented below:

Total sales revenues	273 847
Cost of finished goods, merchandise and materials sold	(275 391)
Gross loss on sales	(1 544)
Distribution expenses	(11 898)
General and administrative expenses	(6 552)
Other operating revenues and expenses, net	19 303
Loss on operations	(691)
Financial revenues	2 957
Financial expenses	(5 317)
Loss before tax	(3 051)
Income tax expense	(3 446)
Net loss	(6 497)

In accordance with IFRS 3 'Business combinations', consolidated revenues and financial result of PKN ORLEN Group, including consolidated financial data of Mažeikių Group for the period from 1 January 2006 to 31 December 2006, calculated as if the acquisition date coincided with the beginning of the period, were presented below:

Consolidated pro forma results for 2006, excluding the impact of fair value valuation and impairment of goodwill of PLN 305,105 thousand:

Total sales revenues	66 153 159
Other operating revenues	658 324
Financial revenues	724 428
Net result	1 905 044

Until 31 December 2006, actual acquisition expenses directly attributable to the combination amounted to PLN 24,047 thousand .

38. Supplementary information

a. Restructuring of the southern assets

The restructuring and consolidation project embraces the following companies:
- Rafineria Nafty Jedlicze S.A.
- Rafineria Trzebinia S.A.
- Orlen Oil Sp. z o.o.
- Paramo a.s., where Unipetrol a.s. is the majority shareholder.

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

The company realizes restructuring project approved in July 2005 by PKN ORLEN's Management Board.
The project for the southern assets designed by Investekspert aims at:
- consolidation of activity related to oil and lubricant production in Orlen Oil Sp. z o.o.,
- targeted discontinuation of crude oil processing in the southern Poland and grouping assets relating to this activity within a separate business,

The business advisor for the restructuring and consolidation project submitted recommendations in respect of suggested action plan. In June 2006 the Management Board of PKN ORLEN S.A. has accepted the major assumptions of restructuring process:
- modernization of existing DRW installation (crude oil distillation unit) in Rafineria Nafty Jedlicze S.A. for the purposes of processing of local output crude;
- construction of organic solvent installation in Rafineria Nafty Jedlicze S.A. in case a rebate on supplies of local (Sanok region) crude oil is negotiated;

- restructuring of distribution system in ORLEN Oil Sp. z o.o.

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

On 3 January 2007 the Management Board of Rafineria Trzebinia S.A. decided to temporarily discontinue production and sales of the biofuel ON BIO containing 20% FAME esters (‘ON BIO’).

The decision was made in conjunction with the fact that on 1 January 2007 the Decree of the Minister of Finance dated 22 December 2006 on changes to exemptions to excise tax liabilities (Official Journal 2006 No. 243, item 1766) came into force. The Decree unexpectedly deteriorated circumstances of production and sales of biofuels.

Pursuant to a detailed economic analysis, Rafineria Trzebinia S.A. estimated that the net loss in January 2007 would amount to approximately PLN 2.5-3 million as a result of changes introduced by the Decree. The production of ON BIO has been discontinued until new regulations justifying resumption of the production are introduced.

In consequence of the present status Rafineria Trzebinia S.A. will focus on trading and marketing activities and sale of FAME esters on foreign markets.

The announced changes in the tax regulations caused the necessity for the renegotiation of contracts for the supply of raw materials used in ON BIO production.

Rafineria Trzebinia S.A. has also decided to suspend investment projects concerning significant increase in the present biofuel production capacity.

b. Polkomtel S.A.

On 10 March 2006 an agreement was concluded between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as buyers and TDC Mobile International A/S as a seller in respect of “Agreement on the approval of the offer and conditional sale of shares in Polkomtel S.A.” (“The Agreement”). The conclusion of the above agreement was preceded by conclusion by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as shareholders of Polkomtel S.A. the “Shareholders Agreement regarding the purchase of shares in Polkomtel S.A. from TDC Mobile International A/S and taking joint measures to sell all shares owned in Polkomtel S.A.”. The conclusion of the Agreement was performed in conjunction with the execution by KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. of the entitlement to acquire shares under the offer of TDC Mobile International A/S.

Pursuant to the Agreement, PKN ORLEN may acquire 980,486 shares in Polkomtel S.A., representing 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share. In case KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. purchased the shares as a result of the Agreement, these parties, together with currently owned shares, would hold over 75% shares in Polkomtel S.A. After the transaction is settled, PKN ORLEN would hold 24.4% stake in the share capital of Polkomtel S.A.

The Agreement was concluded under a suspending clause regarding termination or abatement of the pledge in respect of shares under the Agreement, established by verdict of the District Court in Warsaw on 24 February 2006, or any other pledge (or similar measure) established by other judgmental body that would disallow sale of shares under the Agreement in Polkomtel S.A. by TDC Mobile International A/S.

As a result of complaint filed by TDC Mobile International the Court of Appeals in Warsaw changed the decision of the District Court in Warsaw. The Court of Appeals declared that the execution of pledge depended on submission by Vodafone Americas Inc. a bail of Euro 43 million. Vodafone Americas Inc transferred the bail to the Court’s bank account, which determines the decision on the pledge effective.

On 10 march 2006 Vodafone Americas Inc. filed a law suit to International Court of Arbitration by Federal Chamber of Commerce in Vienna, against six legal entities defining TDC Mobile International A/S as a Principle Respondent, Polkomtel S.A as a First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as Second to Fifth Auxiliary Respondents. In the above mentioned law suit Vodafone Americas Inc., among other things, questioned the method of calculation of the price offered by TDC International A/S to other shareholders. On 29 May 2006 TDC Mobile International A/S, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. filed a joint response to the law suit. Polkomtel S.A. filed its response to the law suit on 26 April 2006. Appointed arbitrators issued several procedure-oriented rulings concerning further proceedings. Proceedings came into phase, when letters concerning this case were exchanged. On 7 March 2007 the seating in front of the Court of Arbitration in Vienna took place. During the seating plenipotentiaries of all sides represented their standings in this case. This resulted for example in modification of claim from Vodafone America. The verdict should be announced in a few nearest weeks.

On 10 May 2006 the Ordinary General Meeting of Shareholders of Polkomtel S.A. was held. The shareholders decided to pay dividend from the retained net profits for the years preceding 2005 and the net profit of 2005. Total amount of dividend amounted to PLN 2,352,375 thousand (representing PLN 114.75 per share) and was paid to shareholders proportionally to their ownership of the share capital of Polkomtel S.A. The amount of the dividend attributable to PKN ORLEN S.A. amounted to PLN 461,269 thousand. The Ordinary General Meeting of Shareholders of Polkomtel S.A. has set the dividend date at 10 May 2006 whereas the dividend payment date was set at 17 July 2006. According to resolution of the Ordinary General Meeting, PKN ORLEN received a dividend of PLN 373,629 thousand.

Share of Polkomtel in the consolidated financial result of the Group in the twelve-month period of 2006 amounted to PLN 219,929 thousand and PLN 209,259 thousand in the twelve-month period of 2005.

c. CO_2 emission rights

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

Information on granted emission rights and its balance sheet presentation	Quantity (Mg)	Value (in PLN thousand)
Emission rights acquired by the Group in 2005 for the 3-year accounting period	35 333 094	2 933 634
Actual use of emission rights in 2005	10 309 223	855 288
Actual use of emission rights in 2006	10 459 646	867 848
Emissions planned in 2007	11 880 281	984 251

As at 31 December 2006 the net value of granted emission rights in the consolidated balance sheet of the Group, being the difference between granted emission rights and deferred income related to receipt of rights free of charge, amounted to nil.

As at the date of preparation of these condensed consolidated financial statements the decisions relating to settlement of CO_2 emission rights usage in 2006 were made.

In the period covered by these financial statements unused emission rights were sold:

Period, in which CO_2 emission rights were sold	Quantity (Mg)	Value (in PLN thousand)	Income from sold rights
I quarter 2006	275 000	23 245	26 401
II quarter 2006	165 000	13 947	17 897
III quarter 2006	10 000	818	634
IV quartet 2006	284 951	25 165	7 782

In the period ended 31 December 2006, the income from sales of CO2 emission rights of PLN 52,714 thousand was recognized.

As at 31 December 2006 the Group showed **CO_2** emission rights as a result of acquisition of Mazeikiu Group of PLN 88,770 thousand. CO2 emissions planned for 2007 amounted to 2,048,333 tonnes and their value amounted to PLN 50,265 thousand.

d. Assignment of competencies in connection with changes in the composition of the Management Board of PKN ORLEN S.A.

In relation to changes in the Management Board of PKN Orlen S.A. the Management Board of PKN ORLEN S.A. participative duties between Member of the Board in resolution dated at 20 March 2007
Based on the decision of the Management Board the assignment of competencies as at the day of publication of the financial statements is the following:
Mr Piotr Kownacki – President of the Board, Chief Executive Officer, supervises the areas of Human Resources, Strategy, Management Board Service, Public Relation, Audit and Unipetrol Group.

(all amounts in PLN thousand)

Mr Cezary Filipowicz – Vice-President of the Board, Upstream & Crude Procurement supervises the performance of the following areas: Upstream, Crude Oil Trading and Merger & Acquisition.
Mr Wojciech Heydel – Vice-President of the Board, Sales, supervises the performance of the following areas: Wholesale Operations, Retail Sales, Marketing, Planning & Sales Analysis, Logistic and Alternative Energy Sources.
Mr Paweł Szymański – Member of the Board, Chief Financial Officer supervises the performance of the following Offices: Planning and Controlling, Finance Management, Taxes, Cost Management, Margin Management and Investment Relation
Mr Krzysztof Szwedowski – Member of the Board, Organization, supervises the performance of the following areas: Organization, IT, Procurement, Legal Department, Information Control & Security, ORLEN Group (excl. Unipetrol) as well as Regulations Monitoring & Management.
Mr Krystian Pater – Member of the Board, Head of Production, supervises the performance of the following areas: Refining, Chemical, Petrochemical and Oil Production, Energy, Technique, Research and Development and Assets Development

e. Restructuring process of IKS Solino Sp. z o.o.

In November 2006 an agreement was concluded between IKS SOLINO S.A. and its labor unions with the participation of PKN ORLEN S.A. and the State Treasury. The agreement provided that operations of the Salt Processing Unit (SPU) will be sustained only in the event of its economic profitability.
According to PKN ORLEN, sale of SPU to a branch investor might guarantee long-term development of the disposed unit and therefore sustaining of existing job positions and creation of new ones.
PKN ORLEN emphasized that the intention of the eventual sale transaction of the SPU is based upon concern about the future of its employees and sustaining of job positions. In the event of sale of the SPU the vast majority of employees will keep their job positions. The small number of people covered by the restructuring process will be enabled to benefit from a shield program that is currently negotiated with the labor unions of IKS SOLINO S.A.

f. Transfer of shares in Spolana a.s. between companies of PKN ORLEN Capital Group

In 2006 Zakłady Azotowe Anwil S.A. purchased shares of Spolana a.s. from Unipetrol A.S.. After transaction PKN ORLEN Group owned 95,18% of the Votes at the General Meeting of Spolana after Anwil purchased shares of Spolana. In Accordance to Czech law the Mandatory Tender Offer – MTO from minority shareholders. Spolana shares were valuated by independent expert for MTO needs with methodology compatible with guidance from Czech National Bank (“CNB”). The Management Board of Anwil S.A. proposed to minority shareholders of Spolana a.s. the prize for one share in the amount of CZK 162. After the process of MTO PKN ORLEN S.A. and Anwil S.A. own 95,7% of the Votes at the General Meeting of Spolana.

g. Jointly-controlled entities

PKN ORLEN S.A. possesses a 50% share in a joint-venture enterprise - Basell ORLEN Polyolefins Sp. z o.o., engaged in manufacture, distribution and sale of polyolefins and in Płocki Park Przemysłowo-Technologiczny S.A., activities of which consist in providing business and management advisory services, holding management as well as in real estate trading.

As at 31 December 2006 and for the year ended 31 December 2006, the Group share in assets, liabilities, revenues and costs of BOP presented as follows:

	31 December 2006
Current assets	521 338
Non-current assets	905 777
Short-term liabilities	382 964
Long-term liabilities	440 849

	for the year ended 31 December 2006
Revenues	1 368 557
Cost of finished goods, merchandise and raw materials sold	(1 197 793)
General and administration expense	(9 120)
Financial expense	(43 392)
Profit before tax	58 504
Income tax expense	(11 021)
Net profit	47 483

(all amounts in PLN thousand)

As at 31 December 2006 and for the year ended 31 December 2006, the Group share in assets, liabilities, revenues and costs of Płocki Park Przemysłowo-Technologiczny presented as follows

	31 December 2006
Current assets	16 318
Non- current assets	27 323
Short-term liabilities	17 516
Long-term liabilities	-

	for the year ended 31 December 2006
Revenues	591
Cost of finished goods, merchandise and raw materials sold	(159)
General and administration expense	(1 107)
Financial expense	(116)
Profit before tax	(215)
Income tax expense	-
Net profit	(215)

39. Significant events after balance sheet date

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

The Supervisory Board of PKN ORLEN S.A. at meeting on 18 January 2007 with majority of its votes had dismissed Mr Igor Chalupec from the position of the President of the PKN ORLEN Management Board which held from 1 October 2004.
At the same time, the Supervisory Board of PKN ORLEN has appointed Mr. Piotr Kownacki, the Vice President of the Company responsible for Audit and Regulations at that date, for the position of the President of the PKN ORLEN Management Board.
Mr Piotr Kownacki held position of Vice President of Management Board from 23 October 2006.

b. Squeeze out procedure related to shares in Mazeikiu held by minority shareholders

Acting under agreement with the Government of the Republic of Lithuania, on 20 February 2007 PKN ORLEN commenced a squeeze out procedure related to shares in Mazeikiu held by minority shareholders. The squeeze out procedure related to shares in Mazeikiu was described in note 37 a.

(all amounts in PLN thousand)

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

Differences as to data published in the condensed financial statements as at 1 March 2007, with the effect on net result and equity

	Net profit for 2006	Total Equity As at 31 December 2006
Data disclosed in the condensed financial statement for IV quarters 2006	2 405 783	21 935 725
Impairment of goodwill from acquisition of Mazeikiu	(305 105)	(305 105)
Increases of allowance for receivables	(27 759)	(27 759)
Other	(12 721)	(20 298)
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Data disclosed in consolidated annual financial statements for 2006	2 060 198	21 582 563
	==========	==========

41. Other

The consolidated financial statements were authorized by the Management Board of Parent Company in its seat on 18 April 2007.

SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

…………………….
President
Piotr Kownacki

…………………………
Vice-President
Cezary Filipowicz

………………………..
Vice-President
Wojciech Heydel

…………………………
Member of the Board
Krystian Pater

……………………….
Member of the Board
Krzysztof Szwedowski

……………………….
Member of the Board
Paweł Szymański

Plock, 18 April 2007