Annual Report 2009

ORLEN

Our mission

Aiming to become the regional leader,
we ensure long-term value creation for our shareholders
by offering our customers products and services of the highest quality.

All our operations adhere to 'best practice' principles
of corporate governance and social responsibility,
with a focus on care for our employees and the natural environment.

Our motto

Whenever you need us.

The most important awards and certificates received by ORLEN Group companies in 2009

PKN ORLEN

- ORLEN was considered to be the most valuable Polish brand in the MARQA 2009 ranking of Polish most valuable brands organised by Rzeczpospolita daily.
- Two awards for PKN ORLEN Social Responsibility Report in the "2009 Social Responsibility Reports" competition organised by the Polish Corporate Responsibility Forum.
- The "Best Investor Relations in Poland 2009" award granted by IR Magazine.
- "The Queen of Sport Laurel" in the "Sponsor" category granted by the Polish Athletics Federation.
- "Consumer Laurel" and "Builder of the Fleet Market" statuette in recognition of PKN ORLEN's achievements, awarded by consumers and industrial circles, respectively.
- PKN ORLEN's fleet cards were awarded the "Fleet Product of the Year" title in the Polish Fleet Awards 2009 plebiscite organised by Magazyn Flota periodical and Fleet Management Institute Central-Eastern Europe.
- 1st place in the WarsawScan ranking, in the category of websites devoted to investor relations.
- ORLEN Team among the winners of Dakar Raly: Jakub Przygoński – 11th place, Jacek Czachor – 20th place, and Hołowczyc /Fortin car team – 5th place in general classification.
- The success of ORLEN Team motorcyclists: Jakub Przygoński – 2nd place and Jacek Czachor – 3rd place in FIM World Cup.
- Prestigious "Abu Dhabi Spirit of the Rally" award won by the ORLEN Team: Krzysztof Hołowczyc and Łukasz Kurzeja awarded for great driving and very good results at the ORLEN Platinum 66th Rally in Poland, eighth eliminations for the World Rally Championship.
- ORLEN MONSTER JAM awarded in the "event marketing" category of the Golden Arrow competition.
- 1st place in the "Friendliness, Sector, Industry" category of the 5th edition of the KOMPAS Polish employer ranking.
- 3rd place in the "Employer for Engineer" plebiscite.
- "Industry leader: fuels, oils" award in the "Universum Student Survey 2009".

UNIPETROL

- 5th place among "Top 100" Czech companies in terms of revenue.
- 8th place among "Top 100" Czech companies in terms of the best 2008 Annual Report.
- "Zlaty Strednik 2008" – award granted in the Czech Republic for the utmost quality of Annual Reports.
- 22nd place in the Deloitte's Central Europe Top 500 ranking.
- 2nd place in the "Energy Sector" category of the prestigious "Best CEE Companies" competition organised by Euromoney.
- PETROLaward for BENZINA in the "Public and Professional Activity" category for the "Benzina Transformation at the Turn of Centuries" publication.
- PETROLaward for Ceska Rafinerska in the "Technology and Products" category for the modernisation of the LPG unit at the Kralupy Refinery.

ORLEN Lietuva

- "Authorised Economic Operator's" (AEO) Certificate.
- International ISO 9001 Certificate

ORLEN Deutschland

- 4th place in the German ranking of the most popular petrol stations organised by Tankstelle-Magazin.

Rafineria Trzebinia

- "Environmentally Friendly Company" certificate in the 3rd edition of an environmental competition organised by the European Environmental Responsibility Forum.
- "Environmental Partner" title granted in the 10th edition of the Polish "Environmentally Friendly" contest.
- "Corporate Social Responsibility Leaders – Good Company" logo awarded by the Forum Biznesu Gazety Prawnej (Business Forum of Gazeta Prawna newspaper).
- EUROBRAND title awarded for pharmaceutical glycerine in the product category of a competition organised under the auspices of the Polish Minister of Economy and Minister of Regional Development.
- Award for BIOESTERS manufactured by the Trzebinia Refinery in the Polish Environmental Pantheon 2009 contest.

ORLEN Oil

- The Company received the prestigious "Teraz Polska" promotional logo awarded to Polish products and services for its Platinum oils.
- "Customer Lauer" for the best product in the "Motor Oil" category.
- The "Pearl of the Polish Economy" title in the "Large Pearls" category.
- Certificate of the Polish Chamber of Commerce confirming an entry in the Honorary Book of Awards.

ANWIL

- "Environmentally Friendly Company" title in an environmental competition organised by the European Environmental Responsibility Forum.
- CSR24/7Rating Certificate for the third place in a Corporate Social Responsibility (CSR3) ranking.
- Eighth Diamond to the Polish Business Leader Statuette.
- Award granted by the Polish Minister of Environment for special scientific and research achievements in 2009.
- EUROPOWER 2009 award in the "Electrical Power Solutions for the Industry" category granted at the 2009 EUROPOWER Conference.

IKS "SOLINO"

- 2nd place in the "Profitability" category; 10th place in the – "Capital Efficiency" category, 19th place in the 'Revenue" category and 22nd place in the – "Revenue Growth Dynamics" in the Golden 100 Banks and Companies Ranking in the Pomorze and Kujawy regions.

ORLEN Budonaft

- "Market Euroleader 2009" and "Market Leader 2009" certificates in the "Best Service – Petrol Station Construction" category.
- Integrated Management System Certificate with respect to the following standards: EN-ISO 9001:2008, EN ISO 14001:2004 and PN-N 18001:2004.

ORLEN Laboratorium

- "Reliable Company" title awarded for timely performance of all obligations and respect for the environment and consumer rights.
- "Mazowsze Company of the Year 2009" – award granted in the corporate services category.
- "Top Quality" Title – Company of the Year 2009.

ORLEN Ochrona

- "Business Gazelle" title awarded by Puls Biznesu, a prestigious Polish periodical, for dynamic development.

ORLEN Petrocentrum

- 23rd among "Top 500" companies according to a ranking by Rzeczpospolita daily.
- 123rd place in Deloitte's 3rd "Central Europe Top 500" ranking.

ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Annual Report 2009

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PKN ORLEN Supervisory Board*

Maciej Mataczyński
Chairman of the Supervisory Board
Independent Member of the Supervisory Board

Marek Karabuła
Deputy Chairman of the Supervisory Board

Angelina Sarota
Secretary of the Supervisory Board

Grzegorz Borowiec
Member of the Supervisory Board

Krzysztof Kołach
Independent Member of the Supervisory Board

Jarosław Stanisław Rocławski
Member of the Supervisory Board

Piotr Wielowieyski
Independent Member of the Supervisory Board

Janusz Zieliński
Independent Member of the Supervisory Board

* *Composition of Supervisory Board as of 2 June 2010.*

Letter from the Chairman of the PKN ORLEN Supervisory Board

Dear Sir or Madam,

2009, difficult as it was for the entire economy, and in particular for the fuel industry, was for PKN ORLEN a year of consistent implementation of its long-term corporate development strategy and moving to a leader position in the Polish and European fuel sector.

Despite unfavourable macroeconomic factors, which in our sector resulted in major reduction of fuel margin and differential, PKN ORLEN managed to generate profit, reduce debt level and, most importantly, continue to develop.

The Company optimised a number of corporate procedures, in particular concerning expenditure and investment projects. Those optimisation measures were a particular concern of the Supervisory Board and a subject of our close cooperation with the Management Board. We are pleased to report, as a result of our efforts, PLN 2.3 billion in debt reduction and PLN 1.1 billion in profit.

Furthermore, 2009 was for PKN ORLEN a year of investment projects, according to its long-term development plans. The Company continued investment works in the PX/PTA facility in Włocławek and extension of the production plant in Płock. Moreover, we continued our development in the Upstream area, including in the energy sector. With a view to improving energy security, the Company signed a number of crude oil supply contracts and adopted a strategy for the development of its storage infrastructure. We also consequently implemented several investment and optimisation projects aimed at expanding and improving the effectiveness of our foreign assets – the Mažeikių refinery and the Czech Unipetrol.

I would like to kindly thank all those who contributed to our success in the current harsh period: the Employees, the Management Board and Members of the Supervisory Board. But for your collective hard work, we would not have achieved such good results. 2009 was a difficult time for us all, but thanks to all the efforts we took, we are ready for the chances and opportunities that await us in the new year.

I am convinced that 2010 will be a year of even more intense development for PKN ORLEN. We will continue our measures aimed at optimising and economising our business, and I believe that improving economic conditions will open up new opportunities for ORLEN to profit from.

Maciej Mataczyński

Maciej Mataczyński

Chairman of the Supervisory Board of PKN ORLEN SA

PKN ORLEN Management Board*

Dariusz Jacek Krawiec – President of the Management Board, Chief Executive Officer

Appointed as President of the Management Board, CEO on 18 September 2008. Since 7 June 2008 – Vice President of the PKN ORLEN Management Board. Aged 42, graduate of the Poznań University of Economics.

In 1992–1997 worked for Bank PEKAO SA, Ernst & Young SA and PriceWaterhouse Sp. z o.o. In 1998 – responsible for the Polish market in a British branch of a Japanese investment bank, Nomura plc London.

Next, in 1998–2002, held the post of President of the Management Board and CEO in Impexmetal SA. In 2002 – appointed as President of the Management Board in Elektrim SA. In 2006–2008 – President of the Management Board in Action SA. He presided over the supervisory boards of the following companies: Huta Aluminium "Konin" SA, Metalexfrance SA Paris, S and I SA Lozanna, ce-market.com SA, and participated in the supervisory boards of other companies: Impexmetal SA, Elektrim SA, PTC Sp. z o.o., Elektrim Telekomunikacja Sp. z o.o., Elektrim Magadex SA, Elektrim Volt SA and PTE AIG.

Currently, Chair of the Supervisory Board of Unipetrol a.s. and Member of the Supervisory Board of Polkomtel SA.

Sławomir Jędrzejczyk – Chief Financial Officer

Appointed as Member of the PKN ORLEN Management Board on 7 June 2008. Aged 41, graduate of the Łódź University of Technology. In 1997, graduated from the Association of Chartered Certified Accountants in London as Chartered Certified Accountant.

In 1992–1997 he worked for: Telebud, ASEA Brown Boveri, PriceWaterhouse Sp z o.o. In 1997-2002, Member of the Management Board, Financial Director in IMPEXMETAL SA. Chair and Member of the Supervisor Boards of the Group's companies in Poland, Europe, Singapore and the US. In 2002–2003, Financial Director in ORFE SA and Member of the Management Board of Cefarm Śląski SA Next (2003–2005), Controlling Director in Telekomunikacja Polska Group. From 2005 until June 2006, President of the Management Board, CEO of TPEmiTel Sp. o.o. controlled by Telekomunikacja Polska Group.

Currently, Deputy Chair of the Supervisory Board of Unipetrol a.s., Member of the Supervisory Board of Polkomtel SA and Member of the Management Board of AB ORLEN Lietuva.

* *Composition of Management Board as of 2 June 2010.*

Wojciech Kotlarek – Member of the Management Board, Sales

Appointed to the position of Member of the PKN ORLEN Management Board on 7 June 2008. Aged 48, graduate of the Krakow University of Science and Technology, Faculty of Drilling, Oil and Gas. In 1997–2002, attended post-graduate courses at the Warsaw School of Economics: "Project Management" and "Enterprise Management Strategy."

In 1988–1999 held managerial positions in Polskie Górnictwo Naftowe i Gazownictwo, Dora Sp. j.v. and Neste Polska Sp. z o.o. In 1999–2006 worked for PKN ORLEN as Director of the Regional Wholesale Office. Later (2006–2008), Vice President of the Management Board, Chief Operating Officer in Petrolot.

Currently, he is the Chair of the Supervisory Boards of the following companies: IKS "Solino" SA and ORLEN Transport SA.

Krystian Pater – Member of the Management Board, Refinery Operations

Appointed to the position of Member of the PKN ORLEN Management Board on 7 June 2008. Aged 45; a graduate of the Faculty of Chemistry at the Nicolaus Copernicus University in Toruń.

Attended the following postgraduate courses: "Chemical engineering and equipment" at the Warsaw University of Technology (1989), "Marketing and Management" at Paweł Włodkowic University College (1997), "Fuel Sector Management" (1998) and "Enterprise Value Management" (2001–2002) at the Warsaw School of Economics. From 1993, worked for Petrochemia Płock SA, and later – for PKN ORLEN, where in the period of 2005 to 2007 he held the post of the Executive Director, Refining Production. Member of the PKN ORLEN Management Board since 15 March 2007.

Currently, Member of the Management Board, CEO of AB ORLEN Lietuva and Member of the Supervisory Board of Unipetrol a.s. Also: Vice President of the Management Board of SITPNiG, Member of the Management Board of CONCAWE and Chair of the Oil Company Association in Płock (Stowarzyszenie Płockich Naftowców).

Marek Serafin – Member of the Management Board, Petrochemical Operations

Appointed to the position of Member of the PKN ORLEN Management Board on 7 June 2008. Aged 40, graduated from the Faculty of Civil Engineering at the Poznań University of Technology Graduate of an MBA course of the London Business School at the Warsaw University of Technology Business School.

In 1994–1998 Experienced Senior Consultant at Arthur Andersen, later, in 1998–1999, worked as Operating Planning Director in Lech Browary Wielkopolski SA owned by Kompania Piwowarska SA. In 1999–2002, worked for Impexmetal SA Group, first as Operational Director at the Huta Aluminium "Konin" SA aluminium factory, then as President of the Management Board, CEO of Huta "Zawiercie" SA Since 2002 – General Manager at the ArcelorMittal Group and President of the Management Board of Huta Warszawa, and President of the Management Board of Silscrap Sp. z o.o.

Currently: President of the Supervisory Board of ANWIL SA and Basell Orlen Polyolefins Sp. z o.o., and Vice-President of the Management Board of Unipetrol a.s.

Letter from the President
of the PKN ORLEN Management Board

Ladies and Gentlemen, Dear Shareholders,

PKN ORLEN ended 2009 with very good financial results. The global slowdown affected particularly severely the economies of Central European countries. Thanks to the efforts of the whole Corporation, not only did we successfully get through this difficult time, but also we strengthened the financial position of the Holding company. We achieved this success, inter alia, thanks to saving cash in the amount of PLN 6 billion and reducing debt by PLN 2.3 billion. What is essential is that at the same time we continued growth-oriented projects in the refinery, petrochemical and upstream segments, and sales volumes of our retail network increased by 6%.

The implementation of the adopted strategic goals for this year was not hindered by the fact that in terms of macroeconomic conditions it was the most difficult period in the history of the Holding company. A serious challenge was, inter alia, a significant decrease in refinery and petrochemical margins and a historically small differential at the level below 1 USD/bbl. It should be stressed that a low level of differential weakens the competitiveness of refineries configured to process acidic crude oil (e.g. REBCO), i.e. also the refineries in Płock and Mažeikiai. The results obtained by us prove that we used the period of a strongly adverse environment to successfully implement rationalization and pro-efficiency programmes.

One of the most important achievements in the previous year was the reduction of net debt by PLN 2.3 billion to the level enabling to meet the requirements of credit agreements and financial security. We managed to achieve this goal despite needing to execute the option of redemption of 10% shareholding in Mažeikių Nafta for over USD 284 million and the payment of EUR 106 million for the arbitration with Agrofert Holding.

We owe the success, inter alia, to the launch already at the beginning of the year of the package of efficiency-oriented programs, which enabled us to reduce significantly the negative impact of the crisis and save PLN 6 billion. It should also be stressed that in 2009 we achieved an operational profit in the amount of PLN 1.1 billion, in comparison to the loss of PLN 1.6 billion in 2008. The net profit was PLN 1.3 billion in comparison to the loss for 2008 amounting to PLN 2.5 billion.

In the second half of the previous year we achieved one of the most important strategic goals i.e. to ensure security of deliveries of crude oil to refineries belonging to the ORLEN Group. After a period of intensive negotiations we concluded two profitable long-term contracts for delivery of approx. 10 million tonnes of crude oil per year, with a total value of approx. PLN 45 billion to the Production Plant in Płock. Therefore we assured diversified and optimal deliveries in terms of processing capabilities for the period of three years, which with the previously concluded contracts will satisfy over 80 per cent of our needs.

The contracts guarantee that – in case of inability to deliver crude oil through the Friendship pipeline – deliveries will be made alternatively at the same price by sea.

Very good results in the previous year were obtained in the retail segment, which confirms the accuracy of the adopted direction of growth in respective markets. Volume sales in our retail network increased by 6%, and operational profit of the segment was 37% higher than one year earlier. In this period we opened 49 new stations, and 44 modernized and rebranded sites were put into service for our customers. We observed a very big interest in our new gastronomic offer of Stop Cafe, and our network grew last year by 92 Stop Cafe Bistro points. In terms of divestment of assets from outside our basic activities, the previous year was the time of intensive works on the preparation for the sale of PKN ORLEN's shares in Anwil and Polkomtel. In both cases we managed to meet last year's assumptions for the timetable of disinvestment. Thanks to that, at the beginning of 2010 we received three binding offers for the purchase of shares in Anwil and we commenced their examination. At the same time we have prepared an information package on Polkomtel for potential investors.

We also continued the process of building competence in the upstream segment. Last year the company we jointly created with Kuwait Energy Company was granted the concession for exploration in the Latvian economic zone of the Baltic Sea. We also established a close cooperation with PGNiG within the joint-venture regarding joint exploration and production in the area of deposits located in Wielkopolska region. We also initiated an innovative project aiming at examining the possibilities for producing natural gas from unconventional deposits in the areas covered by our concessions in the region of Lublin.

In the framework of building the energy segment, in 2009 we focused not only on the improvement of operational efficiency, but also on new projects. We carried out one of the largest processes of changing energy suppliers within TPA (Third Party Access) in the history of Poland, and the first in our history joint purchase of energy for PKN ORLEN and the companies of the Capital Group. We launched the programme of cost reductions of in Unipetrol. We assume that the first positive effects of these actions will be already seen in 2010. In Mažeikiai, on the other hand, we commenced detailed analyses regarding the future of the power plant. We have started preparatory works for the construction of a gas cycle unit in Włocławek. The aim of the project is the diversification of revenues for PKN ORLEN. In Płock we have started works relating to the preparation for implementation of the programme of ecological and energy investments.

In terms of reinforcement of energy security and in the face of the increasing storage needs of the Corporation, we have elaborated and approved the so-called Cavern Strategy, which will enable the growth of the storage infrastructure of the Capital Group and will increase the operating capacity of IKS Solino.

We are also undertaking actions related to the construction of product pipelines to refineries in Trzebinia and Wrocław.

In the previous year all refineries belonging to the Holding company processed 27.4 million tonnes of crude oil in total, which is 3% less than in 2008 due to maintenance shutdowns and optimization of processing in the period of the largest drop in refinery margin and demand. Despite difficult conditions, PKN ORLEN consistently carried out tasks resulting from the strategy for growth of the refinery segment on all home markets. In Płock the Hydrogen Production Plant was opened, and the project of construction of the diesel oil hydrodesulphurization VII unit entered the ultimate phase, which will result in launching the installation in mid-2010. The new installation of Hydrogen Production Plant and the system of diesel desulphurization LK-1 were also added to ORLEN Lietuva refinery. In the Czech Unipetrol the installation of Fluid Catalytic Cracking (FCC) underwent optimization, the programme of optimization of costs was also implemented there.

The activities of the oil segment were gathered under the ORLEN Oil brand. In the scope of the investment in this respect a filling terminal was put into service in Płock.

The petrochemical segment operated in difficult economic conditions. Both the demand and price quotations remained at a low level. The recovery was observed only in the last quarter of the previous year, when sales dynamics reached 21% in comparison to the same period in 2008. In this segment we continued our key investments related to the construction of the complex of installations for production of paraxylene (PX) and purified terephthalic acid (PTA), which will lengthen the chain of creating value and will reinforce operational efficiency of the segment.

A challenge for the Holding company was to meet last year's increased National Indicative Target (NIT). At the beginning of the year we completed an investment programme including the modernization of filling terminals for blending esters, and our logistics network reached the optimal level of adjustment to the requirements of the Act on biofuels. We have also increased the availability of biofuels for individual customers by opening 50 Bioester sales points in BLISKA stations. In total, PKN ORLEN introduced 510 thousand tonnes of biocomponents and biofuels to the market. Despite new, more beneficial fiscal solutions the costs of meeting the NIT amounted to over PLN 170 million.

The level of wholesale fuel sales in all markets in which the Holding company operates reached nearly 15 million tonnes of fuels last year and was lower than the one observed in 2008. The decrease in the volumes resulted from the lower demand for fuels, especially in the Czech Republic and in the Baltic countries. In the operational sphere, we reinforced the position of the Group in the Slovak market and we have increased involvement of the Holding company in the Ukrainian market. In Poland we have implemented the system of regional prices, which improved our flexibility and competitiveness in the market.

Despite unfavorable circumstances we are closing the year with the feeling of a job well done. It would not be possible without the participation of workers and co-workers of the Holding company, whom I would like to thank very much for their involvement and effort. I would also like to thank our Shareholders for the trust they placed in us, and members of the Supervisory Board for strategic support in the implementation of the most important goals and projects. I am convinced that our cooperation will be equally successful in 2010, giving service to all stakeholders of ORLEN Capital Group.

We are on the right track, and the planned and consistently implemented actions will enable us to maintain a strong position on the market in 2010.

Dariusz Jacek Krawiec

President of the Management Board of PKN ORLEN SA

THE BIRTH OF A MARKET LEADER

In May 1998, the Polish Council of Ministers decided to merge CPN SA and Petrochemia Płock SA into a single national crude oil corporation. On 7 September 1999, Polski Koncern Naftowy SA was established. The new corporation needed a new, strong brand not only to become the Company's image on the domestic market but also to compete with international holdings on European markets. Its task was to open up completely new perspectives.

The new brand was supposed to bring to mind the dominant concepts of corporate strategy: global, crude oil, modern and national. It was decided that the brand should reflect the Company's Polish origins, quality, strength and power, and that it should distinguish a fuel and petrochemical manufacturer.

About PKN ORLEN

About PKN ORLEN

Our mission

Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality.

All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.

Our motto

Whenever you need us.

We are a regional leader of the refinery and petrochemical industry, a leading producer and dealer of refinery and petrochemical products. We process crude oil into unleaded petrol, diesel fuel, furnace oil, aviation fuel, plastics and petrochemical products.

We have our refineries in Poland, the Czech Republic and Lithuania. The Company's refinery and petrochemical facilities located in Płock are ranked among the most modern and effective facilities of the kind in Europe. We have the largest fuel station network in Central Europe, covering Poland, Germany, the Czech Republic, and Lithuania. ORLEN retail network is based on an effective logistics infrastructure consisting of over and underground storage facilities and a network of long-distance pipelines.

As at the end of 2009, the number of ORLEN Group employees totalled 22,535 people, including 4,482 in PKN ORLEN, 4,343 in Unipetrol Group, 3,025 in ORLEN Lietuva Group and 115 in ORLEN Deutschland.

** In this context, ORLEN Group refers to the Company and its consolidated subsidiaries, excluding the affiliated entities.*

PKN ORLEN on the Capital Market

PKN ORLEN shares are listed on the Warsaw Stock Exchange and in the form of Global Depository Receipts (GDRs) on the London Stock Exchange. Trading in depository receipts also takes place in the USA on the OTC market. The shares of PKN ORLEN were first listed in November 1999.

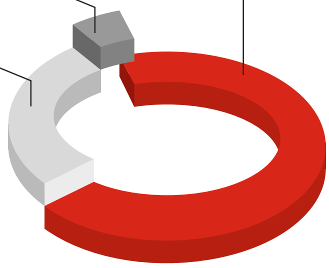
The Company shares are listed on the official market at the Warsaw Stock Exchange in the continuous trading system and are included among the largest company indexes: WIG20 and WIG, and WIG-fuel index. Since 19 November 2009, the shares of PKN ORLEN have been included among the Respect Index, an index of companies involved in corporate social responsibility. The Company's capital share amounts to PLN 534,636,326.25 and is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 per share.

The Bank of New York Mellon is the depository of the Company's depository receipts. The transaction unit on the London Stock Exchange is 1 GDR, which equals to two shares of the Company.

One of PKN ORLEN subsidiaries, Unipetrol, is also present on the capital market.

Unipetrol shares are listed on the Prague Stock Exchange and OTC market (RM-SYSTÉM, a.s.). The Company's capital share is divided into 181,334,764 ordinary shares with a par value of CZK 100 per share, of which 67,108,265 shares are currently traded. Bonds issued by Unipetrol are also listed on the Prague Stock Exchange. Currently, 2,000 bonds of total par value of CZK 2,000,000,000 are traded.

PKN ORLEN** shareholding structure as at 31 December 2009



** According to information submitted to the Companyon 20 February 2009.*

*** On 9 February 2010, PKN ORLEN was notified that Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK had become holder of 5.08% of the Company shares.*

ORLEN Brand

The image of the ORLEN brand was presented for the first time in 2000 on the occasion of the second issue of Company shares on the Warsaw Stock Exchange.

The Company's flagship is its network of fuel stations, whose standards meet the requirements determined in ORLEN corporate brand strategy. ORLEN logo is also used with motor fuels, operating fuels, car lubricants and a broad range of automotive chemicals.

Moreover, the brand image is shaped by the ORLEN Rally Team, which represents both the Company and the country in the most important rally events organised in Poland and internationally.

In 2009, ORLEN brand was declared, for the third time in succession, the most valuable domestic brand. Our corporate brand came first in the MARQA ranking, according to which it is worth over PLN 3,648.3 mn. We reported a 27% increase in the value of the brand, compared to 2008, when it was estimated at PLN 2,869.1 mn.

According to an Independent Polish Brand Reputation Ranking, "PremiumBrand 2009," ORLEN is a High Reputation Brand, meaning that we are perceived as a reliable and responsible business partner.

ORLEN has also been awarded the Superbrands Polska title, which is another proof of its strong position on the domestic market. Our brand has received the latter title for the fourth time already.

ORLEN fuel stations

Currently, ORLEN brand includes a fuel station network in Poland and Lithuania. These are all modern fuel stations offering top quality fuels and services, and a friendly stop-over and resting place. ORLEN stations offer consumer loyalty programmes and car fleet services.

For the eight time in succession (since 2002), ORLEN fuel stations received the Golden European Trusted Brands Logo in a European consumer survey conducted by Reader's Digest.

VERVA is a brand of new-generation fuel enriched with a set of additives which ensure the dynamics and power of the engine, better acceleration, lower fuel consumption and, consequently, lower user costs.

FLOTA is a professional fleet programme focused on business customers. It offers partnership approach and advanced technological solutions. Fleet cards are tailored to the needs of various size companies operating in different business sectors. The brand offers comprehensive advantages to customers from various B2B sectors, such as safe and convenient payment for fuel and services, and sound financial management through better control over fuel costs.

VITAY is the brand of the Polish most extensive customer loyalty programme, created for the customers of ORLEN fuel stations. The programme includes a broad range of rewards. It is easily available and user friendly, and the rules of collecting points are simple. Super VITAY is a unique, prestigious programme designed for the most loyal customers.

Stop Cafe is a place for travellers to have a cup of good coffee and tasty snacks. The brand's assets are its availability, which helps save time for travellers, and efficient service.

Ekoterm Plus is a high-tech light heating fuel which meets relevant standards and is designed for use in buildings. The product is environmentally friendly and has high quality parameters. Thanks to its high net calorific value, it is very productive and thus economic. Ekoterm plus offers long-lasting heat and safety and convenience of use.

BLISKA is a network of fuel stations offering good value for money on its products and services. BLISKA stations are reliable and available for everyone, and they offer fuel and other products as well as an optimum selection of services. BLISKA customers save time and money, thanks to the reasonable selection of offerings.

In 2009, for the second time in succession, BLISKA was included among the Most Valuable Polish Brands according to a ranking by MARQA. BLISKA came 15th and the value of the brand was estimated at PLN 713.3 mn. This means an 88% increase in the value of the brand compared to 2008.

Corporate social responsibility

To PKN ORLEN, corporate social responsibility means managing the company's day-to-day business bearing in mind not only financial results but also the impact on our stakeholders and the surrounding environment. In particular, we focus on the transparency of our operations and high quality of communication. In 2009, we published our first corporate social responsibility report according to the Global Reporting Initiative standards. The electronic version of the report is available at www.orlen.pl.

We participate in a number of important initiatives. When we joined the Responsible Care Programme in 1997, we agreed to take efforts to reduce our impact on the surrounding environment, improve the safety and health conditions for our employees as well as the local community. We implement the Framework Responsible Care System, established following the adoption of the World Charter.

Another important initiative for us is the Global Compact, which we have supported since 2003 by implementing its policies and presenting our own good practices. Our participation in the Global Compact proves the open attitude and transparency of our Company. Our commitment to the initiative is public and we are being monitored for implementing its policies.

PKN ORLEN is also known for its charity activities, including through the ORLEN Gift from the Heart Foundation established in 2001. For years, the Foundation has been supporting nearly 300 children's homes in Poland. We organise a number of scholarship programmes for various groups of students. In 2009, we launched a special programme addressed to primary and secondary schools in Płock. The Foundation also focuses on various aspects of safety. In particular, the Foundation, in association with PKN ORLEN, implements a programme the objective of which is to assist professional and voluntary fire brigades across Poland.

Local initiatives constitute an important part of our social involvement. We continue the intersectoral partnership programme launched in 2002. The Company regularly supports the "Grant Fund for Płock," the purpose of which is to support innovative projects aimed at improving the level of life in the city of Płock.

Corporate Governance

The PKN ORLEN Management Board takes all reasonable efforts to ensure the observance of the principles of corporate governance in all aspects of the Company business. As a public company listed on the Warsaw Stock Exchange, we observe all the principles recommended by the code of "Good Practices of Companies Listed on the Warsaw Stock Exchange."

According to the code of "Good Practices of Companies Listed on the Warsaw Stock Exchange," general meetings are attended by Members of the PKN ORLEN Management Board and Supervisory Board. Media representatives are also invited to every General Meeting.

The PKN ORLEN Supervisory Board consists of nine members. Four of them are independent, which means that the Board is independent from the Company, according to the aforementioned code of good practices. There are four committees within the Supervisory Board:

- Audit Committee;
- Corporate Governance Committee;
- Development & Strategy Committee;
- Appointment & Remuneration Committee.

Each Committee is participated by at least one of the independent Members of PKN ORLEN Supervisory Board.

We take various measures to streamline communication with our surroundings. We use modern communication technologies to reach broad circles of capital market

representatives. We organise live online broadcast of press briefings after every important event in the life of the company, such as the publication of quarterly results or Company strategy, or after General Meetings, with simultaneous translation to English

In 2009 we were awarded several times for our efforts to communicate with the capital market participants. In April 2009, the corporate website received the highest rating from independent market analysts and brokers in the WarsawScan 2009 ranking, as well as taking second place in the Good Investor Communications category.

In June 2009, we won the "Best Investor Relations in Poland" award. The award is granted annually by a specialist international periodical, IR Magazine, on the basis of an independent survey conducted among over 700 representatives of the international capital market. Last year, the battle for the "Best Investor Relations in the Czech Republic 2009" saw the first nomination of ORLEN's Unipetrol.

In March 2010, PKN ORLEN received two awards in the "Stock Market Company of the Year" contest organised by Puls Biznesu newspaper and Pentor Research International. The Company was awarded in the best investor relations category and came 4th among the most dynamically developing companies.

Social sponsoring

Being the largest company in Poland, we focus mainly on promoting Polish culture and national heritage. The most important cultural project in 2009 concerned our continuing cooperation with the National Museum in Warsaw, where we sponsored the Gallery of Polish Painting. The crowning achievement of our cooperation wit the Museum was the "My Life" exhibition of Jacek Malczewski's paintings.

As the largest Polish company, we could not but participate in the organisation of several important business events during which the most dynamic enterprises on the Polish market were awarded. For example, we sponsored the awarding ceremony of the "Most Valuable Polish Brand" ranking by Rzeczpospolita and the issue of the newspaper's "Most Valuable Polish Brand" supplement; moreover, we actively participated in various seminars and conferences devoted to the development of the Polish and European chemicals and energy industries.

Being a responsible company strongly linked with the region in which we operate, we took a number of measures to support the local community. The most important of them was our continuing cooperation with the Regional Museum in Płock. The ORLEN Rally, held in the vicinity of Płock, has already become a fixed event in our sporting calendar. The event is appreciated not only by fans but also by organisers as a one of the rounds of the Polish Car Rally Championship and Central European Cup.

We cooperate with a local sports club, "Wisła" Płock. Apart from supporting a team of senior handball players, we organised another edition of ORLEN Handball Mini League for primary school pupils – a potential new generation of athletes.

Last but not least, on the local scale, we purchased equipment for the Emergency Ward and Operating Rooms of the Regional Hospital in Płock, which will not only significantly improve the quality of health services offered to the local people but also contribute to the treatment of injured employees in the case of accidents at our production plant.

ORLEN. Safe Roads

Our "ORLEN. Safe Roads" ("OSR") project definitely goes beyond the local scale. Its objective is to teach the principles of road safety.

The project has been implemented for 3 years and each year we focused on a different aspect of road safety. In the 1st and 2nd years of the project, we organised a Competition for Initiative Ideas aimed at improving road safety in its most general sense. In 2009, we focused on one specific problem and suggested possible solutions to it. The third edition of the "OSR" programme had a new formula, its guiding motto being: "Parents set example for their children." The purpose of the project was to make parents aware of their own role in the day-to-day education of their children.

The 3rd edition of the Programme used a dedicated website: www.orlenbezpiecznedrogi.pl with teaching materials and tests for children and parents, designed with the assistance of a psychologist.

Following several years of efforts to promote road safety, we joined the European Road Safety Charter. The accession ceremony took place on 16 October 2009. Thus, we joined a prestigious group of companies in an initiative organised by the European Commission.

Sports sponsoring

In 2009, our involvement in Polish sport was even more evident than in the previous years and we took a number of measures to strengthen the ORLEN brand not only in on the domestic market but also internationally. The Company's sports sponsoring strategy is two-pronged. First of all, our flagship project is ORLEN Rally Team, which we have worked on for over ten years. The great performance of and successes achieved by our rally drivers: Jakub Przygoński, Jacek Czachor, Marek Dąbrowski and Krzysztof Hołowczyc, were noticed and

Piotr Małachowski – discus throwing
Olympic Vice – Champion; Bejing 2008
World Champion; Berlin 2009

appreciated by the Polish President. They all received awards for their contribution to Polish sport. Another direction of our sponsoring activity was athletic sports, mainly based on the image of the members of ORLEN Sports Team: Anita Włodarczyk, Tomasz Majewski and Piotr Małachowski, who dominated in track-and-field events last year. Last year, we also supported the Wisła Płock handball team, runner-up in Polish championships, and sponsored major international events held in Poland: Eurobasket and Women's European Volleyball Championships. Moreover, we cooperate with the Polish Olympic Committee and sponsor the Polish Olympic Representation.

Anita Włodarczyk – hammer throwing
World record holder
World Champion; Berlin 2009

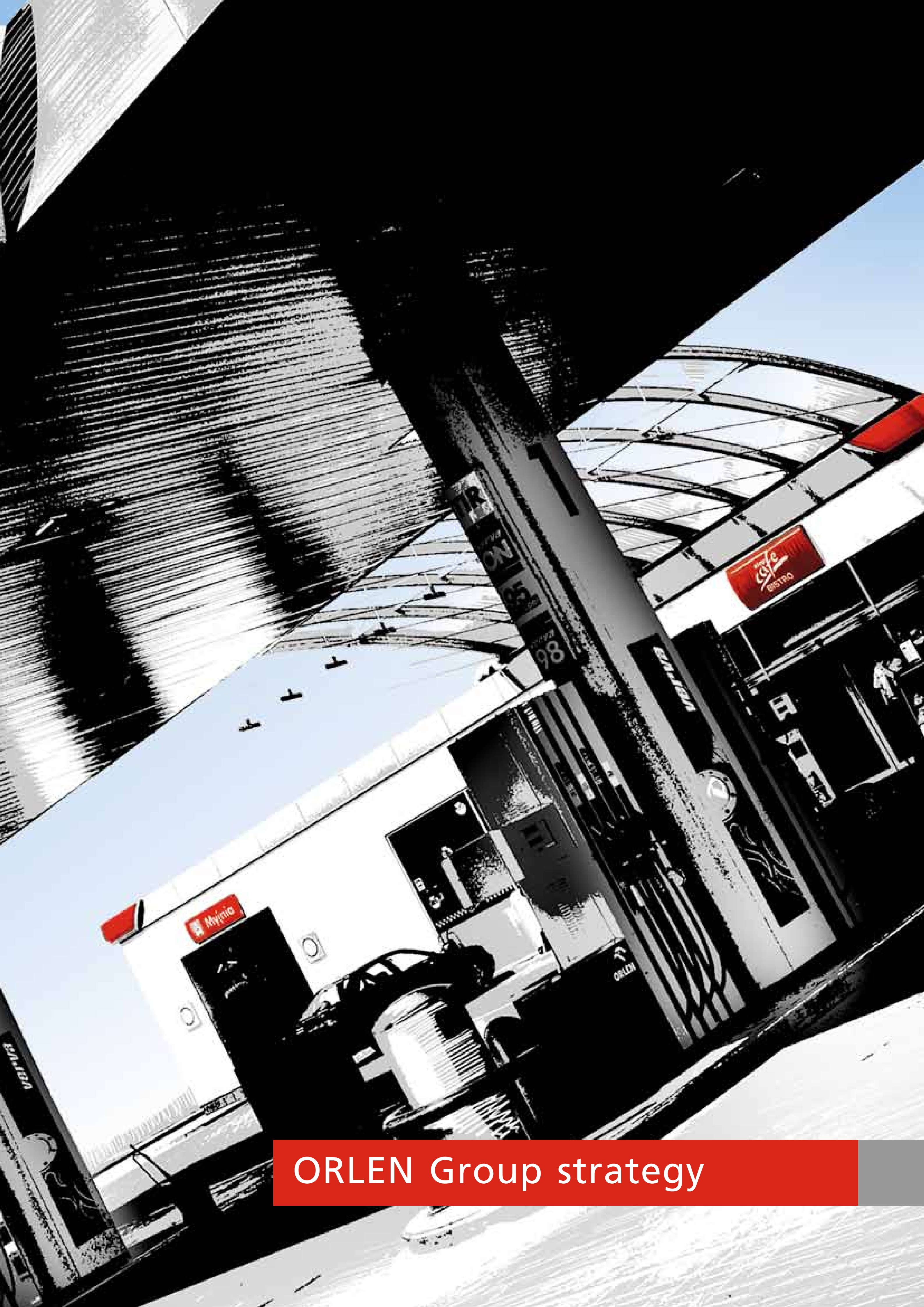
Tomasz Majewski – shot-put
Olympic Champion; Bejing 2008
World Champion; Berlin 2009

EAGLE AND ENERGY

As a result of brainstorming sessions, over 1,000 possible names were proposed. Brainstorming was followed by linguistic studies and association tests (in Polish, English and the most popular world languages), and opinion polls. In the end, ORLEN was considered to be the best name for the corporation. The name is a combination of the Polish word for eagle – ORZEŁ, which represents the national character of the Polish company (eagle being the national emblem of Poland), and for energy – ENERGIA, which signifies the strength, energy and global character of the company.

According to professor Jerzy Bralczyk, an advocate of the beauty of Polish language, ORLEN as a name sounds good and is short and easy to remember. Phonetically, it suggests energy and action. It invokes positive connotations with the eagle – a symbol of vital energy, omnipotence, power, faith, longevity, revival, immortality, grandeur, glory, ascent, aspirations and victory.

On 3 April 2000, the Extraordinary Meeting of Shareholders adopted a resolution on ORLEN becoming the trade name of Polski Koncern Naftowy SA.



ORLEN Group strategy

ORLEN Group strategy

Our current corporate strategy was adopted and published by the end of 2008. Because the strategy was developed at a time when the current economic crisis began, it had to protect the Company against the effects of economic recession, but at the same time ensure a good and safe starting point for the Company's further development.

In terms of macroeconomic conditions, 2009 was the most difficult period in the entire history of the Company. The major challenges at that time included a slump in refinery margin and differential. However, thanks to a set of programmes aimed at improving the Company efficiency, launched at the very beginning of the year, we managed to reduce the negative impact of the crisis situation significantly, and PKN ORLEN gained additional PLN 6 bn in cash.

Despite the difficult market situation, last year, PKN ORLEN earned PLN 5 bn in cash on its business operations, which was PLN 1.5 bn more than in 2008. Thus, all our goals were achieved, and our revenue from operations exceeded our capital expenditure. We reduced our net debt by PLN 2.3 bn, to the level of PLN 10.3 bn.

In the report period, we focused mainly on three aspects of our business:

- Improved efficiency of our core business;
- Divestment of non-core business;
- Making way for the Company development in new areas: energy and upstream sectors.

One of the key measures in 2009, aimed at improving the efficiency of our core business, was investment projects at the Płock refinery sector, the purpose of which was to increase the rate of medium distillates production and crude oil processing, and the processing of charge for the petrochemical section. We will be able to benefit fully from the effects of those projects after the Diesel Desulphurisation (HON) and Paraxylene (PX) units are started up. By the end of 2009, our fuel output rate went up by 3 percentage points compared to 2008, which was due to more efficient crude oil processing.

While improving the efficiency of our processes, we worked to strengthen the assets of our core business. We focused, among others, on our logistics assets, which are an important element of our competitive advantage. In 2009, we worked to increase the operational performance of the existing underground crude oil and fuel storage facilities, and to increase our storage capacities because of the Company's growing needs.

The key strategic objective of our wholesale sector in 2009 was to maintain its leading position in the respective countries of our operation. One of the major achievements of the latter sector was the distribution of over one-third of the entire volume through its own retail network.

In the case of the retail fuel sales, our strategy focused on strengthening the brand and increasing sales effectiveness at fuel stations, and raising the margin on non-fuel sales. One of our important achievements in 2009 was an over 6% increase in retail sales volume and a growth dynamics at a higher rate than the market rate, as a result of which our share in all markets went up by 1 percentage point on average, while in Poland the market share went up by 31%. Moreover, as a result of our retail (foodservice and shops) strategy, we increased our non-fuel margin by 20%.

We reported equally good results in petrochemical sales, which went up by 2% compared to 2008. Our petrochemical sector was influenced by investments in new products and further improvement of performance. The most important investment projects in the petrochemical sector were the Paraxylene (PX) and purified terephthalic acid (PTA) production units in Płock. The project is progressing as planned, the progress rates for the respective units at the end of 2009 being 97 % and 81%. We plan to complete works in 2010.

Last year, PKN ORLEN achieved one of its strategic objectives, namely we concluded several new long-term crude oil supply contracts. Following negotiations with our contractors, we agreed on very good financial conditions. The total value of those contracts amounted to PLN 45 bn, which is a historic result on the Polish market. The recent contracts have a very important advantage over the previous ones, namely they contain provisions which fully guarantee the security of supplies.

While focusing on our core business in 2009, we continued divestment of assets in the chemical sector (ANWILl) and telecommunications sector (Polkomtel). In terms of capital investments, we bought minority shares in several companies not related with the areas of business in which we operate.

Aware of the challenges that face us – namely the need to ensure the security and diversity of supplies and the growing energy prices, we continued our upstream operations. In 2009, in cooperation with Kuwait Energy Company, we started an upstream project on the Baltic Shelf. Together with PGNiG, we established an exploration and production JV company operating in the region of Wielkopolska.

We also develop our energy production sector, taking advantage of the current favourable conditions on the electrical energy market. To that end, we intend to get involved in the construction of a power plant in Włocławek. We will continue our projects in the upstream and energy sectors both individually and in collaboration with local and foreign business partners. An important step forward in the integration of our corporate goodwill is the construction of a multi-utility company with a diversified portfolio of operations.

GRAPHIC SYMBOL

Another stage in the development of the corporate brand was to design a graphic symbol that would correspond to the trade name. A competition was organised, participated by the most distinguished Polish artists and graphic designers, winners of local and international competitions. The jury chose the design proposed by Professor Henryk Chyliński, teacher at the Academy of Fine Arts in Warsaw and author, among others, of the symbols of the Teraz Polska foundation and Polish national radio station.

The design showed an eagle's head In the author's opinion, the eagle, as a symbol, has similar connotations in many cultures. It represents wisdom, strength and dignity. This means that the basic message of the company's image will be clearly understood also outside Poland. Besides, the eagle is Poland's emblem, thus the white and red colours of the logo emphasise the Polish identity of the company.

Upstream segment

Upstream segment

In line with ORLEN Group strategy and Polish energy security policy, we plan to develop our upstream operations further, in order to secure access to our own resources. In order to solidify ORLEN Group position in the upstream sector, we set about optimising our upstream operations.

Our main premise and objective were to integrate the upstream area within ORLEN Upstream, to which we transferred all the relevant tasks, together with adequate human resources.

Our consistent organic growth policy combined with the development of competences results in a team of specialists capable of comprehensive evaluation of upstream projects both in terms of their technological aspects and economic potential. We constantly monitor the global upstream projects market, which enables us to evaluate fully any new acquisition possibilities. Our project database, which we constantly expand, makes it possible to select the right projects and adjust them to our corporate needs and possibilities.

The major expansion projects implemented in the upstream sector in 2009 included:

- Ongoing exploration and research project on the Baltic Shelf in the Latvian Economic Zone;
- Consecutive stages of the exploration and production project in the Lublin basin region;
- Studies and analyses of 67 exploration and production projects/assets in various geographic locations;
- Comprehensive analysis of selected projects related to the purchase of production assets or corporate acquisitions outside Poland;
- Cooperation with business partners whose assets are located in Poland.

Over the next few years, we will continue the following three ongoing projects:

- Project in Lublin region,
- Offshore project on the Baltic Sea;
- Sieraków Project.

Project in Lublin region gives us the exclusive right to explore crude oil and natural gas deposits over a 5-year period and in 5 concession areas in Lublin region. Geologically, this is a very interesting area, in the vicinity of which several hydrocarbon deposits were discovered. In 2009, we re-examined historic seismic data and we expect that as the next step we will select field data acquisition areas in 2010.

Offshore project on the Baltic Sea is an exploration and production project which we implement in association with our partner, Kuwait Energy Company (KEC). In 2009, Balin Energy, a joint venture of PKN ORLEN and KEC, received the second E&P concession in the Latvian Economic Zone of the Baltic Sea. With a larger concession area, the economics of our exploration works will improve and individual costs will go down. For our team, the project is a chance to gain unique experience and competences in the field of offshore upstream works.

Sieraków Project is a follow-up of preliminary exploration and research work done by Polskie Górnictwo Naftowe i Gazownictwo (PGNiG) in the area of the Polish Plain. The proposed project is located in an area with the most promising possibilities in terms of hydrocarbon deposits in Poland. As it was initially determined, crude oil accumulations within the Sieraków structure occur near the largest crude oil beds in Poland discovered recently by PGNiG. A joint project with PGNiG is the next step in the process of diversifying PKN ORLEN exploration and production project portfolio.

We expect that our projects under the crude oil and natural gas E&P strategy will help stabilise the corporate margin levels. A production assets portfolio, sustainable in terms of their progress, geographic location and type of raw materials, will ensure stable development of our Company at an acceptable risk level.

LOGO OF THE BRAND

The starting point for developing the ORLEN brand logo was an analysis of the guidelines provided for in the corporate mission and vision, as well as of the environment in which the new brand was supposed to function. Since the company is a huge and continually expanding and diversifying business operator, the analysis also covered potential areas of application for the new brand. Another factor that was considered was the position of the new brand image against the images of competitive brands. This gave us specific requirements concerning the new logo. The next step was drafting designs, application tests and a number of analyses involving, among others, preferences, associations, ergonomics and memorability. The result of the entire process was a logo consisting of an eagle's head – the symbol selected in the competition – and a rectangular field with the ORLEN name inside.

The image of the ORLEN brand was presented for the first time in 2000 at the occasion of the second issue of Company shares on the Warsaw Stock Exchange.

Refinery segment

Refinery segment

In 2009, the ORLEN Group refinery segment consisted of the refinery plant in Płock, production assets of Rafineria Trzebinia SA and Rafineria Nafty Jedlicze SA and ORLEN Asfalt, ORLEN Eko (Poland), the Litvinov, Kralupy and Paramo refinery plants (the Czech Republic), and the ORLEN Lietuva refinery (Lithuania).

Crude oil processing

In 2009, the 7 refineries of ORLEN Group processed nearly 27.4 mn tonnes of crude oil, which is appr. 3% less than in 2008.

In all ORLEN Group refineries, production was mainly based on REBCO, Russian crude oil, whose share in the total processed volume was 91.2%. The other crude oil brands processed in our refineries were: Saldana, Sahara, Brent, Forties, Oseberg and Statfjord.

Poland

Fuel Production

In 2009, we continued our efforts to meet the National Index Target (NIT) for biofuels. The NIT set for PKN ORLEN was fulfilled at 4.623%.

In total, in order to meet the NIT in 2009, we released:

- 2,845,000 tonnes of petrol;
- 6,228,000 tonnes of diesel fuel;
- 134,000 tonnes of ethanol in petrol;
- 290,000 tonnes of esters in diesel fuel;
- 91,000 tonnes of ester fuel – Bioester B-100.

Płock

In November 2009, we started up another hydrogen production unit – WW II. The unit was planned as the final stage in the hydrogen management process after the start-up of the Diesel Desulphurisation VII and Paraxylene units. Currently (until the latter two units are in operation), WW II stabilises the hydrogen network end ensures its efficient utilisation. Should one of the Hydrogen Production Units break down, the loss will be much reduced, as there will be less need to substitute it with other production units. More readily available supplies of hydrogen mean more flexibility in conversion processes, in terms of their possibilities and intensification.

We implement an Advanced Process Control (APC) system at the Production Plant in Płock. We expect that APC will significantly increase the output of our most precious products, depending on the current level of their margins.

Amount of crude oil processed in 2008–2009, in the respective countries of ORLEN Group (mn tonnes)

	2008	2009	Dynamics 2009/2008
Polish refineries	14.53	14.84	2%
Czech refineries	4.53	4.11	-9%
Lithuanian refinery	9.24	8.41	-9%
Total	**28.3**	**27.36**	**-3%**

Following the Fuel Study performed by Solomon Associates, we individually developed several tools to monitor certain key performance indices, such as: energy media consumption, number and reasons of production units' arrests, quality parameters of products. We use the monitoring data to calculate key performance indices (KPI) of our production units and refineries in order to review the Company's competitive position. KPIs are also indicators that we consider in our current and future operational decisions.

Another programme in the production area, aimed at increasing our profit, was the NCM3 project implemented in association with the Solomon Associates consulting company. NCM3 lead to a number of initiatives to improve the performance of the plant in Płock, to bring it to the level of the best companies in the world. In 2009, the economic effects of those initiatives amounted to appr. PLN 23 mn.

In 2009, we started preparing for pilot energy consumption tests at the DRW III and Olefins II units, focusing in particular on energy efficiency analysis and proposed solutions to reduce energy consumption levels.

On 8 July 2009, we signed a contract with Rafako to design, deliver and install (a turn-key project) a modern heat recovery steam generator at the FKKII unit for the cooling technological gas. The energy thus recovered will be used to produce up to 40 tonnes/hour of 4 MPag technological steam. We expect to start the operation of the steam generation in the autumn of 2010.

Also, early in July, we resumed an investment project involving a new boiler no. 8 at the Combined Heat and Power Plant of the Production Plant in Płock. With this boiler, the Płock facility will improve its total technological steam balance and will be able to modernise

Production volume of selected refinery products in PKN ORLEN in 2008–2009 (Płock, '000 tonnes)

	2008	2009	Dynamics 2009/2008
Crude oil processing	14,218	14,526	2.17%
Total petrol	2,800	3,055	9.11%
Total diesel fuel	5,078	5,330	4.96%
Ekoterm Plus heating oil	840	790	-5.98%
Aviation fuel	418	291	-30.38%
Propane-butane fraction	221	210	-4.98%
Total fuels	9,358	9,676	3.4%
Fuel output (%)	65.82	66.61	1.2%
Output of white products (%)	77.98	78.08	0.13 p.p.

the existing boilers at the Combined heat and Power Plant. The project is necessary to fulfil environmental standards with respect to nitrogen oxide and dust emission, which are expected to enter into force in 2016. The boiler will generate up to 420 tonnes of steam per hour, the steam parameters being 13.6 MPag and 5400C. We plan to start up the boiler no. 8 by late June 2010.

Trzebinia

Biofuel volumes generated in 2009 prove that since the start-up of the unit in 2004, Trzebinia has been a pioneer manufacturer of biofuels on the Polish market and an experienced player on the market of alternative energy sources, offering top quality methyl esters. The quality of biofuels produced in Trzebinia is due to the choice of the best suppliers of high-quality raw materials, high-tech biocomponent production facilities and experienced and qualified staff. From January to late December 2009, the BIO unit generated appr. 94,000 tonnes of rapeseed methyl esters (RME), (given the maximum annual production capacities of the plant of 100,000 tonnes).

When it comes to crude oil processing, the Trzebinia Refinery used appr. 65% of its total production capacities in 2009. The Company continues cooperation with PGNiG, based on the crude oil supplies contract made in December 2009, to which PGNiG supplies crude oil mined at its facilities located in the west and north-westerly parts of Poland.

Jedlicze

75% of the crude oil processed in the Jedlicze refinery in 2009 was supplied from domestic deposits. The 16,000 tonne drop in the volume of processed crude oil compared to 2008 was due to a reduced volume of imported crude oil supply – by 23,500 tonnes.

Production volume of selected refinery products in 2008-2009 (Trzebinia, '000 tonnes)

	2008	2009	Dynamics 2009/2008
Crude oil processed	238.7	246.1	3.1%
Production plant	111.5	111.7	0.2%
Rapeseed methyl esters	93.3	93.8	0.56%

Production volume of selected refinery products in 2008–2009 (Jedlicze, '000 tonnes)

	2008	2009	Dynamics 2009/2008
Crude oil processed	80.0	67.6	-15.6%
Waste oil processed	33.3	35.4	6.4%
Diesel Heating Fuel	82.9	61.2	-26.2%
Solvents	10.4	15.3	47.6%

Production at the Rafineria Nafty Jedlicze is mainly based on the following four groups of products: heating oil, base oil, solvents and special purpose petrol. The largest group of products manufactured at the Jedlicze refinery is heating oil used for heating purposes, including heavy heating oil used in the production of bituminous mass.

The Czech Republic

In 2009, the Czech refinery plants of ORLEN Group (Litvinov, Kralupy, and Paramo) processed in total over 4.11 million tonnes of crude oil, i.e. 9% less than in the previous year. The main reason for the reduced processed volume was economic conditions and lower demand for refinery products, as well as 2 months of overhaul downtime at the Kralupy refinery.

In 2009, the ratio of light/medium/heavy distillates was comparable to the 2008 figures. Lower demand resulted in lower volume of petrol and diesel production.

During the overhaul downtime scheduled for the 2nd quarter of 2009 at the Kralupy refinery, we completed modernisation of the Catalytic Cracking unit. The purpose was to improve the productivity of the cracking unit by removing bottlenecks, and achieve better distribution of fractions and increased output of LPG and propylene.

Production volume of selected refinery products in Unipetrol in 2008-2009 ('000 tonnes)

	2008	2009	Dynamics 2009/2008
Crude oil processing	4,533	4,110	-9%
Total petrol	821	760	-8%
Total diesel oil	1,910	1,741	-9%
Light heating oil	82	35	13%
Aviation fuel	91	76	-16%
Liquefied gas	151	146	-9%
Total fuels	3,055	2,758	-9%
Fuel output (%)	67.4	67.1	0.4 p.p.

Lithuania

In 2009, the refinery processed a total of over 8.4 million tonnes of crude oil, i.e. 9% less than in the previous year. The main reason for the reduced processed volume were economic conditions and lower demand for refinery products.

In the spring of 2009, we replaced a hydrodesulphurisation reactor at the Lithuanian refinery, which enabled us to manufacture a full range of low-sulphur oils according to the EU 10 ppm sulphur content limit in diesel fuels. With the new reactor, the entire facility will be much more productive. At around the same time, we completed the construction of a new hydrogen plant, which had started back in 2007. The new unit will help stabilise hydrogen management at the refinery and will supply hydrogen to both hydrodesulphurisation lines. We continued modernising refinery facilities in order to ensure their safe and uninterrupted operation. The costs of related works amounted to appr. USD 30 mn.

Production volume of selected refinery products in 2008–2009 (ORLEN Lietuva; '000 tonnes)

	2008	2009	Dynamics 2009/2008
Crude oil processing	9,241	8,407	-9.0%
Other charge	338	325	-3.8%
Total charge	9,579	8,731	-8.9%
Total petrol	2,827	2,724	-3.6%
Diesel fuel	3,197	3,165	-1%
Light heating oil	7	7	0%
JET fuel	483	228	-52.7%
LPG	396	273	-31.1%
Total fuel	6,910	6,396	-7.4%
Fuel output (%)	72.0	73	-1.8%
Output of white products (%)	72.0	73	-1.8 p.p.

Bitumen

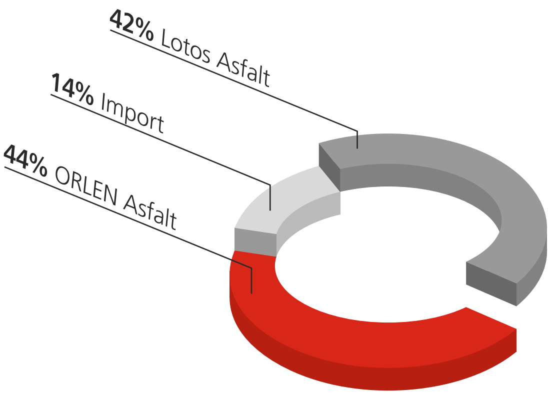
Poland

In 2009, we reported an increased production of road, modified and industrial bitumen compared to the previous year. The increase was due to higher market demand.

In 2009, ORLEN Asfalt offered new modified bitumens manufactured according to the PN-EN 14023:2009 standard, instead of the previous modified bitumens manufactured according to the IBDiM Technical Approval. Industrial bitumens were monitored according to the new reference document, PN-EN 13304:2009. The standard for road bitumens changed as well, and we adjusted our production to the new PN-EN 12591:2009 standard.

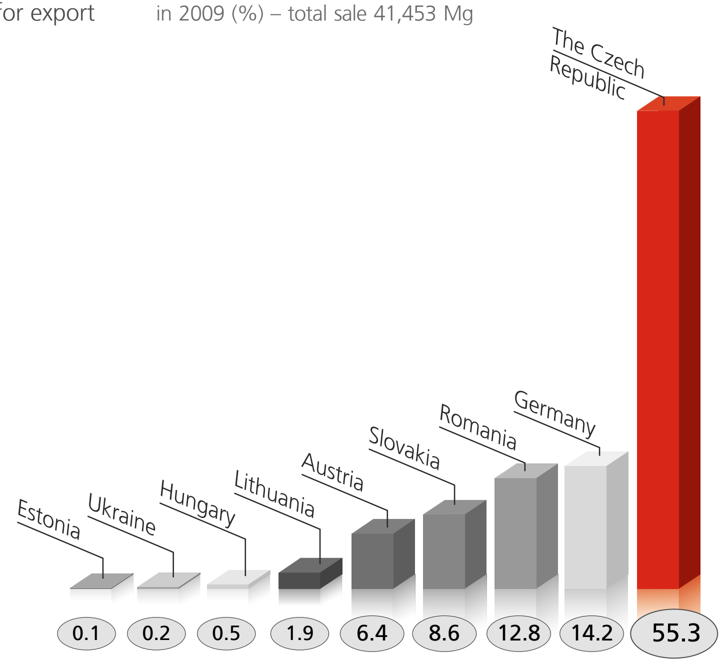
In 2009 domestic bitumen sales went up by 21%, while the volume of export sales went down, and yet the profitability of export was higher than in 2008. The Company used the surplus of products for export to increase its seasonal sales domestically.

Share in the domestic bitumen market in 2009 (1.58 m tonnes)



Source: Own study based on market information.

Geographic structure of export sales at ORLEN Asfalt in 2009 (%) – total sale 41,453 Mg



Production volume at ORLEN Asfalt in 2008–2009 ('000 tonnes)

	2008	2009	Change in the volume	Change
Road bitumen	692.36	741.67	49.31	7%
Industrial bitumen	17.07	21.70	4.63	27%
Specific products	0.38	0.18	-0.20	-53%
Total	**709.80**	**763.54**	**53.74**	**8%**

The Czech Republic

The economic slowdown affected the bitumen market as well, causing a 2% drop in sales.

Bitumen production volume at Litvinov and Paramo in 2008–2009 (tonnes)

	2008	2009	Dynamics 2009/2008
Road bitumen	193,012	**194,276**	0.65%

Bitumen sales volume at Paramo in 2008–2009 (tonnes)

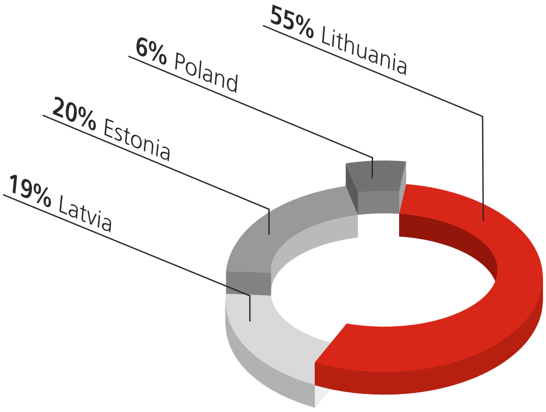
	2008	2009	Dynamics 2009/2008
Road bitumen	203,000	198,621	-2.0%
Modified bitumen	8,500	11,029	29.8%
Industrial bitumen	39,000	35,218	-9.7%
Total*	**251,000**	**257,461**	**2.6%**

**Bitumen and other products.*

Lithuania

In 2009, we manufactured 22% less of bitumen than in the previous year. The main reasons for the reduced processed volume were the market conditions and lower demand for bitumen.

Bitumens sales structure at ORLEN Lietuva in 2009 (%)



Bitumen production volume at ORLEN Lietuva in 2008–2009 (tonnes)

	2008	2009	Dynamics 2009/2008
Road bitumen	140,084	109,214	-22%
Roof pitches	9,376	8,117	-13%

CORPORATE COLOURS

Our visual identity, apart from the name, graphic symbol of eagle's head and the brand logo combining the name with the emblem, comprises also the company colours.

The colours of the logo were chosen based on the common perception of the typical colours of the fuel industry: silver, grey and graphite, and the national red and white colours. Those particular colours were chosen also following an analysis of the colours used by our competitors. We had to make sure that the selection of colours for ORLEN fuel station would not cause direct association with other existing fuel station networks. The results of an opinion poll conducted in 2000 proved that our choice was a success: respondents who were shown the image and colours of the new brand without being told which particular company they symbolised, suggested that they represented a refinery and petrochemical business or a new chain of fuel stations.

Logistics

Logistics

To ensure fluent and efficient flow of raw materials and finished products, ORLEN Group uses an infrastructure which consists of: fuel terminals, land and offshore transshipment facilities, a network of industrial raw material and product pipelines as well as road and rail transport.

The most important events in the area of logistics in 2009 were;

- Launch of the "Self-service" project aimed at higher automation of the refuelling process at the Company's own terminals;
- Restructuring of terminals in order to reduce their operating costs;
- Establishing a Loss Management Unit in the area of Logistics to minimise loss;
- Increasing the capacity of the Fuel Terminal in Wrocław from the original 12,500 m^3 to over 50,000m^3 by 2011 – a project related to the construction of a pipeline to Wrocław;
- Construction of a fuel pipeline from Ostrów Wielkopolski to Wrocław – date of completion scheduled for 2010.

Mandatory Reserves

In 2009, we stored our mandatory crude oil reserves at the Production Plant in Płock, in underground cavities at IKS "Solino" and at the refinery in Mažeikiai. Fuel was stored in 24 locations in Poland and at several leased terminals in Lithuania. By the end of 2009, the total value of the above reserved amounted to appr. PLN 5.5 bn (Poland) and USD 200 mn (Lithuania).

Poland

IN 2009, PKN ORLEN maintained mandatory reserves covering 76 days of domestic consumption, while Material Reserves Agency provided for another 14 days of reserves.

We participate in discussions on a new law which would increase the Government's involvement in storing mandatory crude oil reserves. PKN ORLEN supports solutions which would:

- Improve Poland's energy security by giving the Government more power to control mandatory reserves;
- Release companies from the obligation to pay for mandatory reserves.

The Czech Republic

According to the Czech law, mandatory crude oil and fuel reserves are maintained by a dedicated government agency.

Lithuania

By the end of 2009, mandatory reserves in Lithuania covered 90 days, of which ORLEN Lietuva provided for 60 days (the other 30-day reserves were maintained by the Lithuanian State Agency). Crude oil reserves were

stored at the refinery in Mažeikiai and the transshipment terminal in Būtingė, and finished product reserves were stored at three leased terminals in Lithuania.

Pipelines

In 2009, ORLEN Group used 6 own and leased pipelines of the total length of over 2,000 km to transport raw materials and products in Poland, the Czech Republic and Lithuania.

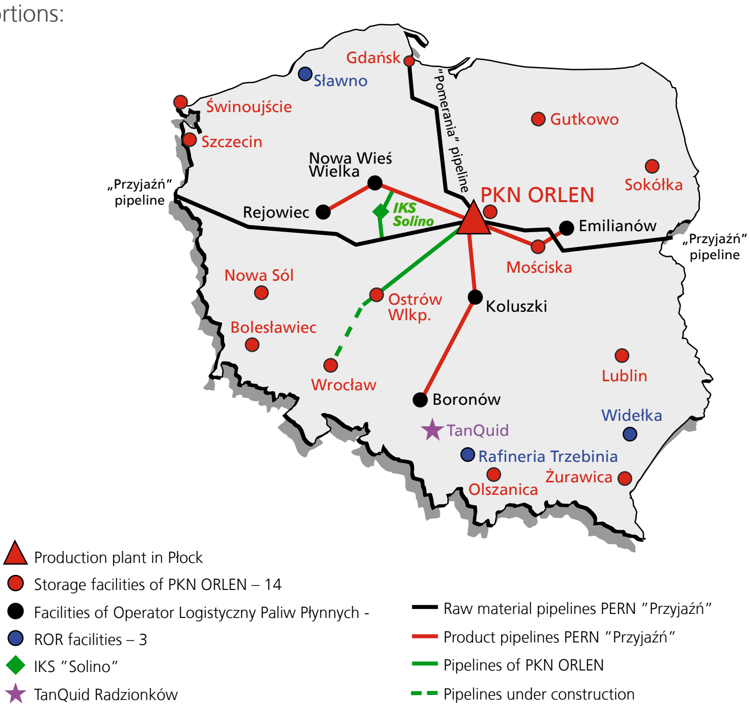
Poland

In 2009, we used 247 km of our own pipelines and another 570 km of product pipelines belonging to a state-owned operator, PERN "Przyjaźń."

In 2009, fuel (petrol, diesel, Ekoterm, JET A-1) was shipped from Płock in the following proportions:

- Via pipelines – 64%;
- Via rail – 29%;
- Via road tankers – 7%.

Logistic infrastructure of PKN ORLEN



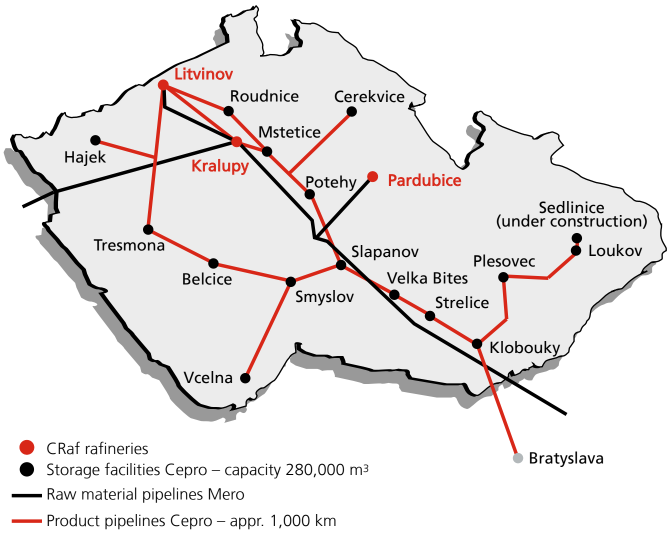
The Czech Republic

In 2009, like in previous years, Unipetrol Group used 1,100 km of pipelines belonging to the state-owned operator, CEPRO.

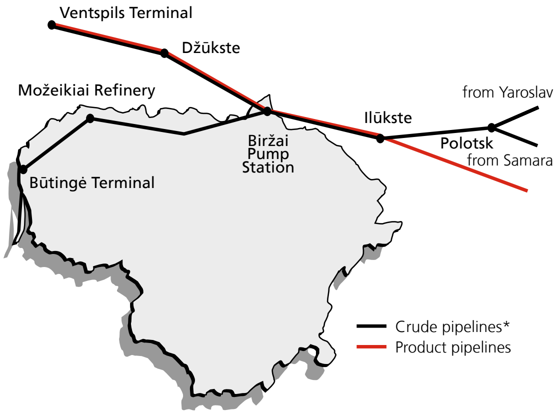
Lithuania

The "Friendship" pipeline, which used to deliver crude oil to the refinery in Mažeikiai until 2006, remains closed. In 2009, ORLEN Lietuva used a section of the product pipeline from Belarus to Ventspills, Latvia, to transport diesel fuel from Belarusian refineries.

Fuel distribution network in the Czech Republic



Pipeline network in Lithuania



*Out of use.

Storage Facilities

As a Group, ORLEN used appr. 30 storage facilities in Poland and Lithuania, including 14 corporate Fuel Terminals, and storage space leased from external operators. In the Czech Republic, we used 11 warehouses of the state-owned CEPRO and 2 storage facilities leased from external operators.

Poland

For the purposes of storage, distribution and transshipment of fuel in 2009, ORLEN Group Logistics used the total of 25 facilities across Poland (corporate Fuel Terminals and the facilities of third-party operators). By the end of 2009, storage space for finished products at IKS "Solino" totalled appr. 1.1 mn m^3. The Company was also able to store 3.76 mn m^3 of crude oil. The total capacity of cavities was 5.1 mn m^3.

The Czech Republic

In 2009, the Czech Unipetrol Group used storage space of the state-owned CEPRO and 2 storage facilities leased from third-party operators. Its Slovakian daughter company (Unipetrol Slovakia) used 2 terminals.

Lithuania

Last year, we used 3 terminals on the territory of Lithuania for the purposes of the logistics operations of ORLEN Lietuva.

Rail Transport

Poland

PKN ORLEN transported appr. 8.1 mn tonnes of products via rail, including 6.3 mn tonnes of motor fuel, which represents an increase by 2.0 mn tonnes and 1.7 mn tonnes, respectively, compared to 2008.

The Czech Republic

The total volume of sold products transported via rail across the Czech Republic amounted to appr. 850,000 tonnes, including appr. 660,000 tonnes of fuel.

The volume of sold products transported by Unipetrol Doprava, a rail transport company, amounted to 410,000 tonnes.

Lithuania

The total volume of rail transport was appr. 7.4 mn tonnes, of which appr. 4.8 mn tonnes were loaded on ships and exported outside Lithuania.

Road Transport

In 2009, an ORLEN Group company, ORLEN Transport, delivered fuel to our fuel stations across Poland.

In the Czech Republic, fuel was delivered to Benzina stations by a Unipetrol Group company – Petrotrans.

In Lithuania, we outsourced fuel delivery services to ORLEN Lietuva stations from UAB Simeon, the company which had won a tender organised in 2007. ORLEN Lietuva used its own means to deliver JET A-1 aviation fuel to its Lithuanian and Latvian customers.

Maritime cargo handling

In 2009, we transshipped appr. 6 million tonnes of products in Poland and Lithuania combined, which is comparable to the 2008 figure.

Poland

We used docks in Gdynia and Świnoujście to handle over 1 mn tonnes of products, in particular heavy heating oil for export (0.67 mn tonnes).

Lithuania

The volume of ORLEN Lietuva products transshipped in marine docks amounted to appr. 4.8 mn tonnes in 2009.

Investment projects

In 2010, we will continue several projects in the area of logistics:

Poland

- closing the 3rd stage of the process of restructuring logistics by employment optimisation and process automation at the Fuel Terminals, which will result in higher cost efficiency in the area. We will be redefining the organisation and management of logistics in order to adapt to the changing internal and external conditions;
- Finalising the "Self-service" project designed to achieve more automated operation of the Fuel Terminals;
- Launching a "Cavity strategy" which focuses, in particular, on initiating long-term measures to prolong the operating life and increase the safety of the existing underground crude oil and fuel storage facilities at IKS "Solino," and the possibility of constructing new underground hydrogen storage space.

We plan to start 105 km of product pipeline between Ostrów Wielkopolski and Wrocław in 2010.

The Czech Republic

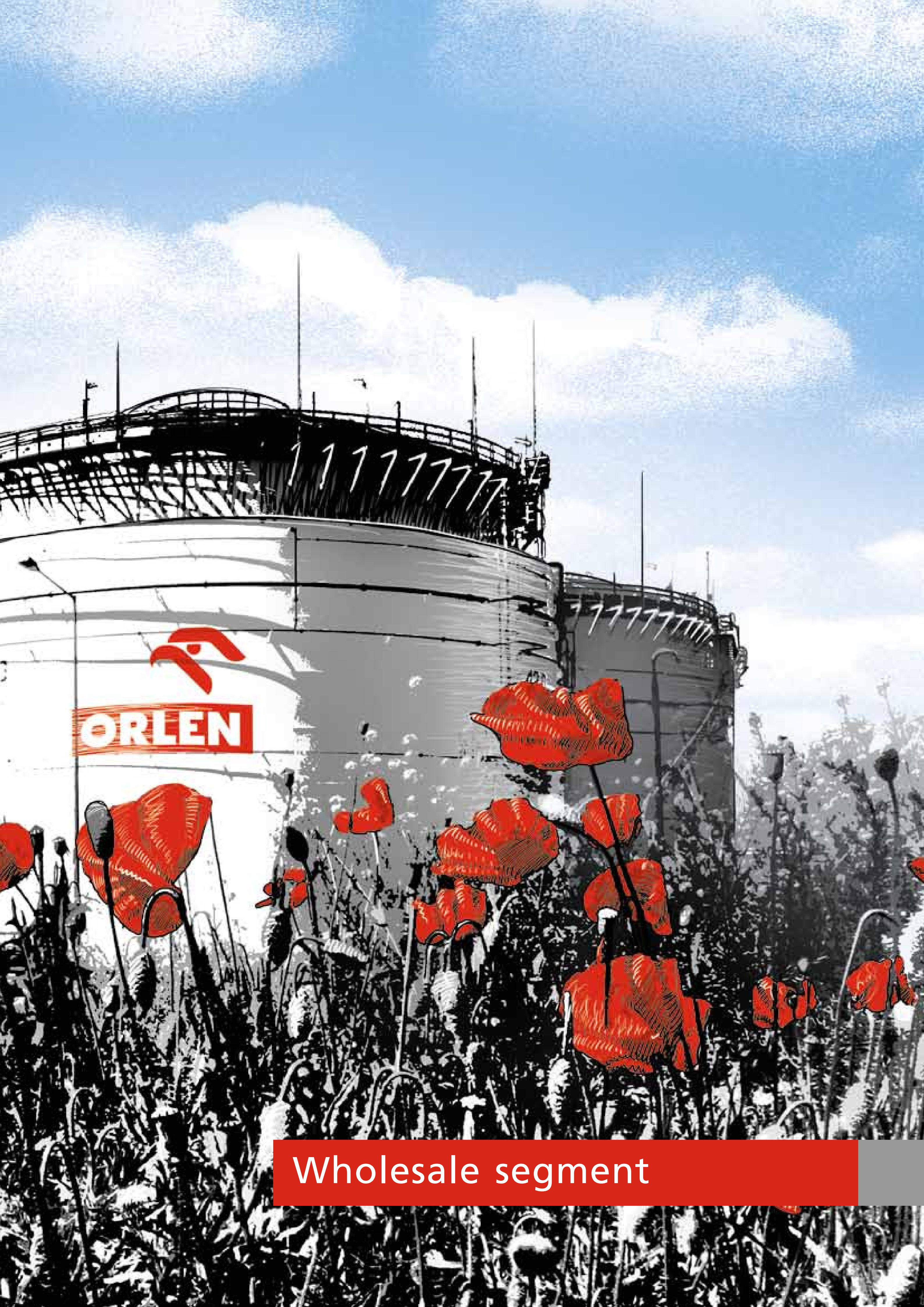
- Strengthening the position of Unipetrol Group in Slovakia;
- Remodelling rail cargo handling devices in Litvinov;
- Securing motor fuel supplies to Unipetrol Slovakia.

Lithuania

- Opening a main railway line in the direction of Latvia and Estonia;
- Reducing costs and rail and harbour charges for ORLEN Lietuva;
- Reducing the costs of maintaining mandatory reserves.

FONT EXPRESSES THE BRAND

While creating the image of the ORLEN brand, we also focused on the selection of the right font (corporate typography) to be used in corporate documents and correspondence. It was assumed that corporate font should correspond to the company's symbol and logo. The font used for the logo was Futura Bk Pl, which was specifically tailored for the purpose of the ORLEN brand in order to reflect the desired features of the brand. The use of capital letters emphasizes the stability and size of the entire organisation. The unornamented FUTURA type font, used in marketing correspondence, and the Arial font (available in any text editor) in documents and letters emphasize the modern character of the organisation.



Wholesale segment

Wholesale segment

In 2009 ORLEN Group continued the wholesale of fuel and non-fuel products on the territory of Poland, the Czech Republic, Germany, Slovakia and Lithuania. The Group's wholesale segment consisted of PKN ORLEN wholesale units, 5 Regional Market Operators, Petrolot, ORLEN Gaz (Poland), Uniraf Slovakia (Slovakia), Unipetrol BUI (the Czech Republic), ORLEN Lietuva (Lithuania, Ukraine, Poland, sea sales).

ORLEN Group – Fuels

The total volume of fuel sold by ORLEN Group in 2009 was appr. 6% (i.e. 1.0 mn tonnes) less than in the previous year. More than half of our fuel sales was generated by diesel fuel, whose sales, however, dropped by 5% compared to 2008.

The high dynamics of fuel sales in Poland was possible mainly due to higher sales volume in the key customer group comprising Polish and international corporations. Fuel sales were also enhanced by promotions offered at storage facilities, i.e. reduced SPOT prices on selected products.

The lower volume of sales was mainly due to lower fuel consumption, whose dynamics was -16% in Lithuania and -4% in the Czech Republic. Despite negative market conditions, the drop in sales that the Group reported (-12% in Lithuania and -2% in the Czech Republic) was above the average market tendencies in the respective countries.

Apart from local customers (in Poland, the Czech Republic, Slovakia, Germany, Baltic States), ORLEN Group sold its fuel also to Ukraine, Nigeria, Moldova and UK.

[1] *Source: Agencja Rynku Energii SA, POGP.*
[2] *Source: Report POPiHN 2009.*

Poland

In 2009, motor fuel consumption (petrol, diesel, LPG) in Poland went up by app. 2%[(1)] compared to the previous year. Domestic fuel consumption was stimulated mainly by the country's dynamic economic growth at the rate of 1.7% GDP, which resulted in higher demand for transport services. Growing consumption was also due to a much higher number of registered vehicles.

Petrol consumption in 2009 remained at a similar level compared to 2008, which proves that this particular market has been stable for the last several years. Like in previous years, in 2009 we reported growing domestic consumption of diesel fuel. Another reason behind the growing consumption of diesel, beside the high GDP rate, was the fact that many companies are replacing their fleet with diesel engine vehicles. On the other hand, the consumption of light heating oil dropped by appr. 2% in 2009. This was due to the entry into force of a new law which limits the sales of this particular product to farmers.

In 2009, the petrol imported to Poland covered 13%[(2)] of domestic petrol consumption, the volume being appr. 3 pp smaller than in the previous year. The share of imported diesel dropped from 33% in 2008 to 30% in 2009. On the other hand, the share of imported light heating oil in domestic consumption went up from 19% in 2008 to 23% in 2009.

Most of the imported motor fuel originated from Germany, followed by: Slovakia, Lithuania and Belarus. The entire volume of imported light heating oil came from Germany.

ORLEN Group fuel sales volume on local markets (1,000 tonnes)

	2008					2009					
	Polish companies	Czech companies	Lithuanian companies	Other*	Total	Polish companies	Czech companies	Lithuanian companies	Other*	Total	Dynamics
Petrol	1,624	545	2,801	195	5,165	1,714	542	2,770	186	5,212	1%
Diesel fuel	3,943	1,088	3,160	370	8,561	4,017	1,066	2,669	344	8,096	-5%
Light heating oil	921	25	8	286	1,240	807	22	7	268	1,103	-11%
JET A-1	482	88	480	–	1,050	293	75	227	–	595	-43%
LPG	263	98	187	–	548	209	94	131	–	434	-21%
Total	**6,970**	**1,746**	**6,448**	**851**	**16,015**	**6,830**	**1,705**	**5,673**	**798**	**15,005**	**-6%**

** Wholesale volume in Slovakia and Germany.*

ORLEN Group share in local fuel sales markets in 2008–2009

	2008	2009	Dynamics
PKN ORLEN*– Poland	61.60%	61.90%	0.30 p.p.
Unipetrol** – the Czech Republic	30.90%	31.40%	0.50 p.p.
ORLEN Lietuva**– Lithuania	89.10%	90.30%	1.20 p.p.

** Share in wholesale and retail sales of petrol, diesel and light heating oil.*

*** Share in wholesale and retail sales of petrol, diesel and JET A-1.*

Fuel consumption in Poland in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
Petrol	4,273	4,257	-0.4%
Diesel fuel	10,475	10,958	4.6%
Light heating oil	1,204	1,184	-1.7%
LPG	1,774	1,681	-5.2%
Total	**17,726**	**18,080**	**2.0%**

Fuel import to Poland in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
Petrol	666	492	-26%
Diesel fuel	2,248	2,149	-4%
Light heating oil	7	15	126%
Total	**2,920**	**2,657**	**-9%**

Sources of fuel import to Poland in 2009

Country	Petrol	Diesel	LHO
Germany	50%	52%	100%
Slovakia	46%	11%	–
Lithuania	–	25%	–
Belarus	–	5%	–
The Czech Republic	–	4%	–
Finland	–	1%	–
Russia	–	1%	–
Sweden	–	1%	–
Hungary	4%	1%	–
Total	**100%**	**100%**	**100%**

The Czech Republic

In 2009, the level of motor fuel consumption in the Czech Republic was lower than in the previous year, with the largest drop (by 5.5%) reported for diesel consumption. Yet, despite the negative macroeconomic conditions, we still managed to slightly (by 0.5 p.p.) increase our share in the Czech fuel market.

In 2009, total imported fuel represented 16% of domestic fuel consumption, of which the share of imported diesel was 20%, and of petrol – only 12%.

Fuel consumption in the Czech Republic in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
Petrol	1,951	1,923	-1.4%
Diesel fuel	4,157	3,934	-5.4%
Total	**6,108**	**5,857**	**-4.1%**

Lithuania

Fuel consumption in Lithuania in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
Petrol	429	379	-11.7%
Diesel fuel	1,126	992	-11.9%
JET A-1	77	39	-49.4%
LPG	252	172	-31.7%
Total	1,555	1,371	-11.8%

ORLEN Group – Non-fuel Products

Total wholesale volume of non-fuel products by ORLEN Group in 2009 amounted to 5,674,000 tonnes, i.e. 7% less than in 2008.

The main consumers of petrochemical products offered by PKN ORLEN were the manufacturers of: plastics (PE, PP, PVC, PET), synthetic rubber, ethoxylates (used in the production of surface active agents) and

Non-fuel sales by ORLEN Group in 2008–2009 ('000 tonnes)

	2008					2009				
	Polish companies	Czech companies	Lithuanian companies	Total	Growth/ fall	Polish companies	Czech companies	Lithuanian companies	Total	Growth/ fall
Heating oil III	961	146	1,798	2,905	29%	930	85	1,466	2,482	-15%
P fractions	338	–	–	338	13%	315	–	–	315	-7%
Sulphur	130	34	76	241	26%	135	31	70	236	-2%
Refinery	60	232	178	470	-23%	70	375	169	614	31%
Ethylene	–	153	–	153	-1%	–	143	–	143	-6%
Propylene	6	27	–	33	-32%	14	36	–	50	54%
Benzene	95	179	–	274	-1%	83	182	–	265	-3%
Glycols	88	–	–	88	-14%	84	–	–	84	-4%
Toluene	103	–	–	103	-14%	91	–	–	91	-11%
Paraxylene	25	–	–	25	-22%	1	–	–	1	-97%
Orthoxylene	21	–	–	21	-19%	21	–	–	21	-1%
Butadiene	55	–	–	55	-7%	57	–	–	57	2%
C fractions	–	211	–	211	24%	–	168	–	168	-20%
Polyolefins	–	482	–	482	21%	–	500	–	500	4%
Ammonia	–	195	–	195	11%	–	234	–	234	20%
OXO alcohols	–	56	–	56	4%	–	18	–	18	-68%
Industrial oil	–	21	–	21	-27%	–	18	–	18	-12%
Petrochemical	186	225	–	411	-6%	186	192	–	378	-8%
Total nonfuel	2,069	1,960	2,052	6,080	12%	1,987	1,982	1,705	5,674	-7%

polyols, TDI (used in the production of polyurethanes), caprolactam, Bisphenol A, phenolic resins, coolants, phthalic anhydride and artificial fertilisers. The largest share in the customer structure was held by plastic manufacturers.

The first quarter of 2009 was still affected by the global crisis which started in the last quarter of 2008. Deepening recession in the automotive and construction industries strongly affected the market for all types of plastic (polyethylene, polypropylene, PVC, polystyrene, polyurethanes). In a very short period of time, petrochemical product quotes showed record price drops – by as much as 60%, and limitations in the processing of petrochemicals (due to reduced loads or temporary shut-downs of installations) inevitably affected sales volumes in 2009 in terms of both quantity and quality.

The demand for the respective petrochemical products resumed a slightly upward trend in the second quarter of 2009. After a major price slump in the first quarter of 2009, contractual quotes on most petrochemical products have been on the rise again. However, manufacturers remained vigilant of the changing market demand and adjusted their production capacities accordingly. One of their priorities was to minimise stock levels. We adapted the manufacture and sales of petrochemicals to the new market situation while maintaining cooperation with our key partners.

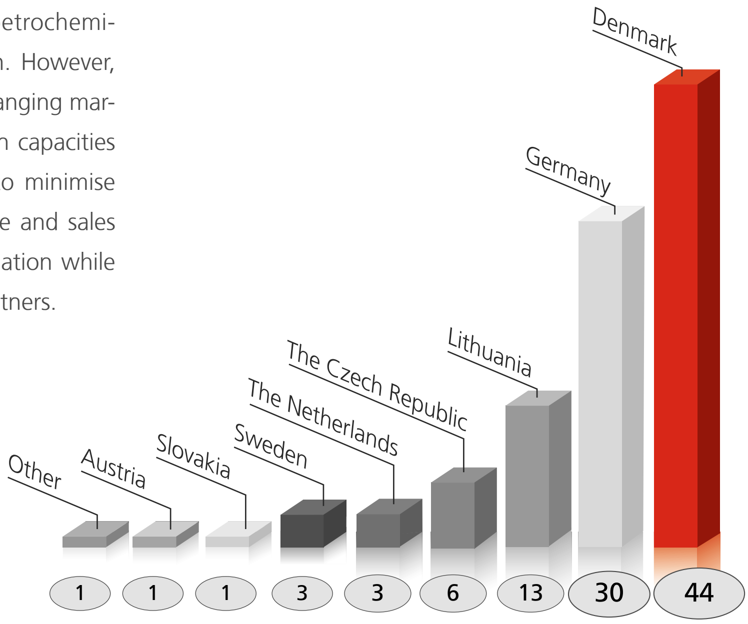
Poland

Polyolefins were mainly imported to Poland from: Germany, the Netherlands, Hungary, Slovakia, France and Belgium. Other petrochemicals were imported first of all from Germany, Slovakia, the Czech Republic, Hungary, Belgium, Belarus and Finland.

The Czech Republic

In 2009, the situation on the Czech market of petrochemicals was not different from that on the other European markets, which experienced falling demand for this type of products. Until mid second quarter, prices were exceptionally low, after which they resumed an upward trend. In the second quarter, the demand started growing as well, however at a lower pace than in the previous year. The largest drop was reported in the olefins sector – customers were less interested in polyethylene and polypropylene.

Non-fuel product export markets in 2009 (%)



Sales of the main petrochemical products in 2009 (%)

	Ethylene	Propylene	Benzene	Oxo	Ammonia	Carbamide	HDPE	PP
Domestic sales	84	60	97	51	96	49	25	57
Eksport	16	40	3	49	4	51	75	43

The agrochemical market was very unstable in 2009. For example, ammonia and carbamide prices went down to the level from before 2008 and 2007, respectively. The level of sales, in particular in the first half of 2009, was affected by the stagnation on the fertiliser market. Despite such negative conditions, we managed to maintain both our previous market share and customer portfolio.

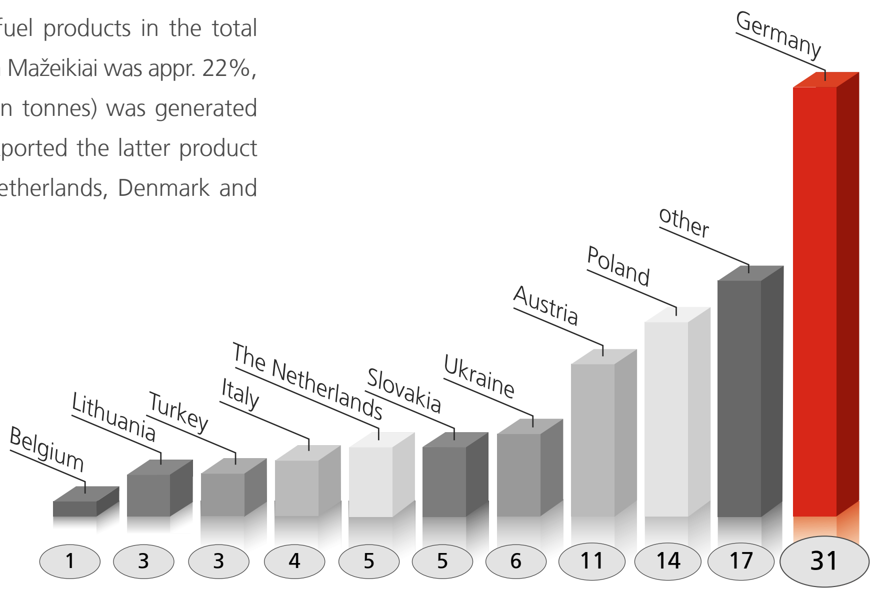
The suppliers of those products were in particular: Germany, Poland, Austria and Ukraine. Petrochemicals imported to the Czech Republic came mainly from: Germany, Poland, Hungary and Slovakia.

Lithuania

In 2009, the share of non-fuel products in the total sales volume of the refinery in Mažeikiai was appr. 22%, most of which (appr. 1.5 mn tonnes) was generated by heavy heating oil. We exported the latter product via the sea mainly to the Netherlands, Denmark and Norway.

In 2009, we continued several projects aimed at improving the level of wholesale customer service (Contact-center, e-faktura – electronic invoicing, e-hurt – electronic wholesale), automation of all forwarding processes related to the dispatch of fuels (CBOK) and provision of dedicated fleet for serve wholesale customers.

Export of Unipetrol chemicals in 2009 (%)



ORLEN PRODUCTS

Since it was created in 2000, the ORLEN brand has been the axis of corporate marketing, which enabled the company to shape its coherent image.

The ORLEN logo is visible both at Premium fuel stations and on motor oils, operating fuels, car lubricants and industrial lubricants as well as on a broad range of automotive chemicals offered by ORLEN Oil. All those products are manufactured using the latest technologies and dedicated to a large group of users, ranging from passenger car and truck drivers through farmers and construction companies using heavy construction equipment, motorcyclists and motorboat sailors to sea transport companies. The topmost quality of ORLEN Oil products is testified by a number of famous car producers and manufacturers of industrial equipment.


MIXOL S
LUX 10
BOXOL 26
Platinum
Platinum
Platinum
Platinum
Platinum
DIESEL 2
SYNTHETIC
DIESEL 3
SELEKTOL

Oil segment

Oil segment

In 2009, the ORLEN Group oil segment consisted of ORLEN Oil in Poland and Paramo in the Czech Republic.

The sales volume generated by the ORLEN Group's entire oil segment was 404,700 tonnes, i.e. appr. 7.6% less than in 2008. Base oil and lubricant sales amounted to appr. 215,600 tonnes, which is more than 6% less than in 2008.

Poland

The 14% drop in production volume in 2009 was mainly due to the economic situation in the country. Another important reason behind the slow-down in production was the scheduled overhaul downtime at the oil block unit. The volume of lubricant production in 2009 was adjusted to the shrinking demand for this particular type of products.

2009 was a year of intensified efforts in the Research and Development area. We implemented 42 projects, which resulted in the launch of new products on the market and modified technologies to better suit customer demands and European and global standards. We installed a crystallisation modifier to improve the efficiency of the Mektol unit. To make the Company independent of external suppliers, we tested the possibilities of deriving Brighstock-type base oil from Paramo's raw materials and improving the thermooxidising stability of the 2nd group of Paramo oils at the HROS unit in Płock.

ORLEN Group oil segment sales volume in 2008–2009 (tonnes)

	2008	2009	Dynamics
Lubricants and base oils	229,642	215,639	-6.1%
Other products	208,624	189,132	-9.3%
Total	**438,276**	**404,771**	**-7.6%**

Sales

With an over 20% share in the market, ORLEN Oil is one of the leaders of the Polish lubricants industry. Despite difficult market conditions and lower demand for lubricants, the Company maintained its strong position thanks to several projects launched in mid 2009 with a view to improving the level of customer service – among others by broadening the range of products offered and reorganising the distribution network and logistics systems.

In 2009, we continued the most important and so far the largest investment project in the history of ORLEN Oil, namely the construction of a dispatch terminal for road tankers at the Production Plant in Płock. The terminal was put in operation in August 2009. We also worked on modernising and renovating the Company's existing fixed assets, such as: the DCS at the MEKTOL unit at the Płock Plant, packing lines at production plants or implementation of APC at the Furfurol unit at the Płock Plant.

Production volume at ORLEN Oil in 2008–2009 (tonnes)

	2008	2009	Dynamics
Lubricants, base oils and process oils	226,682	195,461	-13.8%
Other products	226,852	204,978	-9.6%
Total	453,534	400,439	-11.7%

Sales volume at ORLEN Oil in 2008–2009 (tonnes)

	2008	2009	Dynamics
Lubricants and base oils	157,463	151,992	-3.5%
Other products	198,065	182,184	-8%
Total	355,528	334,176	-6%

The Czech Republic

Production

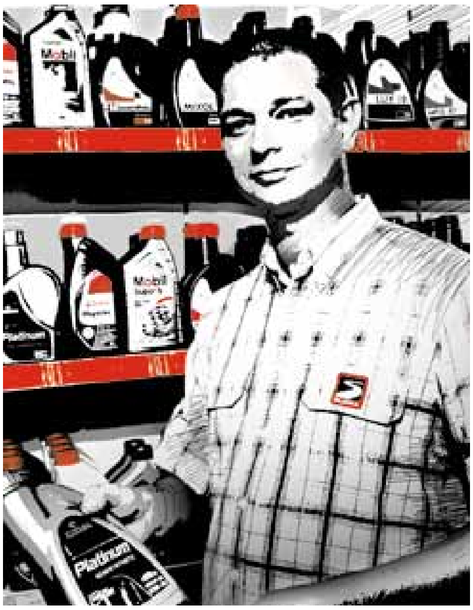
The total volume of oil and lubricant produced in Paramo was nearly 38,400 tonnes, which is 9% less than in 2008.

The Company reported a 30% drop in process oil production and 34% drop in the derivatives and slacks segment.

To meet the market demands, Paramo extended its offer of lubricants in 2009. New products included oils dedicated for Ford, the best-selling car brand in the Czech Republic, and oils for engines compliant with the Euro 5 standard. The Company launched PRESS 80 and PRESS 10 process oils on the market and added TK 180 hardening oil for TERM 32 heaters.

Sales

The volume of sales of oils and lubricants on the Czech market in 2009 was appr. 12% lower than in 2008. Paramo not only had to compete with other producers but also to struggled with falling demand for oils and lubricants caused by the global recession. However, the Company managed to make up partly for the lower sales volume by actively searching for new customers.



Paramo's oil segment production volume in 2008–2009 (tonnes)

	2008	2009	Dynamics
Oils and lubricants	42,341	38,335	-9%
Base oils	13,405	13,799	3%
Process oils	16,443	11,513	-30%
Other products	10,559	6,948	-34%
Total	**82,748**	**70,595**	**-14.7%**

Sales volume at Paramo in 2008–2009

	2008	2009	Dynamics
Lubricants, base oils and process oils	72,189	63,647	-12%
Other products	10,559	6,948	-34%
Total	**82,748**	**70,595**	**-15%**

MARKET IMAGE

The image of ORLEN fuel stations was based on the standards defined in the corporate brand strategy. It was agreed that the image of all the stations in the new chain will comprise uniform and standardised elements. The idea was to create a coherent image and positive perception of the chain among customers. The opening of the first fuel station was preceded by design work and prototype and pilot programmes. The first ORLEN fuel station was opened on 10 November 2000 at the "Orle" housing estate in Jelenia Góra. The first in the chain, the station was meant to attract attention with its silver, red and graphite colours.

Today, the red and silver fuel stations have become a part of the local landscape all across Poland. In 2009, PKN ORLEN managed a network of 940 ORLEN stations in Poland. The eagle-branded stations represent our brand in Lithuania and Germany as well.

Retail segment

Retail segment

In 2009, ORLEN Group carried out retail sales in Poland, Germany, the Czech Republic and Lithuania. The entities responsible for managing commercial operations on the respective markets were PKN ORLEN, ORLEN Deutschland, Benzina and Ventus Nafta.

In the case of fuel, we reported high sales dynamics, generated mainly by PKN ORLEN (7.3% growth) and ORLEN Deutschland (2.2% growth). There was also a slight improvement in the sales of non-fuel products in Poland (by 19.1%) and Germany (by 12.2%). By the end of 2009, ORLEN Group managed 2,640 fuel stations which sold nearly 8.1 bn litres of fuel. Approximately 40% of all facilities were Premium fuel stations characterised by the highest service standard and offering the richest variety of fuel, non-fuel products and food services. The Premium segment fuel stations in Poland and Lithuania were operating under the ORLEN brand, and in the Czech Republic under the BENZINA Plus brand.

ORLEN Group's economy fuel stations operate under the following brands: BLISKA (Poland), Star, (Germany) and BENZINA (the Czech Republic). Customers at economy stations were offered fuel of verified quality and basic products and services needed on the road. Thanks to our attractive products and services offered in Poland, the Czech Republic, Germany and Lithuania, we managed to increase our retail market shares for a consecutive year.

Poland

2009 was a very successful year. Within 12 months, the Company sold over 5.4 bn litres of petrol fuel through its Polish retail network. Thanks to our consistent development strategy, we managed to increase the share our retail network in the Polish retail market to 31.2%. Despite a significantly reduced level of capital expenditure, our fuel sales in 2009 went up by 8.2% at our own stations and by 26.3% at franchised stations. The result is due to our efforts to strengthen the position of the ORLEN brand on the fuel stations market as well as to increase sales dynamics at BLISKA economy stations.

Share of ORLEN Group companies in local fuel retail markets in 2008–2009

	2008	2009	Dynamics
Poland *	29.5%	31.2%	1.7 p.p.
Germany **	4.6%	4.7%	0.1 p.p.
The Czech Republic	13.7%	13.8%	0.1 p.p.
Litwa	3.6%	4.0%	0.4 p.p.

Share in the retail market estimated on the basis of ARE consumption data.

***Total sales (through all channels).*

In 2009, we increased the number of Stop Cafes at our Premium fuel stations, including Stop Cafe Bistros, to a total of 467. The foodservice facilities are our reaction to the changing habits of Polish drivers who now tend to take short breaks in their journey at fuel stations. We also implemented a new operating system for our outlets, based on the SAP Retail system, which will help us to more efficiently manage our outlets and stock levels, and streamline the ordering procedure and handling of supplies, and reduce financial and accounting costs. With the new system, we will also be able to apply innovative marketing techniques and, last but not least, learn a lot about our customers and their purchasing habits. We will use the knowledge we acquire to develop our non-fuel offer further.

As at 31 December 2009, PKN ORLEN's retail network in Poland comprised of 1,747 fuel stations, of which 1,300 were own stations, 336 – franchise stations and 81 – affiliated stations , including stations functioning under the brands of Petrochemia Płock and CPN.

In 2009, our enriched fuel, VERVA ON and VERVA 98, became increasingly popular among our customers. The share of the VERVA brand in total fuel sales at Premium stations went up from 16.6% in 2008 to 17.6% in 2009.

Increased fuel sales effectiveness, extended non-fuel offer and cost optimisation programmes implemented at fuel stations all translated into very good financial results in the retail segment in 2009. We plan to further

Number of ORLEN Group fuel stations in respective countries in 2008–2009

	2008	2009
Poland	1,803	1,747
Germany	509	521
The Czech Republic	334	337
Lithuania	35	35
Total	**2,681**	**2,640**

Number of fuel stations in Poland per brand in 2008–2009

	2008	2009
Own stations	1,339	1,330
Franchised stations	318	336
Affiliated stations	146	81
Total	**1,803**	**1,747**

Number of fuel stations in Poland per brand in 2008–2009

	2008	2009
ORLEN	924	940
BLISKA	406	424
Petrochemia Płock/CPN	473	383
Total	**1,803**	**1,747**

[1] The Company has entirely resigned from sponsorship agreements in order to focus on the franchise sector. This means that the Petrochemia Płock and CPN brands will be gradually removed from the market.

develop our networks of our own and franchised stations over the coming years, focusing on the optimisation of operating expenses and improving customer service standards.

In 2009, we released the total of 510,000 tonnes of biocomponents and biofuels on the market, thus complying with the 2009 National Indicator Goal of 4.6% (our actual ratio was 4.62% of biocomponent content in fuel). In the report period, we used over 130,000 tonnes of bioethanol to produce petrol and over 290,000 tonnes of ester in diesel fuel. Apart from that, we increased the sales of Bioseter (being fuel in itself) via our wholesale and retail networks by appr. 50% (to over 90,000 tonnes). We gradually improved the availability of Bioester to individual customers, by introducing it on 324 of our BLISKA stations.

In 2009, we reported increased activity of the participants of the Vitay programme. The programme, covering over 2.3 mn active customers, in 2009 was joined by another 500,000 clients, and the number of collected rewards much exceeded 1.5 mn. In the report period, over 500,000 participants of the programme were offered a new kind of personalised promotion printed on Vitay receipts or texted on mobile phones.

In August 2009, we launched a new BiznesTank programme dedicated to small and medium-sized enterprises. The BiznesTank programme is another of PKN's another card product, besides the FLOTA programme, using microprocessor cards. BiznesTank cards have a small chip which not only protects the data relating to the customer's company and fleet cars, but, more importantly, reduces the time of customer handling and invoicing at a fuel station. With a BiznesTank card, our customers have access to au automatic transaction handling on preferential conditions at appr. 1,300 of ORLEN and BLISKA stations across Poland. This saves the time they would otherwise have to spend to buy fuel. Currently, this is the most advanced discount card on the Polish market, its advantages being the security of transactions and reduced time of handling operations at fuel stations all over the country.

As in the previous years, the development and achievements of the FLOTA Programme in 2009 were noticed and appreciated both by our customers and fleet market experts in Poland. Our achievements in implementing the FLOTA Programme are best proven by the following awards:

- Fleet product of the Year (April 2009);
- Customer Laurel for the FLOTA Programme (December 2009) – Golden Label;
- Builder of the Polish Fleet Market (December 2009).

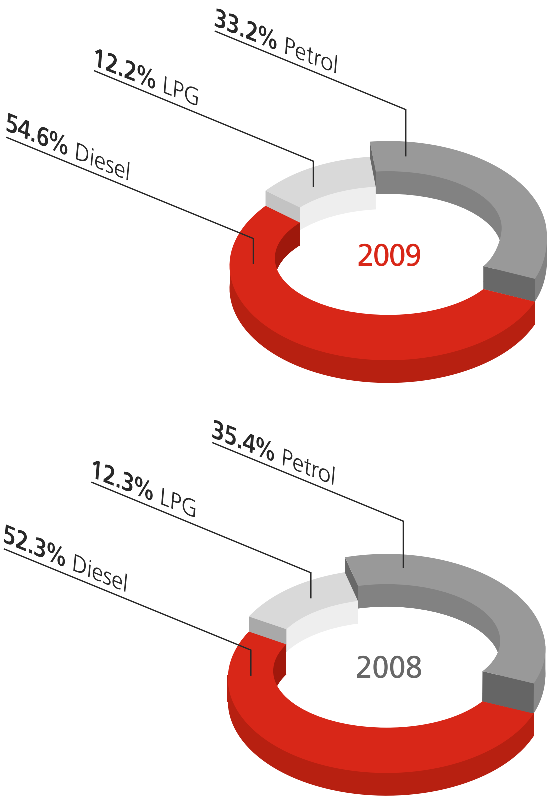
Sales supporting activities

In 2009, we initiated a new communications platform – ORLEN Power Inspiration – which sponsored the first Monster Jam event in Poland. The new quality of our marketing activities, focusing on the portfolio of our brands, was appreciated by our customers and business partners, as well as being recognised in the business by winning the Golden Arrow award. Last year was particularly important for our Stop Cafe and VERVA brands. The brand of our foodservice facilities was presented to customers via a marketing campaign in the media and by means of direct marketing (e.g. Mobile Stop Cafe, sales promotions).

The enriched fuel brand, VERVA, running the latest Porsche Panamera during an official presentation of the model, was prepared for the challenges that it will face in 2010, namely the Dakar Rally and Porsche Supercup. The latter is scheduled immediately before Forumla 1, where the VERVA Racing Team will compete with other teams from all over the world.

In 2009, the positive effect of our involvement in the development of Polish sport on fuel sales at our stations was even more visible than in the previous years.

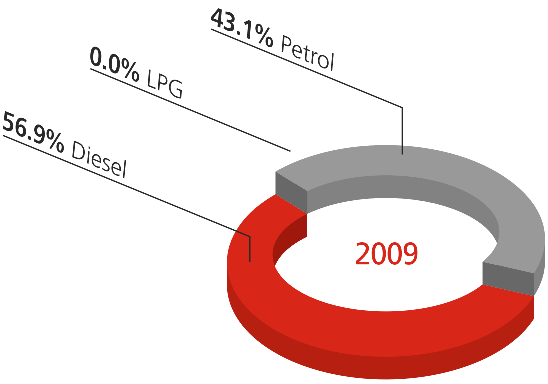
PKN ORLEN – structure of fuel sales in 2008–2009 (%)

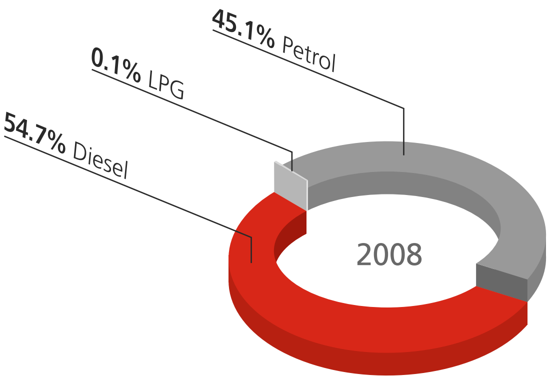


The Czech Republic

By the end of 2009, Benzina managed a network of 337 Premium and Economy fuel stations. In 2009, 107 stations complied with the highest requirements of the Premium BENZINA Plus brand offering a wide range of services and non-fuel products. The Economy segment, on the other hand, comprised of 230 fuel stations. 325 stations operated in the CoDo formula (Company-owned Dealer-operated) and the other 12 – in the DoFo formula (Dealer-owned Franchise-operated).

Benzina – structure of fuel sales in 2008–2009 (%)





* *Data of the Ministry of Finance.*

Despite poor macroeconomic conditions resulting in negative market dynamics for retail fuel sales (-3.6%*), Benzina managed to generate a record level of EBIT. The rebranding process continued in 2009, the purpose of which is to ensure a top quality service in the fuel station network, performed to 90%, and the Company's one undeniable success, considering the challenges it faced last year, was the 26% increase in revenue generated by the foodservice facilities at fuel stations.

Demand for premium fuel was on the rise in 2009. In 2007, Benzina launched premium VERVA 100 petrol and in 2008, reacting to the growing demand, it offered premium VERVA Diesel fuel. The sales of premium fuel went up by 67.2% over the 12 months of 2009, compared to 2008.

In 2009, the Company focused on improving the standards of its Premium and Economy stations, intensively developing its fuel and non-fuel offer and making use of synergy effects in its existing sub-brands. To meet customer demands, the Company added VERVA Diesel fuel to 29 of its "standard" BENZINA stations which are in the process of being re-branded to the Premium segment.

Benzina, in cooperation with PKN ORLEN, developed and launched a new product, innovative on the Czech fuel market, namely VERVA ON diesel with cetane number 60, thus gaining huge advantage over the Company's largest competitors. As a result of the measures taken, VERVA ON diesel fuel sales doubled compared to 2008. Another measure which supported fuel sales was a promotional campaign called "Drive on brands" (Ujíždějte na značkách), which additionally improved

the perception of Benzina brand by associating it with other prestigious brands involved in the campaign, such as Rossignol or Diadora.

Lithuania

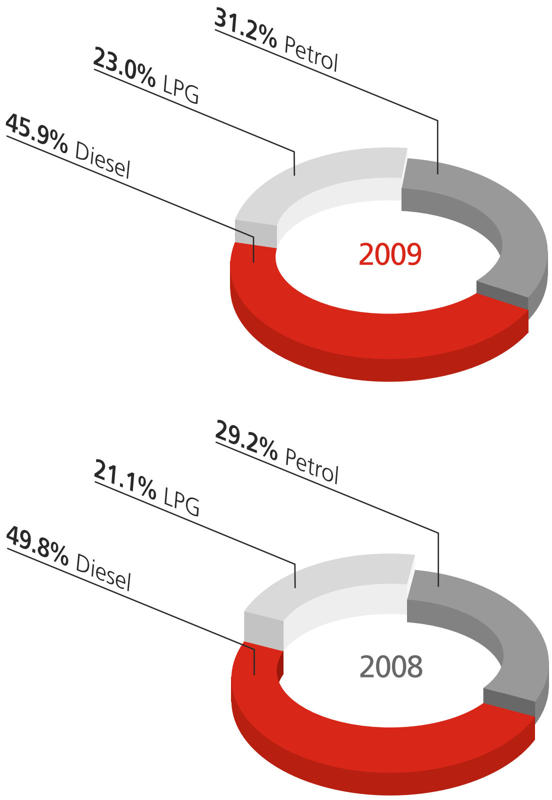
By the end of 2009, ORLEN group operated a network of 35 fuel stations in Lithuania, managed by Ventus Nafta. Most of them (26) operated in the CoCo formula (Company-owned Company-operated), and the other nine – in the DoFo formula (Dealer-owned Franchise-operated).

By the end of 2009, there were 23 fuel stations in the Premium segment, operating under the ORLEN Lietuva brand, characterized by a wide range of convenience products and foodservice facilities under the Stop Cafe Bistro format, tailored to meet the needs of the most demanding customers. The other 12 stations operated under the Ventus brand.

In 2009, the margin on non-fuel products and services was over 23% lower than in the previous year. The fall was mainly due to a new law which allows fuel stations to sell alcoholic beverages only at daytime.

We minimised the negative effect of dropping fuel and non-fuel sales on the level of margin by cost optimisation both at fuel stations and in Ventus Nafta.

AB Ventus Nafta – structure of fuel sales in 2008–2009 (%)



Sponsoring activities

ORLEN Lietuva being the sponsor of the Lithuanian national team, Ventus Nafta organised a campaign across the country called "Go Eagles" (Pirmyn Ereliai), to stimulate the sales of VERVA fuel. In 2009, the share of premium fuel in total fuel sales was over 17%.

In the summer of 2009, a promotional campaign was organised together with the Mega shopping centre (in Kaunas), aimed at the customers of Ventus Nafta stations and the shopping centre, which, despite its limited geographic range, resulted in a 6% rise in the sales in the entire network reported during the campaign.

In 2009, the Lithuanian retail fuel market suffered from deteriorating macroeconomic indicators. The main reasons for the shrinking of the market were the overall economic slowdown (22% drop in retail sales compared to 2008*) and recession in the transport, construction and related industries which, in turn, resulted in lower sales volumes generated by business customers.

The overall negative market trend was also reflected in the performance of Ventus Nafta, which in 2009 reported a 5.6% fall in the volume of sales compared to 2008, while the sales dynamics of Lithuania's entire retail fuel market was on the level of - 17.1%. Meanwhile, the sales of diesel fuel and LPG at the Company's CoCo stations went up by 3.6% and 4.7%, respectively, compared to the previous year, and Ventus Nafta increased its market share to 4.1% (compared to the 3.6% share in 2008).

In a ranking of "Lithuania's top 500 enterprises" organised by Verslo Žinios, Ventus Nafta came in 69th place, 8 places higher than in 2008.

Germany

By the end of 2009, ORLEN Deutschland managed a network of 521 petrol stations, including 4 under the ORLEN brand, 485 under the STAR brand and 32 stations located at hypermarkets.

In 2009, the level of retail prices on the German market was appr. 10% lower than in 2008. Given the lower prices, customers were less willing to search for cheaper fuel, however, despite that, ORLEN Deutschland managed to generate good sales results. This proves that our network is strengthening its position on the Economy fuel station market.

This trend was only one of the factors that contributed to ORLEN Deutschland's success last year aswell as the record total sales volume of nearly 2 bn litres. The surging fuel sales at STAR stations were mainly due to the brand's consistent positioning, large capital expenditure, successful acquisition of individual facilities and a large-scale marketing campaign supported by sponsoring activities.

** According to the data of the Lithuanian Office of Statistics.*

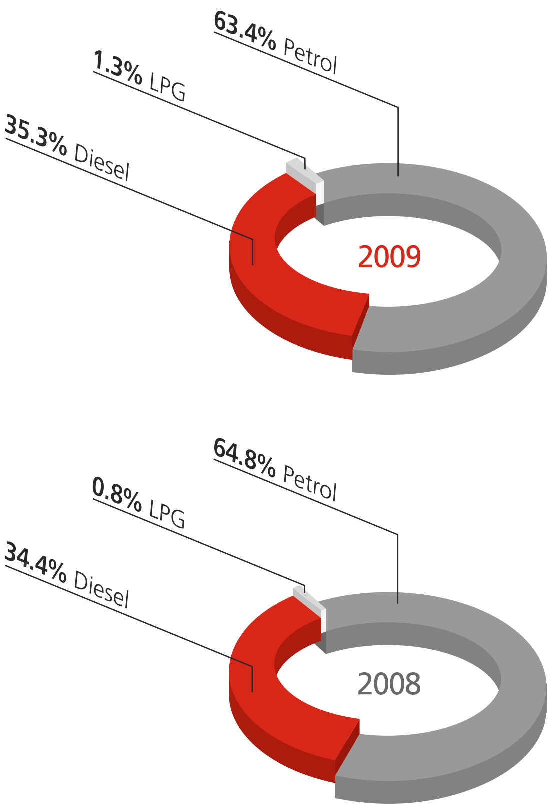
In 2009, ORLEN Deutschland thoroughly reconstructed and modernised 3 of its fuel stations and rebranded 9 more stations. We continued the process of providing fuel stations with new price pylons, which we installed at 28 stations in 2009. In 2010, we plan to thoroughly modernise 8 fuel stations, replace pylons at 40 stations and fully rebrand 2 stations.

Sponsoring activities

In 2009, ORLEN Deutschland continued its cooperation with three Bundesliga football teams: Hertha Berlin, Hamburger SV and Bayer 04 Leverkusen. We will continue our cooperation in 2010.

In 2001, ORLEN Deutschland will focus on a higher recognition for the STAR brand and on winning customer trust. The objective is to increase the level of brand recognition radically, compared to previous years.

ORLEN Deutschland structure of fuel sales in 2008–2009 (%)

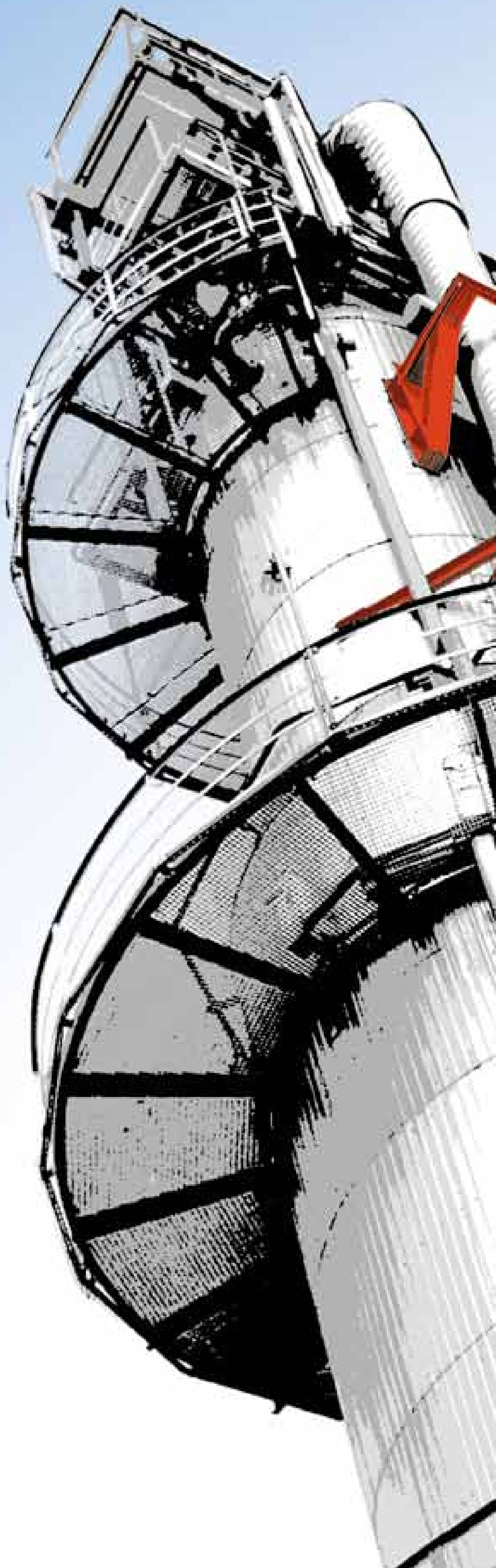


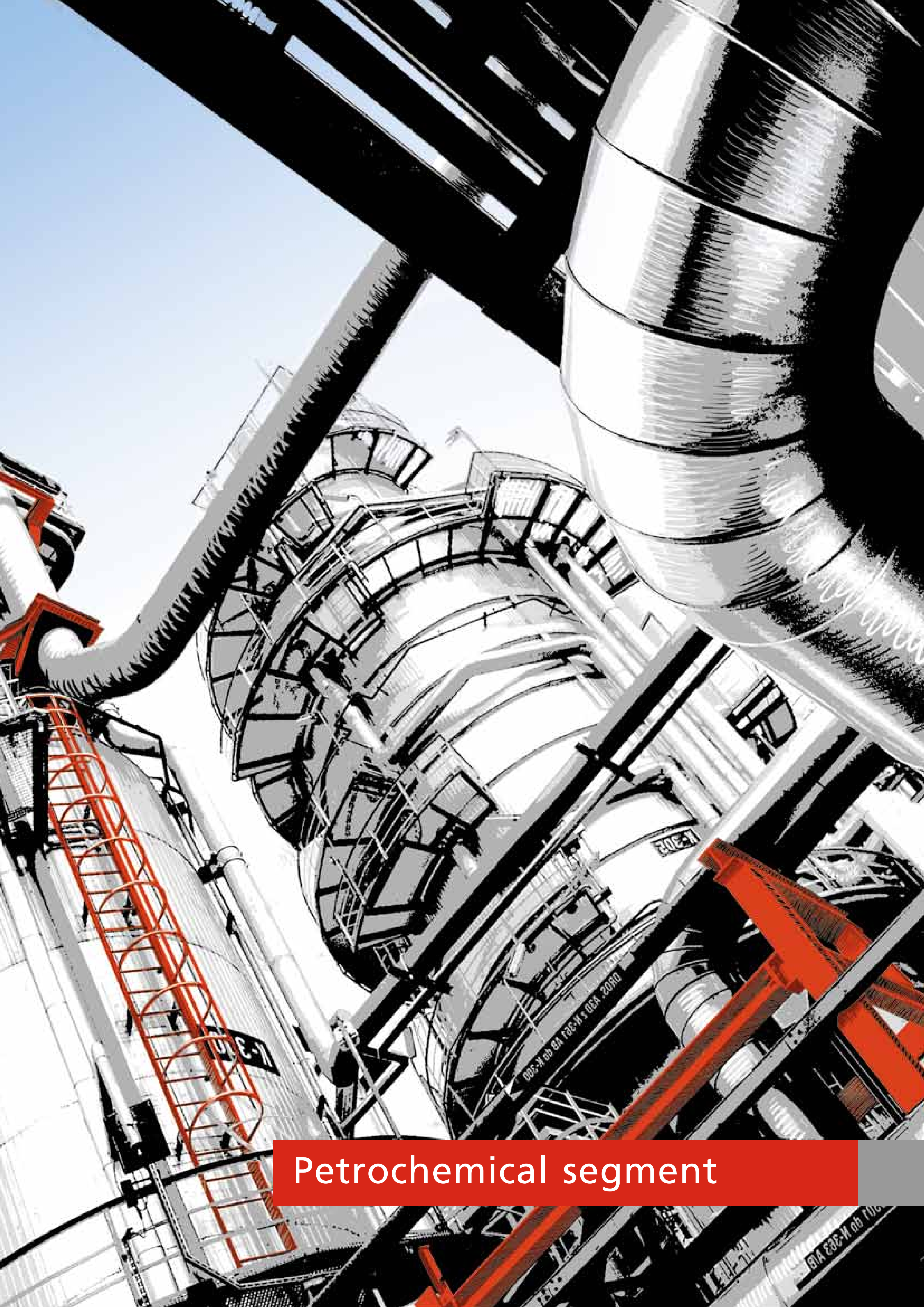
BRAND PROTECTION

Before the ORLEN brand made its market debut in 2000, we had submitted the Company's name, graphic symbol and logo as trademarks to the Polish Patent Office and obtained relevant protection certificates according to Polish and international legislation.

Currently, the ORLEN brand is a protected trademark on the EU market and in several countries across the world. Protection also covers the various forms of corporate logo, the image of the ORLEN fuel stations and the names and logos of products and services owned by PKN ORLEN SA.

In 2009, we had patent protection on more than 20 trademarks associated with the corporate the ORLEN brand, 20 advertising slogans developed for the purposes of the Company and over 130 product and service trademarks.





Petrochemical segment

Petrochemical segment

In 2009, ORLEN Group's petrochemical segment consisted of selected units of the Petrochemical Production Plant in Płock and the following companies: Basell Orlen Polyolefins and Unipetrol RPA. We are the sole manufacturer of olefins, polyolefins and most petrochemicals in Poland and the Czech Republic. The high quality of our products and our efficient distribution network make us one of the strongest market players in this part of Europe.

Petrochemicals(1)

In the first half of 2009, we still experienced the aftermath of the economic breakdown from the second half of 2008. Demand for petrochemicals was significantly limited as a result of the slowdown in the car and construction industries.

The market situation was also reflected in the prices of petrochemical products, which were quite low, in particular in the 1st and 2nd quarters of 2009. Prices started visibly growing by the end of the 2nd quarter last year, which, combined with the limited demand, especially for olefins and polyolefins, resulted in a lower level of cracker utilisation across Europe. Also, stock levels shrank in the entire supply chain.

ORLEN Group factories in Poland and the Czech Republic manufactured over 930,000 tonnes of ethylene, which is appr. 7% less than in 2008. The volume of propylene production in the report period levelled 575,000 tonnes, which is a 3% drop compared to the previous year.

The limited production volume of the two basic petrochemicals was mainly due to limited demand for those products and optimisation of the operation of units interlinked within the production chain.

Production volume of selected petrochemicals in PKN ORLEN in 2008–2009 (tonnes)

	2008	2009	Dynamics
Ethylene	539,866*	516,288	-4%
Propylene**	356,079*	358,195	1%
Butadiene	57,398	54,794	-5%
Benzene	141,004*	117,540	-17%
Toluene	127,436*	122,164	-4%
Paraxylene	24,148	–	-100%
Phenol	43,763	33,108	-24%
Acetone	27,796	21,052	-24%
Glycols	87,464	68,709	-21%
Cooling fluids	10,072	11,666	16%
Solvents	10,486	7,021	-33%
Sulphur	132,195	134,850	2%
Ethylene oxide	12,409	17,689	43%

* *Total produce for sale and own consumption.*

** *Total propylene manufactured at the Production Plant in Płock.*

[1] *Information on the sales of petrochemicals (non-fuel products) is also provided in the "Wholesale Segment" section of this Report.*

Poland

The factor most strongly affecting the level of petrochemical production in 2009 was the major reductions in demand for products among manufacturers of plastic products (polyethylene, polypropylene, PVC, PET), synthetic rubber, ethoxylates (used in the production of surface active agents) and polyols, TDI (used in the production of polyurethanes), caprolactam, Bisphenol A, phenolic resins, coolants, phthalic anhydride and artificial fertilisers. Limited production was also due to technical problems with the Olefin II unit halfway through the year.

The key recipients of ethylene and propylene from the Płock plants were fertiliser manufacturers, in particular ANWIL and Basell Orlen Polyolefins. Other products, apart from the local market, were sold mainly to Denmark, Germany, Lithuania and the Czech Republic. In 2009, the total value of export sales from Płock dropped by 34% compared to 2008.

Polyolefins were mainly imported to Poland from: Germany, the Netherlands, Hungary and Slovakia. Other petrochemicals were imported first of all from Germany, Slovakia, the Czech Republic, Hungary, Belgium, Belarus and Finland.

The paraxylene unit which had been shut off in the last quarter of 2008 was out of operation throughout the entire of 2009. By mid 2009, we also stopped using an old and inefficient Ethylene Oxide I unit (TE I). In 2010, we plan to increase ethylene oxide production at the TE II installation, which is currently being modernised, to such a level as to make up for the lost

Non–fuel sales by ORLEN Group in 2008–2009 ('000 tonnes)

	2008					2009				
	Polish companies	Czech companies	Lithuanian companies	Total	Growth/ fall	Polish companies	Czech companies	Lithuanian companies	Total	Growth/ fall
Heating oil III	961	146	1,798	2,905	29%	930	85	1,466	2,482	-15%
P fractions	338	–	–	338	13%	315	–	–	315	-7%
Sulphur	130	34	76	241	26%	135	31	70	236	-2%
Rafinery	60	232	178	470	-23%	70	375	169	614	31%
Ethylene	–	153	–	153	-1%	–	143	–	143	-6%
Propylene	6	27	–	33	-32%	14	36	–	50	54%
Benzene	95	179	–	274	-1%	83	182	–	265	-3%
Glykols	88	–	–	88	-14%	84	–	–	84	-4%
Toluene	103	–	–	103	-14%	91	–	–	91	-11%
Paraxylene	25	–	–	25	-22%	1	–	–	1	-97%
Orthoxylene	21	–	–	21	-19%	21	–	–	21	-1%
Butadiene	55	–	–	55	-7%	57	–	–	57	2%
C fractions	–	211	–	211	24%	–	168	–	168	-20%
Polyolefins	–	482	–	482	21%	–	500	–	500	4%
Ammonia	–	195	–	195	11%	–	234	–	234	20%
OXO alcohols	–	56	–	56	4%	–	18	–	18	-68%
Industrial oil	–	21	–	21	-27%	–	18	–	18	-12%
Petrochemical	186	225	–	411	-6%	186	192	–	378	-8%
Total nonfuel	2,069	1,960	2,052	6,080	12%	1,987	1,982	1,705	5,674	-7%

production volume generated by the old unit. In 2010, we also plan to start manufacturing paraxylene for the production of PTA in the PX/PTA facility which is currently under construction.

The Czech Republic

The situation on the Czech petrochemical market did not differ from that on other European markets, both in terms of limited demand and reduced price levels. The agrochemical market witnessed high price fluctuations and limited sales volumes due to the slowdown in the fertiliser industry, which was particularly true of the first half of the year.

The petrochemicals manufactured at Unipetrol RPA were mainly allocated on the Czech market under long-term contracts. The main recipients of the produce of Czech plants were the following companies: Spolana, Synthos, Agrobohemie and Deza. Despite lower overall sales volume to Central Europe, recipients from countries like Germany, Poland, Ukraine and Austria held very important positions in our customer portfolio.

Polyolefins were imported to the Czech Republic mainly from Germany, Ukraine and Russia.

Poland provided considerable amounts of polypropylene. Other petrochemical products were imported from: Germany, Russia, Slovakia, Hungary and Poland.

Limited production volume of base olefins – ethylene and propylene – was due to not only negative market factors but also to certain technical problems at the Olefin unit in the first half of the year, combined with an unplanned outage of the Polypropylene unit in the second half of the year. Despite such hindrances, the mechanical availability of those units was sufficient to cover customer demands.

Production volume of selected petrochemicals in Unipetrol RPA in 2008–2009 (tonnes)

	2008	2009	Dynamics
Ethylene	464,727	416,094	-10%
Propylene	238,743	217,232	-9%
Benzene	179,381	181,666	1%
Carbamide	189,598	164,000	-14%
Ammonia	260,313	265,874	2%
Oxo alcohols	55,049	17,192	-69%

Sales of the main petrochemical products in 2009 (%)

	Ethylene	Propylene	Benzene	Oxo	Ammonia	Carbamide	HDPE	PP
Domestic sales	84	60	97	51	96	49	25	57
Export	16	40	3	49	4	51	75	43

Plastic Materials

The total volume of polyolefins manufactured by ORLEN Group in 2009 was only slightly lower than the 2008 figure.

In the report period, the production of polyethylene at our plants in Poland and the Czech Republic totalled appr. 607,000 tonnes, which was 6% less than in 2008. Polypropylene production volume in 2009 amounted to over 535,000 tonnes, which was appr. 2% less than the figure generated by ORLEN group in 2008.

Poland

In total, the Basell Orlen Polyolefins (BOP) generated over 30,000 tonnes of products less than in 2008. The lower production volume both in the polyethylene and polypropylene segment was due to limited demand for plastics, mainly from car parts producers.

Over 37% of overall sales from Basell Orlen Polyolefins were allocated on the Polish market. The rest was distributed within the European supply chain of LyondellBasell. In 2009, the main international recipients of the produce of the Płock plant were customers from Germany, the Netherlands, France, Italy, Spain and Hungary.

All of the Basell Orlen Polyolefins products are packed and shipped from a modern Logistics Platform consisting of 63 silos of 400 tonnes each, located in Płock over an area of more than 95,000 m^2.

Production volume of polyolefins at BOP in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
LDPE (Low Density Polyethylene)	102	92	-10%
HDPE (High Density Polyethylene)	251	242	-3%
PP (Polypropylene)	341	327	-4%

Sales volume of polyolefins at BOP in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
HDPE	258.0	250.9	-3%
LDPE	106.8	91.3	-15%
PP	352.2	336.8	-4%
Total	717	679.0	-5%

The Czech Republic

Unipetrol managed to deal with the crisis situation quite well, reporting a 6% drop in the production of HDPE and a 1% increase in the production of PP. HDPE sales volume in 2009 was appr. 1% lower than in 2008.

In the Czech Republic, lower demand for polyolefins was visible already in 2008. The slowdown was the most evident in the foil and bottle segment, as well as that of daily use plastic products. The deepening financial crisis also resulted in a significantly reduced demand from the automotive and construction sectors.

The key foreign recipients of polyethylene and polypropylene manufactured in the Czech plants are German companies.

Investment

In 2009, the volume of exported HDPE was similar to the 2008 figure, whereas in the case of PP, export volume went up by as much as 36%.

The most important projects implemented in 2009 were the ongoing reconstruction of the PX (paraxylene) unit and PTA (purified terephthalic acid) unit, which started in 2007.

By the end of 2009, the progress of the PX project was:

- 92.5% of the basic unit – out of the assumed 97.2%.

Polyolefins production volume at Unipetrol in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
HDPE	291.9	273.6	-6%
PP	205.7	208.6	1%
Total	**497.6**	**482.2**	**-3%**

Polyolefins sales volume at Unipetrol in 2008–2009 ('000 tonnes)

	2008	2009	Dynamics
HDPE	288.5	285.8	-1%
PP	196.4	213.8	9%
Total	**484.9**	**499.6**	**3%**

The start-up of a unit providing raw material for the production of purified terephthalic acid, with annual capacity of 400,000 tonnes, is scheduled for 2010.

By the end of 2009, the progress of the PTA unit was:
- Overall project tasks: 84.2% of the projected 80.9%;
- Basic unit (ISBL and OSBL1): 85.8% of the projected 82.2%;
- Infrastructure (OSBL2): 70% of the projected 92%.

The unit, with an annual production capacity of 600,000 tonnes of acid, will be started up in the 2010 on an area adjacent to the premises of ANWIL Włocławek.

In the Czech Republic, we continued a project aimed at increasing the productivity of the polypropylene unit. As planned, the unit's production capacity in 2009 reached 285,000 per annum. We also completed the renovation of the benzene extractive distillation unit, as a result of which the product output rate in the 2nd quarter of 2009 was 20% higher than in 2008.

UNDER THE WINGS OF THE BRAND

Over the last ten years, the brand image has also been created by the ORLEN flagship marketing communication project, the ORLEN Rally Team, which represents both the Company and the country in the most important rally events organised in Poland and internationally. The team is particularly known for its participation in the extremely difficult Dakar Rally.

Another project founded on the corporate brand is the ORLEN Athletics Team, which relies on the image of the contestants who succeeded during the 2009 World Championship in Athletics in Berlin. The Company also cooperates with the Polish Olympics Committee and has become the sponsor of Polish Olympic Representation.

The ORLEN brand is also associated with the ORLEN Gift of the Heart Foundation, which takes care of Family Children's Homes and provides financial and material help to natural persons, non-governmental organisations and institutions acting in the area of health protection, recreation and rehabilitation of the disabled.

Chemical segment

Chemical segment

In 2009, ORLEN Group's chemical segment comprised ANWIL in Włocławek and its subsidiary, Spolana, with its offices in Neratowice, the Czech Republic (ANWIL Group).

It was the third year of operational integration of the Polish and Czech Companies. Previously, ANWIL was the key ammonia supplier to Spolana. However, due to the falling ammonia prices, especially in the 2nd half of 2009, caused by the slowdown on the nitrogenous fertiliser market, recipients (including Spolana) started looking for cheaper ammonia among producers from eastern countries.

Finally, the slowdown situation on the caprolactam market reversed late into the year, and we ended up with a total production volume comparable to the 2008 figure. The volume of ammoniu m sulphate, a parallel product generated in the production of caprolactam, manufactured in Spolana, was also similar to the level reported in the previous year.

The production volume of unprocessed PVC in Spolana dropped by over 5%, to a level reflecting the actual market demand. The over 21% reduction in the production of sodium hydroxide at Spolana was due to limited demand for the simultaneously generated chlorine (used in the production of PVC) as well as for sodium hydroxide itself.

Lower demand from the recipients of PVC, in particular among the manufacturers of construction materials (e.g. wires, window profiles and others) meant that the production of processed PVC at the ANWIL plant went down by over 22%. Meanwhile, the production volume of unprocessed PVC went up by over 6%, mainly due to more effective sales of the product on foreign markets (including new markets in Asia). The over 3% increase in sodium hydroxide production volume was due to a higher demand for the simultaneously generated chlorine (used in the production of PVC).

Nitrogenous Fertilisers

The global financial crisis, which also affected the agricultural sector, meant that the prices of most agricultural products dropped, which in turn resulted in a reduced purchasing capacity among farmers.

In 2009, as a result of the global financial crisis, Western European countries reported a 70% drop in the sales of nitro-chalk. Meanwhile, due to a slump in fertiliser prices compared to the previous year (recorded all over Europe), and the need for farmers to replenish annual stocks of nitrogen as well as our active pro-market policy (in particular in our core domestic market), we managed to generate record sales in Poland in 2009.

ANWIL manufactured a smaller amount of fertilisers compared to 2008 (over 890,000 tonnes). In the reported period, the total volume of nitrogenous fertilisers produced by other Polish manufacturers dropped by 20%. The total volume of nitrogenous fertilisers produced by the entire chemical segment amounted to 1,068,000 tonnes.

In the 2008/2009 season, ORLEN Group's chemical segment covered nearly 19% of the Polish nitroge-

nous fertiliser market, as per nitrogen. According to the EFMA data, the Group's share in the Czech market of nitrogenous fertilisers in the 2008/2009 season was appr. 6%, as per nitrogen.

A milestone in the process of obtaining assistance funds was the signing of a co-financing agreement with the National Fund for Environmental Protection and Water Management in June 2009 for the Project of: "Increasing the energy efficiency and productivity of the ANWIL Fertiliser Factory," under Measure 4.2: "Rationalisation of resources and waste management in enterprises" of the 4th Priority: "Initiatives aimed at adjusting enterprises to the requirements of environmental protection" of the Operational Programme – Infrastructure and Environment 2007–2013.

Polyvinyl Chloride (PVC)

After a period of recession at the beginning of 2009, triggered by the financial crisis, came the first signs of economic revival, especially on the Polish market. One factor that greatly affected the actual situation were technical problems that the entire of Europe experienced in the 2nd and 3rd quarter of the year. They disturbed the previous PVC balance on the continent and opened way to rising prices. Even though the economic situation somewhat improved in the second half of the year, it was nowhere near as good as in previous years. The continuing economic slowdown both in Poland, the Czech Republic and other parts of Europe resulted in a lower demand for polyvinyl chloride.

The Group's PVC production capacities amounted to 435,000 tonnes in 2009, of which: 300,000 tonnes in Włocławek (in January 2010, the capacity increased to 340,000 tonnes) and 135,000 tonnes in Neratowice. In the PVC area, we continued common sales and distribution policies, which made it possible for us to share the manufacturing of respective types of PVC between the Polish and Czech facilities. Consequently, we improved the utilisation level of our production units and the distribution of PVC on local (Polish and Czech) as well as foreign markets.

In 2009, the total share of the chemical segment in the Polish PVC market amounted to approximately 51%, which is appr. 7% more than in the previous year. The share of ANWIL and Spolana in the Czech PVC market in the report period was appr. 33%,

Production volumes of key products in the chemical segment at ANWIL in 2008–2009 (tonnes)

	2008	2009	Dynamics
Polyvinyl chloride	241,475	257,330	6.6%
PVC processing	68,442	52,963	-22.6%
Sodium hydroxide (as per 100% NaOH)	149,340	154,500	3.5%
Ammonia	501,750	407,150	-18.9%
Nitrogenous Fertilisers (as per nitrogen)	304,768	280,535	-8.0%

representing a more than doubled increase compared to 2008. Meanwhile, the demand for unprocessed PVC on both markets was over ten percent lower than in the previous year.

The most important investment project in the PVC area was the completion of ANWIL's project to increase the production capacities of the plant in Włocławek to 340,000 tonnes. The improved unit was put in operation towards the end of 2009.

While looking for new possibilities of development, we started the construction of a PTA unit in Włocławek. More information on that project is available in the section devoted to our petrochemical segment.

Another of ANWIL's important projects was to continue the construction of an oxygen generating unit which, once it has replaced the current, long-used facility, will provide for the increased demand of the Włocławek plant as well as supplying oxygen to the PTA unit. The project is progressing as planned.

Due to limited synergy between the area and PKN ORLEN's core business, we decided to release the capital employed in the PVC and nitrogenous fertilisers, while at the same time maintaining the role of a strategic supplier of raw materials for the chemical industry.

Production volumes of key products in the chemical segment at Spolana in 2008–2009 (tonnes)

	2008	2009	Dynamics
Polyvinyl chloride	124,033	117,239	-5.5%
Sodium hydroxide (as per 100% NaOH)	113,135	88,488	-21.8%
PVC processing	7,196	343	-95.2%
Caprolactam	37,572	38,801	3.3%
Ammonium sulphate (as per nitrogen)	36,580	36,906	0.9%

Future plans

In terms of PVC, Poland and the Czech Republic will be the most important markets for the chemical segment in 2010. The segment will focus its sales intensification efforts first of all on those two markets. Our expectations for 2010 are moderately optimistic. The forecasted economic improvement, in particular in Germany (the largest European PVC market), and a number of investment projects, especially in the area of infrastructure, to be implemented in Poland in preparation for the EURO 2012 event and co-financed from EU funds make us think positively. ANWIL intends to maintain its leader position on the domestic PVC market.

In the 2009/2010 season, ANWIL expects to be using its full production capacities and to maintain the same share in the domestic market for nitrogenous fertilisers as it had in previous years.

As to further development in 2010, ANWIL will continue and complete several projects related to the expansion of energy infrastructure (supply of electrical power, water and technical gases, and the construction of a biological sewage treatment plant) to supply the PTA unit. The 2010 budget allocated for those projects amounts to PLN 28.4 mn. The Company will also implement consecutive stages of the construction of an oxygen generating unit. The start-up of the unit is planned for the 4th quarter of 2010.

ORLEN Group

The assumption of the corporate monolithic visual identity system was to standardise labelling in the Capital Group companies, thus enabling respective companies to build their market position using the corporate image and associating themselves with the potential of the largest Corporation in Central Europe. This is also a clear and straightforward message to our customers that they deal with the same economic organisation. The ORLEN brand is used by companies that represent the Group's core business and create added value by strengthening such competences of the corporate brand as: novelty, technological advancement, progress or innovativeness. Companies operating outside the Group's core business and not supporting the corporate competences have the right to use the GRUPA ORLEN logo. In 2009, 28 companies used the ORLEN logo, under relevant license agreements, as an element of their name, and 7 other companies added the Grupa ORLEN name to their own logo.

ORLEN Group


ORLEN Lietuva
MAZEIKIAI
HAMBURG
PŁOCK
PRAGA
ORLEN
ORLEN Deutschland
Unipetrol
ORLEN GROUP
ORLEN
Polski Koncern Naftowy ORLEN
Spółka Akcyjna

ORLEN Group

We manage and supervise ORLEN Group Companies via a number of divisions within PKN ORLEN and several business units.

By the end of 2009, PKN ORLEN held stocks or shares directly in 58 commercial companies, including:

- 34 subsidiaries (over 50% of shares);
- 2 co-related companies (over 50% of shares);
- 2 affiliated companies (between 20% and 50% of shares);
- 20 minority companies (less than 20% of shares) and companies in the process of liquidation or bankruptcy.

In 2009, our capital projects focused on streamlining the ownership structure within the capital group and divestment of non-core business.

In April 2009, PKN ORLEN bought from the Government of the Lithuanian Republic (GLR) 9.98% shares in Mažeikių Nafta. The transaction was performed pursuant to a put option agreement made between PKN ORLEN and RRL on 9 June 2006. Having agreed on the specific terms of payment, PKN ORLEN bought from the Lithuanian Republic Government 70,750,000 ordinary shares in Mažeikių Nafta, i.e. all the shares offered in the put option. According to the put option agreement, the strike price for the subject of the transaction was USD 284,450,375 (USD 4.0205 per share). Having exercised the put option agreement, PKN ORLEN obtained 100% shares in the share capital of Mažeikių Nafta. On 1 September 2009, PKN ORLEN, the sole shareholder of Mažeikių Nafta, changed the Comapny's name to ORLEN Lietuva.

The following divestment projects were implemented in 2009, as part of a capital restructuring programme:

- selling 84.79% shares in ANWIL;
- selling 24.39% shares in Polkomtel.

According to the ORLEN Group strategy adopted towards the end of 2008, in December 2008 we started the divestment process of the 84.79% shares held in ANWIL. Following an initial stage, we started contacting potential investors in the second half of 2009. Having signed a confidentiality agreement, potential investors received an information memorandum. Preliminary offers to purchase ANWIL shares were submitted in October 2009 and firm offers – in January 2010. We will continue the sales process in 2010.

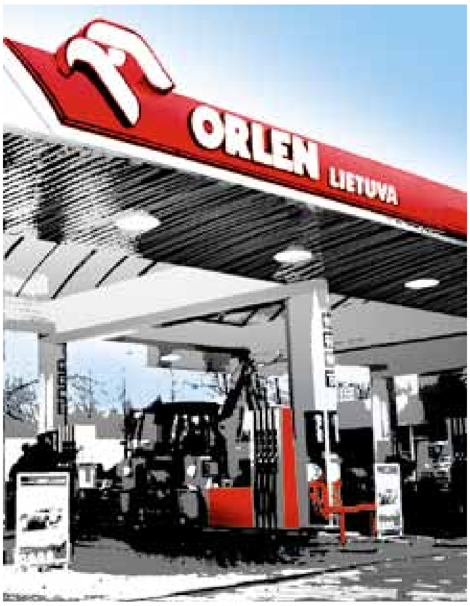
Meanwhile, PKN ORLEN set about selling its 24.39% shares in Polkomtel. Here, the divestment project is two-pronged. On the one hand, we are preparing to sell shares through trade sale. However, we also considering the option of selling shares through an initial public offering (IPO). By the end of 2009, we also started preparing for vendor due diligence (VDD) at Polkomtel. At the moment, we are finishing the preparation of information packages for investors. We are also consulting the principles of future corporate governance with Polkomtel's other shareholders.

In October 2009, we finally concluded the sales of 3.7% shares in Paramo to Unipetrol under a sales agreement from 29 August 2008. According to that agreement, the final sales price was adjusted to the price determined for the compulsory acquisition of minority shares in Paramo by Unipetrol, which was 22.4 CZK/share more than the initial sales price.

Other changes in the ownership of the Capital Group

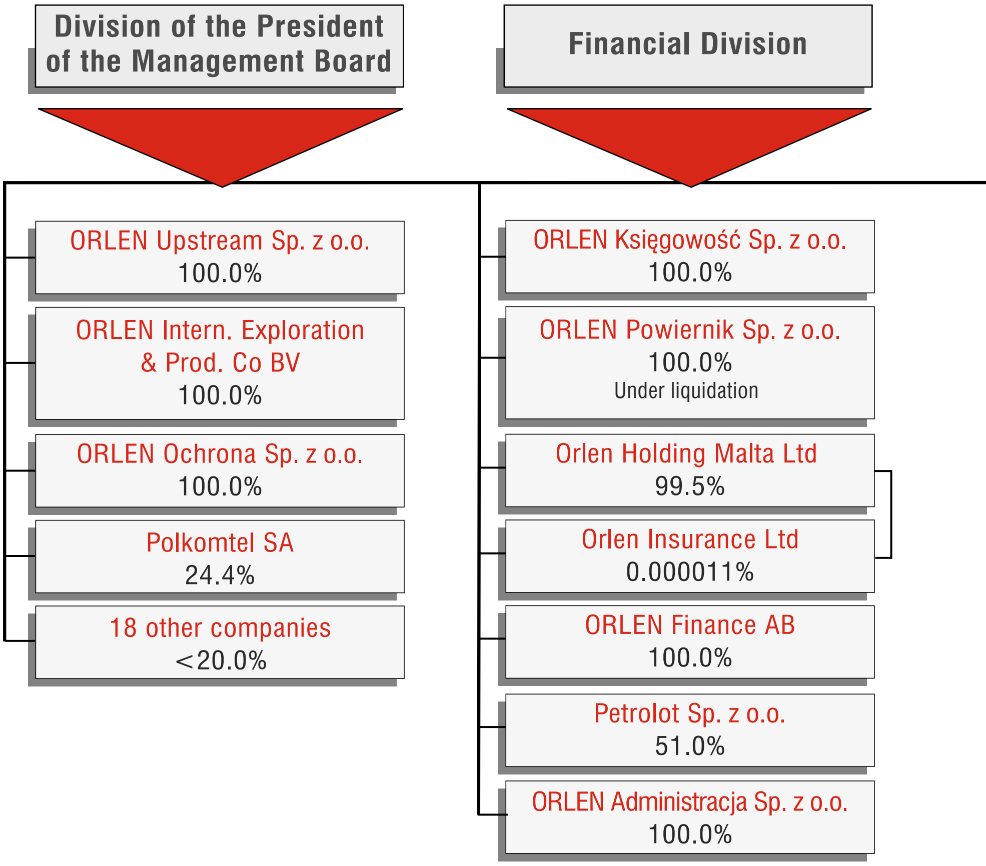
In August, PKN ORLEN raised its capital commitments in ORLEN Upstream from PLN 50,000 to PLN 22,500,000 by means of increasing the Company's share capital and acquiring 44,900 new shares of PLN 500 nominal value each. The Company's share capital was once more increased by 2,450,000 in 2010, by issuing 4,900 new shares of PLN 500 nominal value each. Currently, PKN ORLEN's total capital commitments in the Company amount to PLN 24,950,000. PKN ORLEN invariably remains the only shareholder in the Company.

On 17 December 2009, ORLEN Transport bought from PKN ORLEN 22,279,720 own shares for the purpose of their voluntary redemption, for the total price of PLN 31,860. ORLEN Transport is currently the holder of those shares and will retain them until the completion of a convocation procedure, which is scheduled for the end of the first six months of 2010. Once the shares have been redeemed, which will result in a reduction of ORLEN Transport's share capital, PKN ORLEN will hold 100% of the shares in the Company.



Direct affiliates of PKN ORLEN SA

as of 31.12.2009



Petrochemicals Division

- Basell Orlen Polyolefins Sp. z o.o. 50.0%
- ANWIL SA 84.8%
- ORLEN Prewencja Sp. z o.o. 100.0%
- ORLEN Laboratorium Sp. z o.o. 94.9%
- ORLEN Projekt SA 51.0%
- Unipetrol a.s. 63.0%
- Płocki Park Przemysłowo -Technologiczny SA 50.0%
- ORLEN Medica Sp. z o.o. 100.0%

Refinery Division

- ORLEN Lietuva SA 90.02%
- ORLEN Asfalt Sp. z o.o. 82.5%
- Rafineria Nafty Jedlicze SA 75.0%
- Rafineria Trzebinia SA 77.2%
- ORLEN Oil Sp. z o.o. 51.7%
- ORLEN Eko Sp. z o.o. 100.0%
- ORLEN Automatyka Sp. z o.o. 52.4%
- ORLEN Wir Sp. z o.o. 51.0%

Sales Division

- ORLEN Gaz Sp. z o.o. 100.0%
- ORLEN PetroCentrum Sp. z o.o. 100.0%
- ORLEN PetroTank Sp. z o.o. 100.0%
- SHIP – SERVICE SA 60.9%
- Chemiepetrol GmbH 20.0% Under liquidation
- ORLEN Deutschland GmbH 100.0%
- ORLEN Budonaft Sp. z o.o. 100.0%
- ORLEN Centrum Serwisowe Sp. z o.o. 98.0%
- IKS „Solino” SA 70.5%
- Naftoport Sp. z o.o. 18.0%
- ORLEN KolTrans Sp. z o.o. 99.9%
- ORLEN Transport SA 66.8%
- ORLEN Transport Kraków Sp. z o.o. 98.39% Under bankruptcy

ORLEN FUEL STATIONS

VERVA is a next-generation brand of fuel enriched with a set of additives which ensure the dynamics and power of the engine, better acceleration, lower fuel consumption and, consequently, lower user costs. VERVA is the power that lets the driver feel the victory.

VERVA brand was displayed on Porsche 911 GT3 during the Porsche Supercup, held immediately before the Formula 1 events, where the VERVA Racing Team competes with teams from all over the world.

Stop Cafe is a place to have a cup of good coffee and a tasty and healthy snack. The brand's asset is its availability, which saves time for people on the road. The Stop Cafe brand, responding to the needs and lifestyles of current and potential customers, offers comfortable sitting space and quick service.

Employees

Employees

As at the end of 2009, ORLEN group employed 22,535 people, of which 4,482 worked for PKN ORLEN, 4,343 for Unipetrol Group, 115 for ORLEN Deutschland and 3,025 for ORLEN Lietuva Group.

64 employees from PKN ORLEN Logistics segment decided to leave under the Voluntary Retirement Programme. The total of 252 employees participated in the Voluntary Retirement and Early Retirement Programme.

PKN ORLEN Employment Structure

In 2009, the majority of PKN ORLEN personnel were secondary school and university graduates (84.40% of all employees), whereas most employees working for Unipetrol Group had secondary vocational education diplomas (40.41% of the workforce), and in ORLEN Lietuva the largest employee group were primary school and university graduates (65% of the total number of employees).

In terms of age groups, in PKN ORLEN, the most numerous were employees aged 31 to 40 (30.61%), the same as in ORLEN Lietuva, where the share of that age group was 33.62%, whereas in Unipetrol Group, the largest group of employees were 41 to 50 years old (33.72%).

Women represented 20.46% of PKN ORLEN's workforce in 2009, men being the remaining 79.54%. In Unipetrol Group, a vast majority of employees were men (74.45%), women representing 25.55% of the personnel. ORLEN Lietuva, too, had most male employees in 2009 (68.73%), the rest (31.27%) being women.

Corporate Collective Labour Agreement

Following the signing of a Corporate Collective Labour Agreement (CCLA), a number of measures were taken in 2009 to streamline the implementation of its provisions.

Changes concerned in particular the were following:
- internal regulations and other documents related to or based on the CCLA;
- implementation of the provisions of CCLA in individual employment relationships;
- adjusting the HR computer system to the new recruitment and remuneration procedures.

The following additional measures were simultaneously taken to support the implementation of the CCLA: communicating with the entire personnel of PKN ORLEN and trainings dedicated to managerial personnel with respect to employee evaluation and bonus systems.

[1)] *In this context, ORLEN Group refers to the Company and its consolidated subsidiaries, excluding the affiliated entities.*

Recruitment Policy in PKN ORLEN

In 2009, the main objectives of the Company's recruitment policy were to:

- ensure the continuity of business processes;
- implementation of the recruitment strategy in compliance with current procedures and the principles of corporate culture, corporate governance and corporate social responsibility.

In 2009, the core recruitment processes in PKN ORLEN were related to recruiting:

- managerial and operational personnel to work at the new PTA (Purified Terephthalic Acid) Plant;
- operational personnel for the new PX (Paraxylene) unit.

Student training

PKN ORLEN organises student training all year round and in all areas of its business. Training is organised either in corporate headquarters or in local units, in one of the following forms:

- group training, organised in cooperation with schools/universities;
- individual training;
- diploma training.

In 2009, the Training Programme was joined by appr. 270 students of the following local schools and universities:

- 114 of the Płock Branch of Warsaw University of Technology (Faculty of Chemistry, Mechanics and Economics);
- 115 students of the Zespół Szkół Centrum Edukacji secondary school in Płock (specialty: Chemistry Technician)
- 15 students of Policealne Studium Zawodowe vocational college in Płock (specialty: Chemistry Technician);
- 26 students of the Zespół Szkół Budowlanych nr 1 secondary construction school in Płock (specialty: Environmental Protection Technician).

Moreover, we accepted 7 undergraduate students of the Płock Branch of Warsaw University of Technology to have their long-term diploma training at our facilities. The costs of the latter training were covered from the funds of the Human Capital Operational Programme (European Social Fund) obtained by the University. In October 2009, PKN ORLEN signed a cooperation agreement with the Płock Branch of the Warsaw University Technology for another three years.

On-the-Job Training

PKN ORLEN has organised on-the-job training since 2002, in cooperation with Labour Offices across Poland, in particular the Labour Offices in Płock, namely the local Municipal Labour Office and Poviat Labour Office. In 2009, on-the-job training was joined by 35 graduates of whone attended secondary schools and universities.

Employee Training

The purpose of PKN ORLEN's employee training policy in 2009 was to support business areas in achieving their objectives by providing them with the necessary know-how and practical skills. We trained a total of 7,067 employees. The number includes employees who participated in more than one training.

One of the most important projects completed in 2009 was the "Manager's role in team management," a project which ended in the first quarter of 2009 and whose purpose was to create new corporate culture based on the provisions of the Corporate Collective Labour Agreement, taking into account, in particular, the role of the manager in the human capital management process as well as in motivating, evaluating and rewarding employees. The training was dedicated to all team managers in PKN ORLEN, in order to acquaint them with the innovative provisions of the CCLA.

In 2009, we completed the second edition of "PKN ORLEN Project management Academy." The purpose of the project based on PMI standards was to give participants practical and theoretical skills in project management and to build a coherent project management culture in the organisation by developing a common methodology to be used in all projects implemented by our employees.

We completed another project in 2009: "HR System Development Programme – Stationary Training (LSO)." The basic goal of the project was to automate the process of training and participant registration, training budget control, and training and trainer evaluation.

Awards

In 2009, PKN ORLEN took the 1st place in the "Friendliness, Business, Industry" category of the 5th edition of the KOMPAS Polish employer ranking. The BEST Student Association awarded us the 3rd place in their "Employer for Engineer" ranking. PKN ORLEN won the title of the "Industry Leader: Fuel, Oil" in the "Universum Student Survey 2009".

Management by Objectives (MBO)

On 1 April 2009, PKN ORLEN changed the rules of its employee bonus system. Now, the annual bonus system covers only middle and senior managerial personnel. Sales personnel and junior managerial staff are included in a quarterly-annual bonus system, whereas specialists and engineers – in a quarterly bonus system.

As at the end of 2009, the annual bonus system covered 356 employees.

In ORLEN Group, the annual bonus system covers Members of the Management Boards and other core personnel of the respective Companies. The main purpose of the MBO-based annual bonus system is to support the strategy of increasing ORLEN Group's goodwill.

Social Benefits

PKN ORLEN provided the following social benefits: co-financing of employee holidays, sanatorium treatment, holidays for children, recreation and sports activities, rehabilitation treatment and cultural and educational activities, non-repayable financial or in-kind aid, repayable housing loans and Christmas presents for children. We provided a total of over 36 thousand various benefits.

Remuneration policy in ORLEN Group

In 2009, we standardised PKN ORLEN's remuneration policy by implementing the Corporate Collective Labour Agreement. The new CCLA enables coherent remuneration policies to be applied to respective job positions. The process of equalising basic salary levels for respective job levels will take five years.

The new bonus system introduced in the CCLA is more motivating for employees. The respective systems: quarterly, quarterly-annual and annual, based on the existing MBO system, make it possible to reward employees for the good performance of their tasks.

AWARDS FOR THE BRAND

ORLEN is a brand that serves people in their daily life, according to the corporate motto: "Always there when you need us". The opinion poll conducted in 2009 showed 99% prompted awareness and 72% spontaneous awareness of the ORLEN brand. The ORLEN brand won the "High Reputation Brand" title in an Independent Polish Brand Reputation Ranking, "PremiumBrand 2009". Brand reputation is the main factor behind the decision to buy or use a specific product, thus the title won by ORLEN proves that the corporation is perceived as a reliable and responsible business partner.

ORLEN was also awarded the Superbrands Polska title, which, too, confirms its strong position on the domestic market. Ever since 2002 (for the 8th time in succession in 2009), ORLEN brand fuel stations have won the Golden European Trusted Brands Logo in a consumer survey conducted across Europe by Reader's Digest. Consumers value highly the standard of services and the competitive and broad range of fuels and non-fuel products offered at our stations. All those awards granted by economists, business people and consumers prove the high quality of the ORLEN brand.

Environmental protection

Environmental protection

All initiatives taken by PKN ORLEN in 2009 aimed at ensuring maximum environmental neutrality of our production, storage and distribution processes.

Economically, 2009 was a difficult year, both on the global and local scale. However, the macroeconomic situation did not affect much the Company's environmental activities. We implemented several environmental initiatives and investment projects, the latter being the construction of, for example:

- Paraxylene unit;
- HON VII;
- II Hydrogen Production Plant;
- Claus II;
- Boiler no. K8 at the Combined Heat and Power Plant.

In 2009, capital expenditure on tasks related to environmental protection at ORLEN's Production Plant in Płock alone amounted to over PLN 191 mn. As a result of those initiatives, we were obliged to change the integrated permit for the units operating at PKN ORLEN Production Plant.

In July 2009, we obtained a decision from the Marshal of Mazowieckie Voivodeship which contained, among others, the following modifications:

- the permit covered the new unit (which is was one of the preconditions for their start-up);
- the planned increase in the volume of processed crude oil to 16 mn Mg/year was approved;
- a mathematic model to monitor the noise level produced by respective units, instead of the former environmental measurement method, was approved;
- the permit was extended until 1 June 2015.

Apart from the changes in the integrated permit, we had our permits for the Refinery and Combined Heat and Power Plant to participate in the Community CO_2 emission allowances trading scheme modified according to new legislation concerning the monitoring of CO_2 emission. A similar permit was for the first time obtained for the petrochemical cracking unit Olefins II. All the units covered by the system had their 2009 reports positively verified and did not exceed their average annual allocations.

In 2009, we reported an appr. 0.5% drop in total emissions to the atmosphere compared to the previous year, while the volume of processed oil went up by over 2%. The drop in total emissions was accompanied by increased emissions of pollutants such as: SO_2, NOx and CO, while the emissions of hydrocarbon and dust dropped.

The amount of water uptaken from the Vistula dropped by 2.4%, as did the volume of sewage discharged (by 8.3%) compared to the previous year. This was possible thanks to an increased reuse of water.

We also reported a lower environmental impact of the Płock Plant in terms of waste generation volume (-34%) and packaging released on the market (-41% by weight).

In 2009, we completed the muting of selected sources of high acoustic power, as declared in an application for the integrated permit. The final stage was the muting of air ventilators at the boilers of the Combined Heat and Power Plant. As a result of the above measures, as well as the new method of monitoring

the environmental impact, we were able to eliminate cases of exceeding top noise levels in acoustically protected areas.

We implemented several important environmental projects at our fuel stations, too. Among others, we introduced a selective collection of batteries and replaced throw-away plastic bags with environmentally-friendly, reusable paper, oxy-biodegradable foil and polypropylene bags. The bags were launched under a new brand name: GO Eco.

Last year was also important for our Responsible Care (RC) Programme. In 2009, we started implementing the Framework Responsible Care Management System, which supplements the existing safety management systems, in the broad meaning of the term.

The "Catch the Hare" contest, organised by RC, is becoming increasingly popular among our personnel, and one of our employees won the competition last year.

Another undeniable success, though we did not directly contribute to it, was the hatching of new falcon nestlings on the Claus chimney nest box. This year, we organised a "Name the Falcon" competition, and the four younglings were called: Orleńka, Petronela, Rafek and Naftek.

In 2009, the Płock Production Plant, namely the Moczary reservoir, hosted a group of beavers. Though they help the natural environment, their presence was a nuisance for the Refinery.

Thus, we hired the only specialist team in Poland to catch and remove the animals.

They caught 3 adult and 2 young beavers and transported them to the middle section of the Osetnica River.

Air Protection

According to the control measurements carried out by the Company and authorised auditing bodies in 2009, the top emission limits set out in the Integrated Permit were not exceeded by the refinery and petrochemical facilities in Płock.

Investment Projects for Environmental Protection

Capital expenditure on projects related to environmental protection at the Production Plant in Płock itself amounted to over PLN 191 mn, which represented 9.24% of the total capital expenditure in Płock in 2009.

The most important initiatives aimed at reducing the Plant's impact on respective environmental components included:

- construction of HON VII Unit and the accompanying infrastructure;
- construction of Claus II Unit and the accompanying infrastructure;
- muting the air ventilators at the CHP boilers.

We adjusted our fuel stations to the current environmental legislation and we constantly modernise them to improve their environmental safety.

Emission of selected pollutants by the Production Plant in Płock in 2008 and 2009 (Mg)

	2008	2009	Growth/Fall	
Sulphur dioxide	20,444.59	20,975.23	530.64	2.59%
Nitrogen monoxides (as per nitrogen dioxide)	6,821.48	7,124.27	302.79	4.44%
Carbon monoxide	812.16	1,010.87	198.71	24.47%
Total hydrocarbons	1,384.01	1,238.12	-145.89	-10.54%
Fuel combustion dust	453.34	399.75	-53.59	-11.82%
Carbon dioxide	6,158,959.11	6,126,894.42	-32,064.69	-0.52%
Other pollutants	270.71	370.05	99.34	36.70%
Total pollutant emission	6,189,145.40	**6,158,012.71**	-31,132.62	0.50%

In 2009, capital expenditure on environmental projects at our fuel stations amounted to PLN 32.38 mn.

In 2009, PKN ORLEN Group undertook various measures to reduce its negative environmental impact. Among them, the most notable projects are:

ANWIL

- "Raising the energy efficiency level and production volume at the ZA ANWIL Fertiliser Plant." The project involved the construction and reconstruction of ammonia and nitric acid production units, including, among others, construction of a 1.6 MPa steam boiler, covering the insulating layer of the B-1301 reforming furnace with ceramic fires and reconstruction of the C-1501 synthesis gas compressor. As a result, we managed to reduce energy consumption and emission of CO_2, NOx and CO to the environment;
- Heating up of water taken from the Vistula for the decarbonisation of cooling water, which makes it possible to use the waste heat of the A-2 cooling water for the decarbonisation of the river water;
- Modernisation of the condensate treatment system at Demi II. The project enabled us to secure the supply of demineralised water to the Plant and to perform the condensate treatment. As a result, we reduced the level of condensate discharge to the sewage system as well as the amount of water taken from the river;
- Projects implemented under the "Responsible Care" Programme.

Basell Orlen Polyolefins

- Installing devices to measure sewage flow;
- Wax filler terminal. By making sure the system of filling road tankers with wax is air-tight, we will reduce emission and leakage from that particular source;
- Projects implemented under the "Responsible Care" Programme.

Inowrocławskie Kopalnie Soli "SOLINO" – Salt Mines in Inowrocław

- Certificate of Approval for the modernisation of the sewage system at the Salt Mine and "Góra" underground oil and fuel storage.
- Projects implemented under the "Responsible Care" Programme.

ORLEN Asfalt

- Replacing insulation on oxidisers – renovation works. The result is reduced heat emission to the atmosphere.
- Projects implemented under the "Responsible Care" Programme.

ORLEN Centrum Serwisowe – servicing centre

- Modernisation of the boiler room. The result is reduced heat medium and lower emission charges.
- Purchasing new vehicles according to the EURO 4 and EURO 5 standards. The result is lower emission and emission charges.

ORLEN Eko

- The Company achieved the expected environmental effect after a year of operating the new hazardous waste thermal treatment unit;
- Extending hazardous waste storage space. As a result, it is now possible to neutralise on the spot the waste generated in the process of thermal treatment;
- Projects implemented under the "Responsible Care" Programme.

ORLEN Gaz

- Construction of stormwater sewage system within the LPG Sea Terminal in Szczecin. Effect – removing stormwater from paved surface.

ORLEN Transport

- Leasing 20 EURO 5 class tractor units. The result is reduced CO_2 emission to the atmosphere.

Rafineria Nafty Jedlicze – refinery

- Adjusting storage tanks to current legislation. Installing leak-proof platforms to secure soil from the penetration of crude oil products, securing the interior of the tanks, installing a constant measuring system to monitor the fill-up level of the tanks, installing an anti-overflow system;
- Modernising the power generation system at the plant – the environmental effect will be obtained by replacing natural resources (natural gas, bituminous coal and furnace oil) consumed by the CHP with by-products (fuel) generated at Rafineria Nafty Jedlicze, which will make heat production much more effective.

THE MOST VALUABLE POLISH BRAND

The new brand was quickly accepted by consumers and for the last ten years, it has contributed to the growth of the company's goodwill. Polski Koncern Naftowy ORLEN SA has become one of the best known and most recognisable companies in Central Europe, with its brand supporting its strong position on the local market and expansion into neighbouring countries. In 2009, the ORLEN brand was declared, for the third time in succession, the most valuable domestic brand. Our corporate brand came first in an independent MARQA ranking, organised under the auspices of Rzeczpospolita daily, and was valued at PLN 3,648.3 mn, i.e. 27% more than in 2008.

Since 2000, ORLEN has also come on top of the "Top 100 companies" according to Rzeczpospolita daily and "Top 500 companies" according to Polityka weekly.

Auditor's opinion

Opinion of the Independent Auditor

To the General Meeting of Polski Koncern Naftowy ORLEN Spółka Akcyjna

We have audited the accompanying consolidated financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna Group seated in Płock, 7 Chemików Street ("PKN ORLEN SA Group", "Group"), which comprise the consolidated balance sheet as at 31 December 2008, with total assets and total liabilities and equity of PLN 46,975,750 thousand, the consolidated income statement for the year then ended with a net loss of PLN 2,526,626 thousand, the consolidated statement of changes in equity for the year then ended with a decrease in equity of PLN 2,041,113 thousand, the consolidated cash flow statement for the year then ended with a decrease in cash amounting to PLN 155,624 thousand and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory notes.

Management's Responsibility

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of PKN ORLEN SA Group have been prepared and present fairly in all material respects the financial position of the Group as at 31 December 2008 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act we also report that the Report on the Group's operations includes, in all material respects, the information required by Art. 49 of the Accounting Act and by Minister of Finance Regulation dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No. 33, item 259) and the information is consistent with the consolidated financial statements.

For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9451/7175

Certified Auditor No. 10268/7598
Monika Bartoszewicz

Leszek Dubicki,
Member of the Management Board

27 April 2009, Warsaw, Poland

CONSOLIDATED FINANCIAL STATEMENTS of Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group for the year ended 31 December 2008

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union together with an independent auditor's opinion

POLISH FINANCIAL SUPERVISORY AUTHORITY

CONSOLIDATED ANNUAL REPORT RS 2009 (YEAR)

(in accordance with § 82 section 2 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259) **(for issuers of securities whose business activity embraces manufacture, construction, trade and services)**
for the reporting year 2009 that is for the period from 1 January 2009 to 31 December 2009 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 30 March 2010
(submission date)

full name of the issuer:	POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
abbreviated name of the issuer:	PKN ORLEN
industrial sector in line with classifi cation of Warsaw Stock Exchange:	CHEMICZNY (che)
zip code:	09-411
location:	PŁOCK
street:	CHEMIKÓW
number:	7
telephone:	48 24 365 28 95
fax:	48 24 365 40 40
e-mail:	media@orlen.pl
NIP:	774-00-01-454
REGON:	610188201
www:	www.orlen.pl

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

SELECTED FINANCIAL DATA

		PLN thousand		EUR thousand	
		for the year 31.12.2009	for the year 31.12.2008	for the year 31.12.2009	for the year 31.12.2008
I.	Total sales revenues	67,927,990	79,533,225	15,649,447	18,323,095
II.	Profit/(Loss) from operations	1,097,076	(1,603,322)	252,748	(369,378)
III.	Profit/(Loss) before tax	1,440,652	(2,915,403)	331,902	(671,659)
IV.	Net profit/(loss) attributable to equity holders of the parent	1,308,521	(2,505,242)	301,461	(577,165)
V.	Net profit/(loss)	1,300,167	(2,526,626)	299,536	(582,091)
VI.	Total comprehensive income attributable to equity holders of the parent	1,233,166	(1,419,748)	284,100	(327,086)
VII.	Total comprehensive income	1,211,414	(1,137,168)	279,089	(261,984)
VIII.	Net cash provided by operating activities	5,161,793	3,616,760	1,189,188	833,240
IX.	Net cash (used in) investing activities	(2,539,997)	(4,384,957)	(585,172)	(1,010,219)
X.	Net cash (used in)/ provided by financing activities	(1,021,584)	612,573	(235,355)	141,126
XI.	Net change in cash and cash equivalents	1,600,212	(155,624)	368,661	(35,853)
XII.	Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	3.06	(5.86)	0.70	(1.35)

		as at 31.12.2009	as at 31.12.2008	as at 31.12.2009	as at 31.12.2008
XIII.	Non-current assets	29,727,329	29,280,856	7,236,096	7,127,417
XIV.	Current assets	19,433,046	17,694,894	4,730,307	4,307,213
XV.	Total assets	49,160,375	46,975,750	11,966,403	11,434,631
XVI.	Long-term liabilities	13,242,204	4,634,178	3,223,359	1,128,031
XVII.	Short-term liabilities	14,210,960	21,809,925	3,459,169	5,308,876
XVIII.	Equity	21,707,211	20,531,647	5,283,874	4,997,723
XIX.	Equity attributable to equity holders of the parent	19,037,903	17,813,091	4,634,123	4,335,984
XX.	Share capital	1,057,635	1,057,635	257,445	257,445
XXI.	Number of issued ordinary shares	427,709,061	427,709,061	427,709,061	427,709,061
XXII.	Book value and diluted book value per share attributable to equity holders of the parent (in PLN/EUR per share)	44.51	41.65	10.83	10.14

The above data for 2009 and 2008 were translated into EUR by the following exchange rates:

- specific items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as of 31 December 2009 – 4.1082 PLN/EUR;
- specific items of statement of comprehensive income and statement of cash flows – by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period 1 January – 31 December 2009– 4.3406 PLN/EUR.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2009

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

	Note	as at 31.12.2009	as at 31.12.2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	27,070,437	26,268,757
Investment property	7	71,487	71,757
Intangible assets	8	690,376	644,681
Perpetual usufruct of land	9	96,043	99,247
Investments in associates	10	1,401,586	1,561,132
Deferred tax assets	29	290,820	485,362
Financial assets available for sale	10	59,633	62,174
Non-current loans and receivables	11	46,947	87,746
Current assets		29,727,329	29,280,856
Current assets			
Inventory	13	10,619,859	9,089,047
Trade and other receivables	14	5,417,486	6,356,174
Short-term financial assets	15	181,005	257,832
Income tax receivable		34,032	392,042
Prepayments		207,447	204,088
Cash and cash equivalents	16	2,941,039	1,344,224
Non-current assets classified as held for sale	17	32,178	51,487
		19,433,046	17,694,894
Total assets		**49,160,375**	**46,975,750**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity	18		
Share capital	18.2	1,057,635	1,057,635
Share premium	18.3	1,227,253	1,227,253
Hedging reserve		14,849	(99,793)
Foreign exchange differences on subsidiaries from consolidation		(266,789)	(76,792)
Retained earnings		17,004,955	15,704,788
Total equity attributable to equity holders of the parent		19,037,903	17,813,091
Non-controlling interest	18.4	2,669,308	2,718,556
TOTAL EQUITY		**21,707,211**	**20,531,647**
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	19	11,610,532	2,610,651
Provisions	20	661,921	747,287
Deferred tax liabilities	29	836,330	1,134,686
Other long-term liabilities	21	133,421	141,554
		13,242,204	4,634,178

	Note	as at 31.12.2009	as at 31.12.2008
Short-term liabilities			
Trade and other liabilities	22	11,494,542	8,377,167
Interest-bearing loans and borrowings	19	1,593,695	11,282,114
Income tax liability		24,169	35,454
Provisions	20	847,117	753,060
Deferred income	23	133,963	149,521
Other financial liabilities	24	117,474	1,212,609
		14,210,960	21,809,925
Total liabilities		27,453,164	26,444,103
Total liabilities and shareholders' equity		**49,160,375**	**46,975,750**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

	Note	for the year ended 31.12.2009	for the year ended 31.12.2008
Sales revenues	25	67,927,990	79,533,225
Cost of sales	26	(61,848,701)	(73,999,322)
Gross profit on sales		**6,079,289**	**5,533,903**
Distribution expenses		(3,507,700)	(3,323,721)
General and administrative expenses		(1,504,707)	(1,462,477)
Other operating revenues	27	1,263,759	747,930
Other operating expenses	27	(1,233,565)	(3,098,957)
Profit/(Loss) from operations		**1,097,076**	**(1,603,322)**
Financial revenues		1,094,275	702,800
Financial expenses		(1,023,074)	(2,281,414)
Financial revenues and expenses	28	**71,201**	**(1,578,614)**
Share in profit from investments accounted for under equity method		272,375	266,533
Profit/(Loss) before tax		**1,440,652**	**(2,915,403)**
Income tax expenses	29	(140,485)	388,777
Net profit/(loss)		**1,300,167**	**(2,526,626)**
Items of comprehensive income:			
Hedging instruments valuation		(4,491)	(120,954)
Hedging instruments settlement		146,024	(108,125)
Foreign exchange differences on consolidation		(203,395)	1,572,553
Deferred tax on other comprehensive income		(26,891)	45,984
Total items of other comprehensive income		(88,753)	1,389,458
Total comprehensive income		**1,211,414**	**(1,137,168)**
Net profit/(loss) attributable to:			
equity holders of the parent		1,308,521	(2,505,242)
non-controlling interest		(8,354)	(21,384)
		1,300,167	(2,526,626)
Total comprehensive income attributable to:			
equity holders of the parent		1,233,166	(1,419,748)
non-controlling interest		(21,752)	282,580
		1,211,414	(1,137,168)
Net profit/(loss) and diluted net profit/(loss) per share attributable to equity holders of the parent (in PLN per share)		3.06	(5.86)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

	Note	for the year ended 31 december 2009	for the year ended 31 december 2008
Cash flows-operating activities			
Net profit/(loss)		**1,300,167**	**(2,526,626)**
Adjustments for:			
Share in profit from investments accounted for under equity method		(272,375)	(266,533)
Depreciation and amortisation	26	2,567,646	2,491,383
Foreign exchange (gains)/losses		(122,715)	731,385
Interest and dividend, net		383,602	533,187
(Profit)/Loss on investing activities		(714,716)	2,310,714
Change in receivables	30	656,332	986,782
Change in inventories	30	(1,662,679)	1,778,832
Change in liabilities	30	2,820,956	(1,409,397)
Change in provisions	30	(2,086)	(21,945)
Income tax expense	29	140,485	(388,777)
Income tax received / (paid)		19,255	(594,971)
Other adjustments		47,921	(7,274)
Net cash provided by operating activities		**5,161,793**	**3,616,760**
Cash flows-investing activities			
Acquisition of property, plant and equipment and intangible assets		(2,670,628)	(3,969,409)
Disposal of property, plant and equipment and intangible assets		827,802	125,478
Disposal of shares		1,354	199,654
Acquisition of shares		(1,019,488)	(736,860)
Interest and dividend received		423,922	199,269
Loans granted		(83,023)	(2,732)
Proceeds from repayment of loans		7,375	5,072
Dividends paid to non-controlling interest		(13,382)	(185,858)
Other		(13,929)	(19,571)
Net cash (used in) investing activities		**(2,539,997)**	**(4,384,957)**
Cash flows-financing activities			
Proceeds from loans and borrowings		11,192,817	10,962,933
Debt securities is sued		–	479,172
Repayment of loans and borrowings		(11,461,010)	(8,714,481)
Redemption of debt securities		–	(825,498)
Interest paid		(666,133)	(563,576)
Dividends paid		–	(692,888)
Payment of liabilities under finance lease agreements		(80,384)	(35,682)
Other		(6,874)	2,593
Net cash (used in)/ provided by financing activities		(1,021,584)	612,573
Net change in cash and cash equivalents		1,600,212	(155,624)
Effect of exchange rate changes		(3,397)	1,616

	Note	for the year ended 31 december 2009	for the year ended 31 december 2008
Cash and cash equivalents, beginning of the period	16	1,344,224	1,498,232
Cash and cash equivalents, end of the period	16	**2,941,039**	**1,344,224**
incl. cash and cash equivalents not available for use	16	24,459	115,136

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

	Equity attributable to equity holders of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries on consolidation	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2009	2,284,888	(99,793)	(76,792)	15,704,788	17,813,091	2,718,556	20,531,647
Total comprehensive income	–	114,642	(189,997)	1,308,521	1,233,166	(21,752)	1,211,414
Change in non-controlling interest's structure in equity	–	–	–	(8,354)	(8,354)	(16,702)	(25,056)
Dividends	–	–	–	–	–	(10,794)	(10,794)
31 December 2009	**2,284,888**	**14,849**	**(266,789)**	**17,004,955**	**19,037,903**	**2,669,308**	**21,707,211**
1 January 2008	2,284,888	83,302	(1,327,936)	18,895,081	19,935,335	2,637,425	22,572,760
Total comprehensive income	–	(183,095)	1,251,144	(2,487,797)	(1,419,748)	282,580	(1,137,168)
Change in non-controlling interest's structure in equity	–	–	–	(9,608)	(9,608)	(6,056)	(15,664)
Dividends	–	–	–	(692,888)	(692,888)	(195,393)	(888,281)
31 December 2008	**2,284,888**	**(99,793)**	**(76,792)**	**15,704,788**	**17,813,091**	**2,718,556**	**20,531,647**

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

1. GENERAL INFORMATION

1.1. Principal activity of the Group, composition of the Management Board and the Supervisory Board of the Parent

The Parent Company of Polski Koncern Naftowy ORLEN Capital Group ("Group", "Capital Group") is Polski Koncern Naftowy ORLEN SA ("Company", "PKN ORLEN", "Parent", "Issuer") seated in Płock, 7 Chemików Street.

According to the Articles of Association established by the resolution of the Supervisory Board of PKN ORLEN SA dated 22 September 2009, with changes adopted by the Annual General Meeting of PKN ORLEN SA dated 15 July 2009, registered in the commercial register based on the decision of the District Court for the capital city Warsaw Commercial Department of the National Court Register dated 22 September 2009 ref. act 16333/09/929, activity of PKN ORLEN SA includes among others:

- Processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil-derivative and other fuel, sale of 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 fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Purchase, trade and processing of used lubricant oils and other chemical waste;
- Manufacturing, transportation and trade in heating energy and electricity;
- 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 as well as catering activities;
- Activities of finance holdings;
- Brokerage activities and other financial activities, except for insurance and pension funds;
- Crude oil exploration and extraction;
- Natural gas exploration and extraction;
- Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber in primary forms;
- Services to the entire society, medical services, fire protection, education;
- Manufacture of steel products, precious metals, metal molding, repair and maintenance of fabricated metal products.

Additionally the Capital Group consists of the companies located in different countries, operating mainly in refinery, petrochemical and chemical sector.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

The shareholder's structure of PKN ORLEN SA as at 31 December 2009 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
State Treasury	117,710,196	117,710,196	147,137,745	27.52%
ING OFE	22,118,813	22,118,813	27,648,516	5.17%
Other	287,880,052	287,880,052	359,850,065	67.31%
Total	**427,709,061**	**427,709,061**	**534,636,326**	**100.00%**

Shareholders' structure of PKN ORLEN SA as at 19 March 2010:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
State Treasury	117,710,196	117,710,196	147,137,745	27.52%
ING OFE	22,118,813	22,118,813	27,648,516	5.17%
Aviva OFE*	21,744,036	21,744,036	27,180,045	5.08%
Other	266,136,016	266,136,016	332,670,020	62.23%
Total	**427,709,061**	**427,709,061**	**534,636,326**	**100.00%**

* according to the information received on 9 February 2010

Composition of the Management Board of PKN ORLEN

The composition of the Management Board as at 31 December 2009 was as follows:

- Dariusz Krawiec – President of the Management Board, General Director
- Sławomir Jędrzejczyk – Vice- President of the Management Board, Chief Financial Officer
- Wojciech Kotlarek – Member of the Management Board, Sales
- Krystian Pater – Member of the Management Board, Production, Refinery
- Marek Serafin – Member of the Management Board, Production, Petrochemistry

Composition of the Supervisory Board

The composition of the Supervisory Board as at 31 December 2009 was as follows:

- Maciej Mataczyński – Chairman of the Supervisory Board
- Marek Karabuła – Deputy Chairman of the Supervisory Board
- Angelina Sarota – Secretary of the Supervisory Board
- Grzegorz Borowiec – Member of the Supervisory Board
- Krzysztof Kołach – Member of the Supervisory Board
- Grzegorz Michniewicz – Member of the Supervisory Board (until 23 December 2009)
- Jarosław Roclawski – Member of the Supervisory Board
- Piotr Wielowieyski – Member of the Supervisory Board
- Janusz Zieliński – Member of the Supervisory Board

1.2. Statement of the Management Board

1.2.1. Concerning reliability of preparation of consolidated financial statements

Under the Minister of Finance Regulation of 19 February 2009, on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state with amendments, the Management Board of PKN ORLEN hereby declares that to the best of their knowledge the forego-ing consolidated financial statements and comparative data were prepared in compliance with the Group account-ing principles in force and that they reflect true and fair view on financial position and financial result of the Group and that the Management Board Report on the Group's Operations presents true overview of development, achievement and business situation of the Group, including basic risks and exposures.

1.2.2. Concerning entity authorized to conduct audit

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

In compliance with principles of corporate governance adopted by the Management Board of PKN ORLEN 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. On 23 August 2007 the Supervisory Board has prolonged contract with KPMG Audyt Sp. z o.o., as a qualified auditor to audit and review unconsolidated and consolidated financial statements of PKN ORLEN and key entities belonging to the PKN ORLEN Capital Group for the years 2008–2009.

2. PRINCIPLES OF ACCOUNTING

2.1. Principles of presentation

The consolidated financial statements were prepared in accordance with requirements of International Financial Reporting Standards ("IFRS") approved by the European Union (EU) obligatory as at 31 December 2009 and in the scope required under the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259) with later amendments and contain period from 1 January to 31 December 2009 and comparative period from 1 January to 31 December 2008.

The presented consolidated financial statements are compliant with requirements of all IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2009 and 31 December 2008, results of its operations and cash flows for the year ended 31 December 2009 and 31 December 2008.

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.

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

2.2. Impact of Standards and interpretations and amendments to existing standards on the consolidated financial statements of the Capital Group

The foregoing annual consolidated financial statements have been prepared in accordance with requirements of International Financial Reporting Standards ("IFRS") approved by the European Union (EU)

2.2.1. Binding amendments to IFRSs

The foregoing consolidated financial statements were affected by amendments to the following standards and interpretations:

IFRS 7 "Financial Instruments: Disclosures" – amendments published on 5 March 2009 and approved by the EU on 27 November 2009. Amendments are applicable to reporting periods beginning on or after 1 January 2009. The purpose of amendments to IFRS 7 is to enhance the quality of disclosures regarding financial instruments. Amendments implement a three-leveled hierarchy of disclosures regarding fair value measurement and requirement to disclose additional information concerning reliability of fair value measurement. Additionally, the amendments specify and extend the existing disclosures regarding liquidity risk.

Amendments of this Standard mentioned above have no influence on previously presented consolidated financial results nor on the value of equity but only on the presentation of the consolidated financial statements.

IFRS 8 "Operating Segments" – Standard published on 30 November 2006 and adopted by the EU on 21 November 2007. IFRS 8 is applicable to financial statements for the periods beginning on or after 1 January 2009. The standard replaces IAS 14 „Segment Reporting" and requires, among other things, operating segments to be identified based on the internal segment reports valuated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has applied the standard retrospectively according to transitional provisions.

The amendments of the Standard mentioned above have no effect on previously presented consolidated financial results and equity, but on the presentation of the consolidated financial statements.

IAS 1 "Presentation of Financial Statements" – amendments published on 6 September 2007 and adopted by the EU on 17 December 2008. The amendments are applicable to financial statements for the periods beginning on or after 1 January 2009. The amendments relate to nomenclature concerning basic financial statements and presentation of statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity. The Group has applied the revised standard retrospectively in the foregoing consolidated financial statements.

Amendments of the Standard mentioned above have no effect on previously presented consolidated financial results and equity but only on the presentation of the consolidated financial statements.

IAS 23 "Borrowing Costs" – amendments published on 29 March 2007 and adopted by the EU on 10 December 2008. The amendments are applicable to financial statements for the periods beginning on or after 1 January 2009. The amendment to the standard eliminates the option to recognize borrowing costs as an expense. In its previous consolidated financial statements the Group immediately recognized borrowing costs as an expense.

Starting from 1 January 2009 the Group capitalizes borrowing cost according to the revised standard. Changes resulting from implementation of the Standard are presented in Note 28. The Group has applied the revised standard prospectively.

IFRIC 13 "Customer Loyalty Programs" – Interpretation published on 28 June 2007 and adopted by the EU on 16 December 2008. IFRIC 13 is applicable to financial statements for the periods beginning on or after 1 January 2009. Interpretation provides guidance to entities granting award credits to their customers regarding measurement of its obligations resulting from free or discounted goods or services sold when credits granted are realized by the client.

The Group applied interpretation mentioned above retrospectively according to transitional provisions. Changes resulting from the implementation are presented in the note 2.2.3

Other amendments to IFRSs, that came into force in the period between 1 January 2009 and 31 December 2009 do not have influence on current and previously presented financial results and equity.

2.2.2. Standards and Interpretations not yet effective

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2009, in accordance with their effective date.

IFRS 1 "First-time adoption of International Financial Reporting Standards" – amendments published on 23 July 2009 and are applicable to annual periods beginning on or after 1 January 2010, earlier application is permitted.

The amendment consists in issuing additional optional exemptions for first-time adopters of IFRSs with respect to: I) establishing of deemed cost for oil and gas assets; II) reassessment of lease determination; III) establishing of deemed cost for operations subject to rate regulation.

IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations" – amendments published on 18 June 2009 are applicable to annual periods beginning on or after 1 January 2010, earlier application is permitted.

The most important consequence of the amendments to IFRS 2 is that entity receiving goods and services in the share-based payment transaction, which is calculated by one entity in the group or by one share-holder of this entity in cash or other assets is currently obliged to received goods and services in its financial statements. Share-based payment transactions concluded within the Group were not regulated by IFRS 2 yet.

Amendment explains accounting principles for share-based payments in the Capital Group.

Amendments of the Standard shall have no effect on previously presented consolidated financial results and equity.

IFRS 9 "Financial Instruments" – Standard published on 12 November 2009 is applicable from 1 January 2013, earlier application is permitted. Standard was published as part of the complex review of financial instruments accounting. New standard is less complex as compared to the current requirements and will replace IAS 39 Financial Instruments: Recognition and Measurement. New standard will only concern the rules of classification and valuation of financial assets.

IAS 17 "Leases" – amendments published on 16 April 2009 and adopted by the EU on 23 March 2010 within "Improvements to International Financial Reporting Standards". Revised IAS 17 is applicable to annual periods beginning on or after 1 January 2010, earlier application is permitted. The amendment results in lease of land to be classified as finance lease or operating lease contrary to current classification solely as operating lease.

IAS 24 "Related Party Disclosures" – amendments published on 4 November 2009. The amended Standard is applicable to annual periods beginning on or after 1 January 2011, earlier application is permitted. The changes introduced concern mainly the exemption for government-related entities from the related party disclosure requirements defined in the Standard and the definition of a related party.

IAS 32 „Financial Instruments: presentation" – amendments published on 8 October 2009. The amended Standard is applicable to annual periods beginning on or after 1 July 2010, earlier application is permitted. The amendments provide that rights, options and warrants meeting criteria for classification as equity instruments contained in IAS 32.11, issued to acquire a fixed number of entity's own non-derivative equity instruments for a fixed amount of any currency ("fixed number for fixed price"), are classified as equity instruments if the offer was submitted to all of existing owners of the same class of entity's non-derivative equity instruments in proportion to the number of possessed instruments.

IFRIC 14 "Prepayments of a Minimum Funding Requirements" – Interpretation published on 26 October 2009. The interpretation is applicable to annual periods beginning on or after 1 January 2011, earlier application is permitted. Under the amended IFRIC 14 prepayments made to the plan where there are Minimum Funding Requirements would be recognized as an asset.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" – Interpretation published on 26 November 2009 and applicable to annual periods beginning on or after 1 July 2010, earlier application is permitted. The Interpretation concerns accounting principles for entities issuing equity instruments to extinguish a financial liability, partially or completely.

Improvements to International Financial Reporting Standards – published on 16 April 2009 and adopted by the EU on 23 March 2010. The improvements contain 15 amendments to 12 standards. Majority of improvements are applicable to annual periods beginning on or after 1 January 2010, earlier application is permitted.

The possible impact of amendments to IFRSs mentioned above on the Group's future financial statements is being analyzed. The potential impact of amendments is not known yet.

In the current annual reporting period there were no voluntary early adoptions of IFRSs.

2.2.3. Presentation changes

In the explanatory note 26 "Cost by kind" the data for the year 2008 was changed due to reclassification of changes in prepayments and accruals of PLN 4,552 thousand from line "Change in inventory" to respective cost by kind.

In the consolidated statement of comprehensive income for the year ended 31 December 2009 and 31 December 2008 the Group ceased to divide sales revenues. Similar presentation to the prior year was presented in the note 25.

For the year 2008 a reclassification adjustment of PLN 347,757 thousand has been made from excise tax and other charges to sales of finished goods.

As a consequence of detailed analysis of operating lease agreements the Group indentified some non-cancellable agreements in which the Group is as lessee. It resulted in change of comparative data in the amount of PLN 1,053,825, (note 32) in comparison to the information presented in the annual report for 2008.

According to interpretation of IFRIC 13 – Customer Loyalty Programs the value of loyalty programs of PLN 72,845 thousand was reclassified in the foregoing unconsolidated financial statements as at 31 December 2008 from Short-term provisions and trade and other liabilities to deferred income.

According to the Managements Board the above mentioned changes will ensure better presentation of effects of the Group's activities.

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

Functional and presentation currency of the foregoing consolidated financial statements and financial statements of the Parent is Polish zloty. Detailed methods applied to translation of data denominated in foreign currencies presented in Note 2.3.30.

2.3. Applied accounting principles

2.3.1. Principles of consolidation

The consolidated financial statements of the Group include data of PKN ORLEN SA, its subsidiaries and jointly controlled entities (joint ventures) prepared as at the end of the same reporting period as unconsolidated financial statements of PKN ORLEN SA and using uniform accounting principles in relation to similar transactions and other events in similar circumstances. Data of subsidiaries and jointly controlled entities (joint ventures) that together do not significantly impact the financial statements of the Capital Group may not be consolidated. In such a case shares are accounted for using equity method.

a) Subsidiaries

Subsidiaries are entities under the Group's control. It is assumed that the Group controls another entity if it holds the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Particularly, the control is evidenced when the Group holds directly or indirectly more than 50% of the voting rights in an entity that are not contractually or actually restrained and governs the financial and operating policies of the entity.

Subsidiaries (except for subsidiaries held for sale) are consolidated using the line by line method. In the line by line method the financial statements of the Parent and its subsidiaries are combined line by line by adding together like items of assets, liabilities, income and expenses and then appropriate consolidation procedures are performed.

b) Investment in jointly controlled entities

Investments in jointly controlled entities are investments where the Group exercises joint control. It is assumed that the Group jointly controls another entity if the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Investments in jointly controlled entities are accounted for using the proportionate method. In the proportionate method a proportional share in a jointly controlled entity's assets, liabilities, income and expenses is presented line by line with particular items in the consolidated financial statements and appropriate consolidation procedures are performed.

c) Investment in associates

Investments in associates (entities over which the company has significant influence and that are neither controlled nor jointly controlled) are accounted for using the equity method, based on financial statements of associates prepared as at the end of same reporting period as unconsolidated financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances. Investments accounted for using equity method are tested for impairment.

It is assumed that the Group has significant influence over another entity, if it has ability to participate in financial and operating decisions of the entity. Particularly, the significant influence is evidenced when the Group holds directly or indirectly more than 20%, and no more than 50% of the voting rights of an entity and participation in financial and operating decisions is not contractually or actually restrained and is actually executed.

d) Consolidation procedures

The consolidated financial statements are prepared using the line by line method and the proportionate method. When investor has significant influence over another entity, equity method is used to evaluate shares in entity.

In preparing consolidated financial statements the following consolidation procedures are followed:

- the carrying amount of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary as at the acquisition date are eliminated,
- minority interest in the profit or loss of consolidated subsidiaries for the reporting period are identified,
- minority interest in the net assets of consolidated subsidiaries are identified and presented separately from the Parent's,
- intra group balances are eliminated,
- unrealized gains or losses on intra group transactions are eliminated,
- the income and expenses relating to intra group transactions are eliminated.

The consolidated financial statements are statements comprising activities of all entities of the Capital Group prepared as if they were financial statements of a single economic entity.

2.3.2. Business combinations

Business combinations are accounted for using the purchase method. Application of this method requires:

- identification of acquirer,
- measurement of cost of the business combination,
- allocation, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

The fair value of assets, liabilities and contingent liabilities, for the purpose of an allocation of a cost of business combination, is recognized in accordance with the appendix B to IFRS 3.

The excess of the cost of business combination over the net fair value of identifiable assets, liabilities and contingent liabilities is presented as goodwill.

The excess of the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized as other operating income of the period.

2.3.3. Property, plant and equipment

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

Property plant and equipment are initially recognized at cost. The cost of an item of property, plant and equipment comprises its purchase price and other costs directly attributable to bringing the item of property, plant and equipment into use. The cost of an item of property, plant and equipment includes also estimated costs of dismantling and removing the item and restoring the site/land on which it is located, the obligation for which is connected with acquisition or construction of an item of property, plant and equipment.

Property, plant and equipment are stated in the financial statements prepared at the end of the reporting period at the carrying amount. The carrying amount is the amount at which an asset is initially recognized after deducting any accumulated depreciation and accumulated impairment losses.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions are part of the initial cost.

Depreciation of an item 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 its estimated economic useful life, considering the residual value. Fixed assets are amortized with straight-line method and in justified cases units of production method of depreciation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

Appropriateness of the applied amortization periods and rates is verified periodically (at least once a year) and respective adjustments are made to the subsequent periods of depreciation (prospectively).

The depreciable amount of an asset is determined after deducting its residual value.

The following standard economic 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

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. The cost of current maintenance of property, plant and equipment is recognized as an expense when it is incurred.

2.3.4. Investment property

An investment property is initially recognized at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as professional fees for legal services, property transfer taxes and other transaction costs. The cost of a self-constructed investment property is its cost when the construction or development is complete and ready to use, according to principles defined for property, plant and equipment.

After initial recognition an investment property is presented at fair value determined on the basis of a valuation of an independent surveyor as at the end of the reporting period. Gains and losses resulting from changes in fair value of investment property are presented in the income statement in the period in which they arise. The Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal of investment property.

If there is clear evidence that the fair value of the investment property is not reliably determinable on a continuing basis, the Group measures investment property using the cost model, in accordance with principles defined for property, plant and equipment.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2.3.5. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance.

Except for intangible assets arising from development that meet recognition criteria other internally generated intangible assets are not recognized as assets but are recorded in profit or loss in the period when the related cost has been incurred.

Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to the assets will flow to the entity and the cost of the asset can be measured reliably.

Intangible assets are measured initially at cost. The intangible assets acquired in a business combination are measured initially at a fair value at the business combination date. Granted rights to renewable energy sources, are measured initially at fair value.

CO_2 emission rights and granted rights to renewable energy sources are recognized in the accounting records at their registration date (date of taking over the control) at fair (market) value.

Intangible assets are stated in the consolidated financial statements prepared at the end of the reporting period at the carrying amount. The carrying amount is the amount at which the asset is recognized after deducting any accumulated amortization and accumulated impairment losses.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.

Intangible assets with finite useful life are amortized using straight-line method when an asset 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 management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is verified periodically (at least once a year), and respective adjustments are made to the subsequent periods of amortization (prospectively).

The depreciable amount of an asset is determined after deducting its residual value.

The following standard economic useful lives are used for intangible assets:

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

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

a) Goodwill

Goodwill is allocated to cash-generating units (group of units) at the acquisition date.

At the acquisition date goodwill is stated 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 (all relevant days of acquisition if the business combination results from a series of transactions).

As at the reporting date goodwill is measured at cost less cumulative impairment losses recognized in the previous periods as well as decreases due to partial disposals of shares, to which goodwill was allocated. Impairment losses up to the amount of goodwill allocated to a particular cash-generating unit (or group of units) are not reversible.

Goodwill is tested for impairment at the end of the reporting period in which the events or circumstances indicate that goodwill might be impaired.

b) Perpetual usufruct of land

The titles to perpetual usufruct of land acquired by the Group are presented in the separate position of the statement of financial position.

The titles to perpetual usufruct of land obtained under an administrative decision are recognized as off statement of financial position items.

2.3.6. Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination and recognizes immediately in profit or loss any excess remaining after that reassessment.

2.3.7. Borrowing costs

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

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

Borrowing costs are capitalized based on so called net investment expenditures which means construction in progress not funded through the use of investment commitments, but using other sources of external financing.

Borrowing costs relate to interest and other charges connected with borrowing of funds. Borrowing costs may include:
- interest on bank overdrafts and Short-term and long-term borrowings,
- amortization of discounts or premiums relating to borrowings,
- amortization of ancillary costs incurred in connection with the arrangement of borrowings,
- finance charges in respect of finance leases recognized in accordance with IAS 17 Leases,
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable are those borrowing costs that would have been avoided if the expenditure on the qualifying asset had not been made.

The upper limit for capitalization of the borrowing costs is the amount of incurred borrowing costs.

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

Capitalization of the borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Additional administrative work, decoration, alterations to the purchaser's or user's specification are not a basis for further capitalization of the borrowing costs.

After putting the asset into use, the capitalized borrowing costs are depreciated/ amortized over the period reflecting economic useful life of the asset as part of the cost of the asset.

2.3.8. Lease

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

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

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

The present value of the minimum lease payments is recognized in the statement of financial position as financial liabilities with the division into Short-term part (due no more than one year after the end of the reporting period) and long-term part (due more than one year after the end of the reporting period). The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, if this is practicable to determine, if not, the lessee's incremental borrowing rate.

Depreciation methods for assets leased under the finance lease as well as methods of determining impairment losses in respect of assets leased under the finance lease are consistent with policies applied for the Group's owned assets.

If the Group conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognized in the statement of financial position as receivables with the division into Short-term part and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value and the initial direct costs to be equal to the fair value of the leased asset.

If the Group uses an asset based on the operating lease, the asset is not recognized in the statement of financial position and lease payments are recognized as an expense in profit or loss.

If the Group conveyed to another entity the right to use an asset under the operating lease, the asset is recognized based on the same policies as applied for the Group's owned assets, that is as an item of property, plant and equipment or an intangible asset.

Lease income from operating leases is recognized as revenues from sale.

2.3.9. Impairment of assets

If there is an external or internal indication that an asset may be impaired, it is tested for impairment. Impairment tests are carried out annually also in respect of intangible assets with an indefinite useful life are performed once a year.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount by an impairment allowance recognized immediately as an expense in profit or loss. The recoverable amount is higher of two: its value in use and fair value less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from continuing use of the asset and its ultimate disposal.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Assets that do not generate cash flows individually are grouped in the smallest identifiable group of assets generating cash flows that are largely independent of the cash flows from other assets (so called cash-generating units). The Group allocates to each of its cash generating units:

- goodwill acquired in a business combination, if it may be assumed that the cash-generating unit benefited from the synergies of the combination;
- corporate assets, if there is reasonable and consistent basis of such an allocation.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash generating unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash generating unit;
- then, to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The Group assesses at the end of each reporting period whether the impairment loss should be partly or completely reversed. Indication that the impairment loss recognized in prior period no longer exists is the opposite of indication that the impairment loss should be recognized.

An impairment loss recognized for goodwill is not reversed.

A reversal of an impairment loss is recognized in the consolidated statement of comprehensive income as revenue.

2.3.10. Financial instruments

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

a) Recognition and derecognition in consolidated statement of financial position

The Group recognizes a financial asset or a financial liability on its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognized as at trade date.

The Group derecognizes a financial asset in consolidated statement form financial position when and only when:
- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

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

b) Non-current financial assets held for sale

Non-current financial assets, the carrying amount of which will be recovered principally through a sale transaction, are classified as Non-current assets held for sale and presented in the separate position of the consolidated statement of financial position. For this to be the case, the asset (or disposal group) must be available for immediate sale and its sale must be highly probable. Such a classification does not result in application of measurement principles defined in IFRS 5 designated for Non-current assets held for sale. Non-current financial assets held for sale are still measured based on general principles relating to financial assets.

c) Measurement of financial assets

When a financial asset or a financial liability is recognized initially, the Group measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

When an option contract is recognized initially, there may be a difference between the transaction price and the instrument value that would be determined with valuation techniques used by the Group. In such a case the Group recognizes an asset initially at the transaction price and at the end of the reporting period (month) it determines the gain or loss resulting solely from change of factors taken into account when the transaction price was set.

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

Regardless of characteristics and purpose of a purchase transaction, the Group classifies initially selected financial assets as financial assets at fair value through profit or loss.

A financial asset at fair value through profit or loss is a financial asset classified as held for trading if it is:
- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of Short-term profit taking, or
- a derivative (except for a derivative that is an effective hedging instrument);
- designated by the Group upon initial recognition as at fair value through profit or loss, when doing so results in more relevant information.

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

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Results of changes in the value of available-for-sale financial assets are charged directly to equity.

d) Fair value measurement of financial assets

The Group measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in the following way:
- for instruments quoted on an active market based on current quotations available as at the end of the reporting period;
- for debt instruments unquoted on an active market based on discounted cash flows analysis;
- for forward and swap transactions based on discounted cash flows analysis.

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

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

A gain or loss on a financial asset classified as at fair value through profit or loss are recognized directly in the income statement.

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

e) Amortized cost measurement of financial assets

The Group measures loans and receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Group uses simplified methods in respect of measurement of financial assets at amortized cost if it does not distort information included in the consolidated financial statements. Financial assets measured at amortized cost, in relation to which the Group uses simplifications, are measured initially at the amounts due and after initial recognition, including the end of the reporting period, at the amounts due price less any accumulated impairment losses.

f) Measurement of financial liabilities

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

The Group measures other liabilities, including trade liabilities, at amortized cost using the effective interest rate method. The Group uses simplified methods of measurement of financial liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements. Interest-bearing loans and borrowings. in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:

- using recent arm's length market transactions between knowledgeable, willing parties,
- reference to the current fair value of another instrument that is substantially the same,
- discounted cash flow analysis.

Loans and borrowings received and trade liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market.

Financial guarantee contracts that are contracts that require the Group (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:

- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognized less, when appropriate, cumulative amortization.

g) Embedded derivatives

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

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

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

A derivative is a financial instrument with all three of the following characteristics:

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

h) Hedge accounting

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

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

Hedge accounting is not applied to cash flows connected with embedded derivatives separated from host contracts.

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

If a fair value hedge is used, it is accounted for as follows:
- the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognized directly in equity).

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

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:
- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in equity through the statement of changes in consolidated equity, and
- the ineffective portion of the gain or loss on the hedging instrument is recognized in profit or loss.

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

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

The Group discontinues prospectively cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised – in this case, the cumulative gain or loss on the hedging instrument recognized in equity remain separately recognized in equity until the forecast transaction occurs;

- the hedge no longer meets the criteria for hedge accounting – in this case, the cumulative gain or loss on the hedging instrument recognized in other comprehensive income remain separately recognized in equity until the forecast transaction occurs;
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognized in other comprehensive income are recognized in profit or loss.

If the Group revokes the designation, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs or is no longer expected to occur.

2.3.11. Impairment of financial assets

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

If there is an objective indicator that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The Group uses simplified methods in respect of determining the impairment of trade receivables – particularly the impairment loss equal to the asset's carrying amount is recognized if the payment term expired at least 6 months before the end of the reporting period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognized in other comprehensive income is removed from equity and recognized in profir or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

2.3.12. Inventory

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

Raw materials and merchandise are measured initially at acquisition cost.

As at the end of the reporting period raw materials and merchandise are measured at the lower of cost and net realizable value, considering any inventory allowances. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete. A net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

The cost of usage of raw materials and merchandise is determined based on the weighted average acquisition cost formula.

Finished goods and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period.

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

For finished goods, the production costs comprise related fixed and variable indirect costs for normal production levels.

As at the end of the reporting period finished goods and work in progress are measured at the lower of cost and net realizable value.

The cost of usage of finished goods is determined based on the weighted average cost formula, based on production cost in the particular reporting period.

2.3.13. Receivables

Trade and other receivables are recognized initially at the present value of the expected proceeds and are stated in the subsequent periods at amortized cost using the effective interest method less impairment allowances.

The Group uses simplified methods of receivables measurement, if it does not distort information included in the financial statements, particularly if the payment term of receivables is not long. Receivables, in relation to which simplified methods are used, are measured initially at the amounts due and after initial recognition (including the end of the reporting period) at the amounts due less allowances for doubtful receivables.

2.3.14. 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, presented in the consolidated statement of cash flows consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO method ("First In, First Out").

2.3.15. Non-current assets classified as held for sale

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

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

Depreciation is discontinued for the asset when it is designated for sale.

Assets held for sale, excluding above all financial assets and investment property, are measured at the lower of the carrying amount and the fair value less costs to sell.

In case of any subsequent increase in fair value less costs to sell of an asset, the Group recognizes a gain, but not in excess of the cumulative impairment loss that has been recognized.

2.3.16. Equity

Equity is recorded by type, in accordance with legal regulations and the Company's Articles of Association.

a) Share capital

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.

Declared but not paid share capital is presented as outstanding share capital contributions. The Company's own shares and outstanding share capital contributions decrease the equity.

b) Share premium

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

Issuance costs incurred by setting up a 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 as retained earnings.

c) Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge

Such changes are recognized as hedging reserve.

d) Retained earnings

Retained earnings include:

- the amounts arising from profit distribution,
- transfers 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,
- the current period net result,
- advance dividends paid,
- the effects of prior period errors.

2.3.17. Interest-bearing loans and borrowings

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

The Group uses simplified methods of interest-bearing loans and borrowings measurement that are usually measured at amortized cost, if it does not distort information included in the consolidated financial statements, particularly if the payment term of the loan or borrowing is not long. Interest-bearing loans and borrowings, in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

2.3.18. Provisions

A provision is a liability of uncertain timing or amount.

The Group recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. The provision is reversed, if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The provision is used only for expenditures for which the provision was originally recognized.

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

The provisions are created for the following titles (if recognition criteria mentioned above are met):
- environmental risk,
- jubilee bonuses, retirement and pension benefits
- restructuring,
- legal proceedings.

Provisions are not recognized for the future operating losses.

a) Environmental provision

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

b) Provisions for jubilee bonuses, retirement and pension benefits

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

The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration.

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

The provisions equal to the present value of these liabilities are estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities.

The accumulated liabilities equal discounted future payments, considering employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

Actuarial gains and losses are recognized in profit or loss.

c) Restructuring provision

Provision for restructuring is created when the Company has a detailed formal plan for the restructuring and the restructuring process has been started or has been announced in public. A restructuring provision includes only the direct expenditures arising from the restructuring, such as costs of redundancy of employees (redundancy payments and compensations paid), termination of tenancy and lease agreements, dismantling of assets.

d) Legal proceedings provision

Legal proceedings provision is recognized after consideration of all available evidence, including legal opinions. If, on the basis of this evidence:

- it is more likely than not that a present obligation exists at the end of the reporting period, the provision should be recognized (only when other recognition criteria are met),
- it is unlikely that a present obligation exists at the end of the reporting period, the information about contingent liability should disclosed, unless the probability of an outflow of resources embodying economic benefits is remote.

Provisions are not recognized for the future operating losses.

2.3.19. Liabilities

Trade and other liabilities are stated at amortized cost using the effective interest method. The Group uses simplified methods of liabilities measurement, including financial liabilities that are usually measured at amortized cost, if it does not distort information included in the consolidated financial statements, particularly if the payment term of liabilities is not long. Liabilities, including financial liabilities, in relation to which simplified methods are used, are measured initially and after initial recognition (including the end of the reporting period) at the amounts due.

2.3.20. 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 a given income, 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 particular asset, its fair value is recognized as deferred income and on a systematic basis recorded as revenue over the estimated useful life of the underlying asset.

2.3.21. Operating segments

An operating segment is a component of an entity:

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

The operations of the Group are divided into:

- the Refining Segment which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the Retail Segment which includes sales at petrol stations,
- the Petrochemical Segment which includes the production and wholesale of petrochemicals and production and sale of chemicals, and
- Corporate functions which is a reconciling item including activities related to management and administration and other support functions as well as the remaining activities not allocated to separate segments.

Segment revenues are revenues reported in the consolidated statement of comprehensive income that are directly attributable to a segment and the relevant portion of revenues that can be allocated on a reasonable basis to a segment, including revenues from sales to external customers and revenues from transactions with other segments.

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

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

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

The revenues, result, assets of a given segment are defined before inter-segment adjustments are made, after adjustments within a given segment.

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

2.3.22. Contingent liabilities and contingent assets

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

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

Contingent assets are not recognized in the consolidated statement of financial position, however the respective information on the contingent asset is disclosed in the financial statements if the inflow of economic benefits is probable.

2.3.23. Revenues

a) Revenues from sales

Revenues from sale are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Group and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, and raw materials are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues include received or due payments for delivered goods or merchandise decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale.

Revenues and costs concerning rendering of services, whose beginning and end fall within different reporting periods, are recognized by reference to the stage of completion of the contract, when the outcome of a contract can be estimated reliably, it is probable that the economic benefits will flow to the Group and the stage of contract completion can be measured reliably. When these conditions are not met, revenue is recognized only to the extent of the expenses recognized that are recoverable.

b) Revenues from licenses, royalties and trade mark – recognized on an accrual basis in accordance with the substance of the relevant agreements. Prepayments, referring to agreements concluded in the current period by the Group are recognized as deferred income and settled in the periods when economic benefits are realized according to the agreements.

c) **Franchise revenues** – recognized in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

2.3.24. Costs

The Group recognizes costs in accordance with accrual basis and prudence.

a) Cost of sales – it comprises costs of finished goods sold and costs of services sold, including services of support functions and cost of merchandise and raw materials sold.
b) Distribution expenses – they include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.
c) General and administrative expenses – they include expenses relating to management and administration of the Group as a whole.

2.3.25. Other operating revenues and expenses

Other operating revenues refer to operating revenues, in particular relating to revenues from liquidation and sale of non-financial Non-current assets, surplus of assets, return of court fees, penalties earned, grants other than those for construction in progress, acquisition of fixed assets and the execution of development work, property assets received free of charge, reversal of receivable impairment allowances and provisions, compensations earned, revaluation gains and revenues on disposal of investment property.

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

2.3.26. Financial revenues and expenses

Financial revenues include, in particular, revenues from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

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

2.3.27. Income tax expense

Income tax comprises current tax and deferred tax.

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

Current tax liabilities represent the amounts payable at the reporting date. If the amount of the current income tax paid exceeds the amount due the excess is recognized as a receivable.

Deferred tax assets are recognized for deductible temporary differences, unrealized tax losses and unrealized tax relieves.

Deferred tax liabilities are recognized for taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

The Company does not recognize deferred tax assets and deferred tax liabilities for temporary differences resulting from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability is not recognized for goodwill, whose amortization is not a tax deductible cost.

The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at the end of each reporting period).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions recognized in other comprehensive income are recognized in other comprehensive income.

Deferred tax assets and liabilities are accounted for as Non-current assets or long-term liabilities in the statement of financial position.

Deferred tax assets and liabilities are offset in the consolidated statement of financial position, if the Group has a legally enforceable right to set off the recognized amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer (including capital tax group), except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

2.3.28. Earnings per share

Basic earnings per share are calculated by dividing the net profit for a given period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the 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 adjusted weighted average number of ordinary shares.

2.3.29. Exploration and extraction of hydrocarbons

For exploration and extraction of hydrocarbons activity the Group applies accounting principles based on Successful Efforts Method.
The stages of exploration and extraction of hydrocarbons activity are classified in the following way:

- preliminary stage of assessment;
- acquisition of rights to explore and extract;
- exploration of resources;
- recognition of resources;
- resource site planning;
- exploitation of resources.

All expenditures related to the preliminary stage of assessment are recognized in profit or loss when incurred.

Cost incurred for acquisition of rights to explore and extract are recognized as intangible assets. General and administrative expenses that may be directly attributed to the purchase transaction of exploration/extraction rights should increase the purchase price of an asset. If direct allocation of costs to the purchase transaction of exploration/extraction rights is not possible, indirect expenses are recognized in profit or loss when incurred.

Cost of exploration and recognition

- Cost incurred for each exploratory drilling is initially recognized as construction in progress. If the exploratory drilling is unsuccessful, the cost previously recognized as an asset is included in profit or loss;
- Cost incurred for each appraisal drilling is initially recognized as construction in progress. If the appraisal is unsuccessful, the cost previously recognized as an asset (including cost incurred in exploration stage) is included in profit or loss. If the appraisal is successful, the cost incurred for all appraisal drillings (including unsuccessful drillings in hydrocarbons resource, that was recognized as an asset) is transferred to property, plant and equipment at the date of put into use;
- Other cost incurred at the exploration and recognition stage is initially recognized as intangible assets under development or construction in progress, depending on the type of cost incurred. If the exploration and recognition stage ends without success other cost incurred previously recognized as an asset is included in profit or loss;
- When the commercial viability and technical feasibility of a resource is confirmed, the Group defines cash generating unit. It is assumed that cash generating unit will be defined as hydrocarbons resource;
- General and administrative expenses that can be directly attributed to the exploration and recognition stage should be recognized as an asset and included in previously defined cash generating unit. If cost cannot be allocated, it is included in profit or loss when incurred.

Cost incurred for resource site planning are recognized as an asset and included in previously defined cost generating unit. General and administrative expenses that can be directly attributed to the resource site planning stage should be recognized as an asset and included in previously defined cost generating unit. If cost cannot be allocated, it is included in profit or loss when incurred.

Cost directly attributed to hydrocarbons resource exploitation is included in the consolidated statement of comprehensive income as the cost of the current period.

Depreciation of Non-current assets used for exploration and exploitation activity is calculated proportionally to the amount of extracted hydrocarbons, using unit of production method. If the unit of production method is not possible to apply (e.g. because of lack of information regarding total amount of hydrocarbons or using of assets on multiple stages of exploration or exploitation) other depreciation method, that most reliably reflects the economical usage, can be applied.

The Group creates provisions for the cost of removal of drillings and supporting infrastructure. The amount of the provision for future dismantling and land reclamation is initially recognized as a provision and as a part of initial value of an asset at the date of put into use.

The amount of created provisions is verified at the end of each reporting period and adjusted to reflect the current knowledge as at that date. The increase in the provision due to the passage of time (due to discounting) is recognized as a financial expense in the statement of comprehensive income. Changes in the provision due to assessment of cost, change of discount rate, change of date of removal/ reclamation adjust the book value of a provision and book value of an asset.

The Group performs impairment tests of assets used in exploration and exploitation activity, both for proved and unproved assets/resources.

The impairment assessment is performed by the Group for assets/resources proved and unproved on the level of cash generating unit defined as hydrocarbons resource.

2.3.30. Foreign currency transactions

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

The functional currency of the Group is Polish Zloty.

At the end of the reporting period:

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise in the net amount, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting.

Methods applied to translation of data denominated in foreign currencies:

The consolidated financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:

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

- particular assets and liabilities – at the closing rate for 31 December 2009 – 4.1082 PLN/EUR and for 31 December 2008 – 4.1724 PLN/EUR,
- particular items of statement of statement of comprehensive income and statement of cash flows are translated on the quarterly basis. The average exchange rate for the period from 1 January 2009 to 31 December 2009 – 4.3406 PLN/EUR. For the period from 1 January 2008 to 31 December 2008 the rate was 3.5321 PLN/EUR.

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

- particular assets and liabilities – at the closing rate for 31 December 2009 – 0.1554 PLN/CZK and for 31 December 2008 – 0.1566 PLN/CZK,
- particular items of statement of statement of comprehensive income and statement of cash flows are translated on the quarterly basis. The average of exchange rates for the period from 1 January 2009 to 31 December 2009 – 0.1639 PLN/CZK. For the period from 1 January 2008 to 31 December 2008 the rate was 0.1411 PLN/CZK.

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

- particular assets and liabilities – at the closing rate for 31 December 2009 – 2.8503 PLN/USD and for 31 December 2008 – 2.9618 PLN/USD,
- particular items of statement of statement of comprehensive income and statement of cash flows are translated on the quarterly basis. The average of exchange rates for the period from 1 January 2009 to 31 December 2009 – 3.1236 PLN/USD. For the period from 1 January 2008 to 31 December 2008 the rate was 2.4115 PLN/USD.

2.3.31. The Consolidated Statement of Cash flows

The consolidated statement of cash flows is prepared using indirect method.

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

Dividends received are presented in cash flows from investing activities. Dividends paid are presented in cash flows from financing activities.

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

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

Cash flows from corporate income tax are presented in cash flows from operating activities.

2.3.32. Changes in accounting policies, estimates, prior periods' errors

The Group changes an accounting policy only if the change:
- is required by change in the accounting law;
- results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

Changes in accounting policies are applied retrospectively. The related adjustments are presented in equity – in retained earnings. To ensure that data are comparable the Group adjusts appropriately the financial statements for the previous years (comparative data) as if the new accounting policy had always been applied.

Estimates are revised if changes occur in the circumstances on which an estimate was based or as a result of new information, development of a situation or gaining more experience.

The prior period errors are corrected by the equity – retained earnings. When preparing the consolidated financial statements, the assumption is made that the error was corrected in the period, in which it was made. It means that the amount of the correction relating to the prior period should be included in the consolidated statement of comprehensive income of that period.

3. THE MANAGEMENT BOARD ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for 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 Management Board bases its estimates on opinions of independent experts. Actual results may differ from the estimated values.

The estimates 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.

Judgments, which have a significant impact on carrying amounts recognized in the consolidated financial statements were disclosed in the following notes:

- Investment property classification (note 7),
- Non-current assets classified as held for sale (note 17),
- Financial instruments classification, the use of hedge accounting, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 31),
- Leases classification (note 32).

Estimates and assumptions, which have a significant impact on carrying amounts recognized in the consolidated financial statements were disclosed in the following notes:
- Impairment of property, plant and equipment, intangible assets, goodwill, inventory, trade and other receivables (notes 6, 8, 9, 11, 13,14),
- Provisions and post-employment benefits (note 20),
- Contingent assets, liabilities and risks (note 38).

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

4. ENTITIES CONSOLIDATED USING FULL AND PROPORTIONATE METHOD

These consolidated financial statements for the years 2009 and 2008 include the following Group entities located mainly in Poland, Germany, Lithuania and the Czech Republic:

Name of the Capital Group	Share in total voting rights[1)] Parent company	31.12.2009	31.12.2008	consolidation method	operating segment
PKN ORLEN	Parent company				multisegment
ORLEN Deutschland GmbH	PKN ORLEN	100%	100%	full	retail
ORLEN Gaz Sp. z o.o.	PKN ORLEN	100%	100%	full	refining
ORLEN PetroCentrum Sp. z o.o.	PKN ORLEN	100%	100%	full	refining
ORLEN Medica Sp. z o.o.	PKN ORLEN	100%	100%	full	CF
ORLEN Budonaft Sp. z o.o.	PKN ORLEN	100%	100%	full	retail
ORLEN Powiernik Sp. z o.o.[2)]	PKN ORLEN	–	100%	full	CF
ORLEN Koltrans Sp. z o.o.	PKN ORLEN	100%	100%	full	refining
ORLEN Transport SA	PKN ORLEN	100%	100%	full	refining
ORLEN Asfalt Sp. z o.o. (dawniej Bitrex Sp. z o.o.)	PKN ORLEN	100% / (95.99%)[6)]	100% / (95.99%)[6)]	full	refining
ORLEN Laboratorium Sp. z o.o.	PKN ORLEN	95%	95%	full	CF
Grupa Kapitałowa ORLEN Oil Sp. z o.o.	PKN ORLEN	100% / (88.87%)[6)]	100% / (88.87%)[6)]	full	refining
ORLEN Oil Cesko s.r.o.	ORLEN Oil	100%	100%	full	refining
Platinum Oil Sp. z o.o. (dawniej Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.)	ORLEN Oil	100%	100%	full	refining
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	PLATINIUM Oil	100%	100%	full	refining
Petro-Oil Śląskie Centrum Sprzedaży Sp. z o.o.[3)]	PLATINIUM Oil	100%	–	full	refining
ORLEN Petrotank Sp. z o.o.	PKN ORLEN	100%	100%	full	refining
Grupa Kapitałowa Anwil SA	PKN ORLEN	85%	85%	full	petrochemical
Przedsiebiorstwo Inwestycyjno--Remontowe Remwil Sp. z o.o.	ANWIL SA	100%	100%	full	petrochemical
Przedsiebiorstwo Produkcyjno-Handlowo--Usługowe Pro-Lab Sp. z o.o.	ANWIL SA	99%	99%	full	petrochemical
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	ANWIL SA	56%	56%	full	petrochemical
Spolana a.s.	ANWIL SA	100%	100%	full	petrochemical
Grupa Kapitałowa Rafineria Trzebinia SA	PKN ORLEN	77%	77%	full	refining
Energomedia Sp. z o.o.	Rafineria Trzebinia SA	100%	100%	full	refining
Euronaft Trzebinia Sp. z o.o.	Rafineria Trzebinia SA	100%	100%	full	refining
Fabryka Parafin Naftowax Sp. z o.o.	Rafineria Trzebinia SA	100%	100%	full	refining
EkoNaft Sp. z o.o.	Rafineria Trzebinia SA	99%	99%	full	refining
Grupa Kapitałowa Rafineria Nafty Jedlicze SA	PKN ORLEN	75%	75%	full	refining
RAF-KOLTRANS Sp. z o.o.	Rafineria Nafty Jedlicze SA	100%	100%	full	refining
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku SA	Rafineria Nafty Jedlicze SA	81%	81%	full	refining
Inowrocławskie Kopalnie Soli „Solino" SA	PKN ORLEN	71%	71%	full	refining
Grupa Kapitałowa Unipetrol a.s.	PKN ORLEN	63%	63%	full	multisegment

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Name of the Capital Group	Parent company	Share in total voting rights[1] 31.12.2009	31.12.2008	consolidation method	operating segment
UNIPETROL TRADE a.s.	Unipetrol a.s.	100%	100%	full	petrochemical
CHEMAPOL (SCHWEIZ) AG	UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL Deutschland GmbH	UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL RPA s.r.o. (dawniej Steen Estates s.r.o.)	Unipetrol a.s.	100%	100%	full	refining
UNIPETROL SLOVENSKO s.r.o.	UNIPETROL RPA s.r.o.	100%	100%	full	refining
UNIPETROL DOPRAVA s.r.o.	UNIPETROL RPA s.r.o.	100%	100%	full	refining
BENZINA s.r.o.	Unipetrol a.s.	100%	100%	full	retail
PETROTRANS s.r.o.	BENZINA s.r.o.	100%	100%	full	retail
PARAMO a.s.	Unipetrol a.s.	100%	92%	full	refining
CESKA RAFINERSKA a.s.	Unipetrol a.s.	51%	51%	proportionate	refining
BUTADIEN KRALUPY a.s.	Unipetrol a.s.	51%	51%	proportionate	petrochemical
UNIPETROL SERVICES s.r.o.	Unipetrol a.s.	100%	100%	full	CF
Grupa Kapitałowa Ship-Service SA[1]	PKN ORLEN	56%	56%	full	refining
ORLEN Automatyka Sp. z o.o.	PKN ORLEN	52%	52%	full	refining
Petrolot Sp. z o.o.	PKN ORLEN	51%	51%	full	refining
ORLEN Projekt SA	PKN ORLEN	51%	51%	full	CF
ORLEN Wir Sp. z o.o.	PKN ORLEN	51%	51%	full	refining
Grupa Kapitałowa Basell Orlen Polyolefins Sp. z o.o.	PKN ORLEN	50%	50%	proportionate	petrochemical
Basell Orlen Polyolefins Sprzedaż Sp. z o.o.	BOP Sp. z o.o.	100%	100%	full	petrochemical
ORLEN Administracja Sp. z o.o.	PKN ORLEN	100%	100%	full	CF
ORLEN Eko Sp. z o.o.	PKN ORLEN	100%	100%	full	refining
Płocki Park Przemysłowo-Technologiczny SA	PKN ORLEN	50%	50%	proportionate	CF
ORLEN Księgowość Sp. z o.o.	PKN ORLEN	100%	100%	full	CF
ORLEN Prewencja Sp. z o.o.	PKN ORLEN	100%	100%	full	CF
ORLEN Upstream Sp. z o.o.	PKN ORLEN	100%	100%	full	CF
Grupa Kapitałowa ORLEN Holding Malta Ltd.	PKN ORLEN	100%	100%	full	CF
ORLEN Insurance Ltd.	ORLEN Holding MALTA	100%	100%	full	CF
Grupa Kapitałowa ORLEN Lietuva (formerly GK AB Możejki Nafta)	PKN ORLEN	100%	90% / (100%)[7]	full	multisegment
UAB Mažeikių naftos sveikatos priežiūros centras	OL	100%	100%	full	CF
UAB Uotas[2]	OL	–	100%	full	retail
UAB PASLAUGOS TAU	OL	100%	100%	full	refining
UAB EMAS[4]	OL	100%	–	full	refining
UAB Remonto mechanicos centras in liquidation[4]	OL	100%	–	full	refining
AB Ventus-Nafta	OL	100%	99%	full	retail
Grupa Kapitałowa UAB Mažeikių naftos prekybos namai	OL	100%	100%	full	refining
SIA Mažeikių Nafta Tirdzniecibas nams	UAB Mažeikių naftos prekybos namai	100%	100%	full	refining
OU Mažeikių Nafta Trading House	UAB Mažeikių naftos prekybos namai	100%	100%	full	refining

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Name of the Capital Group	Parent company	Share in total voting rights[1] 31.12.2009	31.12.2008	consolidation method	operating segment
Mažeikių Nafta Trading House Sp. z o.o.	UAB Mažeikių naftos prekybos namai	100%	100%	full	refining
ORLEN Finance AB (formerly Aktiebolaget Grundstenen 108770)	PKN ORLEN	100%	100%	full	CF
ORLEN International Exploration & Production Company BV	PKN ORLEN	100%	100%	full	CF
ORLEN Ochrona Sp. z o.o.[5]	PKN ORLEN	100%	–	full	CF
ORLEN Centrum Serw isowe Sp. z o.o.[5]	PKN ORLEN	99%	–	full	CF

1) Share in total voting rights is equal to share in equity, except for share in equity of Capital Group of Ship-Service SA, where it accounts for to 61%.
2) Entities liquidated in the IV quarter 2009.
3) Entity consolidated using full method from IV quarter 2009.
4) Entities founded in the I quarter 2009.
5) Entities consolidated using full method from II quarter 2009.
6) (%) share in consolidated financial data.
7) (%) share used for the purpose of preparation of the consolidated financial statements of PKN ORLEN Group taking into account purchase option of Mažeikių shares in the amount of PLN 842,485 thousand increasing the Parent's share in equity.
* CF – Corporate Functions.

5. OPERATING SEGMENTS

In accordance with new requirements concerning segment reporting implemented on 1 January 2009 by IFRS 8 – Operating Segments, the Capital Group PKN ORLEN presents a new segment division.

The Group's activities are allocated to:
- the Refining Segment – refinery products processing and wholesale, oil production and sale as well as supporting production
- the Retail Segment – sale at petrol stations
- the Petrochemical Segment – production and sale of petrochemicals and chemicals,
- Corporate Functions.

Corporate Functions are a reconciling position (note 2.3.21).

The allocation of companies of the Capital Group PKN ORLEN to operating segments is presented in the note 4.

The most significant changes in comparison to previously presented segment division:
- wholesale and logistics, previously presented in the Refining Segment, were divided in adequate values into the Refining and Petrochemical Segment,
- sale at petrol stations, previously presented in the Refining Segment, is presented as one separate segment,
- support functions, previously presented in other operations, was allocated to adequate segments (regarding the kind of provided services),
- Corporate Functions include all activities related to management, administration and other support functions, as well as other activities unallocated to other segments.

Accounting principles used in reportable segments are in line with the Group accounting principles, described in the note 2.3. The segment's profit is the profit generated by respective segments without the allocation of central administration costs and remuneration of the Management Board, share in profit of associates, financial revenues and expenses, as well as income tax expenses. This information is passed on to chief operating decision makers responsible for allocation of resources and evaluation of segment results.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Transactions between segments are arm's length transactions. Revenues from transactions with external parties presented to the Management Board are measured coherently to the method used in the consolidated statement of comprehensive income.

The Management Board evaluates the results of segment activities based on the segment EBIT.

5.1. Revenues and financial result by segment

Data concerning revenues and financial result by segment for the year ended 31 December 2009

	Refining Segment for the year ended 31.12.2009	Retail Segment for the year ended 31.12.2009	Petrochemical Segment for the year ended 31.12.2009	Corporate Functions for the year ended 31.12.2009	Adjustments for the year ended 31.12.2009	Total for the year ended 31.12.2009
Sales to external customers	36,569,602	22,383,703	8,877,040	97,645		67,927,990
Transactions with other segments	13,525,606	92,372	4,178,774	181,375	(17,978,127)	–
Total sales revenues	50,095,208	22,476,075	13,055,814	279,020	(17,978,127)	67,927,990
Total operating expenses*	(49,084,705)	(21,558,413)	(13,321,873)	(874,269)	17,978,152	(66,861,108)
Other operating revenues	686,034	102,181	328,781	147,023	(260)	1,263,759
Other operating expenses	(572,432)	(139,821)	(259,073)	(262,499)	260	(1,233,565)
Segment result	1,124,105	880,022	(196,351)	(710,725)	25	1,097,076
Financial revenues						1,094,275
Financial expenses						(1,023,074)
Share in profit from investment accounted for under equity method	1,696	–	958	269,721		272,375
Profit before tax						1,440,652
Income tax expense						(140,485)
Net profit						**1,300,167**
* including depreciation and amortisation	1,289,258	354,444	807,676	116,268		2,567,646
Additions to non-current assets	991,779	304,196	2,356,255	124,095		3,776,325

Data concerning revenues and financial result by segment for the year ended 31 December 2008

	Refining Segment for the year ended 31.12.2008	Retail Segment for the year ended 31.12.2008	Petrochemical Segment for the year ended 31.12.2008	Corporate Functions for the year ended 31.12.2008	Adjustments for the year ended 31.12.2008	Total for the year ended 31.12.2008
Sales to external customers	46,033,371	22,479,537	10,934,614	85,703		79,533,225
Transactions with other segments	15,498,017	48,326	3,958,198	119,528	(19,624,069)	–
Total sales revenues	61,531,388	22,527,863	14,892,812	205,231	(19,624,069)	79,533,225
Total operating expenses*	(61,330,028)	(21,910,109)	(14,309,676)	(859,776)	19,624,069	(78,785,520)
Other operating revenues	166,732	159,681	88,489	333,028		747930
Other operating expenses	(2,525,751)	(137,182)	(109,148)	(326,876)		(3,098,957)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	Refining Segment for the year ended 31.12.2008	Retail Segment for the year ended 31.12.2008	Petrochemical Segment for the year ended 31.12.2008	Corporate Functions for the year ended 31.12.2008	Adjustments for the year ended 31.12.2008	Total for the year ended 31.12.2008
Segment result	(2,157,659)	640,253	562,477	(648,393)		(1,603,322)
Financial revenues						702,800
Financial expenses						(2,281,414)
Share in profit from investment accounted for under equity method	(1,025)	–	1,040	266,518		266,533
Profit before tax						(2,915,403)
Income tax expense						388,777
Net profit						**(2,526,626)**
* including depreciation and amortisation	1,268,975	355,848	765,283	101,277		2,491,383
Additions to non-current assets	1,846,195	557,287	1,510,093	104,719		4,018,294

Data concerning revenues and financial result by segment for the year ended 31 December 2008 in accordance with IAS 14 – Operating segments

	Refining Segment for the year ended 31.12.2008	Petrochemical Segment for the year ended 31.12.2008	Chemical Segment for the year ended 31.12.2008	Other operations for the year ended 31.12.2008	Adjustments for the year ended 31.12.2008	Total for the year ended 31.12.2008
Sales to external customers	68,072,961	8,393,542	2,575,855	492,847		79,535,205
Transactions with other segments	8,815,180	3,904,535	195,042	1,377,813	(14,292,570)	–
Total sales revenues	76,888,141	12,298,077	2,770,897	1,870,660	(14,292,570)	79,535,205
Total operating expenses*	(76,120,236)	(12,053,583)	(2,504,646)	(1,810,798)	14,288,665	(78,200,598)
Other operating revenues	380,911	68,278	28,145	150,162	(391)	627,105
Other operating expenses	(2,775,564)	(37,813)	(80,806)	(69,163)	–	(2,963,346)
Segment result	(1,626,748)	274,959	213,590	140,861	–	(1,001,634)
Unallocated revenues of the Group						120,825
Unallocated expenses of the Group						(722,513)
Profit/(Loss) from operations						(1,603,322)
Financial revenues						702,800
Financial expenses						(2,281,414)
Share in profit from investment accounted for under equity method	(1,025)	–	1,040	266,518		266,533
Profit before tax						(2,915,403)
Income tax expense						388,777

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	Refining Segment for the year ended 31.12.2008	Petrochemical Segment for the year ended 31.12.2008	Chemical Segment for the year ended 31.12.2008	Other operations for the year ended 31.12.2008	Adjustments for the year ended 31.12.2008	Total for the year ended 31.12.2008
Net profit						**(2,526,626)**
* including depreciation and amortisation	1,411,221	629,643	147,657	255,128		2,443,649
Unallocated						47,734
						2,491,383
Capital expenditures	2,088,810	1,235,821	255,563	311,259		3,891,453
Unallocated						56,301
						3,947,754

Consolidated segment revenues do not include Customer Loyalty Program adjustment (IFRIC 13).

In 2008 capital expenditures comprised only the amounts concerning direct purchases of property, plant and equipment and intangible assets. According to IFRS 8 par 23b) the scope of disclosers was extended to all additions to non-current assets other than financial instruments, deferred tax assets, assets from post-employment benefits and rights resulting from insurance contracts.

5.2. Other segment data

a) Assets by operating segments

	Segment Assets	
	as at 31.12.2009	as at 31.12.2008
Refining Segment	26,447,353	26,681,137
Retail Segment	5,416,802	5,348,138
Petrochemical Segment	12,265,878	11,021,204
Total segment assets	44,130,033	43,050,479
Corporate Functions	5,492,775	4,889,199
Adjustments	(462,433)	(963,928)
	49,160,375	**46,975,750**

including:

	Assets classified as held for sale		Investments in associates	
	as at 31.12.2009	as at 31.12.2008	as at 31.12.2009	as at 31.12.2008
Refining Segment	4,589	28,127	13,986	11,532
Retail Segment	–	–	–	–
Petrochemical Segment	16,787	12,096	30,755	38,805
Total segment assets	21,376	40,223	44,741	50,337
Corporate Functions	10,802	11,265	1,356,845	1,510,795
	32,178	**51,487**	**1,401,586**	**1,561,132**

Reportable segments include all assets except for financial assets and tax assets. Goodwill was allocated to reportable segments. Assets used jointly by different segments are allocated based on revenues generated by particular segments.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Assets by operating segment in accordance with IAS 14 – Operating Segments

	Segment assets, including:	Assets classified as held for sale	Investments in associates
	as at 31.12.2008	as at 31.12.2008	as at 31.12.2008
Refining Segment	29,096,794	27,290	4,525
Petrochemical Segment	8,098,121	12,096	6
Chemical Segment	2,526,843	–	11,036
Other operations	6,129,341	1,008	1,545,565
Unallocated assets	2,152,304	11,093	–
Adjustments	(1,027,653)	–	–
	46,975,750	**51,487**	**1,561,132**

b) Recognition and reversal of impairment allowances

	Recognition		Reversal	
	for the year ended 31.12.2009	for the year ended 31.12.2008	for the year ended 31.12.2009	for the year ended 31.12.2008
Refining Segment	(161,981)	(2,863,200)	178,691	194,099
Retail Segment	(79,824)	(55,441)	61,351	93,478
Petrochemical Segment	(69,511)	(182,894)	19,582	36,922
Corporate Functions	(108,140)	(144,119)	110,366	132,654
	(419,456)	**(3,245,654)**	**369,990**	**457,153**

Impairment allowances of assets by segment include items recognized in statement of other comprehensive income, i.e.:

- receivables allowances;
- inventories allowances;
- property, plant and equipment and intangible assets impairment allowances, in accordance with IAS 36 and IFRS 5;
- goodwill impairment allowances.

Recognition and reversal of allowances were performed in conjunction with, occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as impairment of property, plant and equipment.

In 2008 allowances recognized in the refining segment concerned primarily impairment of Non-current assets of ORLEN Lietuva. Allowances recognized in the retail segment concerned primarily petrol stations. In 2008 allowances recognized in the petrochemical segment resulted primarily from impairment of assets in Spolana. Allowances for idle assets and obsolete raw materials were recognized in corporate functions.

Recognition and reversal of impairment allowances in accordance with IAS 14 – Operating Segments

	Recognition	Reversal
	for the year ended 31.12.2008	for the year ended 31.12.2008
Refining Segment	(2,973,498)	328,125
Petrochemical Segment	(86,673)	27,779
Chemical Segments	(112,636)	10,576
Other operations	(23,852)	45,636
Unallocated	(34,158)	33,530
	(3,230,817)	**445,646**

Recognition and reversal of impairment allowances do not include interest receivable allowances.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

c) Geographical information

The table below presents information regarding consolidated sales and assets of the Capital Group divided geographically for the years 2009 and 2008.

	Revenues from sale to external customers	
	for the year ended 31.12.2009	for the year ended 31.12.2008
Poland	31,006,893	35,204,146
Germany	12,482,039	12,630,390
Czech Republic	8,289,715	9,817,894
Baltic States	5,194,438	7,920,363
Other countries including:	10,954,905	13,960,432
– Switzerland	3,131,377	3,013,288
– Denmark	1,109,150	772,371
– Ukraine	1,292,116	1,295,459
– Finland	23,982	1,812,680
	67,927,990	**79,533,225**

Consolidated revenues of the Capital Group divided geographically for 2009 and 2008 do not include other operating revenues.

	Assets by geographical segments	
	as at 31.12.2009	as at 31.12.2008
Poland	28,345,194	24,510,680
Germany	1,335,837	1,257,458
Czech Republic	9,285,090	9,529,245
Baltic States	7,730,665	8,038,525
Other countries	457,396	343,094
Segment assets	47,154,182	43,679,002
Unallocated assets	2,006,193	3,296,748
Total consolidated assets	**49,160,375**	**46,975,750**

As a consequence of new allocation of particular assets data for 2008 was changed in respect of reclassification of PLN 457,082 thousand from unallocated assets to geographical segment Poland was made.

5.3. Revenues from sale of core products and services

The Group's revenues from sale of core products and services were as follows:

	for the year ended 31.12.2009	for the year ended 31.12.2008
Refining Segment	36,569,602	46,033,371
Gasoline	10,247,438	11,333,387
Diesel fuel	16,117,872	21,277,285
Light heating oil	1,540,447	2,218,224
Jet A-1 fuel	1,458,344	2,930,351
Heavy heating oil	2,471,591	2,823,227
LPG	499,199	739,670

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	for the year ended 31.12.2009	for the year ended 31.12.2008
Bitumens	1,471,036	1,368,542
Engine oils	282,535	265,798
Other	2,481,140	3,076,887
Retail Segment	22,383,703	22,479,537
Gasoline	9,594,110	9,188,989
Diesel fuel	8,674,140	9,337,361
Light heating oil	625,336	738,816
LPG	855,355	970,205
Other	2,634,762	2,244,166
Petrochemical Segment	8,877,040	10,934,614
Polyethylene	1,561,136	1,784,065
Polypropylene	1,224,365	1,365,545
Ethylene	710,283	900,036
Propylene	520,483	653,648
Toluene	135,867	205,532
Benzene	516,891	657,121
Butadiene	128,260	171,945
Glycol	149,250	236,520
PVC	913,666	874,061
PVC Granulate	234,989	196,496
Canwil	232,028	355,603
Ammonium nitrate	479,922	438,663
Other	2,069,900	3,095,379
Corporate Functions	97,645	85,703
Total consolidated revenues	**67,927,990**	**79,533,225**

5.4. Information about major customers

In the Capital Group in revenues from direct sales no leading customers were recognized.
No leading customers were recognized in the Capital Group as far as revenues from direct sale are concerned.

6. PROPERTY, PLANT AND EQUIPMENT

	as at 31.12.2009	as at 31.12.2008
Land	893,847	891,185
Buildings and constructions	9,356,414	9,200,217
Machinery and equipment	11,444,752	11,934,523
Vehicles and other	863,386	875,729
Construction in progress	4,512,038	3,367,103
	27,070,437	**26,268,757**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Changes in property, plant and equipment by class:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2009	927,151	14,186,253	25,310,048	1,935,661	3,411,193	45,770,306
Acquisition	1,524	35,926	180,674	100,709	3,386,602	3,705,435
Reclassification	9,006	987,131	1,081,494	154,695	(2,169,356)	62,970
Decrease	(5,945)	(93,993)	(410,160)	(171,655)	(33,826)	(715,579)
Foreign exchange differences	(6,786)	(87,711)	(345,790)	(13,432)	(33,187)	(486,906)
31 December 2009	**924,950**	**15,027,606**	**25,816,266**	**2,005,978**	**4,561,426**	**48,336,226**
Accumulated depreciation and impairment allowances						
1 January 2009	35,966	4,986,036	13,375,525	1,059,932	44,090	19,501,549
Depreciation	–	611,562	1,634,707	214,204	–	2,460,473
Other increases	773	5,206	63,077	17,055	–	86,111
Impairment allowances	(2,953)	(58,767)	(22,347)	3,143	5,411	(75,513)
recognition	3,442	60,335	30,817	5,437	9,976	110,007
reversal	(6,395)	(119,102)	(53,164)	(2,294)	(4,565)	(185,520)
Reclassification	–	225,861	(218,624)	(82)	–	7,155
Decrease	(14)	(54,854)	(314,077)	(101,471)	–	(470,416)
Foreign exchange differences	(2,669)	(43,852)	(146,747)	(50,189)	(113)	(243,570)
31 December 2009	**31,103**	**5,671,192**	**14,371,514**	**1,142,592**	**49,388**	**21,265,789**
Gross book value						
1 January 2008	821,923	12,924,187	21,108,183	1,665,764	2,525,125	39,045,182
Acquisition	1,062	26,202	69,286	163,641	3,714,927	3,975,118
Reclassification	21,787	799,325	2,020,748	89,078	(3,008,168)	(77,230)
Decrease	(6,326)	(163,231)	(309,156)	(113,329)	(29,890)	(621,932)
Foreign exchange differences	88,705	599,770	2,420,987	130,507	209,199	3,449,168
31 December 2008	**927,151**	**14,186,253**	**25,310,048**	**1,935,661**	**3,411,193**	**45,770,306**
Accumulated depreciation and impairment allowances						
1 January 2008	63,599	4,018,804	9,278,459	808,091	42,304	14,211,257
Depreciation	–	584,060	1,603,836	207,313	–	2,395,209
Other increases	2,179	3,459	17,101	5,648	–	28,387
Impairment allowances	(33,511)	309,212	2,002,361	67,995	1,221	2,347,278
recognition	6,396	380,267	2,019,213	69,190	9,428	2,484,494
reversal	(39,907)	(71,055)	(16,852)	(1,195)	(8,207)	(137,216)
Decrease	(372)	(97,336)	(263,873)	(83,481)	–	(445,062)
Foreign exchange differences	4,071	167,837	737,641	54,366	565	964,480
31 December 2008	**35,966**	**4,986,036**	**13,375,525**	**1,059,932**	**44,090**	**19,501,549**
Net book value						
1 January 2009	**891,185**	**9,200,217**	**11,934,523**	**875,729**	**3,367,103**	**26,268,757**
31 December 2009	**893,847**	**9,356,414**	**11,444,752**	**863,386**	**4,512,038**	**27,070,437**
1 January 2008	**758,324**	**8,905,383**	**11,829,724**	**857,673**	**2,482,821**	**24,833,925**
31 December 2008	**891,185**	**9,200,217**	**11,934,523**	**875,729**	**3,367,103**	**26,268,757**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Impairment allowances for property, plant and equipment as at 31 December 2009 and 31 December 2008 amounted to PLN 2,812,957 thousand and PLN 2,972,643 thousand, respectively, including foreign exchange differences.

Impairment allowances disclosed in the property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeds their recoverable amount. Recognition and reversal of impairment allowances for property, plant and equipment are recognized in other operating activities.

As at 31 December 2009 the Group reviewed economic useful lives of property, plant and equipment applied afore according to its accounting policy. Should the rates from the previous year be applied, depreciation expense for 2009 would be higher by PLN 9,921 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2009

amounted to PLN 2,618,871 thousand and as at 31 December 2008 amounted to PLN 1,967,344 thousand.

Property, plant and equipment of PLN 738,049 thousand as at 31 December 2009 and PLN 1,120,737 thousand as at 31 December 2008 were used as a pledge for the Group's liabilities.

The carrying amount of temporarily idle property, plant and equipment amounted to PLN 189,457 thousand as at 31 December 2009.

The carrying amount of property, plant and equipment retired from active use and not classified as held for sale amounted to PLN 942,321 thousand as at 31 December 2009.

7. INVESTMENT PROPERTY

The following changes were recognized in investment property in 2009 and 2008:

	for the year ended 31.12.2009	for the year ended 31.12.2008
Investment property, beginning of the period	71,757	69,076
Reclassification from property, plant and equipment	–	2,037
Purchase	773	57
Sale	–	(215)
Fair value adjustment	(257)	(6,937)
Decrease due to liquidation	(228)	–
Foreign exchange differences	(424)	8,157
Reclassification to property, plant and equipment	(134)	–
Other	–	(418)
	71,487	**71,757**

Investment property includes social buildings and office space, partly held for rental, as well as land.

In 2009 and 2008 the Group gained rental income from investment property in the amount of PLN 11,954 thousand and PLN 12,397 thousand, respectively.

Direct operating expenses arising from investment property, that in a given period generated rental income, accounted for PLN 2,898 thousand in 2009 and PLN 3,199 thousand in 2008.

Direct operating expenses from investment property, that in a given period did not generate rental income, accounted for PLN 425 thousand in 2009 and PLN 371 thousand in 2008.

Depending on the characteristics of the investment property, its fair value was assessed by an independent surveyor based on comparison or revenue approach. Comparison approach was applied assuming that the value of assessed property was equal to the market price of a similar property. In revenue approach the calculation was based on discounted cash flows method, due to variability of revenues in foreseeable future. 5-year period forecasts were applied in the analysis. The discount rate used reflects 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 similar objects, same located and in the same technical condition and standard and designated for similar purposes.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

8. INTANGIBLE ASSETS

	as at 31.12.2009	as at 31.12.2008
Acquired computer software	40,950	42,808
Acquired patents, trade marks and licenses	494,383	484,102
Goodwill	89,811	87,633
Other	65,232	30,138
	690,376	**644,681**

The changes of intangible assets were as follows:

	Acquired computer software	Acquired patents, trade marks and licenses	Goodwill	Other	Total
Gross book value					
1 January 2009	197,990	919,297	110,710	93,422	1,321,419
Acquisition	9,624	4,704	(40,531)	86,435	60,232
Other increases	6,530	5,436	22,639	87,429	122,034
Reclassification	4,629	76,037	–	89	80,755
Decrease	(5,153)	(35,655)	14,151	(141,840)	(168,497)
Foreign exchange differences	(2,947)	(3,086)	230	(2,360)	(8,163)
31 December 2009	**210,673**	**966,733**	**107,199**	**123,175**	**1,407,780**
Accumulated amortisation and impairment allowances					
1 January 2009	155,182	435,195	23,077	63,284	676,738
Amortisation	13,415	67,965	–	13,101	94,481
Other increases	418	1,609	1,985	1,818	5,830
Impairment allowances	1,698	4,059	(7,380)	(7,171)	(8,794)
recognition	3,266	4,059	–	–	7,325
reversal	(1,568)	–	(7,380)	(7,171)	(16,119)
Decrease	(1,831)	(34,983)	(8)	(12,294)	(49,116)
Foreign exchange differences	841	(1,495)	(286)	(795)	(1,735)
31 December 2009	**169,723**	**472,350**	**17,388**	**57,943**	**717,404**
Gross book value					
1 January 2008	156,108	838,262	108,468	61,101	1,163,939
Acquisition	10,413	4,421	(2,295)	20,915	33,454
Other increases	4,267	247	–	11,560	16,074
Reclassification	6,270	57,027	–	4,767	68,064
Decrease	(3,731)	(26,151)	(2,833)	(13,738)	(46,453)
Foreign exchange differences	24,663	45,491	7,370	8,817	86,341
31 December 2008	**197,990**	**919,297**	**110,710**	**93,422**	**1,321,419**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	Acquired computer software	Acquired patents, trade marks and licenses	Goodwill	Other	Total
Accumulated amortisation and impairment allowances					
1 January 2008	124,685	366,645	22,610	33,171	547,111
Amortisation	12,227	65,619	–	11,180	89,026
Other increases	755	105	2,010	9,338	12,208
Impairment allowances	1,072	38	(527)	11,816	12,399
recognition	1,337	1,032	–	11,826	14,195
reversal	(265)	(994)	(527)	(10)	(1,796)
Decrease	(2,681)	(11,510)	(3,374)	(6,808)	(24,373)
Foreign exchange differences	19,124	14,298	2,358	4,587	40,367
31 December 2008	**155,182**	**435,195**	**23,077**	**63,284**	**676,738**
Net book value					
1 January 2009	**42,808**	**484,102**	**87,633**	**30,138**	**644,681**
31 December 2009	**40,950**	**494,383**	**89,811**	**65,232**	**690,376**
1 January 2008	**31,423**	**471,617**	**85,858**	**27,930**	**616,828**
31 December 2008	**42,808**	**484,102**	**87,633**	**30,138**	**644,681**

Impairment allowances for intangible assets as at 31 December 2009 and 31 December 2008 amounted to PLN 16,917 thousand and PLN 15,005 thousand, respectively, taking into account foreign exchange differences.

As at 31 December 2009 the Group reviewed economic useful lives of intangible assets applied afore, according to its accounting policy. Should the rates from the previous year be applied, adjustment to amortization expense for 2009 would be higher by PLN 2,778 thousand.

The gross book value of all fully amortized intangible assets still in use as at 31 December 2009 amounted to PLN 193,047 thousand and as at 31 December 2008 amounted to PLN 220,221 thousand.

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

CO_2 emission rights

As at 31 December 2009 the Group possessed both CO_2 emission rights granted and purchased on the market.

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

Information on emission rights granted to PKN ORLEN Capital Group	Quantity (tonnes)
Emission rights as at 31 December 2008	13,045,409
Settled emission rights for 2008	(12,027,869)
Emission rights granted and purchased in 2009	14,334,086
Emission rights sold in 2009	(13,489,814)
CO_2 emission rights as at 31.12.2009	**1,861,812**
Emission in 2009	(11,910,909)
Shortage for the year 2009	(10,049,097)
Forward purchase transactions concluded in 2009	11,684,380

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

The Group changed the presentation of information on CO_2 emission rights as compared to presentation in 2008. The presentation of quantity of CO_2 rights granted for the 5 – year settlement period was changed to presentation of quantity of possessed CO_2 emission rights. The new presentation reflects actual quantity of rights, as registered on the settlement accounts.

On 14 November 2008 when the emission rights were granted market value of one CO_2 emission right amounted to EUR 17.50, and on 31 December 2009 market value of 1 CO_2 emission right amounted to EUR 12.33.

Goodwill

Annual impairment test:
As at 31 December 2009, the PKN ORLEN Group reviewed the economic value of goodwill in accordance with the requirements of IAS 36 and declared the lack of necessity to recognize or reverse impairment allowances.

	as at 31.12.2009	as at 31.12.2008
Goodwill on consolidation:		
ORLEN PetroTank Sp. z o.o.	11,298	11,298
PetroCentrum Sp. z o.o.	5,897	5,897
ShipService SA	3,145	3,145
Ceska Rafinerska	7,694	7,753
Other	815	492
	28,849	**28,585**
Goodwill on business combination:		
Basell Orlen Polyolefins Sp. z o.o.	51,902	51,902
ORLEN Deutschland GmbH	8,966	7,052
Other	94	94
	60,962	59,048
Goodwill	**89,811**	**87,633**

	for the year ended 31.12.2009	for the year ended 31.12.2008
Goodwill on consolidation, beginning of the period	28,585	27,014
Increase	**(11)**	**6,368**
PetroCentrum Sp. z o.o.	–	5,897
Grupa ORLEN Lietuva	(4)	471
Other	(7)	–
Decrease	**–**	**(5,897)**
Petrozachód Sp. z o.o.	–	(4,597)
Petroprofit Sp. z o.o.	–	(1,175)
Morena Sp. z o.o.	–	(125)
Foreign exchange differences	**275**	**1,100**
Goodwill on consolidation, end of the period	**28,849**	**28,585**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	for the year ended 31.12.2009	for the year ended 31.12.2008
Goodwill on business combination, beginning of the period	59,048	58,844
Increase	2,210	–
ORLEN Deutschland GmbH	2,210	–
Decrease	(538)	(1,569)
AB Mazeikiu Elektrine	(538)	–
ORLEN Deutschland GmbH	–	(1,569)
Foreign exchange differences	242	1,773
Goodwill on business combination, end of the period	**60,962**	**59,048**

Concessions

As at 31 December 2009 and 31 December 2008 the Group possessed concessions for public services due to which annual concession fees recognized in the financial result for a given period are paid.

The Group companies, as the owners of particular concessions granted by proper bodies of the public administration, possess concessions for the following activities:

- manufacturing of liquid fuels;
- trade in liquid fuels;
- storage of liquid fuels;
- trade in gas fuels;
- distribution of gas fuels;
- domestic transport of fuels;
- international profit-making road transportation services;
- manufacturing of electrical energy;
- trade in electrical energy;
- transportation and distribution of electrical energy;
- manufacturing of heating energy;
- trade in heating energy;
- transportation and distribution of heating energy;
- storage of liquid hydrocarbons;
- exploitation of rock salt;
- recognition of rock salt;
- exploration and recognition of crude oil and natural gas;
- personal and property security services.

Concessions for trade in liquid and gas fuels, manufacturing and storage of liquid fuels, distribution of gas fuels, manufacturing, trade, transportation and distribution of heating energy, manufacturing, trade, transportation and distribution of electrical energy are granted in most cases for the period of 10 years. Concessions for domestic fuel transportation and international profit-making road transportation services are granted for the period of 5 to 45 years. Concessions for storage of liquid hydrocarbons (until 1 September 2029) and exploitation of rock salt (until 29 April 2033) are granted for the period of 30 years and concession for recognition of rock salt (until 3 February 2012) was granted for the period of 6 years. Concessions for exploration and recognition of crude oil and natural gas are granted for the period of 5 years (until 30 October 2012).

9. PERPETUAL USUFRUCT OF LAND

The titles to perpetual usufruct of land obtained under an administrative decision were recognized as off balance sheet items in the amount of PLN 981,672 thousand as at 31 December 2009 and of PLN 993,711 thousand as at 31 December 2008. These rights were revalued to fair value as at 1 January 2004.

10. NON-CURRENT FINANCIAL ASSETS

a) Financial assets available for sale

	Seat	as at 31.12.2009	as at 31.12.2008	Group's share in capital/ voting rights 31.12.2009	Group's share in capital/ voting rights 31.12.2008	Principal activity
SK Eurochem Sp. z o.o.	Poland – Włocławek	21,490	21,490	17.37%	17.37%	production of chemicals
Naftoport Sp. z o.o.	Poland – Gdańsk	31,026	31,026	14.10%	14.10%	construction and maintenance of loading station for liquid fuels
Wodkan SA	Poland – Ostrów Wielkopolski	869	1,142	2.69%	2.84%	water supply and savage services
Other		6,248	8,516			
Net value		**59,633**	**62,174**			

As at 31 December 2009 and 31 December 2008 impairment allowances of assets available for sale amounted to PLN 78,570 thousand and PLN 81,059 thousand, respectively.

b) Investments in associates accounted for using equity method

As at 31 December 2009 and 31 December 2008 the Group's investments in associates accounted for using equity method were as follows:

	Carrying amount as at		Group's share in capital/voting rights as at		
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	Principal activity
Polkomtel SA	809,483	961,151	24.39%	24.39%	rendering mobile telecommunication services
Wartość firmy powstała na nabyciu Polkomtel SA	537,920	537,920	–	–	
Other	54,183	62,061	–	–	
	1,401,586	**1,561,132**	**24.39%**	**24.39%**	

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2009 and 31 December 2008, revenues, financial expenses and profit for 2009 and 2008 in Polkomtel SA are described below:

Polkomtel SA (Selected financial data)

	as at 31.12.2009	as at 31.12.2008
Current assets	1,345,004	1,577,911
Non-current assets	7,065,775	7,097,736
Short-term liabilities	4,112,669	3,697,124
Long-term liabilities	969,861	1,042,891

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	for the year ended 31.12.2009	for the year ended 31.12.2008
Revenues from sale	7,881,712	8,328,875
Profit from operations	1,532,943	1,889,180
Profit before tax	1,385,161	1,678,319
Income tax expense	(277,924)	(317,080)
Net profit	1,107,237	1,361,239

c) Jointly controlled entities consolidated using proportionate method

PKN ORLEN holds 50% share in a joint-venture entity – Basell Orlen Polyolefins Sp. z o.o., involved in production, distribution and sale of polyolefins and in Płocki Park Przemysłowo-Technologiczny SA, involved in advisory, business management services, holding management services and planning, purchasing and sales of real estates on its own account.

As at 31 December 2009 and for the year ended 31 December 2009 and as at 31 December 2008 and for the year ended 31 December 2008, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	as at 31.12.2009	as at 31.12.2008
Current assets	440,694	489,856
Non-current assets	713,142	780,708
Short-term liabilities	342,867	799,154
Long-term liabilities	345,027	1,526

	for the year ended 31.12.2009	for the year ended 31.12.2008
Revenues	1,178,196	1,384,139
Cost of finished goods, merchandise and raw materials sold	(1,059,890)	(1,337,059)
Gross profit on sales	**118,306**	**47,080**
Distribution expense	(69,772)	(67,473)
General and administrative expenses	(11,833)	(12,254)
Operating revenues and expenses, net	288	(556)
Profit/Loss on operations	**36,989**	**(33,204)**
Financial revenues and expenses, net	(47,977)	(90,088)
Loss before tax	(10,988)	(123,291)
Income tax expense	5,403	(12,928)
Net loss	(16,391)	(110,363)

As at 31 December 2009 and for the year ended 31 December 2009 and as at 31 December 2008 and for the year ended 31 December 2008, the Group's share in assets and liabilities, revenues and expenses of Płocki Park Przemysłowo-Technologicznego SA was as follows:

	as at 31.12.2009	as at 31.12.2008
Current assets	22,698	22,198
Non-current assets	26,001	27,441
Short-term liabilities	16,565	17,424
Long-term liabilities	–	6

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	for the year ended 31.12.2009	for the year ended 31.12.2008
Revenues	852	1,018
Cost of finished goods, merchandise and raw materials sold	(672)	(698)
Gross profit on sales	180	320
General and administrative expenses	(2,063)	(2,126)
Operating revenues and expenses, net	706	1,083
Financial revenues and expenses, net	1,082	1,330
Profit before tax	(95)	607
Income tax expense	(21)	114
Net profit	(75)	493

11. IMPAIRMENT OF ASSETS

As at 31 December 2009 the PKN ORLEN Group carried out an impairment test for particular Cash Generating Units (CGUs) where indicators for impairment as according to IAS 36 were identified. Test results showed the lack of necessity to recognize or reverse impairment allowances.

As at 31 December 2008 the most significant impairment allowance of assets concerned CGU ORLEN Lietuva presented in the refining segment (note 8) and amounted to PLN (2,177,549) thousand. Recognition and reversal of impairment allowances concerned machinery and equipment in the amount of PLN (1,921,240) thousand, buildings and constructions in the amount of PLN (189,556) thousand and other in the amount of PLN (66,753) thousand. The pre – tax discount rate for ORLEN Lietuva amounted to 10.80%. Since USD is the functional currency for ORLEN Lietuva, the risk free rate was calculated on the basis of interest rates of US treasury bonds.

Information about the circumstances for impairment test for 2008 was presented in consolidated financial statements of the PKN ORKEN Group for the year 2008 (note 7.8).

The analysis were performed based on financial projections of PKN ORLEN included in the approved Midterm Plan for the years 2009–2013 adjusted by approved budgets for 2010 and 2009, as per financial model for the year 2009 and 2008, respectively. The projections for the following years were estimated on the basis of prior year data with adjustments changing the cash flows to the adequate level. The period of CGU analysis was established on the basis on planned useful life of assets for the particular CGU's.

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

Information about recognitions and reversals of allowances by category is included in property, plant and equipment movement table (note 6), intangible assets movement table (note 8).

Should the prior year's assumptions be used, the value of the impairment allowance would be similar.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

12. NON-CURRENT LOANS AND RECEIVABLES

	as at 31.12.2009	as at 31.12.2008
Prepayments for construction in progress Financial assets at fair value through profit and loss	698	39,937
Loans granted	34,967	18,009
Financial assets at fair value through profit and loss	–	12,057
Other receivables	11,282	17,743
	46,947	**87,746**

13. INVENTORY

	as at 31.12.2009	as at 31.12.2008
Raw materials	5,816,392	4,920,803
Work in progress	763,586	753,667
Finished goods	3,544,367	3,033,643
Merchandise	495,514	380,934
	10,619,859	**9,089,047**

Entrepreneurs operating on the Polish market were obliged to create by the end of 2009 mandatory reserves of crude oil and fuels (excluding LPG) at the level of minimum 76-day average of daily production or import, realized by a producer or a trading entity in previous year. For LPG, the obligatory quantity corresponds to at least 13 day period.

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in Poland are contained in the Minister of Economy Regulation of 28 August 2009 (Official Journal no. 150 item 1211).

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in the Republic of Lithuania is contained in Regulation no. 1901 of 5 December 2002 regarding approval of construction procedure, collection and maintenance of crude oil-derivatives and oil products and minimal amounts of crude-oil derivative products.

The above-mentioned regulation was changed on 28 December 2008 with an amendment to the Act no X-115, effective from 1 January 2009. According to this amendment, 90-day mandatory reserves should be accumulated by the end of 2009. The amendment changed also the proportion of mandatory reserves. Instead of previous 50%/50% relation between entrepreneurs and State Agency, the former should maintain mandatory reserves at the level of 60-days and the latter at the level of 30-days of the daily sale of fuels.

In the Czech Republic methods of calculation and formation of the mandatory reserves of liquid fuels are contained in Act no 189/1999 "Mandatory reserves of crude oil" published by the Parliament of Czech Republic at 29 July 1999 and amended by Regulation no. 560/2004 of 24 September 2004. Mandatory reserves are maintained by State Agency for 90 days of net crude oil import and are financed from the budget.

As at 31 December 2009 and 31 December 2008 the gross value of mandatory reserves in the Group amounted to PLN 6,050,447 thousand and PLN 5,261,019 thousand, respectively.

The inventory allowances amounted to PLN 142,097 thousand as at 31 December 2009 and PLN 511,930 thousand as at 31 December 2008. The inventory allowances are presented in cost of sales.

As at 31 December 2009 and 31 December 2008 inventories of PLN 161,460 thousand and PLN 180,558 thousand, respectively, were used as a pledge for the Group's bank loan liabilities.

14. TRADE AND OTHER RECEIVABLES

	as at 31.12.2009	as at 31.12.2008
Trade receivables	4,491,501	4,706,398
Excise tax and fuel charge receivables	188,878	189,690
Taxation, duty and social security receivables	430,121	617,365
Receivables due to sale of property, plant and equipment	3,830	14,353
Advances for construction in progress	158,710	487,637
Receivables due to insurance compensations of ORLEN Lietuva Group	12,338	207,326
Prepayments for deliveries	12,607	2,848
Other receivables	119,501	130,557
Total trade and other receivables, net	**5,417,486**	**6,356,174**
Receivables allowances	572,387	564,262
Total trade and other receivables, gross	**5,989,873**	**6,920,436**

As at 31 December 2009 and at 31 December 2008 receivables denominated in foreign currencies amounted to PLN 2,492,442 thousand and PLN 2,671,114 thousand, respectively.

Trade receivables result primarily from sales of finished goods and sales of merchandise.

Detailed information about receivables from related parties is presented in note 34 – Information about related parties.

Recognition and reversal of receivables allowances are presented in other operating activity and financial activity.

15. SHORT-TERM FINANCIAL ASSETS

	as at 31.12.2009	as at 31.12.2008
Financial instruments at fair value through profit or loss	43,208	123,698
Derivatives recognized in financial assets designated as hegding instruments –hedge accounting	81,666	132,550
Available for sale	247	178
Loans and receivables	55,884	1,406
	181,005	**257,832**

16. CASH AND CASH EQUIVALENTS

	as at 31.12.2009	as at 31.12.2008
Cash on hand and in bank	2,890,883	1,228,664
Other cash (incl. cash in transit)	35,410	31,288
Other monetary assets	14,746	84,272
	2,941,039	**1,344,224**
incl. cash and cash equivalents not available for use	24,459	115,136

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

17. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

In PKN ORLEN Group the following assets were classified as held for sale:

	as at 31.12.2009	as at 31.12.2008
Shares in Celio	12,173	12,267
Shares in Konsorcjum Olejów Przepracowanych	84	84
Shares in Apex-Elzar and Arbud	4,784	–
Other non-current assets	15,137	39,136
	32,178	**51,487**

As at 31 December 2009 UNIPETROL Group had 97 shares in CELIO a.s. of nominal value CZK 1 million. The share of Unipetrol Group in CELIO a.s., has been classified as assets held for sale. The Management Board and Supervisory Board of UNIPETROL has approved the sale plan of the investment in CELIO a.s. Total value of the investment amounts to CZK 78,333 thousand. Transaction of sale is expected to be realized in April 2010.

Other Non-current assets comprise warehouse bases, buildings and constructions, land, machinery and equipment and vehicles.

In 2009 the impairment of Non-current assets classified as held for sale amounted to PLN 4,404 thousand.

18. SHAREHOLDERS' EQUITY

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN SA as at 31 December 2009 amounted to PLN 534,636 thousand. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2009 and 31 December 2008 consisted of the following series of shares:

	Number of shares issued as at 31.12.2009	Number of shares issued as at 31.12.2008	Number of shares authorized as at 31.12.2009	Number of shares authorized as at 31.12.2008
A Series	336,000,000	336,000,000	336,000,000	336,000,000
B Series	6,971,496	6,971,496	6,971,496	6,971,496
C Series	77,205,641	77,205,641	77,205,641	77,205,641
D Series	7,531,924	7,531,924	7,531,924	7,531,924
	427,709,061	**427,709,061**	**427,709,061**	**427,709,061**

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

Capital management

The purpose of the Group regarding capital management is to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.

The Management Board monitors return on equity ratio (ROE), which is defined as a ratio of result from operations to equity. As at 31 December 2009 and 31 December 2008 ROE amounted to 5% and (8%), respectively.

The Management Board monitors the level of dividend attributable to ordinary shares as well. Additionally, the Group monitors debt ratio.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	as at 31.12.2009	as at 31.12.2008
Indebtedness	13,204,227	13,892,765
Cash and cash equivalents	2,941,039	1,344,224
Net debt	10,263,188	12,548,541
Share capital	21,707,211	20,531,647
Net debt to equity	47%	61%

18.1. Selected data in respect of shareholder's equity (attributable to equity holders of the Parent)

As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share capital in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 522,999 thousand and presented as share capital revaluation adjustment in the balance sheet.

Share premium is the surplus of the issuance value over the nominal value of shares belonging to series B, C and D. As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share premium in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 168,803 thousand and presented as share premium revaluation adjustment in the balance sheet.

The amount of the hedging reserve results from valuation of derivatives meeting the requirements of cash flows hedge accounting.

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of ORLEN Deutschland from EUR into PLN, Unipetrol Group from CZK into PLN and ORLEN Lietuva Group from USD into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net as net investment hedge in a foreign operation, are also recognized in this position.

18.2. Share capital

	as at 31.12.2009	as at 31.12.2008
Share capital	534,636	534,636
Share capital revaluation adjustment	522,999	522,999
	1,057,635	**1,057,635**

18.3. Share premium

	as at 31.12.2009	as at 31.12.2008
Nominal share premium	1,058,450	1,058,450
Share premium revaluation adjustment	168,803	168,803
	1,227,253	**1,227,253**

18.4. Suggested distribution of the profit for 2009

a) Suggested distribution of the profit for 2009

The Dividend Policy of PKN ORLEN SA assumes setting recommended dividend in relation to free cash flows for shareholders after realization of investment budget and optimization of capital structure („Free Cash Flow to Equity" – FCFE). According to the applied methodology, the Management Board considers dividend payment (taking into account result from operations, capital expenditures and projected changes in the level of indebtedness in the following period) starting from the level of 50% of FCFE (set as the minimum in the Dividend Policy).

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Despite good results of the Company for the year 2009, the result of FCFE calculation is negative. Therefore, taking into consideration high level of the Group indebtedness, the Management Board proposes to distribute the net profit for the year 2009 in the amount of PLN 1,635,885,461.24 to reserve capital of the Company.

b) Cover of the loss for the year 2008 according to the Resolution of the Ordinary General Shareholders' Meeting of PKN ORLEN

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 section 7 point 3 of Company's Articles of Association, the Ordinary General Shareholders' Meeting of PKN ORLEN SA, having analyzed the motion of the Management Board and assessment of the Supervisory Board, has decided to cover the net loss for 2008 in the amount of PLN (1,570,947,088.55) with the Company's reserve capital.

The cover of the loss results from § 1 of the Resolution No 6 of the Ordinary General Shareholders' Meeting of PKN ORLEN dated 30 June 2009.

18.5. Non-controlling interest

Non-controlling interest represents part of the net assets of subsidiaries, that is not directly owned, or indirectly, by the shareholders of the Parent.

Non – controlling interest by company:

	as at 31.12.2009	as at 31.12.2008
Capital Group of Unipetrol	2,040,319	2,138,492
Capital Group of ANWIL	337,488	327,534
Capital Group of Rafineria Trzebinia SA	95,999	73,804
Capital Group of Rafineria Nafty Jedlicze SA	33,310	32,403
Inowrocławskie Kopalnie Soli "Solino" SA	38,279	35,176
Petrolot Sp. z o.o.	31,948	36,021
ORLEN Oil Sp. z o.o.	20,286	17,876
Other	71,679	57,250
	2,669,308	**2,718,556**

19. INTEREST BEARING LOANS AND BORROWINGS

	long-term		short-term	
	as at 31.12.2009	as at 31.12.2008	as at 31.12.2009	as at 31.12.2008
Bank loans and borrowings	10,475,021	1,445,052	1,555,657	11,242,325
Debt securities	1,135,511	1,165,599	38,038	39,789
	11,610,532	**2,610,651**	**1,593,695**	**11,282,114**

The value of interest-bearing loans, borrowings and debt securities issued decreased as compared to the end of the prior year by PLN 688,538 thousand net.

a) Bank loans

• bank loans by currency (translated into PLN thousand)

	as at 31.12.2009	as at 31.12.2008
PLN	828,115	814,927
USD	5,394,002	5,166,249
EUR	5,692,169	6,331,979
CZK	106,856	350,249
LTL	9,536	23,973
	12,030,678	**12,687,377**

• bank loans by interest rate

	as at 31.12.2009	as at 31.12.2008
WIBOR	828,115	814,927
floating interest rate	828,115	814,927
LIBOR	5,394,002	5,166,249
fixed interest rate	737,776	885,501
floating interest rate	4,656,226	4,280,748
EURIBOR	5,692,169	6,331,979
floating interest rate	5,692,169	6,331,979
PRIBOR	106,856	350,249
floating interest rate	106,856	350,249
VLIBOR	9,536	23,973
floating interest rate	9,536	23,973
	12,030,678	**12,687,377**

ORLEN SA Group bases its financing on floating interest rate. Depending on the currency of financing these are O/N, T/N, one-week to six-month WIBOR, LIBOR, EURIBOR, PRIBOR and VILIBOR increased by margin. The margin reflects risk connected to financing of the Group and depends on net debt to EBITDA (result from operations increased by depreciation and amortization). As at 31 December 2009 the margin did not exceed 3.00 percentage points for majority of bank loans (89%).

b) Borrowings

As at 31 December 2009 and 31 December 2008 borrowings comprise loans from Woivodship Fund for Environmental Protection and Water Management (WFOŚiGW) and from National Fund for Environmental Protection and Water Management (NFOŚiGW) as well as at 31 December 2009 loan from Basell Orlen Polyolefins Sp. z o.o. from shareholder Basell Europe Holdings BV in the amount of PLN 20,547 thousand.

As at 31 December 2009 and 31 December 2008 bank loans and borrowings of PLN 512,047 thousand and PLN 676,047 thousand, respectively, were pledged on the Group's assets.

c) Debt securities

- debt securities by maturity date

The balance of debt securities as at 31 December 2009 was as follows:

	Long-term fixed rate bonds	Long-term floating rate bonds
Nominal value	310,800	750,000
Carrying amount	411,462	762,087
Expiration date	2013–12–28	2012–02–27
Type of surety	no surety	no surety

- debt securities by currency (translated into PLN thousand)

	as at 31.12.2009	as at 31.12.2008
PLN	762,087	767,723
CZK	411,462	437,665
	1,173,549	**1,205,388**

The Group utilizes loans and borrowings both in PLN and foreign currencies, subject mainly to floating interest rates.

In the foregoing financial statements as at 31 December 2008 bank loans of PLN 9,475,449 thousand were reclassified from long-term liabilities to Short-term liabilities. The amount relates to liabilities resulting from bank loan agreements containing provisions specifying the required level of net debt to EBITDA (result from operations increased by depreciation) which was exceeded as at 31 December 2008. Detailed description is included in the consolidated financial statements for 2008 (note 7.16).

In April 2009 negotiations between the Parent Company and lenders being the parties of the agreements mentioned above had been finalized. The consent to a temporary breach of the maximum debt ratio and the continuation of cooperation within previously set bank loan limits and maturity dates had been received. In December 2009 other entity belonging to the Capital Group received consent from the lenders to breach the maximum debt ratio as at 31 December 2008 and restructured its bank loan agreement which resulted in extension of the period of financing.

Neither during the period covered by the foregoing financial statements nor after the reporting date, there were no cases of violations of loans and borrowings repayments in respect of both principle and interest.

20. PROVISIONS

	long-term		short-term	
	as at 31.12.2009	as at 31.12.2008	as at 31.12.2009	as at 31.12.2008
Environmental	335,263	341,378	37,365	50,331
Jubilee and retirement benefits provision	229,831	246,229	31,700	37,759
Business risk provision	63,917	83,400	78,256	555,512
Shield programs provision	–	49,266	51,369	40,762
Other	32,910	27,014	648,427	68,696
	661,921	**747,287**	**847,117**	**753,060**

The following changes in provisions occurred in 2009:

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Change in long-term provision

	Environmental provision	Jubilee and etirements benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2009	341,378	246,229	83,400	49,266	27,014	747,287
Recognition	5,424	6,638	–	–	9,781	21,843
Reclassification	(2,796)	(84)	–	(49,266)	(32)	(52,178)
Usage	(3,543)	(3,566)	–	–	(915)	(8,024)
Reversal	(4,353)	(19,274)	(19,258)	–	(3,056)	(45,941)
Foreign exchange differences	(847)	(112)	(225)	–	118	(1,066)
31 December 2009	**335,263**	**229,831**	**63,917**	**–**	**32,910**	**661,921**

Change in short-term provision

	Environmental provision	Jubilee and etirements benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2009	50,331	37,759	555,512	40,762	68,696	753,060
Recognition	3,078	27,693	91,568	11,898	608,440	742,677
Reclassification	2,796	44	(560)	49,266	3,639	55,185
Usage	(14,405)	(29,409)	(558,902)	(50,775)	(24,172)	(677,663)
Reversal	(4,366)	(4,387)	(9,067)	(1,317)	(6,640)	(25,777)
Foreign exchange differences	(69)	–	(295)	1,535	(1,536)	(365)
31 December 2009	**37,365**	**31,700**	**78,256**	**51,369**	**648,427**	**847,117**

The following changes in provisions occurred in 2008:

Change in long-term provision

	Environmental provision	Jubilee and etirements benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	369,827	229,124	104,189	58,021	38,105	799,266
Recognition	5,032	35,651	556	–	3,068	44,307
Reclassification	(20,977)	–	–	(7,335)	(441)	(28,753)
Usage	(488)	(11,394)	–	–	(791)	(12,673)
Reversal	(22,549)	(12,376)	(32,221)	(1,420)	(18,856)	(87,422)
Foreign exchange differences	10,533	5,224	10,876	–	5,929	32,562
31 December 2008	**341,378**	**246,229**	**83,400**	**49,266**	**27,014**	**747,287**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Change in short-term provision

	Environmental provision	Jubilee and etirements benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	57,782	31,147	455,526	69,856	108,841	723,152
Recognition	1,682	29,020	161,493	5,110	59,644	256,949
Reclassification	20,977	(104)	2,261	9,535	(2,547)	30,122
Usage	(30,185)	(20,214)	(60,295)	(43,410)	(25,713)	(179,817)
Reversal	(1,099)	(2,059)	(6,678)	(2,850)	(81,179)	(93,865)
Foreign exchange differences	1,174	(31)	3,205	2,521	9,650	16,519
31 December 2008	**50,331**	**37,759**	**555,512**	**40,762**	**68,696**	**753,060**

Environmental provision

The Group has legal obligation to clean contaminated land in the area of production plants in Płock, petrol stations and fuel warehouses. Independent external experts conducted an assessment of the contaminated objects and estimated future expenditures on land reclamation. The amount of the land reclamation provision was reassessed by the Management Board on the basis of analysis of the independent experts. The amount of the provision is the Management Board's best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities, constituting basis of creating the provision.

The potential future changes in regulations and common practice regarding environmental protection may influence the value of this provision in the future periods.

Provision for jubilee bonuses, retirement and pension benefits

The companies of the Capital Group realize the program of paying out the jubilee bonuses and post-employment benefits, which include retirement and pension benefits in line with remuneration systems in force and other post – employment benefits (Social Fund, coal allowance). The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration. The provision for Social Fund is calculated individually for each entitled individual. The base for the calculation of provision for an employee is expected benefit which the Company is obliged to pay in accordance with internal regulation. The present value of these obligations 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 obligations. The accrued liabilities equal discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

Employee benefits

Change in employee benefits obligations

	Jubilee bonuses provisions	Post-employment benefits	Total
Present value of obligation as at 01/01/2009	162,617	121,371	283,988
Current service cost	8,507	5,295	13,802
Interest cost	7,959	6,883	14,842
Actuarial gains and losses	(8,192)	(8,719)	(16,911)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	Jubilee bonuses provisions	Post-employment benefits	Total
Benefits paid	(23,007)	(11,943)	(34,950)
Past service cost	11	12	23
Other	(850)	1,587	737
Present value of obligation as at 31/12/2009	147,045	114,486	261,531
Carrying amount of obligation as at 31/12/2009	**147,045**	**114,486**	**261,531**

	Jubilee bonuses provisions	Post-employment benefits	Total
Present value of obligation as at 01/01/2008	150,377	109,894	260,271
Current service cost	11,670	9,452	21,122
Interest cost	6,479	5,998	12,477
Actuarial gains and losses	12,584	4,470	17,054
Benefits paid	(17,049)	(12,275)	(29,324)
Past service cost	408	41	449
Other	(1,852)	3,791	1,939
Present value of obligation as at 31/12/2008	162,617	121,371	283,988
Carrying amount of obligation as at 31/12/2008	**162,617**	**121,371**	**283,988**

as at	Present value of employee benefits obligation
31/12/2009	261,531
31/12/2008	283,988
31/12/2007	260,271
31/12/2006	215,814
31/12/2005	216,405

Total expense recognized in profit or loss

	for the year ended 31.12.2009	for the year ended 31.12.2008
Current service cost	13,802	21,122
Interest cost	14,842	12,477
Actuarial gains and losses	(16,911)	17,053
Past service cost	23	449
The effect of curtailment – post employment benefits and other benefits	46	(1,192)
Other	691	3,130
	12,493	**53,039**

In 2009, the Group changed the assumptions for calculation of the jubilee bonuses and post-employment benefits provision. The changes relate mainly to discount rate and planned remuneration increase ratio.

Should the prior year's assumptions be used, the provision for the jubilee bonuses and post-employment benefits would be higher by PLN 10,576 thousand.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

For updating the provision at the end of the current period, the Capital Group adopted the following actuarial assumptions:

	2009	2010	2011	2012 and the following years
Discount rate (%)	5.75%	5.75%	5.75%	5.75%
Salary increase rate (%)	5%	5%	5%	5% and 3.50% in the following years
Expected inflation rate (%)	2.5%	2.5%	2.5%	2.5%

Costs of benefits are presented in the following lines of the Statement of Comprehensive Income:

	for the year ended 31.12.2009	for the year ended 31.12.2008
General and administrative expenses	9,536	48,790
Distribution expenses	41	64
Cost of sales	2,081	2,353
Other operating expenses	1,121	3,859
Other operating revenues	(1,044)	6
Change in Group structure	758	(2,033)
	12,493	**53,039**

Defined contribution plans

Based on existing regulations the Group is obliged to contribute to the national retirement and pension plans. Upon payment of the contribution the Group has no further obligations in respect of payments made. The effects are recognized as employee benefit costs.

The amount recognized as an expense for the defined contribution plan concerning social insurance for the year ended 31 December 2009 and for the year ended 31 December 2008 stood at PLN 332,449 thousand and PLN 310,654 thousand, respectively.

Business risk provision

Business risks are described in detail in the note about court proceedings (note 39). Decrease of business risk provision results mainly from settlement of dispute with Agrofert a.s and ENERGA-OPERATOR SA.

Shield programs provision

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

Other provisions

The increase of other provision is mostly related to the recognition of the provision for acquirement of CO_2 emission rights required to settle the emission for 2009 amounting to PLN 588,869 thousand.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

21. OTHER LONG-TERM LIABILITIES

	as at 31.12.2009	as at 31.12.2008
Finance lease liabilities	70,525	70,413
Warranties granted	14,358	5,348
Other	48,538	65,793
	133,421	**141,554**

22. TRADE AND OTHER LIABILITIES

	as at 31.12.2009	as at 31.12.2008
Trade liabilities	7,130,654	4,464,176
Excise tax and fuel charge liabilities	1,561,697	1,356,514
Value added tax liability	791,151	703,443
Other taxation, duty and social security liabilities	96,572	323,240
Liabilities due to reimbursement of excise tax cost to suppliers providing tax	152,865	174,776
warehouse services	1,150,007	741,447
Liabilities due to acquisition of property, plant and equipment	63,660	38,269
Liabilities due to unvoiced services	64,174	77,690
Accrual for customers' discounts	5,719	1,085
Dividend liabilities	32,095	65,842
Liabilities due to prepayments for deliveries	194,710	180,814
Payroll liabilities	48,376	53,179
Holiday pay accrual	19,347	16,444
Special funds	9,646	9,249
Environmental liabilities	64,817	–
Accrual for investment liabilities	28,951	63,827
Finance lease liabilities	80,101	107,172
Other liabilities	**11,494,542**	**8,377,167**

Trade and other liabilities denominated in foreign currencies amounted to PLN 9,429,566 thousand as at 31 December 2009 and PLN 4,999,484 thousand as at 31 December 2008.

The carrying amount of Short-term trade liabilities is close to their fair value by virtue of their Short-term characteristics.

As at 31 December 2009 trade liabilities of PLN 68,983 thousand were pledged on the Group's assets.

23. DEFERRED INCOME

	as at 31.12.2009	as at 31.12.2008
Subventions from National Environment Protection Fund and European Regional	55,210	59,200
Development Fund	64,565	72,845
Unsettled points in loyalty program VITAY	14,188	17,476
Other	**133,963**	**149,521**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

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 VITAY gifts. From June 2006 fuel prize is available for customers in a form of a discount of fuel price.

The deferred income is recognized with regard to the unrealized amount of points recorded on customers' accounts. The deferred income is estimated based on proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

24. OTHER FINANCIAL LIABILITIES

	as at 31.12.2009	as at 31.12.2008
Liabilities due to put option of minority share of ORLEN Lietuva Group	–	842,485
Short-term financial liabilities at fair value through profit and loss	64,851	91,357
Short-term financial liabilities due to derivatives designated as hedging instruments	52,418	278,704
Other	205	63
	117,474	**1,212,609**

25. SALES REVENUES

	for the year ended 31.12.2009	for the year ended 31.12.2008
Sales of finished goods	69,789,249	80,230,439
Sales of services	1,484,152	–
Excise tax and other charges	(19,829,406)	(18,312,878)
Revenues from sale of finished goods, net	**51,443,995**	**61,917,561**
Sales of merchandise	17,013,116	19,730,227
Sales of raw materials	297,367	–
Excise tax and other charges	(826,488)	(2,114,563)
Revenues from sale of merchandise and raw materials, net	**16,483,995**	**17,615,664**
	67,927,990	**79,533,225**

The Group's sales revenues were influenced by excise tax relieves and reductions obtained in 2009 in the amount of PLN 756,692 thousand in comparison to PLN 612,792 thousand obtained in 2008.

Tax reliefs and reductions were applied on the basis of binding regulations in Group's companies.

In 2008 Minister of Finance Regulation dated 26 April 2004 relating to excise tax exemptions § 12 (Official Journal from 2006, No. 72, item 500, with later amendments) was in force. Starting from March 2009, § 11 of Minister of Finance Regulation dated 24 February 2009 relating to excise tax exemptions was the binding regulation, while on 15 October 2009 favorable decision of European Commission relating to granting Poland a relief in case of State Aid no. 57/2008 was announced and starting from that day par. 89, section 1, point 3, 7 and 8 of the Excise Act dated 6 December 2008 (Official Journal from 2009, No. 3, item 11, with later amendments) are legally binding.

26. OPERATING EXPENSES

Cost of sales

	for the year ended 31.12.2009	for the year ended 31.12.2008
Cost of finished goods sold	(46,825,709)	(56,685,848)
Cost of merchandise and raw materials sold	(15,022,992)	(17,313,474)
	(61,848,701)	**(73,999,322)**

Cost by kind

	for the year ended 31.12.2009	for the year ended 31.12.2008
Materials and energy	(43,380,026)	(52,235,477)
Cost of merchandise and materials sold	(15,022,992)	(17,313,474)
External services	(3,699,892)	(3,952,554)
Payroll, social security and other employee benefits	(2,003,670)	(1,959,754)
Depreciation and amortisation	(2,567,646)	(2,491,383)
Taxes and charges	(421,907)	(437,282)
Other	(1,634,767)	(3,457,125)
Operating expenses	(68,730,900)	(81,847,048)
Change in inventory	480,187	(101,990)
Cost of products and services for own use	156,040	64,561
	(68,094,673)	(81,884,477)
Distribution expenses	3,507,700	3,323,721
General and administrative expenses	1,504,707	1,462,477
Other operating expenses	1,233,565	3,098,957
Cost of finished goods, merchandise and raw materials sold	**(61,848,701)**	**(73,999,322)**

External services include research expenditures of PLN 12,047 thousand in 2009 and PLN 20,394 thousand in 2008.

27. OTHER OPERATING REVENUES AND EXPENSES

Other operating revenues

	for the year ended 31.12.2009	for the year ended 31.12.2008
Profit on sale of non-financial non-current assets	773,714	95,997
Reversal of provisions	46,714	125,562
Reversal of receivable impairment allowances	99,140	149,027
Reversal of impairment allowances of property, plant and equipment and intangible	184,153	136,833
assets	55,870	150,200
Penalties and compensations earned	6,526	7,004
Grants	12,845	12,458
Inventory count surpluses	84,797	70,849
Other	**1,263,759**	**747,930**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Other operating revenues relating to the grants obtained by the Group concern mainly financial resources received from National Fund for Environmental Protection and Water Management (NFEPWM) and from European Regional Development Fund (ERDF).

Other operating expenses

	for the year ended 31.12.2009	for the year ended 31.12.2008
Loss on sale of non-financial non-current assets	(50,579)	(49,655)
Recognition of provisions	(696,427)	(196,745)
Receivables impairment allowances	(152,971)	(137,455)
Impairment allowances of property, plant and equipment and intangible assets	(118,120)	(2,512,935)
Costs and losses on removal of damages	(19,055)	(20,369)
Liquidations and nonculpable shortages of current assets and taxes on over – normative shortages	(52,005)	(30,017)
Donations	(13,480)	(15,749)
Other	(130,928)	(136,032)
	(1,233,565)	**(3,098,957)**

As a consequence of sale of CO_2 emission rights in 2009 the line "profit on sale of non-financial Non-current assets" includes the amount of PLN 717,177 thousand and the line "recognition of provisions" includes the amount of PLN 588,869 thousand resulting from the provision for purchase of CO_2 emission rights necessary to settle the emission for the year 2009. Total impact of the above on the profit from operations amounts to PLN 128,308 thousand.

28. NET FINANCIAL REVENUES AND EXPENSES

Financial revenues

	for the year ended 31.12.2009	for the year ended 31.12.2008
Interest received	58,799	127,630
Foreign exchange gain	679,407	139,837
Profit from sale of shares and other securities	316	934
Decrease in receivables impairment allowances	13,100	11,507
Settlement and valuation of financial instruments	330,222	359,083
Reversal of investment impairment allowances	2,626	4,188
Other	9,805	59,621
	1,094,275	**702,800**

Financial expenses

	for the year ended 31.12.2009	for the year ended 31.12.2008
Interest expense	(463,148)	(541,765)
Foreign exchange loss	(183,348)	(1,240,529)
Loss on sale of shares and other securities	(41)	(1,104)
Investment impairment allowances	(870)	(8,061)
Increase in receivables impairment allowances	(8,823)	(14,837)

	for the year ended 31.12.2009	for the year ended 31.12.2008
Settlement and valuation of financial instruments	(318,219)	(451,927)
Other	(48,625)	(23,191)
	(1,023,074)	**(2,281,414)**

According to IAS 23, starting from 1 January 2009, the Group capitalizes those borrowing costs, that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset.

Borrowing costs capitalized in the year ended 31 December 2009 amounted to PLN 126,367 thousand. Capitalization rate that was used to calculate borrowing costs' capitalization for the 2009 amounted to 3.52% per annum.

29. INCOME TAX EXPENSE

	for the year ended 31.12.2009	for the year ended 31.12.2008
Current tax	(331,702)	(290,650)
Deferred tax	191,217	679,427
	(140,485)	**388,777**

Deferred tax as at 31 December 2009 and as at 31 December 2008 includes the amount of PLN 55,270 thousand and PLN (150,941) thousand respectively, concerning changes in a tax rate used in Lithuania from 20% in 2009 to 15% in 2010 and from 15% in 2008 to 20% in 2009, respectively.

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

	for the year ended 31.12.2009	for the year ended 31.12.2008
Profit before tax	1,440,652	(2,915,403)
Corporate income tax for 2009 and 2008 by the valid tax rate (19% in Poland)	(273,724)	553,927
Difference between Polish and German (24%) tax rates	(10,158)	(2,667)
Difference between Polish and Czech (20%) tax rates	2,557	1,139
Difference between Polish and Lithuanian (15%) tax rates	5,168	368
Tax loss for which no deferred tax was recognized	(25,417)	(19,386)
Tax loss from previous periods, for which deferred tax asset was recognized	32,198	–
Business risk provision	(14,506)	(34,464)
Valuation of entities accounted for under the equity method	51,247	50,638
Non-deductible exchange differences	11,054	(27,646)
Effect of tax rate changes in Lithuania on deferred tax valuation	55,270	(150,941)
Other	25,826	17,809
Income tax expense	**(140,485)**	**388,777**
Effective tax rate	10%	13%

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

The PKN ORLEN Group does not form a tax group under Polish regulations Regards the fact, that the Group's companies are separate taxpayers, deferred tax assets and deferred tax liabilities must be recalculated individually in particular companies. As a result, consolidated statement of financial position presents deferred tax assets in the amount of PLN 290,820 thousand as at 31 December 2009 and PLN 485,362 thousand as at 31 December 2008 as well as deferred tax liabilities amounting to PLN 836,330 thousand as at 31 December 2009 and PLN 1,134,686 thousand as at 31 December 2008.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

In 2009 there was an decrease in other comprehensive income as an effect of deferred tax recognized in hedging reserve in the amount of PLN (26,891) thousand. In 2008 there was an increase in other comprehensive income of PLN 45,984 thousand in this respect.

Deferred tax from hedges of net investment in ORLEN Lietuva Group (net investment hedge) was recognized in other comprehensive income in foreign exchange differences from consolidation and for 2009 amounted to PLN (47,709) thousand and for 2008 PLN 93,188 thousand respectively.

Net deferred tax liability as at 31 December 2009 and 31 December 2008 comprised the following items:

	as at 31.12.2009	as at 31.12.2008
Deferred tax assets:		
Land reclamation provision	65,370	68,399
Difference between carrying amount and tax base of property, plant and	93,721	111,002
Receivables impairment allowances	21,396	25,780
Jubilee bonuses, retirement benefits provisions and holiday accrual	55,475	64,423
Unrealized points in VITAY loyalty program	12,267	13,726
Impairment of property, plant and equipment and intangible assets	499,797	514,211
Financial instruments valuation	10,920	16,693
Impairment of non-current financial assets	5,545	5,208
Inventory impairment allowance	28,008	112,648
Other provisions	130,569	43,007
Unrealized foreign exchange losses	179,294	233,785
Other payroll expenses	24,548	27,902
Accrued expenses	22,960	6,656
Tax loss	237,213	220,708
Other	31,623	36,048
	1,418,706	**1,500,196**
Deferred tax liability:		
Investment relief	82,685	82,064
Difference between carrying amount and tax base of property, plant and equipment	1,787,653	1,982,632
Difference in contribution in kind	42,869	48,197
Finance lease treated as operating for tax purposes	13,688	30,433
Other	37,321	6,194
	1,964,216	**2,149,520**
Deferred tax liability, net	**545,510**	**649,324**

As at 31 December 2009 and as at 31 December 2008 the Group possessed unsettled tax losses in the amount of PLN 133,260 thousand and PLN 102,031 thousand respectively, for which no deferred tax asset was recognized.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

30. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	as at 31.12.2009	as at 31.12.2008
Change in trade receivables and other receivables presented in the Statement of Financial Position	984,388	564,816
difference:		
Transfer from operating activities to investing activities:	(378,689)	7,944
Change in advances for property, plant and equipment	(368,166)	(4,738)
Change in investment receivables	(10,523)	12,682
Change in the Group structure	3,478	(1,841)
Change in receivables transferred to non-current assets classified as held for sale	(14,969)	–
Foreign exchange differences	20,295	393,076
Other	41,828	22,787
Change in receivables in the statement of cash flows	**656,332**	**986,782**

	as at 31.12.2009	as at 31.12.2008
Change in inventories presented in the Statement of Financial Position	(1,530,812)	1,276,362
Change in the Group structure	–	(6)
Foreign exchange differences	(79,066)	500,049
Reclassifications	(53,027)	–
Other	226	2,427
Change in inventories in the statement of cash flows	**(1,662,679)**	**1,778,832**

	as at 31.12.2009	as at 31.12.2008
Change in other long-term liabilities, trade liabilities and other liabilities presented in the Statement of Financial Position	3,109,242	(766,122)
difference:		
Transfer from operating activities to investing activities:	(408,560)	62,051
Change in investment liabilities	(408,560)	62,051
Transfer from operating activities to financing activities:	30,130	(30,120)
Change in dividend liabilities	(4,634)	364
Change in finance lease liabilities	34,764	(30,484)
Change in the Group structure	(7,508)	(9,985)
Foreign exchange differences	93,054	(593,050)
Other	4,598	(72,171)
Change in liabilities in the statement of cash flows	**2,820,956**	**(1,409,397)**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

	as at 31.12.2009	as at 31.12.2008
Change in provisions presented in the Statement of Financial Position	8,691	13,794
Change in the Group structure	(1,981)	492
Change in deferred tax liabilities relating to financial instruments	–	(6,354)
Foreign exchange differences	(8,796)	(34,270)
Other	–	4,393
Change in provisions in the statement of cash flows	**(2,086)**	**(21,945)**

b) Proceeds from the sale of shares in related entities

Realized price on sale of shares amounted to PLN 2,086 thousand in 2009 and PLN 214,219 thousand in 2008 respectively.

Cash and cash equivalents removed from the consolidated statement of financial position due to sale of shares in related entities, in 2009 amounted to PLN 117 thousand and PLN 14,738 thousand in 2008.

31. FINANCIAL INSTRUMENTS

a) Financial instruments by category and class

	Note	as at 31.12.2009	as at 31.12.2008
Financial assets at fair value through profit or loss (held for trading)	15	43,208	135,755
Derivatives recognized in financial assets designated as hedging instruments – hedge accounting	15	81,666	132,550
Financial assets available for sale	10, 15	59,880	62,352
Loans and receivables, incl.:		4,729,303	5,095,792
Non-current receivables	12	11,282	17,743
Loans granted	12, 15	90,851	19,415
Current receivables	14	4,627,170	5,058,634
Cash and cash equivalents	16	2,941,039	1,344,224
Assets by categories		7,855,096	6,770,673
Financial liabilities at fair value through profit or loss (held for trading)	21, 24	70,406	91,357
Liabilities due to derivatives designated as hedging instruments – hedge accounting	24	52,418	278,704
Other liabilities, incl.:		21,721,016	20,080,803
Short-term liabilities	22	8,494,958	5,315,169
Loans, borrowings and debt securities issued	19	13,204,227	13,892,765
Other	21, 24	21,831	872,869
Liabilities by category		21,843,840	20,450,864
Finance lease liabilities	22	99,476	134,240
Financial liabilities		**21,943,316**	**20,585,104**

Financial instruments by category

	Note	as at 31.12.2009	as at 31.12.2008
Stocks and shares in Companies	10, 15	59,880	62,352
Current receivables	14	4,627,170	5,058,634
Loans granted	12, 15	90,851	19,415
Assets from valuation of derivative and embedded instruments	15	124,874	268,305
Cash and cash equivalents	16	2,941,039	1,344,224
Non-current receivables	12	11,282	17,743
Financial assets		**7,855,096**	**6,770,673**
Debt securities issued	19	1,173,550	1,205,388
Loans and borrowings	19	12,030,677	12,687,377
Short-term liabilities	22	8,494,958	5,315,169
Liabilities from valuation of derivative and embedded instruments	21, 24	122,824	370,061
Finance lease liabilities	21, 24	99,476	134,240
Other	21, 24	21,831	872,869
Financial liabilities		**21,943,316**	**20,585,104**

b) Financial assets pledged as collateral for liabilities or contingent liabilities

Financial assets pledged as collateral for liabilities or contingent liabilities

	as at 31.12.2009	as at 31.12.2008
Cession of receivables	278,609	272,971
Cash in bank pledged as collateral	134,787	154,826

Moreover, assets, eliminated in the consolidated financial statements of PKN ORLEN Group and presented in unconsolidated financial statements of the companies, are pledged as collateral for liabilities of the Group.

It concerns shares in ORLEN Oil and ORLEN Asfalt pledged as a collateral for a loan of Rafineria Trzebinia in the amount of PLN 43,553 thousand as at 31 December 2008.

Additionally, as at 31 December 2008 cession of receivables from PKN ORLEN SA regarding the rent of crude oil and fuels warehouse in the amount of PLN 3,460 thousand was used as a collateral of the investment loan of IKS Solino.

The above-mentioned collaterals concern mostly bank loans of the Group companies and may be taken over by banks in case of lack of payment of principal and interest on due dates. So far, such a situation has not occurred, and there is no risk that it will occur in the near future.

c) Hedge accounting

Cash flow hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rate (EUR/PLN for sale and USD/PLN for purchases and sale). The Group hedges cash flows from investment projects against changes in exchange rates (EUR/PLN, USD/PLN, JPY/PLN).

The above-mentioned transactions are accounted for using cash flow hedge accounting. The hedging instruments used are derivatives (forwards and swaps).

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Additionally, the Group hedges cash flows from interest payments connected with issuance of bonds in PLN and cash flows from interest payments concerning external financing using interest rate swaps (IRS).

Hedging transactions, settlement and fair value measurement of which influence the foregoing financial statements were concluded in the years 2007–2009.

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

- **fair value which will be recognized in profit or loss at the realization date:**

	as at 31.12.2009	as at 31.12.2008
Planned realization date of hedged cash flows		
Currency operating exposure		
2009	–	(242,545)
2010	40,246	–
Interest rate exposure		
2009–2012	–	(29,919)
1Q 2010 – 1Q 2012	(5,154)	–
1Q 2010 – 1Q 2014	(12,284)	–
	22,808	**(272,464)**

- **fair value which will be included in the cost of property, plant and equipment at the realization date and recognized in profit or loss through depreciation charges in the following periods:**

	as at 31.12.2009	as at 31.12.2008
Planned realization date of hedged cash flows		
2009 (currency investment exposure)	–	105,494
2010 and following years (currency investment exposure)	6,441	20,816
	6,441	**126,310**

In 2009 the amount of PLN (214,031) thousand was derecognized from equity and recognized:
- in profit or loss as sales of finished goods – PLN (313,143) thousand, in the foreign exchange differences surplus – PLN 9,776 thousand, in interest expense – PLN 261 thousand and in financial expenses from the settlement of instruments – PLN (15,364) thousand, and
- in construction in progress – PLN 104,444 thousand.

In 2008 the amount of PLN 62,645 thousand was derecognized from equity and recognized:
- in profit or loss as sales of finished goods – PLN 72,438 thousand, foreign exchange differences surplus – PLN (6,557) thousand, interest expenses – PLN 48 thousand and financial expenses from the settlement of instruments – PLN (3,131) thousand and
- in the carrying amount of property, plant and equipment – PLN (156) thousand.

As the Group owns contracts concerning both purchase and sale of currency, market changes are significantly compensated in the economic sense.

Transactions for which hedge accounting is not applied

For the transactions concluded and settled in the same quarter the Group does not apply hedge accounting. The settlement result is recognized in the current period profit or loss.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

The fair value of transactions hedging cash flows connected with realization of investment projects against changes in exchange rates (USD/PLN, EUR/PLN), for which hedge accounting is not appliad due to separation of embedded derivatives for these contracts, amounted to PLN 17,886 thousand as at 31 December 2009 and PLN 111,553 thousand as at 31 December 2008.

Net investment hedge in a foreign operation

Starting from the second quarter of 2008 the Group uses net investment hedges in a foreign operation (net investment hedge). Net investment hedge hedges currency risk of the portion of net investment in a foreign operation that uses USD as its functional currency.

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of ORLEN Lietuva Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN in the amount of PLN 381,944 thousand (net of deferred tax) were recognized in other comprehensive income in the line "Foreign exchange differences on subsidiaries from consolidation".

d) Fair value of financial instruments

Comparison of fair values and carrying amounts of financial instruments measured at amortized cost:

	as at 31.12.2009		as at 31.12.2008	
Financial assets	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	90,739	90,851	19,220	19,415
Other	8,804	11,282	17,794	17,743
	99,543	**102,133**	**37,014**	**37,158**
Financial liabilities				
Debt securities is sued	1,206,947	1,173,550	1,197,112	1,205,388
Loans and borrowings	12,054,959	12,030,677	12,814,463	12,687,377
Finance lease liabilities	91,364	99,476	126,823	134,240
Other	21,460	21,831	853,404	872,806
	13,374,730	**13,325,534**	**14,991,802**	**14,899,811**

The above comparison of carrying amounts and fair values of financial instruments does not include current receivables and Short-term liabilities for which carrying amount is similar to fair value.

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

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as loans liabilities are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates (according to quotations of 3-month interest rates available in Reuters as at the end of the reporting periods) increased by margins proper for particular financial instruments.

	as at 31.12.2009	as at 31.12.2008
WIBOR 3M	4.270%	5.880%
EURIBOR 3M	0.700%	2.892%
LIBOR 3M	0.251%	1.425%
PRIBOR 3M	1.540%	3.630%
VILIBOR 3M	3.900%	9.890%

Methods applied in determining fair values of financial instruments recognized in the statement of financial position at fair value

According to the International Financial Reporting Standards all derivate instruments presented in the consolidated financial statements are measured at fair value.

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on active markets. As compared to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

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

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

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2009 and 31 December 2008 the Group held shares in entities, whose fair value cannot be measured reliably. There are no active markets for these entities and no comparable transactions in the same instruments. Shares were recognized in the Group's statement of financial position at acquisition cost less impairment allowances in total amount of PLN 58,764 thousand and PLN 61,032 thousand as at 31 December 2009 and 31 December 2008 respectively. As at the end of the reporting period there are no binding decisions regarding method and date of the disposal of these assets.

e) Nature and extent of risks arising from financial instruments

The Group is exposed to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk).

Credit risk

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

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

Each non-cash customer is individually assessed with regard to credit risk. A part 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 recovery procedures implemented as described by the obliging procedures.

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

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

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

	as at 31.12.2009	as at 31.12.2008
Group I	2,978,781	3,144,952
Group II	897,147	966,915
	3,875,928	**4,111,867**

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

	Current receivables as at 31.12.2009	Loans granted as at 31.12.2009	Current receivables as at 31.12.2008	Loans granted as at 31.12.2008
Up to 1 month	629,167	–	762,429	–
1–3 month	37,578	–	52,866	–
3–6 month	18,349	–	22,241	–
6–12 month	15,659	78	7,290	78
Above 1 year	50,490	–	101,941	78
	751,243	**78**	**946,767**	**156**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

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

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure:

	as at 31.12.2009	as at 31.12.2008
Stocks and shares in Companies	59,880	62,352
Current receivables	4,627,170	5,058,634
Loans granted	90,851	19,415
Assets from valuation	124,874	268,305
Cash and cash equivalents	2,941,039	1,344,224
Other	11,282	17,743
	7,855,096	**6,770,673**

Due to cooperation of the Group mainly with Polish and international banks having high credit rating, the risk connected with depositing of cash and cash equivalents is significantly limited.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of assets is included in the notes describing these assets.

As at 31 December 2009 and 31 December 2008 the Group did not recognize assets obtained as collateral.

Due to changes in payment terms referring to trade receivables, the Group did not recognize impairment loss of receivables as financial instruments in the amount of PLN 13,409 thousand as at 31 December 2009 and PLN 32,523 thousand as at 31 December 2008.

The Group analyses financial assets and recognizes impairment losses individually according to the presented accounting policy.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between Short-term liabilities and current assets.

As at 31 December 2009, current assets to Short-term liabilities ratio (current ratio) amounted to 1.37 in comparison to 0.81 as at 31 December 2008.

Detailed information regarding loans is included in the note 19.

As at 31 December 2009 the maximum possible indebtedness due to loans amounted to PLN 17,029,569 thousand, out of which PLN 4,794,093 thousand remained unused. As at 31 December 2008 it amounted to PLN 16,931,082 thousand and PLN 5,770,166 thousand, respectively.

In 2006 the Parent entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. The cost of gaining cash for the Parent is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within the domestic and foreign Capital Group.

In order to optimize financial expenses the Capital Group uses cash pool facility. As at 31 December 2009 the cash pool facility comprised over 20 entities belonging to the Capital Group.

Maturity analysis for financial liabilities as at 31 December 2009 and 31 December 2008:

31.12.2009	up to 1 year	1–3 years	3–5 years	above 5 years	Total
Bonds issued – undiscounted value	12,163	750,000	–	–	762,163
Loans and borrowings received – undiscounted value	2,417,338	9,567,397	40,138	878,021	12,902,894
Short-term liabilities	8,494,958	–	–	–	8,494,958
Net payments due to derivative instruments – gross settled amounts	78,330	5,555	–	–	83,885
Net payments due to derivative instruments – net settled amounts	–	5,154	33,699	–	38,853
Other financial liabilities	65	19,130	1,213	1,423	21,831
	11,002,854	**10,347,236**	**75,050**	**879,444**	**22,304,584**

31.12.2008	up to 1 year	1–3 years	3–5 years	above 5 years	Total
Bonds issued – undiscounted value	52,262	–	750,000	397,875	1,200,137
Loans and borrowings received – undiscounted value	11,698,643	1,197,797	244,901	14,219	13,155,560
Short-term liabilities	5,352,149	–	–	–	5,352,149
Net payments due to derivative instruments – gross settled amounts	279,459	69,364	–	–	348,823
Net payments due to derivative instruments – net settled amounts	7,376	–	13,862	–	21,238
Other financial liabilities	842,783	24,722	2,650	2,714	872,869
	18,232,672	**1,291,883**	**1,011,413**	**414,808**	**20,950,776**

As at 31 December 2008 the line "loans and borrowings received – undiscounted value" includes the amount of PLN 9,475,449 thousand relating to long-term liabilities reclassified to Short-term liabilities due to violation of financial covenants contained in bank loan agreements.

Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

Market risks management in PKN ORLEN Group is performed by entities exposed to such risks to the highest extent such as: PKN ORLEN, Basell Orlen Polyolefins, ORLEN Asfalt, Anwil as well as UNIPETRTOL and ORLEN Lietuva.

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

Currency risk

The Group is exposed to currency risk resulting from current receivables and Short-term liabilities, cash and cash equivalents, investment expenditures and liabilities from loans and bonds issued denominated in foreign currencies. Currency risk exposure is hedged by forward and swap instruments.

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchased, denominated in the same currency. In case of EUR/PLN exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of assets and liabilities (as at 31 December 2009) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

for the year ended 31.12.2009

Influence of financial instruments on profit before tax				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(515,838)	–15%	515,838
EUR/PLN	+15%	(760,774)	–15%	760,774
JPY/PLN	+15%	(30,109)	–15%	30,109
		(1,306,721)		**1,306,721**

Influence of financial instruments on hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	3,158	–15%	(3,158)
EUR/PLN	+15%	(109,247)	–15%	109,247
JPY/PLN	+15%	39,427	–15%	(39,427)
		(66,662)		**66,662**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(938,630)	–15%	938,630
EUR/PLN	+15%	5,159	–15%	(5,159)
CZK/PLN	+15%	(102,652)	–15%	102,652
JPY/PLN	+15%	2	–15%	(2)
LTL/PLN	+15%	60,134	–15%	(60,134)
		(975,987)		**975,987**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Total influence of financial instruments on equity				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(1,451,310)	–15%	1,451,310
EUR/PLN	+15%	(864,862)	–15%	864,862
CZK/PLN	+15%	(102,652)	–15%	102,652
JPY/PLN	+15%	9,320	–15%	(9,320)
LTL/PLN	+15%	60,134	–15%	(60,134)
		(2,349,370)		**2,349,370**

The influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2009:

for the year ended 31.12.2009

Total influence on equity				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(336,294)	–15%	336,294
EUR/PLN	+15%	(795,946)	–15%	795,946
CZK/PLN	+15%	870,094	–15%	(870,094)
JPY/PLN	+15%	9,318	–15%	(9,318)
		(252,828)		**252,828**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2009.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2009:

for the year ended 31.12.2009

Sensitivity of a net investment in a foreign operations				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	176,386	–15%	(176,386)
EUR/PLN	+15%	74,075	–15%	(74,075)
CZK/PLN	+15%	870,094	–15%	(870,094)
		1,120,555		**(1,120,555)**

The influence of potential changes in carrying amounts of assets and liabilities (as at 31 December 2008) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

for the year ended 31.12.2008

Influence of financial instruments on profit before tax				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(575,829)	–15%	575,829
EUR/PLN	+10%	(582,187)	–10%	582,187
CZK/PLN	+10%	152,575	–10%	(152,575)
JPY/PLN	+20%	(3,771)	–20%	3,771
LTL/PLN	+10%	65,056	–10%	(65,056)
		(944,156)		**944,156**

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Influence of financial instruments on hedging reserve				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(29,669)	–15%	29,669
EUR/PLN	+10%	(114,619)	–10%	114,619
JPY/PLN	+20%	75,405	–20%	(75,405)
		(68,883)		**68,883**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	66,337	–15%	(66,337)
EUR/PLN	+10%	108,527	–10%	(108,527)
CZK/PLN	+10%	308,781	–10%	(308,781)
JPY/PLN	+20%	1	–20%	(1)
LTL/PLN	+10%	4,136	–10%	(4,136)
		487,782		**(487,782)**

Total influence of financial instruments on equity				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(539,161)	–15%	539,161
EUR/PLN	+10%	(588,279)	–10%	588,279
CZK/PLN	+10%	461,356	–10%	(461,356)
JPY/PLN	+20%	71,635	–20%	(71,635)
LTL/PLN	+10%	69,192	–10%	(69,192)
		(525,257)		**525,257**

Influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2008:

for the year ended 31.12.2008

Sensitivity of a net investment in a foreign operations				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	987,322	–15%	(987,322)
EUR/PLN	+10%	44,703	–10%	(44,703)
CZK/PLN	+10%	604,430	–10%	(604,430)
		1,636,455		**(1,636,455)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign subsidiaries on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2009.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2008.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

for the year ended 31.12.2008

Total influence on equity				
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	381,824	–15%	(381,824)
EUR/PLN	+10%	(652,103)	–10%	652,103
CZK/PLN	+10%	757,005	–10%	(757,005)
JPY/PLN	+20%	71,634	–20%	(71,634)
LTL/PLN	+10%	65,056	–10%	(65,056)
		623,416		**(623,416)**

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

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increase or decrease in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates.

For other currencies the sensitivity of financial instruments is not material from the Group's point of view.

Interest rate risk

The Group is exposed to risk of volatility of cash flows due to interest rates resulting from granted loans, owned bank deposits as well as loan liabilities based on floating interest rates. The Group owns derivative transactions hedging part of risk of cash flows due to interest rates (interest rate swaps – IRS), for which cash flows hedge accounting is applied.

In 2009 according to updated risk management policy the Group hedged additionally interest rate risk connected with risk foreign currency loans in EUR and USD.

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax and hedging reserve due to changes in significant interest rates:

	Assumed variation		Influence on financial result		Influence on hedging reserve		Influence on equity	
Interest rate	2009	2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
WIBOR	+50	+100	(8,448)	(16,723)	3,938	10,271	(4,510)	(6,452)
LIBOR	+50	+25	(23,289)	(10,700)	23,810	–	521	(10,700)
EURIBOR	+50	+150	(41,986)	(94,999)	28,890	(9,473)	(13,096)	(104,472)
PRIBOR	+50	+100	(12,665)	10,870	–	–	(12,665)	10,870
VILIBOR	+100	+100	(95)	(237)	–	–	(95)	(237)
			(86,483)	**(111,789)**	**56,638**	**798**	**(29,845)**	**(110,991)**
WIBOR	–50	–100	8,448	16,723	(3,895)	(10,589)	4,553	6,134
LIBOR	–	–25	–	10,700	–	–	–	10,700
EURIBOR	–	–150	–	94,999	–	9,990	–	104,989
PRIBOR	–50	–100	12,665	(10,870)	–	–	12,665	(10,870)
VILIBOR	–100	–100	95	237	–	–	95	237
			21,208	**111,789**	**(3,895)**	**(599)**	**17,313**	**111,190**

Variations of interest rates described above were calculated based on volatility of interest rates as at 31 December 2009 in comparison to 31 December 2008.

The above interest rates variations were calculated on the basis of interest rates variations in the period and analysts' forecasts.

The Group does not own financial instruments with fixed interest rates, measured at fair value in the statement of financial position. The Group measures derivative instruments at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2009 and 31 December 2008. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivative instruments) multiplied by adequate variation of interest rate. In case of derivative instruments, the influence of interest rate variations on fair value was examined at constant level of currency rates.

Risk of changes in commodity prices

The Group is exposed to changes in commodity prices due to:

- expenditures concerning purchases of crude oil for processing, which depend on the volume of processing, the level of inventory as well as the level of crude oil price on the global market and differential;
- revenues from sales of refinery and petrochemical products, which depend on the volume of sales, the level of prices on the global market.

As at 31 December 2009 and 31 December 2008 there were no financial instruments hedging the risk of changes in commodity prices.

Risk of CO_2 emission rights prices

On the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers PKN ORLEN was granted CO_2 emission rights. Detailed information is included in note 8.

Every year the Group perform verification of the number of rights and defines methods of systematic balancing of identified shortages/surpluses either in the way of intercompany transactions or through market term and spot transactions depending on the situation.

In 2009 the Group sold surpluses of CO_2 emission rights. The Group concluded forward purchase transactions for similar amount of rights.

As at 31 December 2009 and as at 31 December 2008 the Group possessed financial instruments in the amount of PLN 14,845 thousand and PLN 23,359 thousand respectively, which valuation depends on changes in prices for CO_2. emission rights.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Net gains/losses due to financial instruments recognized in financial revenues and expenses by category

	for the year ended 31.12.2009	for the year ended 31.12.2008
Financial assets and liabilities at fair value through profit or loss (held for trading)	(2,852)	(65,708)
Financial assets available for sale (recognized in the statement of comprehensive income)	(11,406)	31,317
Financial assets held to maturity	–	22,467
Loans (granted)	2,477	18,501
Financial liabilities measured at amortized cost	(291,813)	(1,339,858)
Current receivables	(34,172)	358,957
Short-term liabilities	329,135	(631,892)
Cash and cash equivalents	76,003	56,043
Ineffectiveness recognized in profit or loss during the period	14,819	(25,395)
Other hedge instruments	(10,990)	(3,046)
	71,201	**(1,578,614)**

Interest revenues and expenses were calculated using the effective interest method.

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

	for the year ended 31.12.2009	for the year ended 31.12.2008
Impairment allowances of shares in Companies	(870)	(8,061)
Impairment allowances of interest on receivables (classified as financial instruments)	(8,823)	(14,837)
	(9,693)	**(22,898)**

The impairment of receivables was disclosed in the note 27.

32. LEASES

a) Capital Group as a lessee

Operating lease

As at 31 December 2009 and 31 December 2008, the Group possessed non-cancellable operating lease agreements as a lessee. Operating lease agreements (tenancy, rent) regard mainly the lease of tanks, petrol stations, means of transportation and computer equipment. The lease contracts do not contain any clauses concerning conditional liabilities from lease fees. In the most cases there is the possibility to prolong the agreement. The lease payments, resulting mainly from tenancy and rent agreements, recognized as cost amounted to PLN 228,939 thousand in 2009 and PLN 203,531 thousand in 2008.

Future minimum lease payments under non-cancellable operating lease agreements mentioned above as at 31 December 2009 and 31 December 2008 were as follows:

	as at 31.12.2009	as at 31.12.2008
Up to 1 year	86,888	85,036
Between 1 and 5 years	336,321	338,087
Above 5 years	657,335	630,702
	1,080,544	**1,053,825**

Finance lease

As at 31 December 2009, The Group possess the finance lease agreements as a lessee.

In concluded lease agreements, the general conditions of finance lease are effective; there are neither particular restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning conditional liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

Future minimum lease payments under finance lease agreements mentioned above as at 31 December 2009 and 31 December 2008 were as follows:

	as at 31.12.2009	as at 31.12.2008
Up to 1 year	26,969	64,789
Between 1 and 5 years	52,668	55,515
Above 5 years	27,539	21,968
	107,176	**142,272**

Present value of future minimum lease payments under finance lease agreements mentioned above as at 31 December 2009 and 31 December 2008 was as follows:

	as at 31.12.2009	as at 31.12.2008
Up to 1 year	23,831	52,636
Between 1 and 5 years	43,197	50,631
Above 5 years	18,163	15,418
	85,191	**118,685**

The difference between total amount of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.

As at 31 December 2009 and 31 December 2008 the net carrying amount for each class of assets was as follows:

	as at 31.12.2009	as at 31.12.2008
Intangible assets	1,132	1,267
Acquired computer software	1,132	1,267
Property, plant and equipment	177,384	185,244
Buildings and constructions	24,034	16,763
Machinery and equipment	72,442	55,405
Vehicles	80,383	83,896
Other	525	29,180

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

b) The Group as a lessor

Operating lease

As at 31 December 2009 and 31 December 2008 the Group did not posses non-cancellable operating lease agreements as a lessor. Operating lease agreements possessed by the Group regard the lease of machinery, equipment, buildings and land. Most of the agreements were concluded for an indefinite period.

Finance lease

As at 31 December 2009 the Group as a lessor did not possess the finance lease agreements. As at 31 December 2008 the Group as a lessor possessed the finance lease agreements regarding the lease of distributors. Due gross lease investments for the tease agreements mentioned above amounted to PLN 17 thousand.

As at 31 December 2009 the Group did not posses present due minimum lease payments under finance lease agreements mentioned above. As at 31 December 2008 present value of minimum lease payments under one-year finance lease agreements amounted to PLN 17 thousand.

Disclosers resulting from IFRS 7 concerning financial lease are included in note 31 and are presented together with financials instruments.

33. INVESTMENT EXPENDITURES INCURRED AND PLANNED AND COMMITMENTS RESULTING FROM SIGNED INVESTMENT CONTRACTS

Investment expenditures incurred in 2009 and 2008 accounted for PLN 3,776,325 thousand and PLN 4,018,294 thousand adequately, including PLN 254,375 thousand and PLN 515,062 thousand of environmental protection related investments. As at 31 December 2009 and 31 December 2008 future liabilities resulting from contracts signed until this date amounted to PLN 969,908 thousand and PLN 1,969,908 thousand adequately.

34. RELATED PARTY TRANSACTIONS

Information on material related party transactions

a) Information on material transactions concluded by the Group Companies with related parties on other than market terms

In 2009 there were no material related transactions in the Group concluded on other than market terms.

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

In 2009 the Group companies did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or other agreements obliging, to render services to the Company and related parties. In 2009 there were no significant transactions concluded with members of the Management Board, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

c) Transactions with related parties concluded through the key management personnel of the Capital Group companies

In 2009 members of the key executive personnel of the Parent Company and the Capital Group companies basing on the submitted statements on transactions concluded with related parties disclosed the following transactions:

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

Type of relation through key executive personnel of the Company and the Group companies	Sales	Purchase	Receivables	Liabilities
Supervising persons	442,266	244,639	18,072	2,414
Managing persons	68	16	–	–
Other key executive personnel	16	–	–	–
	442,350	**244,655**	**18,072**	**2,414**

d) Transactions of the Parent Company with related parties in the period ended 31 December 2009 and the balance of settlements as at 31 December 2009

	Subsidiaries	Jointly controlled entities	Associates	Adjustments	Total related parties
Sales	22,263,291	1,835,038	18,155	(23,180,810)	935,674
Purchases	3,101,129	15,636	121,564	(3,108,947)	129,382
Interest income	6,622	1,344	8	(7,294)	680
Dividends received	199,106	–	418,222	(617,328)	–
Interest expense	9,331	–	3	(9,331)	3
Current receivables (net)	2,323,570	426,025	2,665	(2,536,583)	215,677
Receivables impairment allowances	477	3	18	(479)	19
Short-term liabilities	630,545	1,837	10,738	(631,464)	11,656
Non-current receivables	14,721	41,082	–	(35,262)	20,541
Long-term liabilities	24,617	–	–	(24,617)	–

The above transactions with related parties include sale and purchase of refinery and petrochemical products, crude oil and purchases of repair, transportation and other services.

Settlements with related parties include trade and financial receivables and liabilities.

The Group granted guarantees on the behalf of related parties in the amount of PLN 777,923 thousand.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

35. REMUNERATION, TOGETHER WITH PROFIT-SHARING PAID AND DUE OR POTENTIALLY DUE TO THE MANAGEMENT BOARD, SUPERVISORY BOARD AND MEMBERS OF KEY EXECUTIVE PERSONNEL IN ACCORDANCE WITH IAS 24

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

Remuneration of the Management Board, the Supervisory Board and the key executive personnel of the Company in 2009

	for the year ended 31.12.2009	for the year ended 31.12.2008
Remuneration of the Management Board Members of the Company	17,751	22,777
– remuneration paid and due to the Management Board Members performing the function for the year	14,358	21,661
– remuneration paid to the Management Board Members performing the function in the previous years	3,393	1,116
Remuneration of the Supervisory Board Members of the Company	1,210	1,094
Remuneration of the key executive personnel of the Company	32,584	41,697
Remuneration of the key executive personnel of the subsidiaries belonging to the Capital Group	144,108	140,811

2008 data in scope of remuneration of key executive personnel of the Group was adjusted of PLN 26,618 thousand to ensure comparability with current period.

Principles of incentives for key executive personnel (including Members of the Management Board)

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

The value of bonus granted depends also on the solidarity objective. When planned level of solidarity objective is realized, everybody receives bonus in full calculated amount. When the solidarity objective is not realized, all employees are granted half of worked out bonus. Introduced system encourages employees to cooperate in order to achieve the best results at the level of the Group.

Remuneration regarding non-competition clause and dissolution of the contract because of dismission from the position held

Agreements concluded between the issuer and managing persons constitute that the persons are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of a termination or expiration of the contract. In the period, Members of the Management Board are entitled to receive remuneration in amount of six or twelve monthly basic remuneration, paid in equal monthly installments.

Furthermore, contracts include remuneration payments in case ration of dissolution of the contract because of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

36. REMUNERATION ARISING FROM THE AGREEMENT WITH THE ENTITY AUTHORIZED TO CONDUCT AUDIT OF THE FINANCIAL STATEMENTS, DUE OR PAID FOR THE AUDIT AND REVIEW OF THE FINANCIAL STATEMENTS

In the period covered by these financial statements the Parent's auditor is KPMG Audyt Sp. z o.o., according to the agreement concluded on 30 May 2005 for the period of 2005–2009 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of unconsolidated and consolidated financial statements starting from the second quarter of 2005.

	for the year ended 31.12.2009	for the year ended 31.12.2008
Fees payable for the audit by KPMG Audyt Sp. z.o.o.* in respect of the Parent Company, incl:	1,340	1,460
– fees payable for the audit of the annual financial statements	615	730
– fees payable for other attestation services, incl. the reviews of the financialstatements	725	730
Fees payable for related services provided by KPMG Audyt Sp. z o.o.** in respect of Parent Company, incl.:	503	770
Fees payable to the KPMG companies for the audit in respect of subsidiaries, incl:	5,189	6,801
– fees payable for the audit of the annual financial statements	2,752	3,213
– fees payable for other attestation services, incl. the reviews of the financial statements	2,437	3,588
Fees payable to KPMG companies for related services in respect of subsidiaries, incl:	715	625
– fees payable for tax advisory services	715	128
	7,747	**9,656**

* Fees payable for the audit include gross amounts payable to the entity authorized to audit financial statements for audit of unconsolidated and consolidated financial statements of the Parent as well as reviews of interim quarterly and half-yearly unconsolidated and consolidated financial statements.

** Fees for remuneration for the related services comprise other gross amounts payable to the entity authorized to audit financial statements. They include services connected with audit and review of the unconsolidated and consolidated financial statements, other than those covered by the line "Fees payable for the audit ".

In 2005 a procedure on soliciting additional services with the auditor and entities related with auditor was introduced in the Parent. The Audit Committee of the Supervisory Board makes decision on awarding contracts to the auditor for additional services.

In the foregoing consolidated financial statements presentation of remuneration amounts resulted from the contract with the entity authorized to conduct audit and review of consolidated financial statements, was changed from gross amounts to net amounts.

Explanatory notes to consolidated financial statements for the year ended 31 december 2009 (all amounts in PLN thousand)

37. EMPLOYMENT STRUCTURE

	for the year ended 31.12.2009	for the year ended 31.12.2008
Average employment in persons		
Blue collar workers	13,010	12,578
White collar workers	9,953	10,742
	22,963	**23,321**
Employment in persons		
Blue collar workers	12,617	12,454
White collar workers	9,918	10,502
	22,535	**22,956**

The change of employment level in the Capital Group between the level as at 31 December 2009 and as at 31 December 2008 resulted from the changes in consolidated entities of 1,016 persons, and reduction of employment of (1,437) persons.

38. CONTINGENT ASSETS AND LIABILITIES

a) PKN ORLEN Group's for the year ended 31 December 2009 and 31 December 2008.

Contingent liabilities

	for the year ended 31.12.2008	Increase/ Decrease	for the year ended 31.12.2009
Legal cases related to real estates with undefined legal status	306	(306)	–
Anti trust proceeding of the Office for Competition and Consumer's Protection	18,500	–	18,500
Legal cases	17,396	(11,743)	5,653
	36,202	**(12,049)**	**24,153**

Contingent assets

In 2008 one of the Capital Group companies accomplished the investment in Nitric Acid Installation reducing nitrous suboxides emission, as according to regulation in law, that gives the possibility to obtain ERU 1,314 thousand of (Emission Reduction Unit) starting from the investment launch date till the end of the reporting period. The value of 1 ERU as at 31 December 2009 is estimated to approximately PLN 43 (based on CER quotations – Certified Emission Reduction). Currently the company is in the process of obtaining further opinions and acceptances of external authorities who decide on units allocation.

39. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION BODIES

As at 31 December 2009 the companies belonging to PKN ORLEN SA Capital Group were parties in the following proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

39.1. Proceedings, in which the PKN ORLEN SA Capital Group entities act as a defendant

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

Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares
On 30 June 2009 the Court of Arbitration in Prague:

- issued a statement in which it adjudged from PKN ORLEN to Agrofert Holding a.s. the amount of EUR 77,266,500 with interests and costs of proceedings, claimed in the law suit dated 16 December 2005. The statement was executed by PKN ORLEN on 3 July 2009,
- dismissed the law suit of Agrofert Holding a.s. against PKN ORLEN concerning payment of EUR 77,266,500, claimed in the law suit dated 3 April 2006, cancelling simultaneously costs of both parties,
- dismissed the law suit of Agrofert Holding a.s. concerning payment of CZK 409,102,494 claimed in the law suit dated 25 May 2006 and adjudged for PKN ORLEN a return of part of the proceedings costs.

At present arbitration proceedings initiated in December 2006 with a law suit in which Agrofert Holding a.s. claims the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s. are in progress. The value of the dispute amounts of CZK 19,464,473,000 with interests. PKN ORLEN SA considers this claim as groundless.

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

a) Tax proceedings in Rafineria Trzebinia SA

As at the end of the reporting period 31 December 2009, in Rafineria Trzebinia SA the following proceedings and tax controls are carried on:

- Tax proceedings concerning determination of excise tax liability for the period May–September 2004

As a result of the Customs Office proceedings, the excise tax liability for the period May–September 2004 was set at the amount of PLN 100 million. The Management Board of the Company filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków ("Director of the CC") kept the first instance authority's decisions in force. In February 2006, as a result of the motion of Rafineria Trzebinia, the Director of the CC suspended execution of the complained decisions until the case is decided by the Woivodship Administrative Court in Kraków ("WAC").

In its sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia and dismissed the decisions of the Director of the CC. On 16 January 2009 the Director of the CC submitted an annulment to the Supreme Administrative Court in Warsaw.

On 25 August 2009 the Supreme Administrative Court overruled the annulment of the Director of the Customs Chamber in Kraków concerning determination of excise tax liability for September 2004.

On 25 September 2009 the Head of the Customs Office in Krakow issued decisions determining the amount of excise tax liability for the months: May, June, July and August 2004 in the amount PLN 80 million. On 14 October 2009 Rafineria Trzebinia SA raised a complaint to the Director of the Customs Chamber in Krakow regarding the above mention decisions.

On 22 January 2010 the Director of the Customs Chamber in Krakow issued decisions for the months May, June, July and August 2004 dismissing entirely the first instance authority's decisions and decided to revoke it to reexamination by the first instance authority.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and the period January–April 2004**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. Additionally, in May 2006, tax control proceedings relating to the period January–April 2004 were instituted.

On 5 December 2007 the Director of the Tax Control Office in Kraków issued a result of tax control proceedings in respect of excise tax for 2002, acknowledging settlements made by Rafineria Trzebinia as correct.

In July 2008 Rafineria Trzebinia received a protocol prepared by the TCO concerning audit of the Company's accounting books for the tax year 2003 determining potential additional excise tax liability in the amount of PLN 73,408 thousand and protocol from audit of the accounting books for the period January–April 2004 determining potential additional excise tax liability in the amount of PLN 126,150 thousand. The company raised reservations and additional explanations to these protocols.

On 27 November 2008 a result of the fiscal control proceedings was issued in respect of reliability of declaration of tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the adequate result was issued for the period January–April 2004.

In the issued results it was stated, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand included in the excise tax return August 2003.

Rafineria Trzebinia SA appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia SA and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia SA raised a complaint to the Woivodship Administrative Court in Krakow against the above mentioned decision of the Director of the Customs Chamber in Kraków in respect of faulty formulation of legal justification.

- **Tax proceedings in respect of determination of value added tax amount for the period January–August 2005**

In October 2006 the Head of the Tax Office for Małopolska ("TOM") instituted tax control proceedings in respect of determination of value added tax liability for the period January, February and April–August 2005. Additionally, in February 2007 the Head of the TOM in Kraków instituted tax control proceedings relating to March 2005.

On 12 January 2009 the Head of the Tax Office for Małopolska in Kraków issued a decision on cancellation of tax proceedings regarding value added tax liability for the above mentioned period.

The amounts included in this note relate to the principal tax liabilities. As at the date of preparation of these consolidated financial statements, the final outcome of the above control proceedings as well as potential impact of the proceedings extended to other periods are not known yet.

The Management Board, based on opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings mentioned above will be favorable for Rafineria Trzebinia SA. As a result, no provision for potential liabilities has been created in these consolidated financial statements for 2008 and 2009.

As at the date of the preparation of these consolidated financial statements, the legal status has not changed.

b) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia SA

In March 2006 the Chairman of the Energy Regulatory Office instituted proceedings in respect of imposing a fine in connection with violating of concession terms regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of the European Union directives while on the one hand effective 1 May 2004 Poland became a member of the European Union whereas on the other hand no regulations of the Minister of Economy in respect of quality requirements for biofuels were available.

In September 2006 the Chairman of the ERO imposed a fine of PLN 1 million to Rafineria Trzebinia. The decision of the Chairman of the ERO was repealed in April 2007 by the sentence of the Court of Competition and Consumers Protection in Warsaw ("CCCP"). In November 2007 the Court of Appeals in Warsaw dismissed the appeal of the Chairman of the ERO and sentenced the reimbursement of court proceedings costs in favor of Rafineria Trzebinia. The sentence is legally binding.

In March 2008 the Representative of the Chairman of the ERO submitted an annulment, which on 4 September 2008 was accepted for recognition by the Supreme Court. In its sentence dated 5 November 2008 the Supreme Court repealed the sentence of the Court of Appeals in Warsaw and revoked it to reexamination by this Court. In the assessment of the Supreme Court it is necessary to carry out evidence proceedings in respect of quality norms specific for biofuels produced in the contentious period. At the same time the Supreme Court stated that concession possessed by Rafineria Trzebinia SA entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning necessity of evidence proceedings, repealed the sentence of CCCP District Court and revoked the case to its reexamination.

As at the date of the preparation of these consolidated financial statements, the legal status has not changed.

c) Power transfer fee in settlements with ENERGA-OPERATOR SA (legal successor of Zakład Energetyczny Płock SA)

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

• Court proceedings in which PKN ORLEN acts as a defendant

The subject of the court proceedings concerns settlement of the contentious system fee for the period from 5 July 2001 to 30 June 2002. The obligation to settle power transfer fee results from the electricity sale agreement between ENERGA-OPERATOR SA and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate Court.

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

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

On 10 September 2009 after analysis of ENERGA-OPERATOR SA appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA-OPERATOR SA. On 30 September 2009 PKN ORLEN made the payment. The Company also issued a legal request for justification, since an annulment to the Supreme Court against a sentence is possible within the 2-month period since delivery of a sentence with justification.

The Supreme Court sentence with justification was delivered to PKN ORLEN's attorney on 4 December 2009. On 4 February 2010 the Company submitted an annulment.

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

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

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

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

Eventual court ruling will not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

d) Anti-trust proceedings

As at the date of preparation of these consolidated financial statements, the Group is a party in the following anti-trust proceedings:

- Proceedings in connection with an allegation that PKN ORLEN concluded an agreement with LOTOS SA Group, which limited competition on the domestic market of trading in universal petrol U95 instituted in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN amounted to PLN 4,500 thousand. PKN ORLEN appealed to the Court of Competition and Consumer Protection against that decision. The date of a court seating was been set on 27 April 2010.
- Proceedings in connection with an allegation that in the years 2000–2004 PKN ORLEN was using practice limiting competition on the domestic market of trading in glycol by setting prices for “Petrygo” liquid to radiators, which were inadequate compared to increase in price of glycol, instituted in March 2005. In December 2006 the Chairman of OCCP imposed a fine on PKN ORLEN in the amount of PLN 14,000 thousand. PKN ORLEN appealed against this decision. According to independent legal opinions, there is low probability that the Company is charged with a fine. However due to the status of proceedings these consolidated financial statements include the respective contingent liability. The proceedings in front of the Court of Competition and Consumer Protection in Warsaw are in progress.
- Proceedings instituted in July 2008 in connection with an allegation that PKN ORLEN, Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of trading in engine liquid fuels. PKN ORLEN responded to allegations raised by the Chairman of the OCCP and filed a motion to issue a decision establishing a liability based on par. 12 of a competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine.

e) Claim of Tankpol Sp. z o.o.

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy Sp.j.) against PKN ORLEN. The claim concerns the return of 253 out of 470 shares in ORLEN PetroTank Sp. z o.o. that were transferred by Tankpol to PKN ORLEN as a security, based on the agreement dated 20 December 2002. The Court of Appeals in Warsaw pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy Sp.j. In this scope the sentence is legally binding. As a result of an annulment submitted by Tankpol R. Mosio i Wspólnicy Sp.j. the case was revoked to reexamination in front of the District Court in Warsaw. In its sentence dated 8 January 2010 the District Court dismissed the suit of Tankpol related to the return of 227 shares in ORLEN PetroTank. The sentence is not yet binding. Return of other 26 shares is already legally binding.

f) Penalty imposed by the European Commission on Unipetrol a.s.

In November 2006, the European Commission imposed fines on Shell, Dow, Eni, Unipetrol and Kaucuk for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s., its subsidiary at that time, were jointly imposed a fine of EUR 17.5 million. Unipetrol a.s. and Kaucuk a.s. paid the fine to the European Commission. At the same time, both entities appealed to the First Instance Court in Luxembourg. The court proceedings are currently in progress.

Following the above decision of the European Commission, Unipetrol a.s. received a claim for damages, which tire producers brought against all members of the ESBR cartel to the Supreme Court of England and Wales. The claimants request a compensation for damages, together with interest, relating to losses suffered because of an alleged cartel. The amount claimed is still to be assessed. Unipetrol a.s. challenged the jurisdiction of the British Courts to deal with the claim. The challenge of Unipetrol a.s. is pending.

At the same time, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings in front of a Court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred to tire producers as a result thereof. Eni's action has been presented to Unipetrol a.s., which decided to be a party of the proceedings.

The Court proceedings regarding Unipetrol's appeal against the European Commission decision took place on 20 October 2009 in front of the European Union First Instance Court. The sentence is to be announced within few months.

39.2. Court proceedings in which PKN ORLEN acts as plaintiff

Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce in London the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with transaction of purchase of AB Mažeikių Nafta shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB Mažeikių Nafta at the closing date of the purchase of AB Mažeikių Nafta shares by PKN ORLEN, i.e. on 14 December 2006.

On current stage of the case, demands of PKN ORLEN concern reimbursement of the amount of USD 250 million deposited in the escrow account as a part of the payment for AB Mažeikių Nafta shares in order to secure the potential claims of PKN ORLEN towards Yukos International. PKN ORLEN reserved a right to increase its demands or to make additional claims on further stage of the case.

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

The arbitration proceedings are carried on in front of the Court of Arbitration in London, based on Rules of Arbitration Proceedings of the International Chamber of Commerce.

On 4 December 2009 first seating took place in front of the Court of Arbitration in London. On the seating PKN ORLEN and Yukos International agreed above all proceedings schedule and extent of competence of the Court of Arbitration. According to the schedule PKN ORLEN's deadline for submitting a suit passes on 3 May 2010.

40. ADDITIONAL INFORMATION

a) Events and conditions that may influence future results

The Parent Company is in the process of collection and analyze of binding offers from potential purchasers of its shares in "Anwil" SA Capital Group covered with consolidated financial statements, authorized to the next faze of the sale process As at 31 December 2009 total assets of "Anwil" SA Capital Group amounted to PLN 2,699,293 thousand, net assets PLN 1,942,963 thousand, net income for the year-ended 31 December 2009 PLN 66,679 thousand.

The Parent Company is in the process of preparation of sale of shares in Polkomtel SA valued in consolidated financial statements of the PKN ORLEN Capital Group with equity method in the amount of PLN 1,347,403 thousand.

On current stage of the case final effects of these processes can not be determined.

b) Other information

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure amounted to PLN 1,289,169 thousand as at 31 December 2009.
Guarantees and sureties amounted to PLN 224,765 thousand as at 31 December 2009.

41. SIGNIFICANT EVENTS AFTER THE DATE OF THE REPORTING PERIOD

After the reporting period no significant events that may have an impact on future financial results took place.

42. OTHER

The foregoing consolidated financial statements were authorized by the Management Board of the Parent in Warsaw on 29 March 2010.

Dariusz Krawiec
President of the Board

Sławomir Jędrzejczyk
Vice-President of the Board

Wojciech Kotlarek
Member of the Board

Krystian Pater
Member of the Board

Marek Serafin
Member of the Board

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