ORLEN

SUPPORTING
THE INTERNATIONAL
YEAR OF CHEMISTRY

The International Year of Chemistry 2011

PKN ORLEN Annual Report

2010

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Annual Report {2010}

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Composition of the Supervisory Board as of 31 May 2011.

Letter from the Chairman of the Supervisory Board

Dear Sir or Madam,

After a particularly difficult period of economic downturn, the year 2010 brought ease and a growing stabilisation of the market. Due to a well-considered strategy PKN ORLEN managed to take full advantage of the improved macroeconomic climate. Consistency in implementation of optimising solutions resulted in achievement of the best financial result in five years and significant strengthening of the Company's position. This confirmed adequacy of the adopted and consistently implemented plan for development of the Company.

In 2010 the Company completed the first stage of the strategy developed two years earlier. Results achieved in that period considerably exceeded market expectations and improved the Company's financial liquidity. Operating profit for the last year amounted to PLN 3.1 billion, while net profit amounted to PLN 2.5 billion. Moreover, the Company achieved record total sales volumes, which exceeded the level of 34 million tonnes for the first time in history. Visible reduction of debt enhanced the trust of investors and shareholders as well as strengthened the position of PKN ORLEN.

The Company continued preparations for divestment processes planned in the long-term development strategy for PKN ORLEN. These transactions will allow the assumed ownership structure of ORLEN Capital Group to be achieved. However, it is worth noting that due to significant improvement of the financial standing of the Company and thus ability to finance development investments from current funds it will be possible to carry out divestments at the convenient time for the Company, when favourable market conditions will allow the Company to achieve the highest possible capital gains.

PKN ORLEN continued to develop on international markets, among others in Germany where in 2010 – in accordance with the acquisition plan included in the strategy – it expanded its fuel stations network by 56 new stations. Due to completion of proceedings between Agrofert Holding and PKN ORLEN in the arbitration court Unipetrol strengthened its position on the Czech market and investors' trust in the company increased, which resulted in significant increase of the stock exchange price.

In 2010 the Company also conducted analyses that will allow it to develop strategies for investments in Lithuania.

Letter from the Chairman of the Supervisory Board

Last year activities centred around the development of new investments and expansion of these competencies of the Company that constitute the basis for implementation of the second stage of the strategy assuming development of PKN ORLEN into the multi-utility company. In the scope of all concessions held for exploration of raw materials the Company conducted in accordance with the plan numerous technical and strategic research works and analyses which will allow to further develop activities in this segment. Moreover, the Company carried out increasingly advanced works on development of the energy sector, for example construction of the gas power plant in Włocławek entered into a new stage of works.

Moreover, in 2010 the Company implemented the strategy of developing key productive assets. It is worth noting that 2010 was crucial in terms of completed technological investments, both in the petrochemical segment and in the scope of development of the energy sector. These will allow the company modernise production processes, increase efficiency of petrol usage and expand the portfolio of petrochemical products. Completed projects mark the beginning of the series of environmental investments constituting a part of the Company's development strategy.

Last year PKN ORLEN conducted numerous image projects related to questions of vital importance for Poland and the Polish economy, initiated a debate on economic issues and supported development of Polish sport and Polish sportsmen on the international arena. Activities carried out by the Company were appreciated and awarded by experts as well as the public.

I hope that for PKN ORLEN the coming year will be the time to further strengthen its market positious and improve its financial standing. I am convinced that striving persistently to fulfil the assumed objectives will allow us to take advantage of the macroeconomic situation in the best possible way to ensure development of the Company.

Maciej Mataczyński

Chairman of the Supervisory Board
of PKN ORLEN

PKN ORLEN Management Board

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

From 7 June 2008 he acted as Vice-President of the Management Board of PKN ORLEN and on 18 September 2008 he was appointed President of the Management Board, CEO. Aged 43, he is a graduate of the Poznań University of Economics.

In the years 1992–1997 he worked for Bank PEKAO SA, Ernst & Young SA and Price-Waterhouse Sp. z o.o. In 1998, he was with the UK branch of the Japanese investment bank Nomura plc headquartered in London, where he was responsible for the Polish market.

Next, in 1998–2002, he held the post of President of the Management Board and CEO of Impexmetal S.A. In 2002 he became President of the Management Board of Elektrim S.A. From 2006 to 2008 he was President of the Management Board of 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 was a member of 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, he serves as Chair of the Supervisory Board of Unipetrol a.s. and Member of the Supervisory Board of Polkomtel SA.

Sławomir Jędrzejczyk – Vice-President of the Management Board, Chief Financial Officer

On 7 June 2008 he was appointed Member of the Management Board of PKN ORLEN, and Vice-President of the Management Board, CFO in September 2008. Aged 42, he is a graduate of the Łódź University of Technology. In 1997, he graduated from the Association of Chartered Certified Accountants in London as a British Certified Accountant.

In the years 1992–1997 he worked for: Telebud, ASEA Brown Boveri, PriceWater-house Sp. z o.o. In 1997–2002 he was Member of the Management Board, Financial Director in Impexmetal SA He served as Chair and Member of the Supervisory Boards of the Group's companies in Poland, Europe, Singapore and the US. In 2002–2003 he held the position of Financial Director in ORFE SA and Member of the Management Board of Cefarm Śląski SA In the following years (2003–2005) he headed the Controlling Division of Telekomunikacja Polska Group. From 2005 until June 2008 he served as President of the Management Board, CEO of TPEmiTel Sp. o.o. controlled by Telekomunikacja Polska Group.

Currently, he is Deputy Chair of the Supervisory Board of Unipetrol a.s., Member of the Supervisory Board of Polkomtel S.A. and Member of the Management Board of AB ORLEN Lietuva.

Composition of Management Board as of 31 May 2011.

PKN ORLEN Management Board

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 49, he is a graduate of the AGH University of Science and Technology in Kraków, Faculty of Drilling, Oil and Gas. In 1997–2002, he completed post-graduate courses at the Warsaw School of Economics: "Project Management" and "Enterprise Management Strategy".

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

Currently, he presides over the supervisory boards of the following companies: IKS "Solino" SA, 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 15 March 2007. Aged 46, he is a graduate of the Nicolaus Copernicus University in Toruń, Faculty of Chemistry.

He completed post-graduate courses in "Chemical Engineering and Equipment" at the Warsaw University of Technology (1989), "Management and Marketing" at the Paweł Włodkowic University College (1997), "Petroleum Sector Management" (1998) and "Value Based Management" (2001–2002) at the Warsaw School of Economics.

From 1993, he worked in Petrochemia Płock S.A., and then PKN ORLEN, where from 2005 to 2007 he performed the duties of Executive Director for Refinery Production.

Currently he is Member of the Management Board of AB ORLEN Lietuva and Member of the Supervisory Board of Unipetrol a.s. Additionally, he holds the functions of: Vice-President of the Management Board of SITPNiG, Member of the Management Board of CONCAWE and Chairman of the Association of Oil Industry Workers in Płock.

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 41, he is a graduate of the Poznań University of Technology, Faculty of Civil Engineering. He completed MBA studies at the Warsaw University of Technology Business School organised in collaboration with the London Business School.

In 1994–1998 he held the position of Experienced Senior Consultant at Arthur Andersen, later, in 1998–1999, he worked as Operating Planning Director in Kampania Piwowarska SA. In 1999–2002, he worked for Impexmetal S.A. Group, first as Operations Director at Huta Aluminium "Konin" SA, then as President of the Management Board, CEO of Huta "Zawiercie" SA. From 2002 he was General Manager at the ArcelorMittal Group and, concurrently, President of the Management Board of Huta Warszawa, as well as President of the Management Board of Silscrap Sp. z o.o.

Currently he serves as: 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 Management Board of PKN ORLEN

Ladies and Gentlemen,
Dear Shareholders,

It is with great satisfaction that I announce the successful completion in 2010 of the first stage of the Company's strategy adopted two years earlier. Moreover, we posted the best financial results in five years. The Company's position at the beginning of the previous year was not comfortable, both due to its precarious financial standing as well as the prevailing economic environment. The results for 2010 fully confirm that the pursued strategy is effective and well chosen.

After two years of downturn, the economic conditions in the fuel industry began to stabilise, which is particularly important for downstream companies. The improved economic climate combined with measures taken to enhance our operating efficiency allowed us to close the year with excellent financial results, which surpassed market expectations.

In 2010, operating profit was PLN 3.1bn and net profit reached PLN 2.5 bn. Revenue generated in 2010 grew by 23% year on year, while operating and net profit were higher by PLN 2 bn and PLN 1.2 bn, respectively, than the 2009 figures. The Company posted the highest ever total sales volumes of more than 34 million tonnes, with the strongest growth recorded by the retail segment. Last year, the ORLEN Group increased the volume of crude oil processed to 28 million tonnes. A particularly noteworthy fact was that in Q4 2010 the Lithuanian Mazeikiu refinery fully utilised its production capacities for the first time in a decade.

Although the economic recovery was still very fragile, we were able to significantly improve our liquidity position, as evidenced by PLN 3.2 bn of free cash flows and more than EUR 1bn of available credit facilities. Thanks to our determination in pursuing the envisaged objectives, the ORLEN Group emerged from a difficult period and regained the trust of its Shareholders, financial institutions and rating agencies – Fitch and Moody's upgraded the Company's rating outlook from negative to stable, and the price of PKN ORLEN shares grew by as much as nearly 35% over the year, outperforming the WIG 20 index, which gained less than 15%.

2010 also witnessed intensive work to prepare and lay down strong foundations for the second stage of the Group's strategy whereby it is to develop into a multi-utility business. Although the process will be long and require substantial capital expenditure, all the strategic and technical objectives have been met according to plans. As part of our strategy aimed to develop the upstream operations, in 2010 we carried out tests and analyses under another phase of work on all our exploration licences on the Baltic shelf, in the province of Lublin and on the Sieraków field, where we are engaged in a joint project with PGNiG. Moreover, we executed an agreement with the Ukrainian Ministry of Environmental Protection, under which we will be able to explore for hydrocarbons in the territory of Ukraine.

We are also well advanced in the work designed to develop a power generation segment, where the first stage will consist in the construction of a gas-fired power plant in Włocławek. In 2010, we obtained two key documents: a final environmental permit for the project and a grid connection approval. We also announced a tender to find a supplier of a steam turbine to be installed at the plant.

We continue our efforts to achieve the Group's target ownership structure. In that context, in 2010 we were mainly involved in preparations to sell our stakes in Polkomtel and Anwil. Thanks to the work carried out in 2010 related to the disposal of Polkomtel shares, we reached the most advanced stage of the transaction to date. On the other hand, due to unfavourable market conditions, we did not close the sale of Anwil shares, which we believe were undervalued by bidders. It is worth noting that – thanks to the significant strengthening of the Company's financial standing over the last two years – we can afford to put our divestment plans on hold until the market climate becomes more favourable. In response to signals from the market, we began to analyse in detail the scenario of making two separate sale offers, one for Anwil's fertiliser segment and one for its PVC production business.

In 2010, we also took steps to develop the optimum strategy for ORLEN Lietuva. A reputable advisor – global investment bank Nomura – was engaged to prepare a relevant recommendation. We expect the recommendation to be delivered in late Q1 or early Q2 2011.

As part of our strategic commitment to identify acquisition opportunities which satisfy our requirements, we expanded our German network to include 56 new service stations in Thuringia and Saxony, purchased last year from OMV Deutschland GmbH. As a result, the German network of the ORLEN Group entered new markets in those German states where it was previously absent.

In 2010, the Arbitration Court of Prague passed the long-awaited awards in the arbitration proceedings instigated against PKN ORLEN by Agrofert Holding. The Court, which considered the individual cases, dismissed three of the four claims brought by the Czech company and declared 90% of the total damages claimed to be groundless. The resolution of the dispute, which lasted for many years, contributed to the stabilisation of the Company's position in the Czech Republic, helping restore investor confidence. The price of Unipetrol shares surged by more than 41% over 2010.

The previous year saw a breakthrough in the Group's technology-related capex projects covering its key production assets.

As planned, we placed in service a hydrogen generation unit and commissioned a diesel oil hydrodesulphurisation unit (HON VII). We also completed the technical stage of the construction of strategic facilities in the petrochemical segment, i.e. a paraxylene unit in Płock and a purified terephthalic acid unit in Włocławek. The launch of the units will allow us to significantly enhance gasoline utilisation and expand our petrochemical product mix. We also launched a programme designed to develop our power generation assets. We started the first project in that area – the construction of the most technologically advanced steam boiler in Poland – one of a number of environmental projects planned to be implemented by the end of 2017.

Letter from the President of the Management Board of PKN ORLEN

To sum up the Company's activities in 2010, we need to mention projects run by the Company as a leader of the Polish economy. One of the key projects was the Company's first "Future Fuelled by Knowledge" conference, devoted to Poland's economic transformation after 1989, which attracted many prominent representatives of the political, cultural and business life. The conference was a natural expression of PKN ORLEN's philosophy whereby it has committed to raise themes relevant for business and initiate public debate on key economic issues. The Company also remains engaged in important sports events and supports talent representing Poland on an international arena.

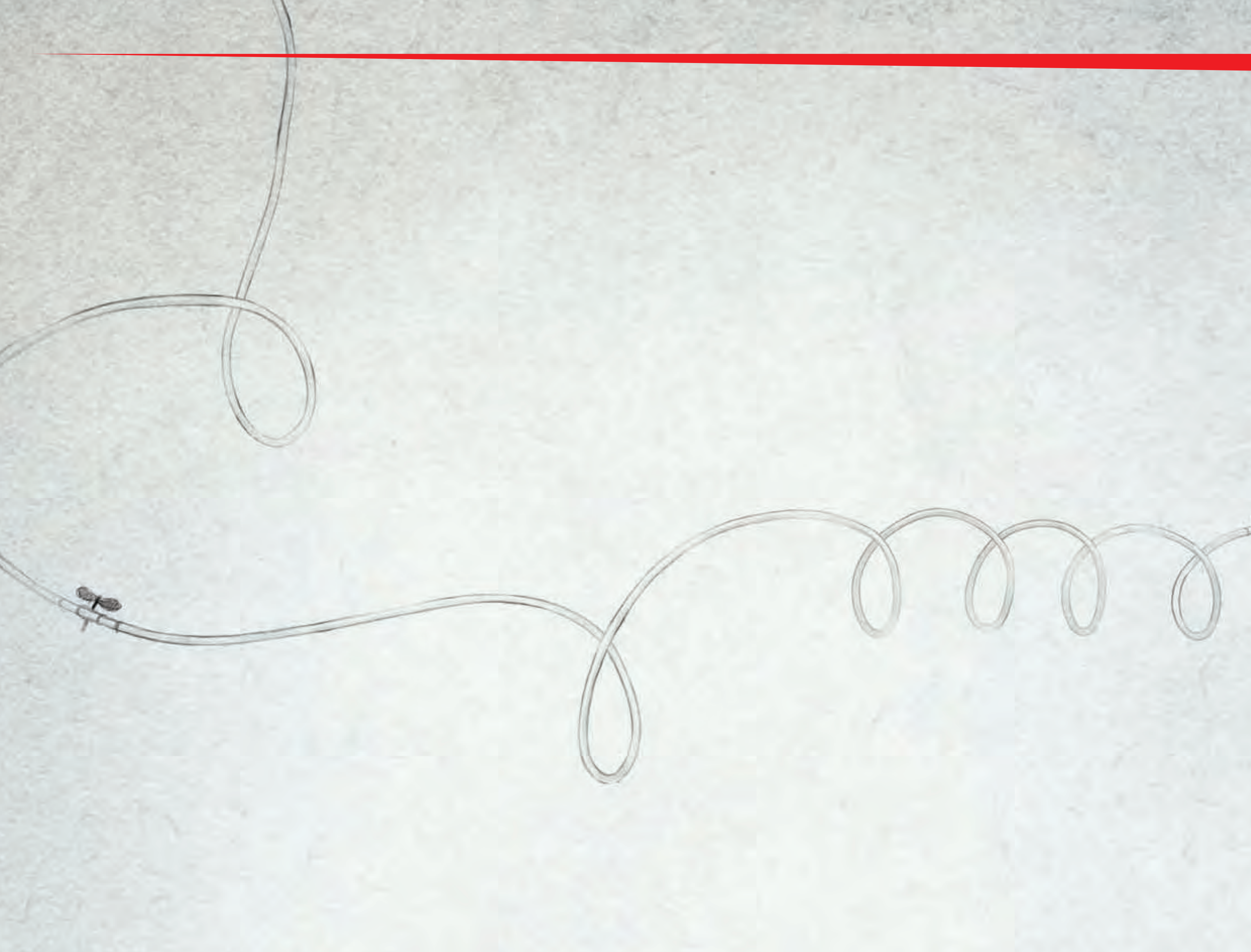
Over the last 12 months, the Company's efforts were appreciated both by experts and the public. ORLEN was awarded the title of the most valuable Polish brand in the ranking of the Rzeczpospolita daily, we were also the highest ranked Polish company in the Platts TOP 250 Global Energy Companies ranking. The accuracy of our decisions was confirmed by the Best Managed Company in CEE 2010 award granted by the prestigious Euromoney magazine and the IR Magazine's award for the best investor relations. The Company was also granted the title of IT Leader for the best implementation of IT resources in the industrial sector.

At the beginning of 2010, we were confident that we were following the right path and that our plans would allow us to strengthen the Company's market position. We achieved much more than we hoped for. The ORLEN Group is regaining strength and its development plans are based on solid foundations, which justifies an optimistic outlook for the future.

However, that success would not be possible without the effort and commitment of the Company's Employees and Partners, to whom I am deeply grateful. I would also like to thank the Shareholders and Members of the Supervisory Board for their trust and support, which helped us deliver all our strategic objectives and post such excellent performance, benefiting the entire ORLEN Group.

Dariusz Jacek Krawiec

President of the Management Board, CEO
PKN ORLEN



THE INTERNATIONAL YEAR OF CHEMISTRY 2011

It would be difficult to imagine modern civilisation without chemistry. Cleaning products, medications or fuel would not exist without complex chemical processes used at every stage of industrial production. A lot of daily use products such as kitchen tables, plates, wall and floor coverings, textiles, and even casings of computers and mobile phones are the products of modern chemistry. It lies behind almost every item and product we deal with in everyday life. Even food we eat is in substantial part chemically processed, and its basic ingredients have been produced on the basis of artificial fertilisers containing precisely controlled amounts of elements stimulating the growth of plants. “Artificial fertilisers are so important for our civilisation that if they were withdrawn from use, within one year probably one in three or four people in the world would die of hunger” – emphasizes Prof. Dr. Hab. Robert Hołyst from the Institute of Physical Chemistry at the Polish Academy of Sciences.

source: Institute of Physical Chemistry (Polish Academy of Sciences) – www.ichf.edu.pl

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.

PKN ORLEN is a regional leader of the crude oil industry, a leading producer and dealer of refinery and petrochemical products. The main activities of the Company include processing of crude oil into petrol, diesel fuel, furnace oil, aviation fuel, plastics and petrochemical products.

The Company manages seven refineries in Poland, the Czech Republic and Lithuania, including refinery and petrochemical facilities located in Płock (Poland) ranked among the most modern and efficient facilities of the kind in Europe.

PKN ORLEN has the largest fuel station network with 2,601 fuel stations in Central Europe, covering Poland, Germany, the Czech Republic and Lithuania. ORLEN retail network is based on effective logistics infrastructure consisting of over and underground storage facilities and a network of long-distance pipelines.

As at the end of 2010, the number of ORLEN Group employees totalled 22,040* people, including 4,513 in PKN ORLEN, 4,250 in Unipetrol Group, 2,696 in ORLEN Lietuva Group and 126 in ORLEN Deutschland.

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 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, as well as WIG-fuel index. Since 19 November 2009, PKN ORLEN has maintained its position in the elite group of Polish companies included among the Respect Index, an index of companies involved in corporate social responsibility.

The Company share capital 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.

** In this context ORLEN Group refers to the Company and its subsidiaries covered by consolidation.*

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 two shares of the Company.

One of PKN ORLEN subsidiaries, the Czech company Unipetrol a.s., is also present on the capital market, with its shares listed on the Prague Stock Exchange, and the OTC market (RM-SYSTÉM a.s.). This company's share capital 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. Par value of 2,000 bonds in trading amounts to CZK 2,000,000,000.

In 2010 the price of PKN ORLEN shares increased by almost 35%, while in the same period the index of the biggest WIG20 companies increased by no more than 15%. As at the end of the year one share of the Company was worth PLN 45.8, which means that the market value of the Company amounted to PLN 19,589 mln. On the continuous quotation market in the previous year about 300 mln shares changed their owner, which constitutes 70% of issued shares. The lowest price in that year was PLN 30.90, whereas the highest price was PLN 49.55.

ORLEN Brand

Although the ORLEN brand has been present on the market for a relatively short time, i.e. since 2000, today it is the most valuable Polish brand, the synonym of the national, modern, professional brand offering innovative products and solutions on the world-class level, serving people in their everyday life in accordance with the credo: "Always there when you need us".

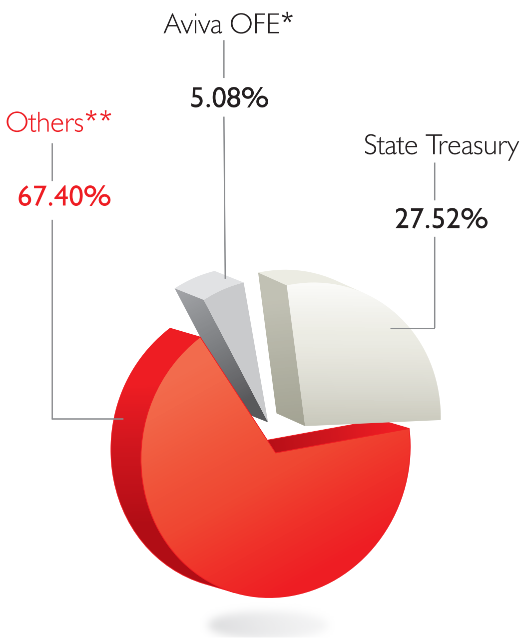
After a decade PKN ORLEN has become the leader of the Polish economy, as well as the regional leader of the refinery and petrochemical industry. PKN ORLEN brand is the symbol of the world-class products brand and model expansive enterprise, a company observing the principles of corporate social responsibility, ethics, corporate governance and full transparency, taking care of development of its employees and protecting the natural environment. Thanks to effective domestic and international investments, ORLEN has joined the group of companies perceived as model representatives of their countries.

The market image of the Company is shaped by the network of ORLEN fuel stations. ORLEN brand marks motor fuels, operating fluids, car lubricants and a broad range of other automotive chemicals.

The current value of the corporate brand is evidenced by the fact that in 2010 ORLEN brand was declared, already for the fourth time in succession, the most valuable domestic brand. In the MARQA ranking the brand came first and was valued at almost PLN 3.8 billion. At the same time it recorded increase of value by 4% as compared to 2009. Moreover, the Company's economy station brand – BLISKA was highly ranked in the 16th position and its value was estimated at PLN 699.7 mln.

PKN ORLEN SHAREHOLDING STRUCTURE

as at 31 December 2010



** According to information submitted to the Company on 9 February 2010.*

*** On 23 November 2010 the Company received a notification that on 18 November 2010 ING OFE decreased its share to the level below 5%.*

In 2010 PKN ORLEN again won the first place in the Polish edition of the biggest consumer survey European Trusted Brands and received the Golden Trusted Brand Logo. The survey was organised by Reader's Digest monthly. In the "Fuel Station" category the Company also took the highest position as the brand with the best reputation in terms of ecology. In 2011, already for the tenth time in a row, the Company was awarded the title of the Trusted Brand in the "Fuel Station" category.

The Company may be also proud of the title of the Polish Economy Ambassador in the category "European Brand" in the second edition of the competition organized by Business Centre Club under the honorary patronage of the Minister of Foreign Affairs. It has been appreciated that PKN ORLEN is a reliable economic partner promoting Poland on the international arena and contributing to economic growth of the country.

Corporate social responsibility

Understanding the importance of the issue and growing role of corporate social responsibility the Company is implementing the project "PKN ORLEN 2011–2013 corporate social responsibility strategy", which focuses on supporting business objectives and the potential directions of development of the Company.

The Company is distinguished by regularity and quality of social reporting. The jury of the "Social Reports" competition organized by CSR Consulting, Responsible Business Forum and PricewaterhouseCoopers awarded PKN ORLEN the document for the third time in a row with the prestigious distinction for the best report.

An important element of social activities conducted by PKN ORLEN is its charity policy. For a few years now the Company has been solidifying the tendency to consistently conduct activities within the scope of a couple of important directions of charity policy instead of performing separate activities related to charity.

ORLEN. Safe Roads

ORLEN. Safe Roads programme has been actively conducted by PKN ORLEN since 2006. Its aim is to promote and educate about road traffic safety. So far four editions of the Programme have been completed.

Already the fourth edition of ORLEN. Safe Roads programme carried out in 2010 had the motto "2 hours driving, 20 minutes break" and informed how important it is to be rested when sitting at the steering wheel and to make regular stops during long trips by car.

Social sponsoring

PKN ORLEN participates in the implementation of major projects and activities related to promotion of national heritage, Polish culture and tradition. In 2010 the Company continued cooperation with the National Museum in Warsaw, which entailed activities related to the celebration of the 600th anniversary of the Battle of Grunwald. Moreover, PKN ORLEN contributed to the purchase of specialist conservation equipment necessary for renovation works on "The Battle of Grunwald" painting by Jan Matejko.

During 2010, in response to the needs and expectations of the local community the Company continued cooperation with the Mazovian Museum in Płock with the most valuable collection of Art Nouveau in Poland. Activities targeted at the local community also include support of professional sport. In 2010 the Company became the titular sponsor of the Wisła Płock handball team.

PKN ORLEN also engaged in social initiatives. In order to direct attention to problems facing mentally disabled people and contribute to the removal of barriers between the disabled and healthy people, PKN ORLEN supported the organization of the European Summer Special Olympics, which gathered almost 1,600 competitors representing in total 56 countries from Europe and the CIS countries.

As the market leader PKN ORLEN engaged in organization of important industry events, as well as those distinguishing vigorous enterprises. For instance, the Company participated in sponsoring of the ranking of "500 most valuable brands" by Rzeczpospolita daily, the Congress of Crude Oil and Gas Entrepreneurs in Bóbrka or the ranking "Listed Company of the Year" organized by Puls Biznesu daily. During the 20th Economic Forum in Krynica PKN ORLEN organized a panel discussion: "Implications of strategic and international significance of shale gas production in Poland". The experts' debate focused on the significance of discovery of unconventional gas deposits in Poland from the regional and international perspective.

Sports sponsoring

ORLEN Team

The first professional rally team in Poland was created on the initiative of the Company. The team was created in 1999 and from that time it has been one of the main pillars of the Company's sponsoring communication for the ORLEN commercial brand and the VERVA product brand. In 2010 the drivers again achieved very good results at all key events. Kuba Przygoński opened the year with a fantastic result in the 32nd Dakar Rally, taking the 8th place and becoming the highest ranked Polish motorcyclist in the history of this extremely difficult competition. Subsequently, other drivers contributed their titles: Krzysztof Hołowczyc won the FIA Cup for Cross-Country Bajas and Jacek Czachor became the World Vice-Champion. Kuba Przygoński expanded his successes with the 3rd place in the European Championship cycle, while Marek Dąbrowski took the 5th place. Moreover, Szymon Ruta was highly ranked, who participated in flat rallies and finished at the 7th position when participating for the first time in the cycle of the European Rally Championships.

VERVA Racing Team

In 2010 PKN ORLEN created VERVA Racing Team, the first Polish racing team in history participating in the prestigious Porsche Supercup series. VERVA Racing Team is not only sport undertaking on unprecedented level in Poland, but also an innovative platform of marketing communication supporting sales and strengthening the image of the key brand of the Company – premium VERVA fuel.

VERVA Street Racing

In August 2010 on the street track in the centre of Warsaw over 75 thousand viewers admired in person the struggle of the fastest sports cars in the world, while about 15 million people viewed the event via broadcasts in the media. Organized by PKN ORLEN innovative VERVA Street Racing event gave automotive fans a unique opportunity to see the competition of F1 cars, stunt motorcycles, cars participating in Porsche Supercup series. Due to success of the project, it will be continued in 2011.

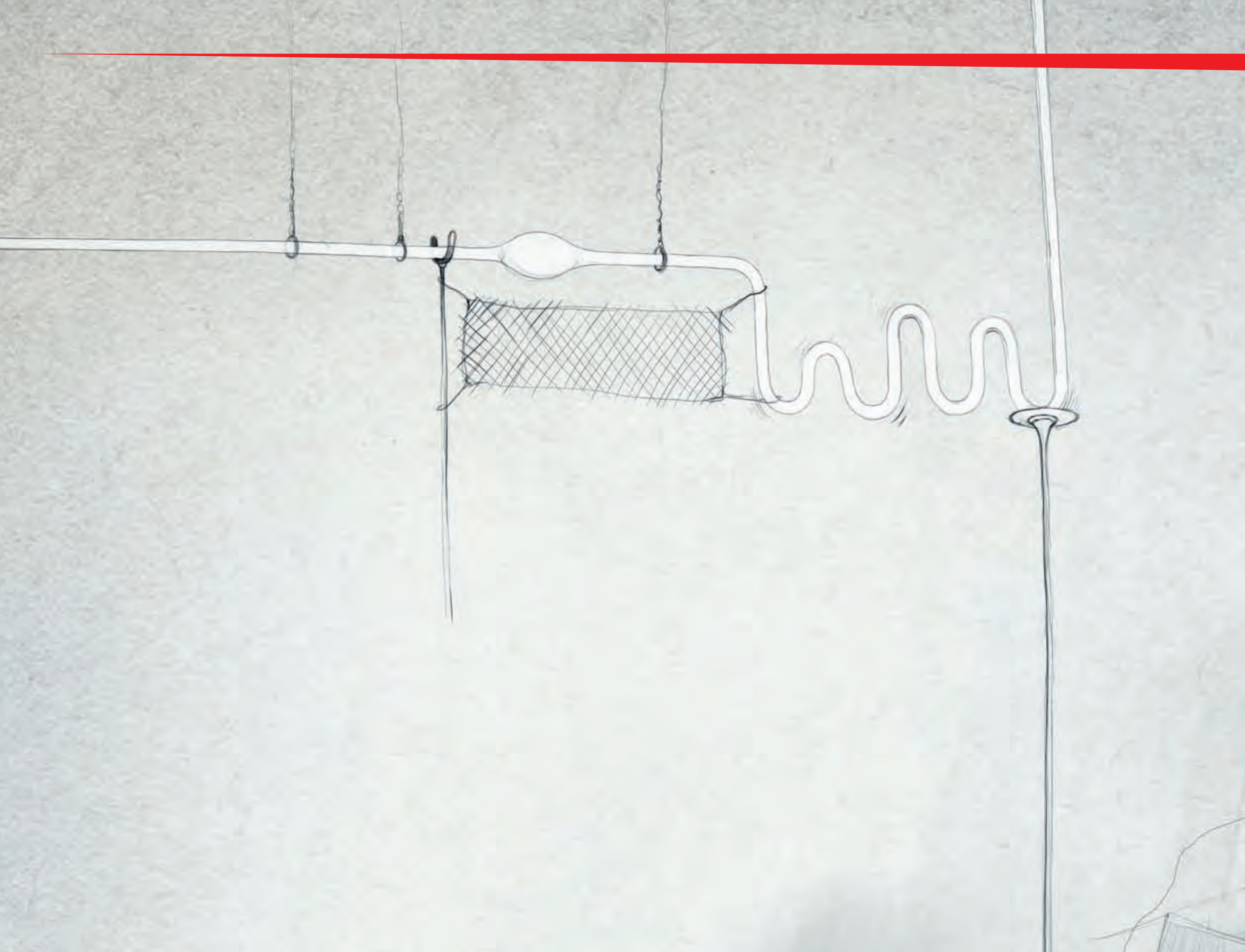
Olympic Mobile Stop Cafe

Olympic Mobile Stop Cafe was the initiative of PKN ORLEN – the sponsor of the Polish representation at the Olympic Games in Vancouver. At the time of the Olympic Games, during three successive weekends of February the mobile Stop Cafe restaurant toured the resorts in the Tatra Mountains. The key element of the project was Olympic Mobile Stop Cafe – catering trailer promoting the Stop Cafe brand.

ORLEN Sports Team

Apart from automotive sports, another sport discipline most intensively supported by PKN ORLEN is athletics. Due to its national character, PKN ORLEN marks its presence in the sport that stimulates emotions in a unique way. The year 2010 constituted uninterrupted series of successes of the ORLEN Sports Team members composed of the best Polish athletes leading on international arenas and setting new records. At the European Championships in Barcelona Piotr Małachowski won the gold medal, Tomasz Majewski got the silver medal, while Anita Włodarczyk – the bronze medal. Moreover, Piotr Małachowski won the Diamond League, and Anita Włodarczyk set the world record in the hammer throw at the 10th European Athletic Festival Enea Cup in Bydgoszcz, thus marking herself for the second time in the history of this sport as the record-setter in this discipline. Also last year the Company started cooperation with Marcin Lewandowski and Adam Kszczot – the gold and bronze medals winners in 800m run at the European Championships in Barcelona.

In total, Polish athletes brought to Poland from Barcelona 9 medals, which is the best result of our representatives at the European Championships since 1974. This result gave the Polish representation, whose general sponsor is PKN ORLEN, the 8th place in the medal count (after Russia, France, Great Britain, Germany, Turkey, Spain and Ukraine). Moreover, Poland took the 7th place in the score count, taking into account the places from 1 to 8 (after Russia, France, Great Britain, Germany, Spain and Ukraine).



MARIA SKŁODOWSKA-CURIE (1867–1934)

Born on 7 November 1867 in Warsaw, died on 4 July 1934 in Passy.

An outstanding Polish physicist and chemist who lived and studied in France, the first woman awarded with the professor degree at the Sorbonne, wife of Piotr Curie. In 1898 she discovered with her husband radium and polonium. She was a co-founder of the science of radioactivity (she introduced the term "radioactivity"), the author of pioneer works on physics and nuclear chemistry.

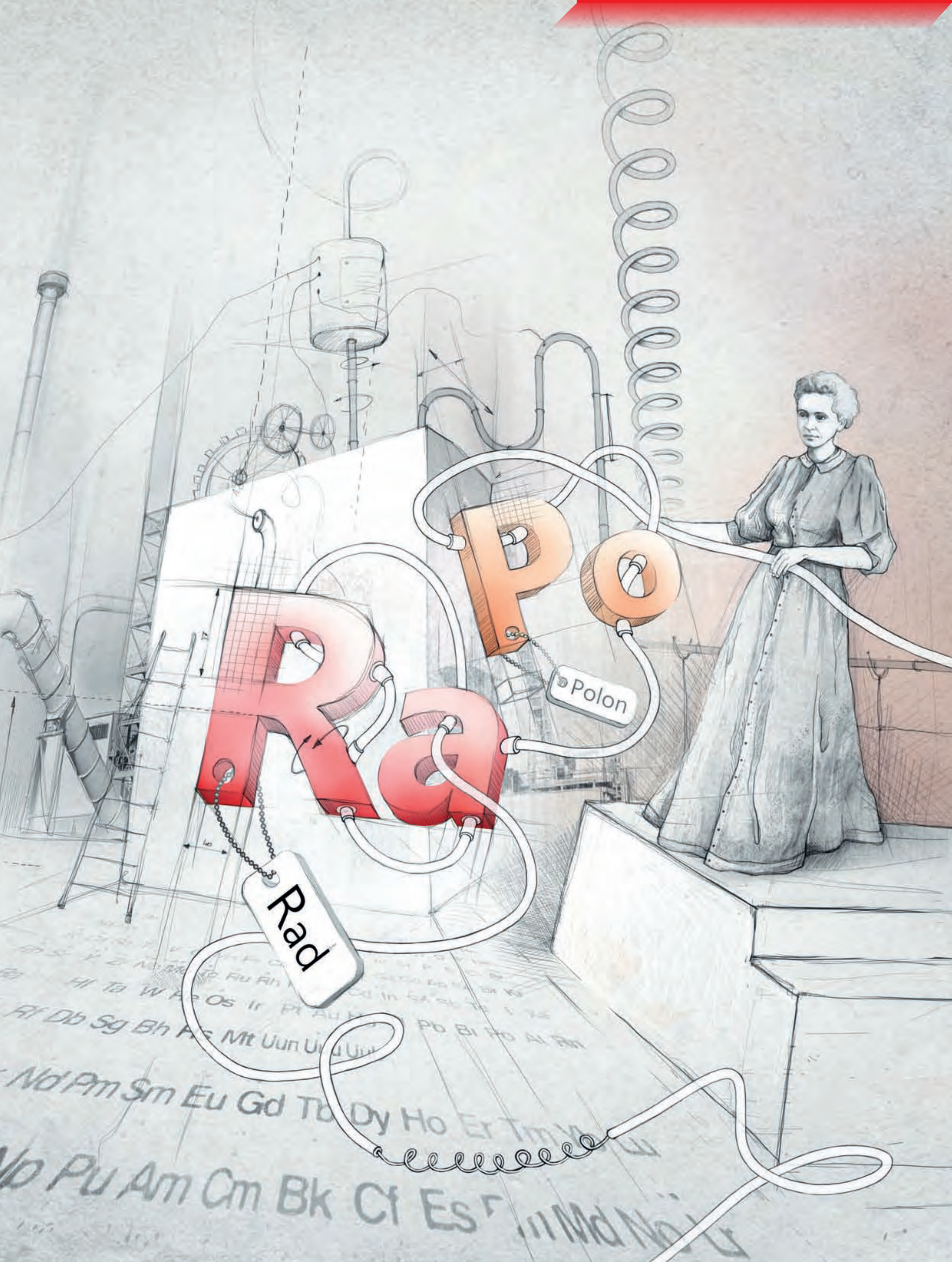
She was twice the laureate and the first woman who received the Nobel Prize – in 1903 with her husband for research into natural radioactivity phenomenon discovered by Henri Becquerel (in physics) and in 1911 for work on chemical and physical properties of polonium and radium, and for works regarding methods of isolating, purifying and measuring the activity of radioactive elements (in chemistry).

In 1910 her basic work on radioactivity was published, and that year she obtained (with support of the French chemist André-Luis Debierne) metallic radium.

In 1935 the Nobel Prize was awarded also to their daughter – Irène Joliot-Curie and her husband Frédéric Joliot, and therefore the Curie family is the family which received the largest number of Nobel prizes.

In 1914 she established the Radium Institute in Paris, where she worked until her death. On her initiative the Radium Institute in Warsaw was established in 1932.

ORLEN Group strategy



ORLEN Group strategy

Building position for further dynamic growth

In accordance with the assumptions of the development strategy for 2009–2013, in 2010 the Company continued growth-oriented activities focusing on: improvement of operating and financial results, increase of efficiency, reduction of debt and completion of the biggest investment projects. Despite relatively unfavourable external surrounding, 2010 was very successful for PKN ORLEN.

In 2010 PKN ORLEN achieved in five years the best operating profit (EBIT) and net profit to the amount of PLN 3.1 billion and PLN 2.5 billion, respectively. It also realised the biggest total sales volumes in history (over 34 mln tonnes). The Company consistently reduced its debt. Debt as at the end of 2010 amounted to PLN 7.8 billion, which was less by PLN 2.5 billion as compared to 2009. Due to significant reduction of debt, PKN ORLEN fulfilled the target set in the strategy – the financial leverage level amounted to 39% and is within the safe range between 30% and 40%. Revenue on sales increased last year by 23% – to about PLN 84 billion, and operating profit EBIT and net profit were higher than in 2009 by PLN 2 billion (increase to PLN 3.1 billion) and PLN 1.2 billion (increase to PLN 2.5 billion), respectively. Strategic successes of PKN ORLEN were objectively and visibly verified by the capital market. At the Warsaw Stock Exchange the price of the Company's stock increased by about 35%, while at the same time the WIG20 index grew by approximately 15%.

In the unstable market environment in 2010, the Company's priority was to ensure financial safety, which was achieved by precisely developed and efficiently implemented initiatives in the scope of working capital optimisation. One of them was a pioneer solution on the Polish market, which involved the sale in the 1st and the 4th quarter of 2010 of PKN ORLEN mandatory reserves of crude oil for the total amount of about PLN 1.7 billion. The process was conducted with the approval of the Material Reserves Agency.

Due to well-considered and consistently conducted optimising and investment activities, PKN ORLEN is ready to implement the second stage of the development strategy in the years 2011–2013. This covers, among others, construction of new business segments and transformation of the company into an integrated fuel and energy group with diversified asset portfolio.

Strategic activities in segments

One of major challenges in the refinery production segment was – in accordance with adopted strategic goals – modernisation of the Production Plant in Płock and improvement of energy-consumption indexes of production processes. Despite difficult macroeconomic climate crude oil processing in the ORLEN Capital Group increased by 3% as compared to the previous year (28.08 mln tonnes in 2010 against 27.36 mln tonnes in 2009). One of significant elements of activities in the area of the refinery sector was development and adoption of the oil and asphalt strategy, assuming, among others, consolidation of sales assets of the refinery sector. In the 4th quarter, for the first time in 10 years, the Lithuanian refinery of PKN ORLEN operated using full processing capacity, and the average use of processing capacity in the entire year was 90%. Good results were also achieved by Czech Unipetrol belonging to ORLEN Group. Crude oil processing increased in this company by about 6%, which allowed the processing capacity use index to improve by 4 percentage points.

In the petrochemical segment the Company was finalising the construction of PX/PTA unit – the priority undertaking for PKN ORLEN using most modern technologies in Europe. Its precommissioning was completed, whereas at the time of publishing this report commissioning of the unit was taking place. Total value of the investment is estimated at about EUR 1 billion. Given severe competition and significant dependence on the situation on the petrochemical market, the petrochemical segment demonstrated in 2010 reduction of costs and introduction of new efficiency initiatives.

Improvement of efficiency in the area of crude oil products logistics was connected with completion of construction of the product pipeline Ostrów Wielkopolski – Wrocław. Expansion of the Fuel Terminal in Wrocław was also a significant task completed in 2010. Its aim was to increase the warehouse capacity, allowing more efficient use of transmission capacity of the pipeline. Whereas implementation of the cavern strategy, adopted in 2009, was aimed at modernising underground storages of crude oil and petroleum products in IKS Solino. It will also guarantee increased safety of future – own and commercial – storage needs in the scope of crude oil and its derivatives.

In the fuel wholesale trade segment in 2010 the Company completed implementation works on new IT tools supporting sales and customer service, consistently elevated operating standards and continued construction of maritime sales organization.

In accordance with business assumptions the Company undertook activities aimed at development of sales in Ukraine, developed export channels in the Czech Republic and Slovakia, created new sales organization in the Czech Republic, and introduced new initiatives supporting sales.

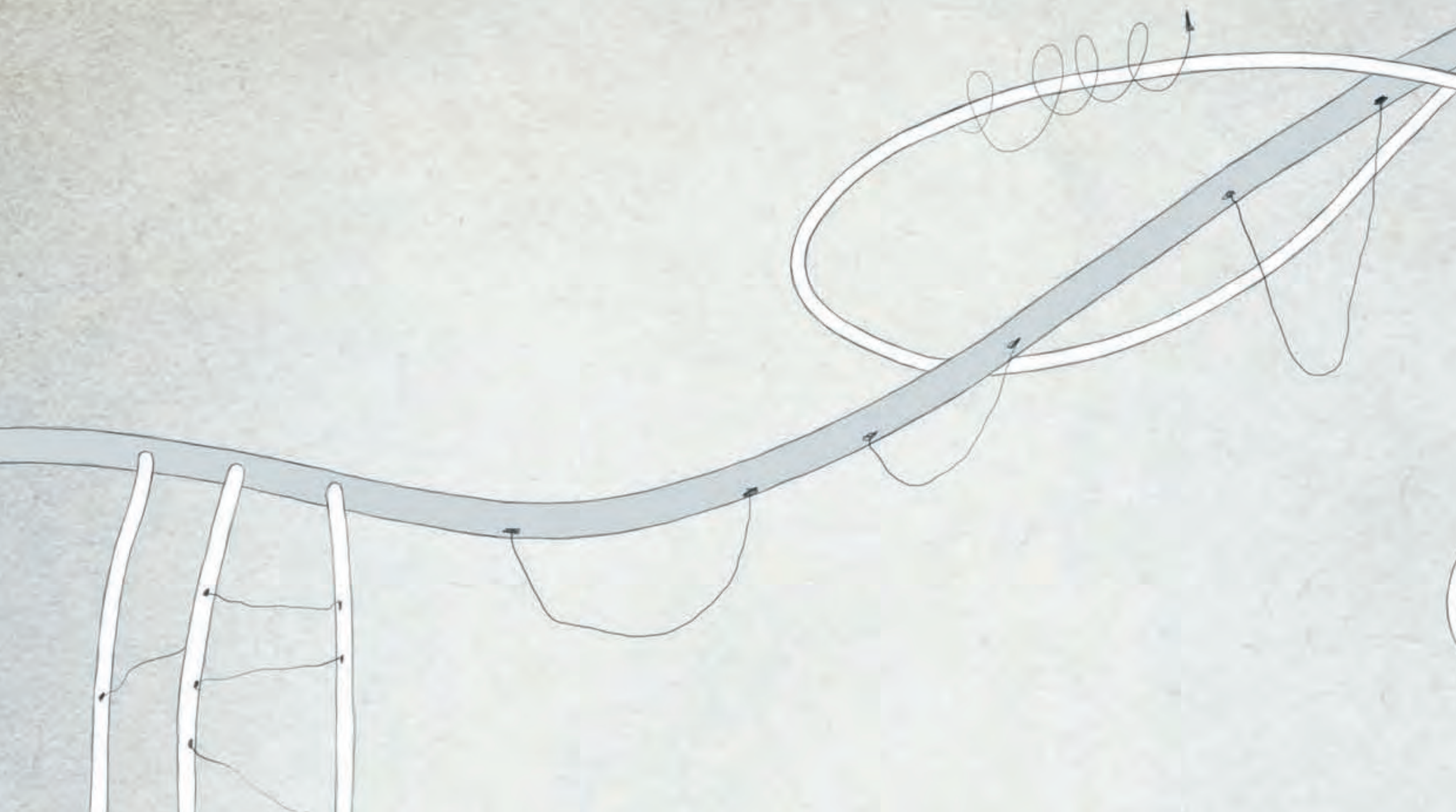
In the retail segment the Company achieved record sales results mainly due to significant increase of fuel sales per fuel station and increase by over 5% of the non-fuel margin, due to continuous expansion of the offer and efficient sales management. In accordance with the assumed plan fuel stations were modernised, new service points for drivers were built at motorways, 45 new DOFO stations were launched. Additionally, good operating and financial results of ORLEN Deutschland (Germany) and attractive price offer on the market of traded retail assets were factors that influenced the purchase of the next 56 fuel stations in Germany (in total 571 fuel stations). This is another proof that the Company's long-term strategy consisting in expansion of German assets is effective.

Building and developing new areas of activity

In accordance with the strategy assuming generation of new growth areas, the Company is preparing for construction of the gas power plant in Włocławek. PKN ORLEN has already received a positive environmental decision for two blocks, the construction design provider was selected and selection of the contractor was initiated. This project is important not only for the Company, but also for the city and the entire region. PKN ORLEN also signed an agreement with PSE Operator to connect the block to the network. Its launch is planned in 2014. Last year the Company also conducted works on modernisation of the combined heat and power plant in Płock aimed at adjusting it to the environmental standards binding as from 2016. Unipetrol is conducting analyses regarding the construction of a new CHP plant to replace the currently used unit.

Consistently, however taking into account the acceptable risk level and capital abilities of the Company, PKN ORLEN was constructing the segment of hydrocarbon exploration and production (upstream). Upstream projects were conducted by PKN ORLEN subsidiary – ORLEN Upstream. Last year the company conducted, among others, projects in the Latvian Baltic shelf in cooperation (JV) with Kuwait Energy Company and near Sieraków (Poland) in cooperation with PGNiG. In December 2010 the Company concluded the agreement with the Ukrainian Ministry of Environment on cooperation in the scope of hydrocarbon exploration and production in Ukraine. It assumes both the possibility of initiating works under new concessions, as well as joint management of hydrocarbon deposits recognised previously by Ukrainian partners.

PKN ORLEN undertook a number of initiatives with the aim to use the potential of unconventional gas deposits and to build a strong position in that segment. Thus the Company launched Lublin Shale project under which three drillings are planned between 2011 and 2012. The Company is carrying out preparatory works for the first drilling planned for the second half of 2011.



JAN ZEH (1817–1897)

He was born on 2 July 1817 in Łańcut, died on 25 January 1897 in Borysław. He descended from Hungarian family whose two generations lived in the Małopolska region.

After graduating from secondary school he started practicing pharmacy in Sambor, where for the first time he had contact with crude oil. In 1844 he started pharmacy studies at the University of Vienna and was awarded the MSc degree in pharmacy in 1847.

In 1853 in Lviv, in the drugstore "Pod Złotą Gwiazdą" ("Under Golden Star") he conducted first experiments on isolating crude oil into separate fractions: petrol, kerosene and mazout residues, which resulted in invention of kerosene distillate lighting lamps constructed by Adam Bratkowski, a whitesmith from Lviv.

From 1853 he produced kerosene, lubricants and paraffin candles in his own shop in Lviv.

Upstream segment

Upstream segment....{

The strategy of ORLEN Group assumes consistent development of upstream operations with the aim to secure access to crude oil and natural gas deposits. In 2010 works on strengthening and expansion of ORLEN Group position in the upstream segment were continued.

Activities carried out last year included mainly implementation of projects held in the portfolio, defining project assumptions for coming years and integration of exploration and production operations under ORLEN Upstream.

In 2010 the Company expanded the team of experts capable of conducting comprehensive assessment of extraction projects, in terms of their technical and economic potential, as well as planning and performing selected transactions. Consistent monitoring of the world market of extraction projects allows for efficient assessment of the potential of occurring acquisition opportunities. Whereas constantly expanded database, containing information on projects, allows for their proper selection in such a way that they correspond to the Company's strategy to the fullest possible extent.

The main 2010 projects in the upstream sector concerned:

- 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 (including shale gas),
- implementation of the first stage of the Sieraków project, covering recognition and documentation of deposits,
- studies and analyses of 150 potential exploration and production projects/assets in various geographic locations,
- comprehensive analyses of a few selected projects related to the purchase of production assets outside Poland,
- continued cooperation with business partners whose assets are located in Poland.

Over the next few years, the Company will continue the following four ongoing projects:

- project in Lubelskie region,
- offshore project on the Baltic Sea,
- Sieraków Project,
- Lublin Shale project.

The project in Lubelskie region is implemented by ORLEN Upstream in the area of five concessions (Bełżyce, Garwolin, Lubartów, Lublin, Wierzbica), where the company acts as the operator.

Key tasks performed under this project in 2010 include mainly preparation of technical and geological projects for conducting 2D seismic field tests along pre-selected profiles, and subsequently collection of such data, as well as processing of historic 2D seismic materials.

Geological works were aimed at preparing recommendation for further exploration works, including selection of potential drilling sites.

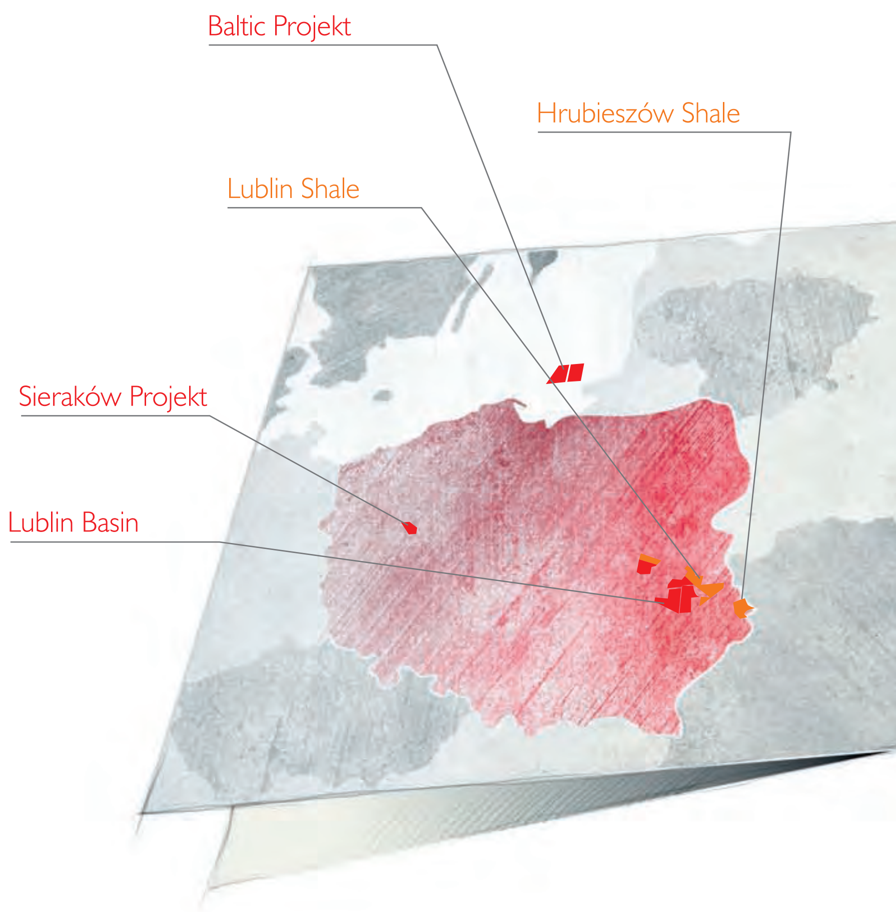
The project on the Baltic Sea is an off-shore project, located on the Latvian Baltic Shelf conducted by ORLEN Upstream in cooperation with Kuwait Energy Company.

In 2010 under this project the company conducted numerous activities, most important of which concern reinterpretation of available historic geological, seismic and geochemical data as well as performance in December 2010 of 3D seismic tests covering the area over 300 km^2. Data collected from measurements will help determine more precisely the structural and tectonic construction of initially identified – on the basis of 2D tests – areas of potential hydrocarbon resources (future crude oil and natural gas deposits). Final interpretation and integration of collected seismic data will allow to identify future drilling sites.

Sieraków project is an exploration and production project implemented by ORLEN Upstream in cooperation with PGNiG within the area of the Polish Lowland. The main objective of the works is geological recognition of the structure of the Main Dolomite, confirmation of existence of industrial deposit resources, their management and launching of production.

At the end of 2010 preparatory works for test drilling Sieraków-5 were performed. Drilling started on 14 of January 2011.

Lublin Shale project is a new project conducted independently by ORLEN Upstream on the basis of possessed exploratory concessions in Lubelskie region. Main tasks conducted in 2010 under this project cover analysis of available geological information with the aim to finally select areas with the highest potential of natural gas deposits in silt and shale rocks (concession blocks: Garwolin, Lubartów and Wierzbica) and preparation of geological and technical project for collection of 2D seismic data in the pre-selected part of Garwolin block.



IGNACY ŁUKASIEWICZ (1822–1882)

Born in March 1822 in Zaduszniki, died in January 1882 in Chorkówka – pharmacist, inventor of kerosene lamp and pioneer of oil industry in Europe.

After graduation from the fourth grade at grammar school in Rzeszów, due to lack of financial means to continue his studies, he started training in a drugstore in Łańcut. Four years later he passed the exam to obtain the title of the pharmacist's assistant. In 1850 he started studies at the two-year pharmacy college on the Jagiellonian University. In 1852 he went to Vienna, where he obtained the title of MSc in pharmacy. His MSc thesis was entitled "Baryta et Anilinum".

In 1852, in a laboratory in the drugstore "Pod Złotą Gwiazdą" ("Under Golden Star") owned by Piotr Mikolasch in Lviv, he distilled kerosene from oil at the request of the owner.

One year later he constructed the first kerosene lamp which he used to illuminate the shop window of the drugstore, and on 31 July 1853 he introduced such lighting in a public hospital in Lviv. Invention of the kerosene lamp was a significant achievement. It was connected with trials to obtain fuel that would be more efficient and cheaper than types of oil and its mixtures used so far. In 1854 he established in Bóbrka near Krosno the first in Poland and in the world crude oil mine, and two years later – the first refinery in Ulaszowice near Jasło.

Currently in Bóbrka there is the Ignacy Łukasiewicz Memorial Museum of Oil Industry housing exhibits related to the history of oil industry development.

Refinery segment

Refinery segment......{

Fuels

ORLEN Group manages the complex of seven refineries located in Poland (Płock, Trzebinia, Jedlicze), in Lithuania (Mažeikiai) and in the Czech Republic (Litvinov, Kralupy and Pardubice).

In 2010 ORLEN Group refineries processed almost 28.1 mln tonnes of crude oil, which is 3% more in comparison to the previous year.

Production in all ORLEN Group refineries was based to a large extent on Russian REBCO oil, whose share in total oil processing amounted to 90%. The other crude oil brands processed in our refineries were: Brent Blend, Ekofisk, Statfjord and Polish paraffin base oils.

Poland

Fuel Production

In 2010, PKN ORLEN fulfilled the National Index Target (NIT) at the level of 5.767%. In total, in 2010 the Company released to the market:

- 2,604,800 tonnes of petrol with biocomponents,
- 6,287,200 tonnes of diesel fuel with biocomponents,

including:

- – 131,600 tonnes of ethanol in petrol,
- – 294,000 tonnes of esters in diesel fuel,
- 201,300 tonnes of ester fuel – BIO100.

AMOUNT OF CRUDE OIL PROCESSED IN 2009–2010, IN THE RESPECTIVE COUNTRIES OF ORLEN GROUP ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Polish refineries	14,840	14,745	-1%
Czech refineries	4,110	4,353	6%
Lithuanian refinery	8,407	8,985	7%
Total	27,357	28,083	3%

Płock

Crude oil supplies to the Company's refineries are fully secured by relevant agreements, purchase strategy and technical capacities of refineries owned PKN ORLEN. Each of them uses at least two alternative directions of crude oil supplies. The most efficient source of crude oil supplies to the refinery in Płock is the "Przyjaźń" pipeline. It is also possible to use the Pomorski pipeline and Naftoport.

In November 2010 the new unit HON VII (Hydrodesulphurisation of Diesel Oil) was launched. It allows to increase the production of low-sulphur components for production of high-quality diesel oil and light heating oil. As a result of launching the HON VII unit production of diesel oil may increase by about 1 mln tonnes annually. With launch of the PX/PTA complex crude oil processing will increase on units in Płock.

New paraxylene unit, to be launched in 2011 in the Production Plant in Płock, uses charge of very high quality. Therefore, in 2010 the Company constructed and launched a new ORP (Olefins Removal Process) system on the Reforming V unit. The license and basic design for ORP were delivered by UOP, an American company recognized in the industry. Detailed engineering design and equipment deliveries were provided by ORLEN Projekt.

On 8 March 2010 the foundation act for construction of the most modern steam boiler used in industrial power engineering was signed. This was the inauguration of the Programme for Environmental and Power Engineering Investments in the Production Plant in Płock. Construction of the steam boiler of 300 MW is to be completed in the 2nd quarter of 2012.

In autumn 2010 the Company completed construction of a modern heat recovery steam boiler at the Fluid Catalytic Cracking II (FKKII) unit for cooling of technological gases. The energy thus recovered is used to produce 4 MPa technological steam.

In order to increase output of the most valuable products – depending on the current market situation – the Production Plant in Płock implements Advance Process Control (APC) systems.

The Company independently developed several tools to monitor certain key indexes, such as: EII energy index, mechanical availability index MA, operational availability index OA, plant use index PU. Data collected in this way is used for ongoing operational assessment of used assets. It is also an indicator to be considered in current and future decisions. These activities form a part of Fuel Studies conducted by Solomon Associates aimed at assessing the Company from the perspective of competitiveness on the world refinery market.

PRODUCTION VOLUME OF SELECTED REFINERY PRODUCTS IN 2009-2010 (PŁOCK; '000 TONNES)

	2009	2010	Dynamics 2010/2009
Crude oil processed	14,526	14,452	-1%
Total petrol	3,055	2,736	-10%
Total diesel fuel (ON)	5,330	5,359	1%
Ekoterm Plus heating oil (LHO)	790	699	-12%
Aviation fuel (JET)	291	394	35%
Propane-butane fraction (LPG)	210	241	15%
Total fuels	9,676	9,429	-3%
Fuel output* (%)	78.1	78.0	-0.1 p. p.

** Fuel output calculated as production: (petrol, petroleum, LPG, ON, LHO, JET) / crude oil processed taking into account semi-finished products flow between production companies within ORLEN Group.*

Rafineria Trzebinia – refinery

In 2010 Rafineria Trzebinia focused on ensuring the Company competitiveness and adequate efficiency of activities in such key areas as, for example: biofuels production, crude oil processing, paraffins hydrorefining and Fuel Terminal services.

In order to increase the company's value and its competitive position on the market Rafineria Trzebinia works towards diversification and expansion of the area of operations. These activities are aimed at achieving adequate level of operational profitability by building organizational structure that will ensure efficient operations of the company. Another important factor is achievement of optimal parameters in the scope of volume and efficiency of biofuels production, crude oil processing, use of logistic potential and sale of products from its own units.

Biofuels production

Modifications of the BIO unit elements, cost and technological optimisation as well as monitoring of production processes enabled the company to fully use its production capacity in 2010. From January to December 2010 the company produced on the BIO unit over 100,000 tonnes of fatty acid methyl esters constituting biocomponent to conventional diesel oil. They were also used as fuel in its own right under the trade name Bioester or commonly labelled BIO100. Another stream of production and sale was biofuel constituting a mixture of 80% of conventional diesel oil and 20% of biodiesel designated in the commercial offer as BIO20.

Crude oil processing

In Rafineria Trzebinia crude oil is refined on the DRW unit, where the company processes crude oil of very variable quality belonging to so called difficult oils. In 2010 processing volume amounted to 250,100 tonnes of crude oil.

Products and components obtained as a result of crude oil processing are used e.g. in further refinery processes at operating units also in other plants of PKN ORLEN Capital Group.

Paraffin production

Paraffin hydrorefinement is performed at the only unit of this type in this part of Europe, launched in 2005, which enabled the company to become the most modern entity in the paraffin industry in Central and Eastern Europe. It is possible to guarantee safety and the highest quality of products from this segment produced in Rafineria Trzebinia Group due to modern units, experience of qualified employees and selection of the best suppliers of high-quality raw material for production. In the case of paraffin, the agreement for paraffin gas supplies concluded with ORLEN Oil ensures supplies of perfect-quality material for processing. It also builds the value chain of ORLEN Group.

Fuel Terminal

Rafineria Trzebinia professionally manages the supply chain of goods, raw materials for production and dispatch of finished products in Poland and abroad. Fuel Terminal, as the key element of the logistic chain of PKN ORLEN liquid fuel for southern Poland, has adequate infrastructure for all types of motor fuel and heating oil. The refinery is covered by the excise tax and production warehouse, which allows to receive, store, compose and dispatch excise products under the procedure for suspension of excise tax collection. A large number of containers makes it possible to provide logistic services regarding the rich offer of crude oil and biofuel products.

In 2010 Rafineria Trzebinia was among the companies awarded with the Certificate of Business Credibility for highly rated stability of the company according to Dun & Bradstreet Poland.

PRODUCTION VOLUME OF SELECTED REFINERY PRODUCTS IN 2009-2010 (TRZEBINIA; '000 TONNES)

	2009	2010	Dynamics 2010/2009
Crude oil processing*	247	250	1%
Biofuel production plant	112	115	3%
Rapeseed methyl esters	94	101	7%

** Crude oil processed including contaminant.*

Rafineria Nafty Jedlicze – refinery

In 2010 Rafineria Nafty Jedlicze processed crude oil from domestic deposits. The drop by about 24,000 tonnes in the volume of processed crude oil compared to 2009 was due to reduced volume of processed imported crude oil – by 16,500 tonnes and by 7,500 tonnes in the case of Polish crude oil. Due to difficulties in purchase of imported crude oil on terms guaranteeing profitability of processing, the refinery decided in 2009 to withhold this process. Lower volume of domestic crude oil processed in 2010 results from periodic start-up of the unit for crude oil processing while lacking optimal volume of raw material. Purchases of domestic crude oil in 2010 were on the level comparable to 2009.

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 produced in Rafineria Nafty Jedlicze is light and heavy heating oil. Light heating oil is produced on the basis of PKN ORLEN license and sold entirely to the Company's bases. Whereas heavy oil is sold to power plants, combined heat and power plants and used e.g. in the production of bituminous mass.

The second largest group of products is base oil derived from regenerated waste oil. The largest recipients of base oil are domestic and foreign producers of lubricating oil and lubricants.

Environmentally-friendly solvents are another important group of products of Rafineria Nafty Jedlicze. Their high quality is appreciated in Poland and abroad. Solvents are characterized by low contents of aromatic hydrocarbons and sulphur. The key recipients of those solvents are manufacturers of paints, varnishes, specialist solvents and adhesives. Other products are used in such industries as: chemical, metal, automotive and mining industries.

The most important activities carried out in 2010 by Rafineria Nafty Jedlicze include:

- "Energy Optimisation Programme" based on the use of side streams (regeneration) for energy production purposes and optimisation of the structure of fuels used in CHP plant. This allows to limit energy costs by approximately PLN 2.8 mln annually and provide more heating oil for sale;
- modification of technological processes at the solvents production unit, allowing to increase processing capacity by 15% against project assumptions and to remove the bottleneck in solvents production;
- solidifying the position of Rafineria Nafty Jedlicze as the leader in production of high-class low-aromatic solvents satisfying about 60% of demand on the domestic market and intensifying sale of these products for export (increase of export sales by 6% compared to 2009).

The Czech Republic

Unipetrol Group is one of the largest chemical sector groups in the Czech Republic, involved in crude oil processing, fuel distribution and petrochemical production.

In 2010 Czech refineries of ORLEN Group (Litvinov, Kralupy, Paramo) processed in total over 4.3 mln tonnes of crude oil (REBCO and Brent), which is 6% more in comparison to the previous year. This resulted from increased use of processing capacity, which was also reflected in increased level of production of light, medium and heavy distillates.

In 2010 energy efficiency of the Catalytic Cracking plant increased. This resulted in reduction of costs in the energy area.

PRODUCTION VOLUME OF SELECTED REFINERY PRODUCTS IN 2009-2010 (JEDLICZE; '000 TONNES)

	2009	2010	Dynamics 2010/2009
Crude oil processed	67	44	-34%
Waste oil processed	35	32	-9%
Ekoterm Plus heating oil (LHO)	61	65	7%
Solvents	15	15	0%

On the basis of the amendment to environmental regulations binding in the Czech Republic, as from June 2010 the content of biocomponents in fuel has been increased: in fuel from 3.5% to 4.1%, and in diesel fuel from 4.1% to 6%. These changes were aimed at reducing greenhouse gas emissions, as well as strengthening the local agriculture and decreasing fuel import to the Czech Republic.

Lithuania

ORLEN Lietuva has been operating since 1980 and is one of the largest companies in Lithuania.

In 2010 the refinery in Mažeikiai processed in total about 9 mln tonnes of REBCO crude oil, recording 7% increase as compared to the previous year.

The first half of 2010 was characterised by decreased processing of crude oil mainly due to the unfavourable market conditions. Moreover, in April the access to the FCC (Fluid Catalytic Cracker) unit was restricted. Despite these problems, in the second half of the year the volume of crude oil processed was bigger than planned and in the balance of 2010 it turned out to be better than in 2009.

Concentrating on the financial situation of the company, the main activities in 2010 were focused on minimising expenses and increasing profitability of the refinery.

With the aim to improve energy efficiency the company carried out, among others, initiatives concerning the use of heat from process streams in DRW, HONs and Reforming exchangers.

Bitumen

Poland

In 2010 production of road, modified and industrial bitumen dropped as compared to 2009. This was mainly caused by stagnation on the domestic bitumen market. In 2010 the Company continued works related to improvement of efficiency of modified and industrial bitumen production. ORLEN Asfalt, holding 40% share in the domestic market of bitumen sales, was the leader of this segment.

PRODUCTION VOLUME OF SELECTED REFINERY PRODUCTS IN 2009–2010 (UNIPETROL; '000 TONNES)

	2009	2010	Dynamics 2010/2009
Crude oil processed	4,110	4,352	6%
Total petrol	760	794	4%
Total diesel fuel (ON)	1,741	1,809	4%
Light heating oil (LHO)	35	68	95%
Aviation fuel (JET)	76	83	9%
Propane-butane fraction (LPG)	146	155	6%
Total fuels	2,758	2,910	6%
Fuel output* (%)	73.7	75.1	1.4 p.p.

PRODUCTION VOLUME OF SELECTED REFINERY PRODUCTS IN 2009–2010 (ORLEN LIETUVA; '000 TONNES)

	2009	2010	Dynamics 2010/2009
Crude oil processed	8,407	8,985	7%
Other charge	325	302	-7%
Total charge	8,731	9,287	6%
Total petrol	2,724	2,767	2%
Diesel fuel (ON)	3,165	3,531	12%
Light heating oil (LHO)	7	9	29%
Aviation fuel (JET)	228	240	5%
Propane-butane fraction (LPG)	273	274	0.37%
Total fuel	6,396	6,820	7%
Fuel output* (%)	73.4	73.8	0.5 p.p.

** Fuel output calculated as production: (petrol, petroleum, LPG, ON, LHO, JET) / crude oil processed taking into account semi-finished products flow between production companies within ORLEN Group.*

The Czech Republic

In 2010 demand on the bitumen market increased, which resulted in 14% growth in its production and sales as compared to the previous year.

Taking into account environmental trends, the company developed the formula for production of bitumen with rubber additive (such bitumen is produced in the form of aqueous dispersions, thus during drying and vulcanisation only water vapour is released to atmosphere).

Lithuania

In 2010 production of bitumen was higher by 11% as compared to the previous year. This was due to growing demand for this product on the Lithuanian market.

Share in the sale of bitumen to the Polish market by ORLEN Lietuve was higher by 4 pp, and to the Lithuanian market – by 2 pp as compared to 2009.

ORLEN ASFALT PRODUCTION VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Road bitumen	742	694	-6%
Industrial bitumen	22	17	-23%
Total (bitumen and other products)	**764**	**711**	**-7%**

BITUMEN PRODUCTION VOLUME AT LITVINOV AND PARAMO IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Road bitumen	194	222	14%

BITUMEN SALES VOLUME AT PARAMO* IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Road bitumen	199	223	12%
Modified bitumen	11	13	18%
Industrial bitumen	35	41	17%
Total (bitumen and other products)	**257**	**294**	**14%**

* *The entire production from Litvinov is sold through the Paramo commercial network.*

ORLEN LIETUVA BITUMEN PRODUCTION VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Road bitumen	109	121	11%
Roof pitches	8	5	-38%
Total	**117**	**126**	**8%**

BITUMEN SALES STRUCTURE AT ORLEN LIETUVA IN 2009–2010

	2009	2010
Poland	6%	10%
Lithuania	55%	51%
Latvia	19%	21%
Estonia	20%	18%

W I T O L D   B R O N I E W S K I   (1 8 8 0 – 1 9 3 9)

Born on 15 October 1880 in Psków.

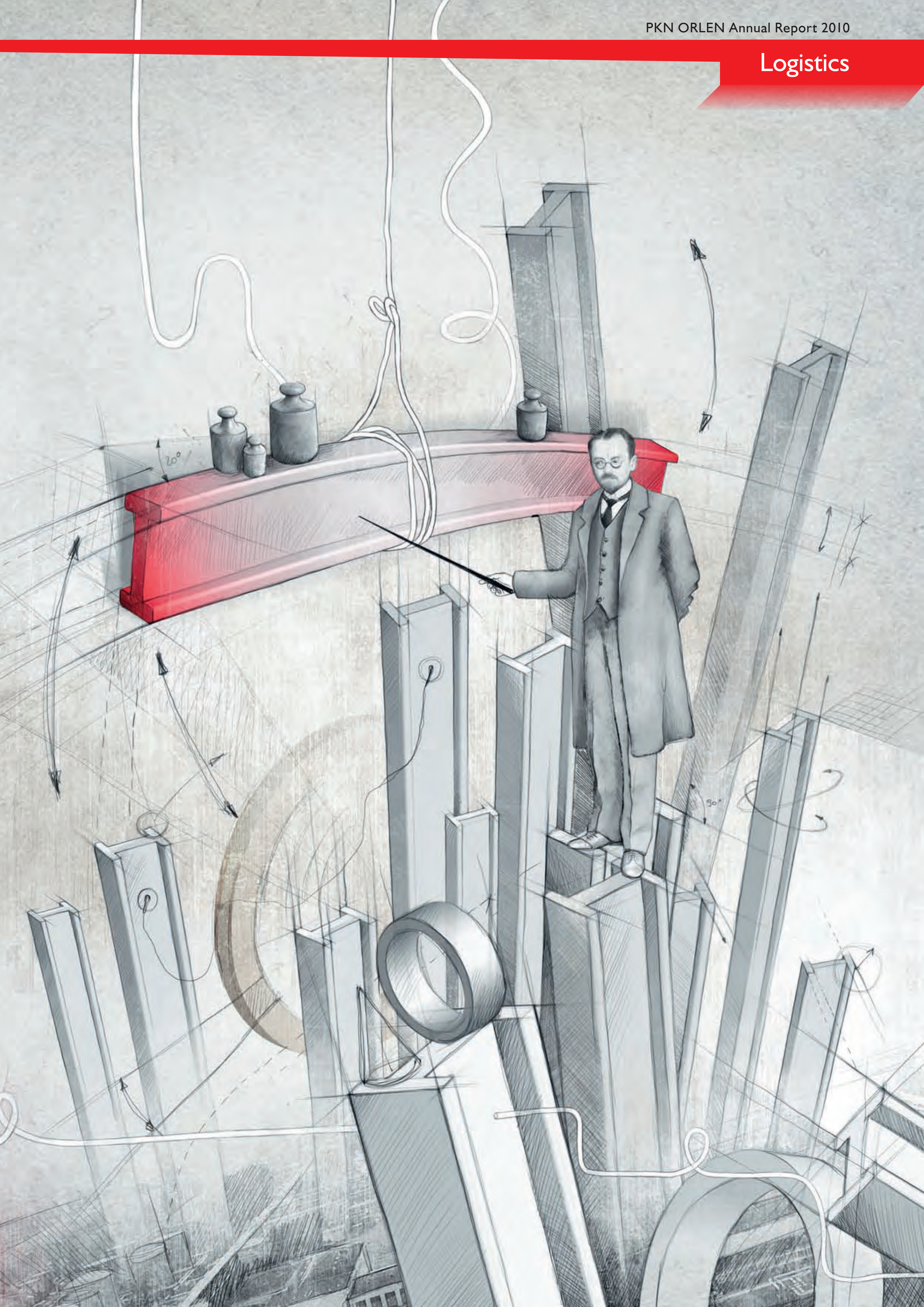
Metal expert, metallurgist, he studied mathematics, electrical engineering, physics and chemistry, a student of, among others, Maria Skłodowska-Curie at the University of Paris (1908–1911). In 1914–1919 he lectured metallography at the University of Paris, from 1919 to 1920 he was the professor at the Lviv Polytechnic, and in the period 1920–1939 he gave lectures as a professor at the Warsaw University of Technology.

He conducted research in the scope of metallography and physical chemistry, as well as plastic working and thermal treatment. The pioneer of Polish studies on creeping of metals.

In 1920 he established the Academy of Technical Sciences (1928–1936 secretary general). From May to September 1926 he was the minister of public works.

Selected works: "Recherches sur les propriétés électriques des alliages d'aluminium" (1911), "Zasady metalografii" (Principles of metallography) (1921), "Travaux pratiques de metallographie" (1930), "Sur l'ecronissage du fer" (1931).

Logistics



Logistics

Efficient logistics infrastructure guarantees energy safety and constitutes the basis of competitiveness on the fuel market. To maximise efficiency and fluency of flow and storage of raw materials, ORLEN Group uses the infrastructure consisting 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 companies operating in the area of logistics include: ORLEN Koltrans, ORLEN Transport (Poland), Unipetrol Doprava i Unipetrol Petrotrans (Czech Republic).

In 2010 – in accordance with adopted assumptions – the Company implemented important system solutions in the area of logistics, which brought expected increase of cost efficiency. Last year the most important activities in this area were:

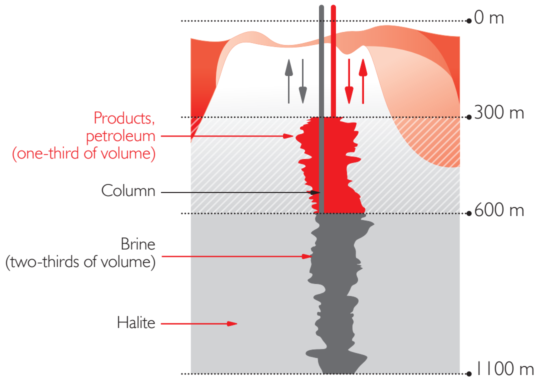
- completion of the last stage of restructuring of logistics area – significant optimisation of employment and increased automation of processes at fuel terminals,
- completion of construction of 105 km-long fuel pipeline Ostrów Wielkopolski – Wrocław,
- adjustment of mandatory reserves to assumptions of new legal regulations in the scope of volume and structure of reserves,
- completion of the "Self-service" project aimed at higher automation of trade operations service at fuel terminals,
- initiation of implementation of the IT system for planning of fuel supplies to the fuel station aimed at improving performance indicators of road logistics.

Mandatory Reserves

Poland

Under the Polish law PKN ORLEN is obligated to maintain reserves of crude oil. In 2010 reserves were stored in underground caverns of IKS "Solino" and the refinery in Mažeikiai. PKN ORLEN stored mandatory reserves of ready fuel in over twenty places located on the territory of Poland, among others in: fuel terminals owned by the Company, aboveground tanks leased from external companies or tanks located on the premises of the Production Plant in Płock.

DIAGRAM OF THE UNDERGROUND STORAGE CHAMBER AT IKS "SOLINO"



In accordance with legal regulations, in 2010 entrepreneurs and traders operating on the Polish market were obligated to maintain mandatory reserves of crude oil or fuel (excluding LPG) in the amount corresponding to at least 76 days of average daily production or import, carried out by the producer or trader in the previous year. The 14 days of reserves were covered by the Material Reserves Agency.

According to regulations in force, companies operating on the Polish fuel and crude oil market were obliged to reconfigure the structure of maintained mandatory reserves at the turn of 2010 and 2011. As a result of introduced changes, as from 1 January 2011 the maximum percentage share of reserves of respective liquid fuels groups that may be maintained in the form of crude oil and semi-finished products of its refining cannot exceed 50% of the total volume of reserves of such fuels. By the end of 2010 PKN ORLEN adjusted the structure and volume of its own mandatory reserves in respective groups to the levels corresponding to the new legal and formal requirements.

In 2010 the Company carried out two transactions which allowed to change the method of maintaining mandatory reserves of crude oil. As a result, over 1 million tonnes of crude oil is stored for PKN ORLEN by external companies in the form of so called ticket service. The agreement regarding collection and storage of mandatory reserves of crude oil concluded between PKN ORLEN and LAM-

BOURN Sp. z o.o. under changed form of storing mandatory reserves of crude oil expired on 31 March 2011. In connection with the abovementioned agreement and in accordance with Polish legal provisions in force regarding storage of mandatory reserves, PKN ORLEN purchased for about USD 421 mln crude oil owned by LAMBOURN. The ownership of the raw material was transferred to PKN ORLEN on 1 April 2011, after payment of the entire amount due under this transaction.

PKN ORLEN is still a party to the agreement of the abovementioned type concluded on 23 December 2010 with Maury, which was the basis for sale of a part of crude oil reserves for about USD 300 mln. The agreement for collection and storage of reserves was concluded for the period of one year, however the Company takes into account the possibility of its renewal for the next period.

In wider perspective, in 2010 the Company continued to conduct activities regarding development of comprehensive solutions on the governmental level in order to change the rules for storing mandatory reserves on the Polish market. In accordance with the assumptions such activities are aimed at increasing involvement of the government in storing mandatory reserves. Representatives of PKN ORLEN were among participants of consultations.

The Czech Republic

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

Lithuania

As at the end of 2010, mandatory reserves in Lithuania covered 90 days, of which ORLEN Lietuva and companies importing fuel to Lithuania provided for 60 days (the other 30-day reserves were maintained by the Lithuanian State Agency).

Crude oil reserves were stored at the Mažeikiai refinery and the offshore transshipment terminal in Būtingė, whereas finished products reserves – at two terminals leased in Lithuania.

Pipelines

In 2010 pipeline transport was still the basic form of transfer of raw materials and products of ORLEN Group. Total length of pipelines used in the previous year, including own pipelines and those leased in Poland, the Czech Republic and Lithuania, was over 2 thousand km.

Poland

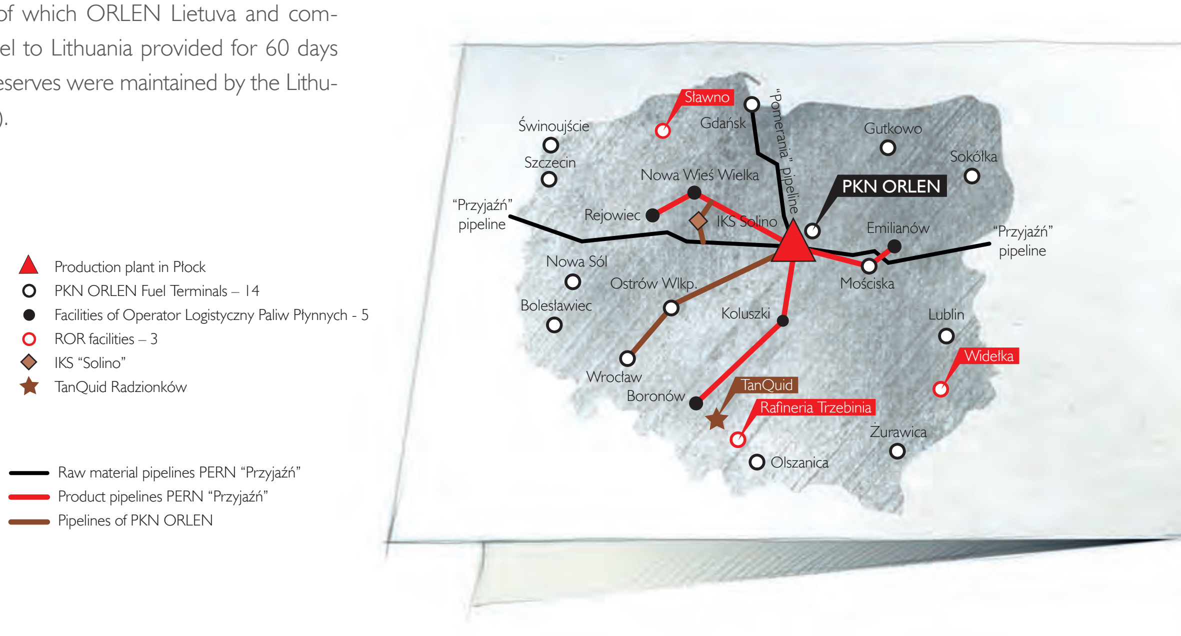
In 2010, PKN ORLEN used transport infrastructure including 274 km of its own pipelines and 570 km of product pipelines belonging to the state-owned operator, PERN.

Construction of 105 km-long Ostrów Wielkopolski – Wrocław pipeline for transfer of fuel products was completed. Technical acceptance and the pipeline's launch took place at the turn of 2010/2011.

In 2010, liquid fuel (petrol, diesel, Ekoterm JET A-1) was shipped from Płock in the following proportions:

- Via pipelines – 70%;
- Via rail – 25%;
- Via road tankers – 5%.

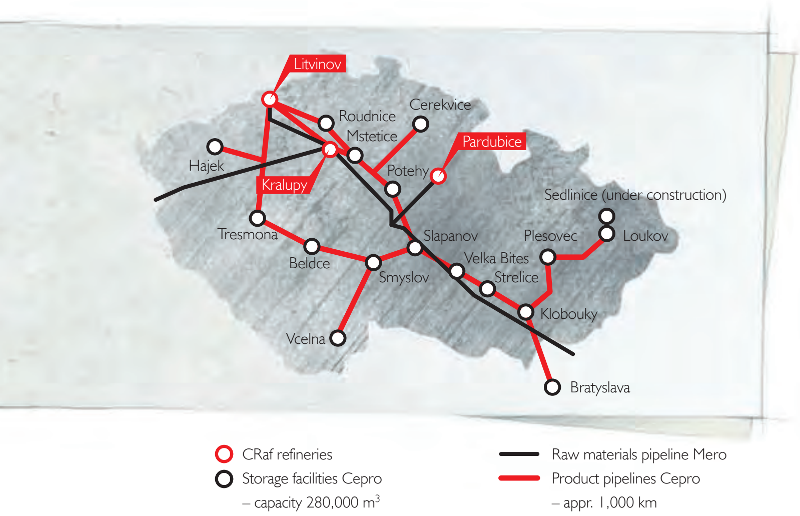
LOGISTIC INFRASTRUCTURE OF PKN ORLEN



The Czech Republic

In 2010, like in previous years, Unipetrol Group used 1,100 km of pipelines belonging to the state-owned operator, CEPRO

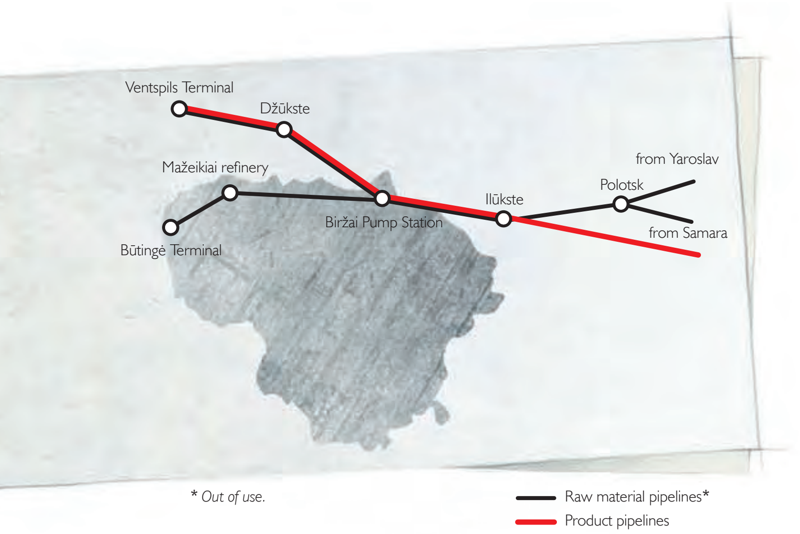
FUEL DISTRIBUTION NETWORK IN THE CZECH REPUBLIC



Lithuania

The "Przyjaźń" pipeline, which used to deliver crude oil to the refinery in Mažeikiai until July 2006, remains closed. The Samara – Ventspils product pipeline section owned by ORLEN Lietuva goes through the territory of Lithuania. In 2010 about 5.3 mln tonnes of diesel fuel from Russia was transported by transit to Ventspils in Latvia.

PIPELINE NETWORK IN LITHUANIA



* *Out of use.*

Fuel Terminals

Storage facilities are an integral part of the logistics system of the ORLEN Group. Last year the Company used, as in the previous period, 30 storage facilities in Poland and Lithuania, including 14 corporate Fuel Terminals, and storage space leased from external operators.

In the Czech Republic, ORLEN Group used 11 warehouses of the state-owned operator CEPRO and 2 storage facilities leased from external operators.

Poland

At the end of 2010 total storage space at the disposal of PKN ORLEN in Poland was approximately 6 mln m^3. For logistic purposes regarding receipts, storage, release and transshipment of fuel the Company used its own infrastructure and infrastructure leased under concluded agreements. For operational purposes ORLEN Group used the total of 25 facilities across Poland (including corporate fuel terminals and the facilities of third-party operators).

The Czech Republic

In 2010, the Czech Unipetrol Group used 11 storage facilities in the storage and distribution network of the state-owned operator CEPRO and 2 storage facilities leased from third-party operators.

Lithuania

In Lithuania ORLEN Lietuva used 3 terminals for logistics operations and 2 terminals for storing mandatory reserves.

Rail Transport

Poland

PKN ORLEN transported via rail approximately 7.3 mln tonnes of products, including 5.2 mln tonnes of motor fuel, reaching the level close to the one achieved in 2009.

The Czech Republic

The volume of products transported by Unipetrol Doprava, a rail transport company, amounted to about 2.4 mln tonnes. The volume of transport made for Unipetrol in 2010 amounted to about 1.6 mln tonnes, including 0.6 mln tonnes of fuel.

Lithuania

Approximately the total of 8.2 mln tonnes of products were transported by rail, of which over 5 mln tonnes were loaded on ships and exported via Klaipedos Nafta terminal to western Europe and the United States.

Road Transport

Last year, an ORLEN Group company – ORLEN Transport delivered fuel to PKN ORLEN fuel stations across Poland. Its share in the market of fuel road transport in Poland was 35%.

In the Czech Republic, fuel was delivered to Benzina stations by a Unipetrol Group company – Petrotrans. Its share in the market of fuel road transport in the Czech Republic was 24%.

In Lithuania, the Company outsourced fuel delivery services to ORLEN Lietuva stations from UAB Simeon, the company which had won a tender organised in 2007.

Maritime cargo handling

In 2010 the total of 6.6 mln tonnes of petroleum products were transshipped in Poland and in Lithuania. In Poland the docks in Gdynia and Świnoujście were used to handle over 1.6 mln tonnes of products. The volume of ORLEN Lietuva products transshipped in marine docks amounted to over 5 mln tonnes in 2010.

Investment projects

Poland

In order to efficiently adjust the logistics area to changing external and internal conditions the Company continuously undertakes activities improving the segment management.

In 2011 the Company will continue investment processes initiated last year, i.e. among others:

- implementation of the "Cavern Strategy" – initiating long-term measures aimed at durable improvement of operational capability and safety of underground crude oil and fuel storage facilities at IKS "Solino",
- further expansion of the capacity of the fuel terminal in Wrocław from the original 12,500 m^3 to over 50,000 m^3 – a project related to operation of a new pipeline from Ostrów Wielkopolski to Wrocław,
- construction of the unit for dosing alcohol to petrol at the fuel terminal in Wrocław.

Investment plans for 2011 in the area of logistics in Poland cover:

- construction of the unloading shelter II at the Production Plant in Płock,
- adjustment of the fuel terminal in Świnoujście to increased export of products by sea,
- modernisation of loading sites for road tankers at the fuel terminal in Ostrów Wielkopolski with implementation of the new forwarding system.

The Czech Republic

Pursuant to the directive of the European Parliament on the inland transport of dangerous goods, in 2010 the Company modernised 100 tank cars. The works were aimed at adjusting the tank cars to obligatory technical and safety norms. Major investment plans for 2011 concern further modernisation works in this scope.

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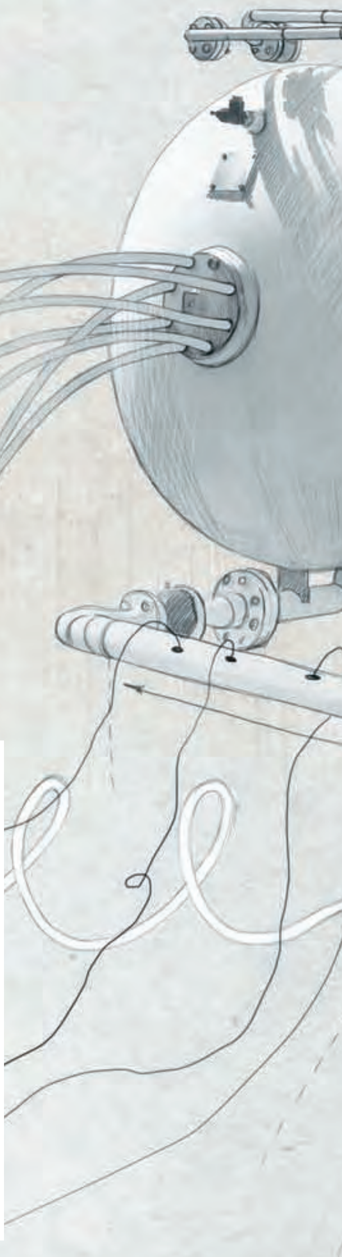
STANISŁAW PILAT (1881–1941)

Born in 1881 in Lviv – Polish chemist, professor at the Faculty of Oil and Natural Gas Technology at the Lviv Polytechnic (from 1924).

He conducted research into composition of Polish crude oil and technology of its processing, catalytic hydrogenation of gaseous hydrocarbons, polymerisation of alkenes, structure of lubrication oils, use of post-refinery waste. He tried to obtain synthetic petrol. The method for cold fractioning of petroleum mixtures is currently applied in the USA. He also developed the process of production of carbon black from natural gas.

He was arrested by Germans at night from 3 to 4 of July 1941 with the group of 25 professors of the Lviv Polytechnic and the Jan Kazimierz University in Lviv, and was executed on the same night on the Wuleckie Hills.



Wholesale segment

Wholesale segment...{

The wholesale segment of ORLEN Group consists of units involved in sale of refinery products as well as LPG and JET on the territory of Poland as well as foreign companies: Unipetrol Slovensko, Unipetrol RPA and Paramo (Czech Republic) and ORLEN Lietuva (Lithuania).

In 2010, ORLEN Group conducted wholesale of fuel and non-fuel products* on the territory of Poland, the Czech Republic, Slovakia, Germany, Lithuania, Latvia, Estonia and Ukraine, and by sea mainly to the American market.

ORLEN Group – Fuels

In 2010 ORLEN Group recorded an increase by 1% (i.e. by 117,000 tonnes) of the volume of sold fuel as compared to the previous year. More than a half of fuel sales was generated by diesel fuel, whose sales increased by approximately 3%.

In 2010 sale of JET aviation fuel was over 0.76 mln tonnes, which is 3% more as compared to the previous year.

ORLEN Group fuel was sold on local markets (Poland, the Czech Republic, Slovakia, Germany, Baltic States), but also, among others, in: Sweden, Finland, Great Britain and Ukraine.

Poland

Micro- and macroeconomic climate on the wholesale market in Poland required from the wholesale segment continuous work to secure adequate competitiveness of PKN ORLEN. The year 2010 was marked by continuous development of innovations and entrepreneurship.

In order to ensure added value in the process of customer service, the Company implemented numerous IT solutions significantly influencing the level of service and reduction of its costs. Functionality of implemented tools goes beyond capabilities of standard IT systems and apart from economic advantages for PKN ORLEN, it helps create competitive advantage on the market.

Implemented projects in the area of wholesale customer service: Self-service, E-faktura – electronic invoicing, E-hurt – electronic wholesale, Contact-Centre.

Self-service

Due to the possibility to enter ready loading plans by dispatchers from transport companies or directly by customers and making available the functionality of full planning of fuel collection, total time of driver service at PKN ORLEN terminals was reduced from 90 minutes to 40 minutes, and processes of authorizing drivers and vehicles to collection of fuel are optimised. Innovative character and attractiveness of this solution is evidenced by the fact that already a few months after implementation almost 1/3 of customers decided to use this form of service.

ORLEN GROUP FUEL SALES VOLUME ON LOCAL MARKETS ('000 TONNES)

	2009				2010			
	Poland	The Czech Republic	Lithuania	Total	Poland	The Czech Republic	Lithuania	Total
Petrol	1,737	660	2,804	**5,201**	1,551	632	2,783	**4,966**
Diesel fuel	4,055	1,421	2,676	**8,152**	4,027	1,483	2,909	**8,419**
Light heating oil	806	46	2	**854**	792	54	1	**847**
Jet	437	74	227	**738**	431	86	246	**763**
LPG	230	64	131	**425**	297	86	109	**492**
Bitumen	765	238	110	**1,113**	721	255	113	**1,089**
Oil	102	32	0	**134**	85	43	0	**128**
Heavy heating oil	939	95	1,464	**2,498**	1,166	144	1,559	**2,869**
Others	2,809	94	74	**2,977**	2,652	106	88	**2,846**
Total	**11,880**	**2,724**	**7,488**	**22,092**	**11,722**	**2,889**	**7,808**	**22,419**

** Information regarding sale of petrochemical products is provided in the chapter on Petrochemical segment.*

E-faktura

The system of electronic data exchange. The added value is: elimination of great amount of paper and significant reduction of operating expenses. The new system saves time, ensures comfortable storing and reviewing as well as unlimited, safe and quick access to invoices from every month and at any moment. Currently already over 60% of invoices are generated electronically, thus contributing also to protection of natural environment.

E-hurt

Communication channel in the form of website https://hurt.orlen.pl. The application ensures safe access to information collected in PKN ORLEN systems, regarding fulfilment of signed agreements and safe service of contracts, orders and commissions. It enables access to promotional information and use of reports provided for customers.

Contact-centre

System for making task and information processes more efficient for employees of the wholesale segment. It helps improve work efficiency and build contact history with customers (current and potential), which translates into improved ability to reach final customers. It integrates elements with the SAP system and allows to increase sales activities and to react to market changes.

Measurable effects of introduction of these systems in wholesale encourage other segments and companies of the ORLEN Capital Group to adapt these solutions, which will result in further improvement of the customer service level and reduction of costs.

In 2010 ORLEN Group developed foreign export channels in the Czech Republic and Slovakia, and a very important step was the presence of fuels of the Group on the German and Austrian wholesale markets.

FUEL IMPORT TO POLAND IN 2009–2010 ('000 TONNES)*

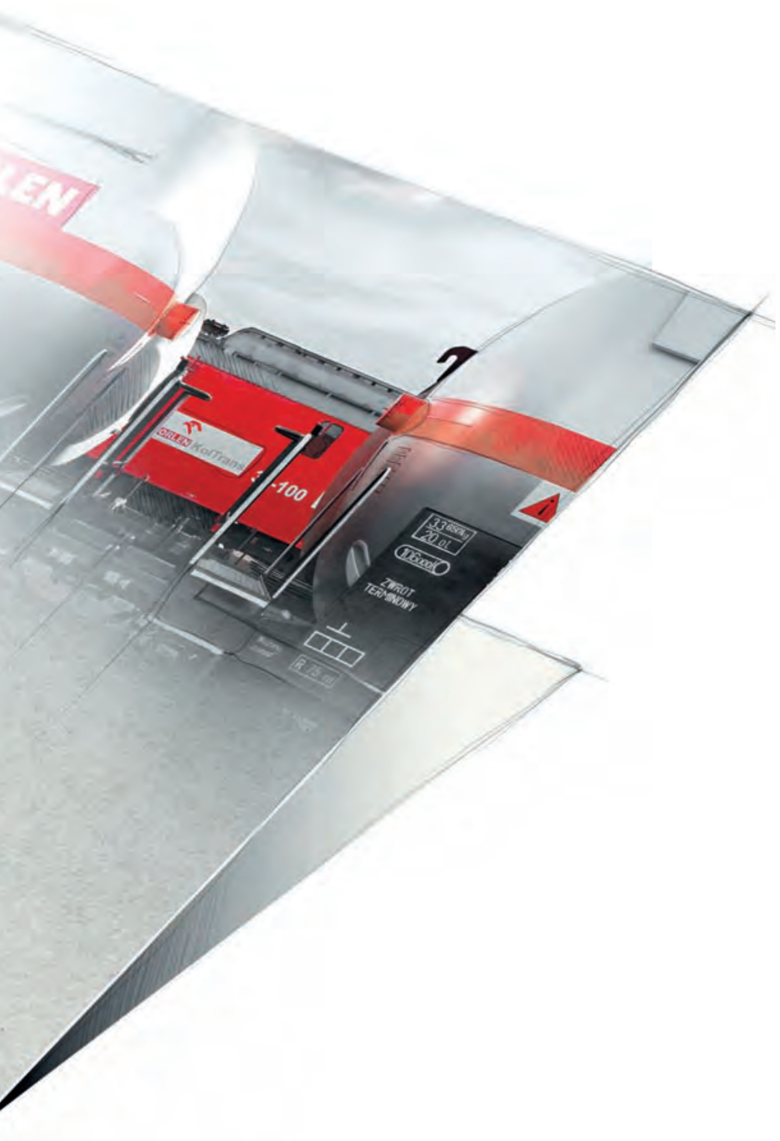
	2009	2010	Dynamics 2010/2009
Petrol	492	415	-16%
Diesel fuel	2,149	2,048	-5%
Light heating oil	15	12	-20%
Total	**2,656**	**2,475**	**-7%**

* *Source: estimates of the Energy Market Agency.*

SOURCES OF FUEL IMPORT TO POLAND IN 2010

	ON	Petrol	LHO
Germany	44%	49%	100%
Lithuania	33%	0%	0%
Slovakia	13%	46%	0%
The Czech Republic	3%	1%	0%
Belarus	2%	0%	0%
Switzerland	2%	0%	0%
Finland	1%	0%	0%
Russia	1%	0%	0%
Hungary	1%	4%	0%
Total	**100%**	**100%**	**100%**

The total 2010 fuel import to Poland dropped on average by 7% as compared to the previous year. A vast majority of fuel was imported from Germany, followed by Slovakia, Lithuania, the Czech Republic and Belarus. The entire volume of imported light heating oil came from Germany.



The Czech Republic

In 2010 the Company tightened cooperation with key fuel companies, hypermarket networks and independent wholesalers and retail networks. As part of activities aimed at optimising operations of Paramo, the company initiated the sale of petrol, which created a new distribution channel. Lower sale on the Czech market, caused by drop in consumption, was compensated by increased sale on the Slovak market. Certificates for bio additives allowed to export them to neighbouring markets. The ORLEN Capital Group optimised supplies of fuel and biocomponents between refineries. At the end of the year the key customer portfolio was contracted for 2011, which resulted in winning one of the biggest fuel operators in the region.

Lithuania

In 2010 sales of fuel produced by the refinery in Mažeikiai reached the record amount of 9 mln tonnes. The company signed long-term contracts for sale and delivery of petroleum products on all land markets where ORLEN Lietuva operates. Agreements were signed with the most important and the biggest operators of these markets, fuel stations networks, transport companies, production plants. A number of contracts for year-round marine deliveries for the biggest world traders were concluded, guaranteeing sale of most of fuel produced by the refinery in Mažeikiai.

Due to high quality of offered petroleum products, efficient logistics system of deliveries and customer service most wholesale customers did not use the option of purchase and import from other refineries. Thus in 2010 the number of regular wholesale customers tripled on land markets covering Lithuania, Latvia, Estonia and Ukraine.

Methods for price calculations were changed and mechanisms encouraging to place bigger orders were introduced.

Moreover, credit policy towards customers was changed. On the one hand it ensures greater flexibility in the context of customers' expectations and abilities, and on the other hand – it provides better security in terms repayment of amounts due for goods.

As part of diversification of recipient groups the Company initiated direct contacts with the final recipient and user of fuels. Trade offers targeted at specific groups of recipients, e.g. agricultural sector, were prepared and presented.

The Company produced and sold record volume of arctic diesel for use in severe winter conditions.

An electronic platform was implemented for service of customers, their orders, dispatch of products and payment for goods. Customers may track on their own the route covered by the goods from the moment of dispatch and check the current level of financial limit, issued invoices etc.

ORLEN Group – other refinery products

In 2010 total wholesale volume of other refinery products in ORLEN Group amounted to 3,582,000 tonnes. This result was by 4% higher than the one achieved in 2009.

Poland

In 2010 most other refinery products, except heating oil III were sold inside ORLEN Group to ORLEN Asfalt and ORLEN Oil. The main recipients of heating oil III in 2010 were business entities operating on the Danish market.

The Czech Republic

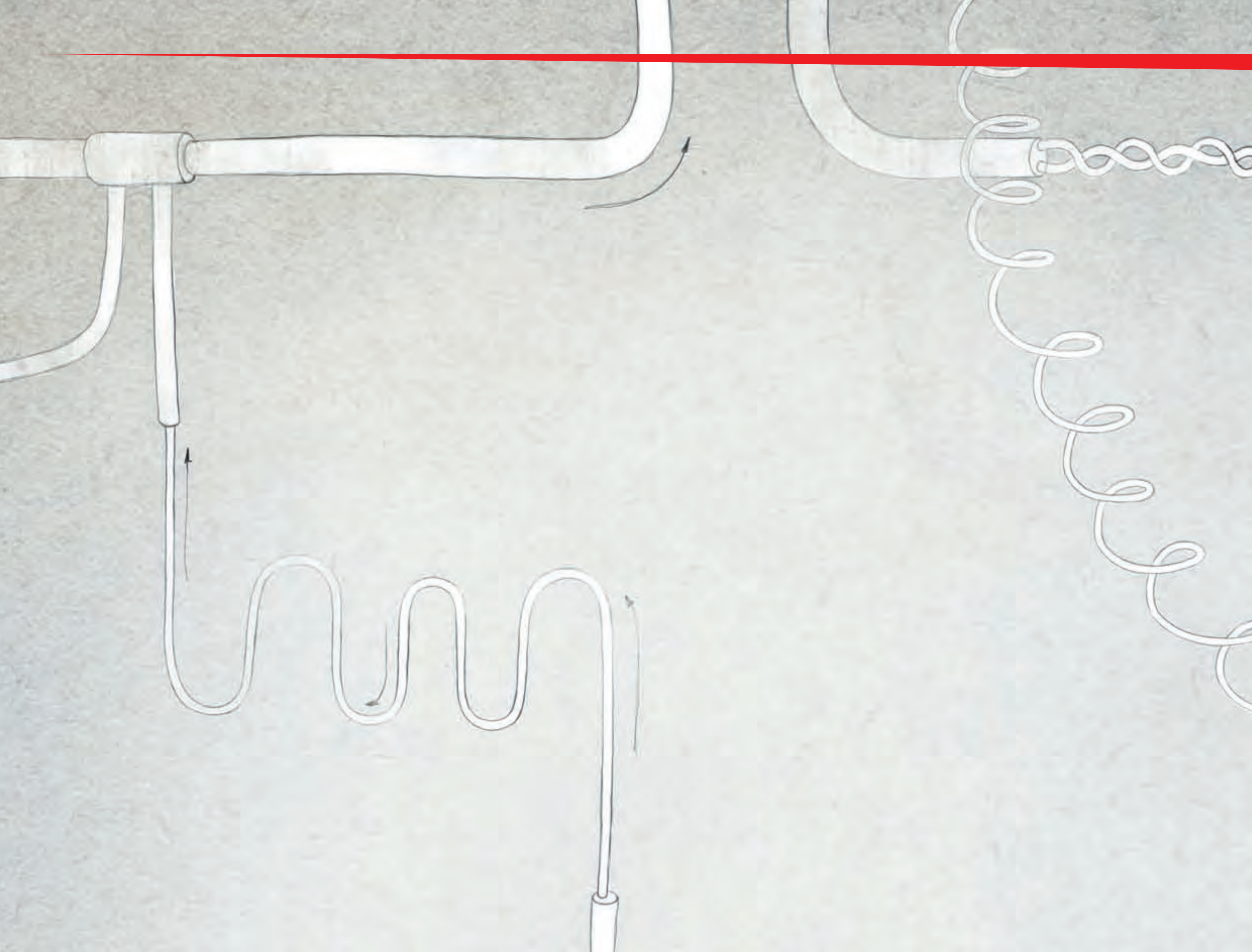
Heating oil with low sulphur content was sold mainly to power units of the plant in Kralupy nad Vltavou and its sister company Paramo Pardubice. Seasonal surpluses of heating oil with high sulphur content from the refinery in Litvinov were allocated for export. Other refinery products were mainly sold within the Unipetrol Group, surpluses were bought by other companies operating in the Czech Republic.

Lithuania

In 2010 the main purchasers of heating oil III were international companies collecting this product from the port in Klaipėda and subsequently distributing it to the markets of Western Europe and Asia. Lithuanian power generation plants were also an important group of recipients. Other products were sold mainly on the domestic market.

SALES VOLUME OF OTHER REFINERY PRODUCTS IN ORLEN GROUP IN 2009–2010 ('000 TONNES)

	2009				2010			
	Poland	The Czech Republic	Lithuania	**Total**	Poland	The Czech Republic	Lithuania	**Total**
Bitumen	765	238	110	**1,113**	721	255	113	**1,089**
Oil	102	32	0	**134**	85	43	0	**128**
Heavy heating oil	939	95	1,464	**2,498**	1,166	144	1,559	**2,869**
Others	2,809	94	74	**2,977**	2,653	105	88	**2,846**
Total	**4,615**	**459**	**1,648**	**6,722**	**4,625**	**547**	**1,760**	**6,932**

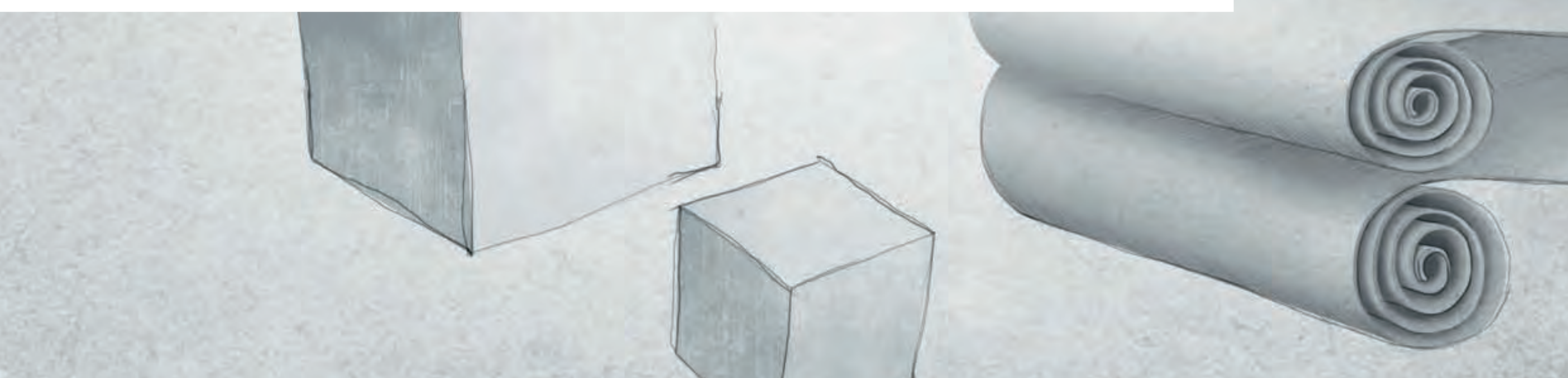


STANISŁAW BRETSZNAJDER (1907–1967)

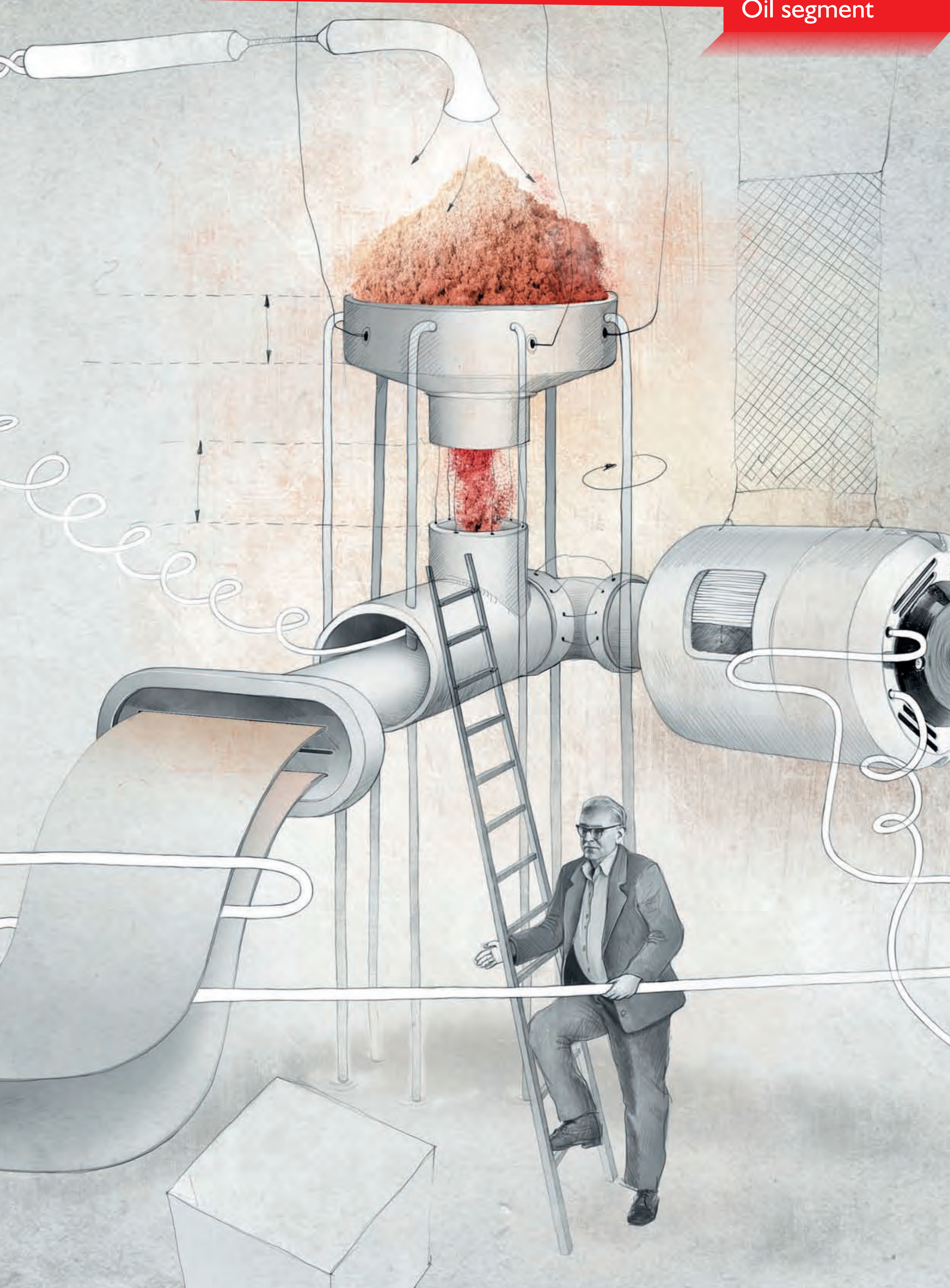
He was born on 19 July 1907 in Mykolajiv on the Black Sea. This outstanding scientist and teacher was the precursor of mathematical description of experimental studies results and the founder of the original Polish school of chemical technology.

In 1931 he became the assistant at the Department of Inorganic Chemical Technology at the Warsaw University of Technology. In 1936 he gave lectures on cement and binding materials technology, technical electrochemistry and fundamentals of industrial processes – this subject was the beginning of a new discipline – chemical engineering.

In 1949 he took charge of the Technological Design Department at the Warsaw University of Technology. This was a modern, not only in the domestic scope, educational and research unit where Stanisław Bretsznajder developed his original concepts of chemical process design, technological principles, modelling and scale-up rules, kinetics of contact and topochemical reactions. He was the first lecturer in Poland to give lectures on chemical reactors design. He was fascinated with the process of obtaining metallic aluminium from raw clay.



Oil segment



Oil segment..............{

In 2010 oil sector in ORLEN Group, consisting of ORLEN OIL (Poland) and Paramo (Czech Republic), recorded sales on the level of 445,000 tonnes. This result was 10% better in comparison to the previous year. Base oil and lubricant sales in that period amounted to over 235,000 tonnes, which is 9% more than in 2009.

Poland

The economic situation in Poland and upturn on the market – both domestic and export market – in 2010 contributed to increased production and sales of lubricants, base oils, slacks and extracts by about 25%.

Also last year the Company completed the first part of the Base Oil Interchange programme which will to develop production of high quality motor oils with the use of own base oils. At the same time 15 new projects were implemented which covered products from of automotive to industrial oils.

The programme for expansion of the next product segments was developed in the area of production of low-tonnage special lubricants and automotive cosmetics.

At the oil block unit, the joint project of ORLEN Oil and PKN ORLEN was finalised which concerned industrial production of heavy base oil SN 750 for production of industrial oil.

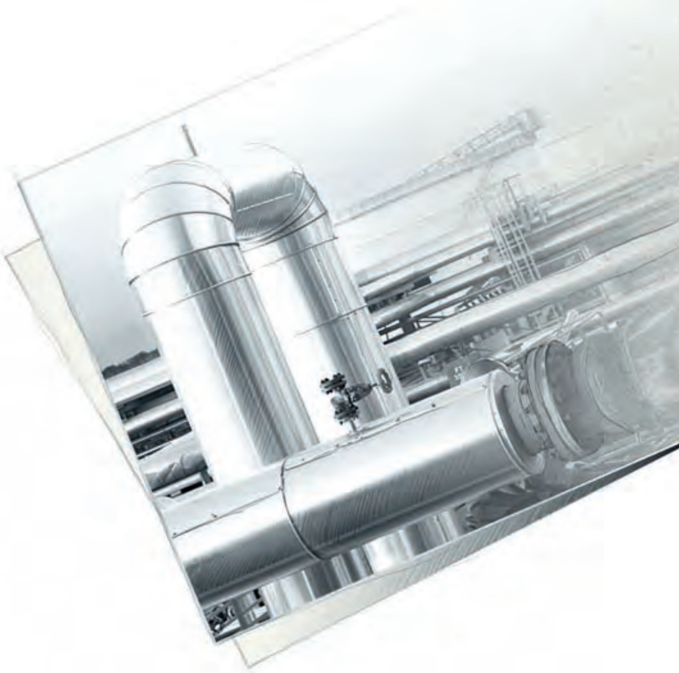
The Company also started implementation of the biggest project in its history – construction of Lube Oils Hydrorefining Unit in the Production Plant in Płock. After development of variant concepts, the investment is at the stage of obtaining approvals of the Investment Committee and the Supervisory Board of PKN ORLEN. The investment will be continued in 2011. In order to optimise the costs of allocation of lubricant products production between ORLEN OIL Production Plants, the special programme for modernisation of blending units in Trzebinia and Jedlicze was developed. It is aimed at applying modern production technologies in accordance with the Economic Order Quantity formula. Selection of the general contractor for modernisation of the LOBP (Lube Oil Blending Plant) in Trzebinia is still being conducted. Whereas the base project is being developed for the LOBP Jedlicze. The programme will be continued in 2011, and it is planned to be completed in 2012.

ORLEN GROUP OIL SEGMENT SALES VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Lubricants and base oils	216	236	9%
Other products	189	209	11%
Total	405	445	10%

On the extraction part of the selective refining with furfural unit at the Production Plant in Płock the Company implemented the APC (Advanced Process Control) system, which contributed to significant improvement in control of production process and its efficiency.

For the MEK-TOL unit, following R&D works, new generation filtering screens were selected which after installation will allow it to increase its efficiency and improve the quality of products (base oil).



Sales

With an over 25% share in the market, ORLEN Oil is one of the leaders of the Polish lubricants industry. In 2010 the company achieved a lot of considerable successes, both on the domestic and foreign markets. This was possible due to market activities initiated in the 2nd quarter of 2009, which were included in the PKN ORLEN oil segment strategy for 2010–2013. Also activities in other areas, in particular in production and logistics, were important for operations of the company.

ORLEN OIL SALE VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Lubricants, base oils and process oils	152	163	7%
Other products	182	200	10%
Total	**334**	**363**	**9%**

ORLEN OIL PRODUCTION VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Lubricants, base oils and process oils	195	244	25%
Other products	205	213	4%
Total	**400**	**457**	**14%**

An important element supporting sales was the continued restructuring of the domestic distribution network. As part of the activities undertaken, in January 2010 three distribution companies where ORLEN Oil held 100% of shares were formally consolidated. In August 2010 a new structure of Platinum Oil brand managers started to operate on the entire territory of Poland. This introduced new products to the market: Platinum Classic and Platinum Impact automotive cosmetics with a new graphic design.

At the end of 2010 ORLEN Oil had a model shelf with Platinum Classic products and other products in 2,500 automotive stores and five commercial networks.

In 2010 over 50% of base oil was sold via the terminal opened one year before. Slack wax and small amounts of furfural extracts are sold also via the dispatch terminal (to recipients other than PKN ORLEN).

In 2010 in ORLEN Oil Production Plants in Trzebinia and Jedlicze the Company modernised lubricating oil and windscreen washer fluids packaging lines. Modernisation works involved assembly of roller conveyors connecting the lines with warehouses as well as vision systems monitoring correctness of labelling. QGUAR system was also implemented, allowing for automatic control of warehouse transfers of raw materials and products.

The Czech Republic

Production

Total oil and lubricant production in Paramo in 2010 amounted to over 42,000 tonnes, i.e. a 10% increase compared to the last year. The Company reported increase by 13% in process oil production and 32% increase in the derivatives and slacks segment.

Due to the economic situation in 2010 the oil market still experienced low demand. Despite unfavourable conditions the volume of sales of oils and lubricants on the Czech market in 2010 was approximately 14% higher as compared to the previous year. This was possible thanks to the marketing strategy which involved initiation of cooperation with important customers, i.e. authorized automotive services.

OIL SEGMENT PRODUCTION VOLUME IN PARAMO 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Oils and lubricants	38	42	11%
Base oils	14	17	21%
Process oils	12	13	8%
Other products	7	9	29%
Total	**71**	**81**	**14%**

PARAMO SALES VOLUMES IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Lubricants, base oils and process oils	64	73	14%
Other products	7	9	29%
Total	**71**	**82**	**15%**

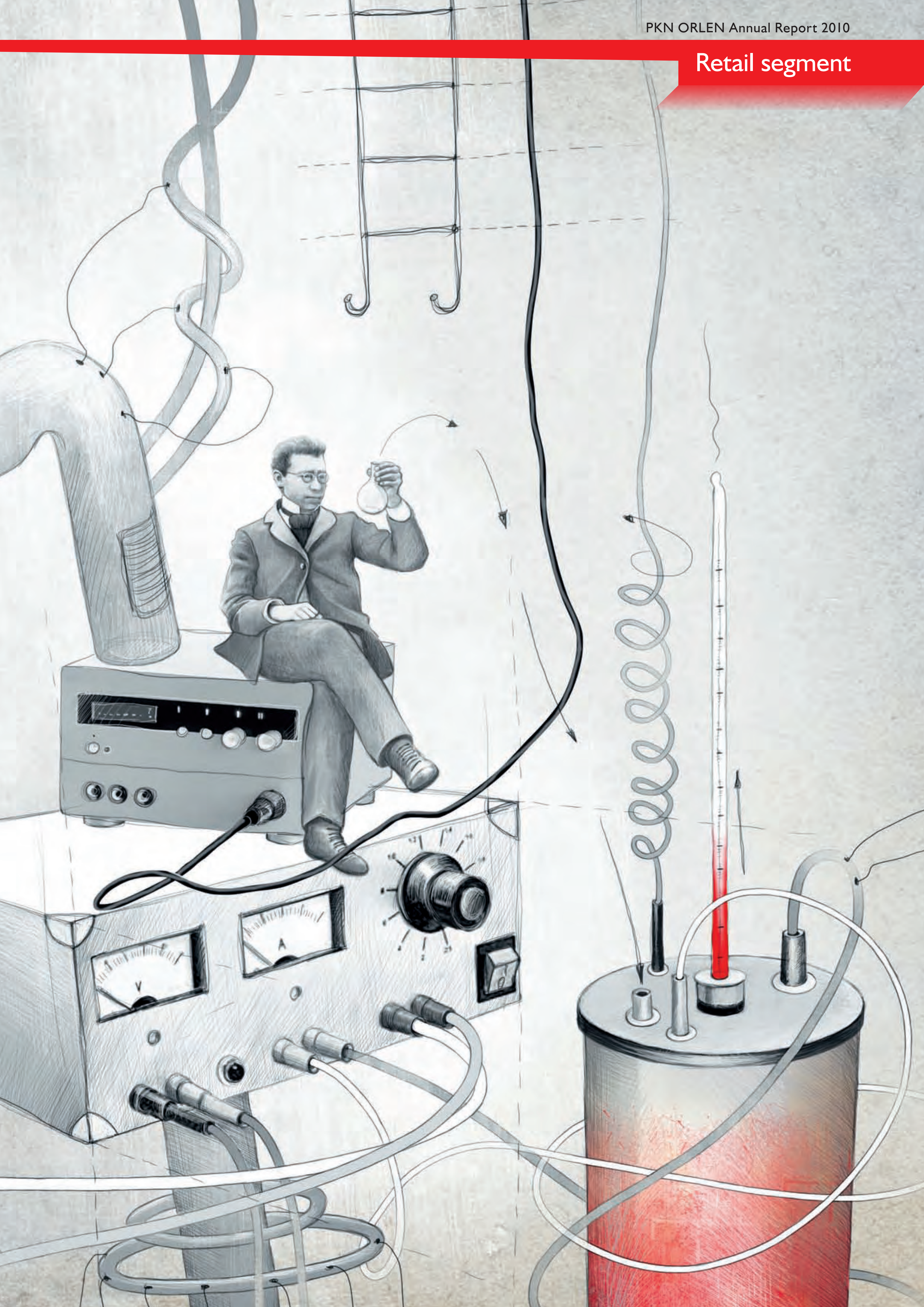
WOJCIECH ALOJZY ŚWIĘTOSŁAWSKI (1881–1968)

He was born on 21 June 1881 in Kiryjówka village in Volhynia region (Ukraine).

Outstanding physical chemist, the head of the Department of Physical Chemistry at the Technical University in Warsaw, lecturer (1918–1929) at the University of Warsaw. He proved that temperatures of aliphatic hydrocarbons combustion are approximately additive values.

He proposed and introduced the first international physicochemical standard – benzoic acid. On the basis of the decision of the International Union of Pure and Applied Chemistry (IUPAC) it became the standard of combustion temperature. He invented numerous measurement devices of high accuracy (adiabatic microcalorimeters, ebulliometers and cryometers), some of which are still used. He made an enormous contribution to the chemistry of coal and coke. A lot of technologies developed by him have been implemented in industrial practices.

Retail segment

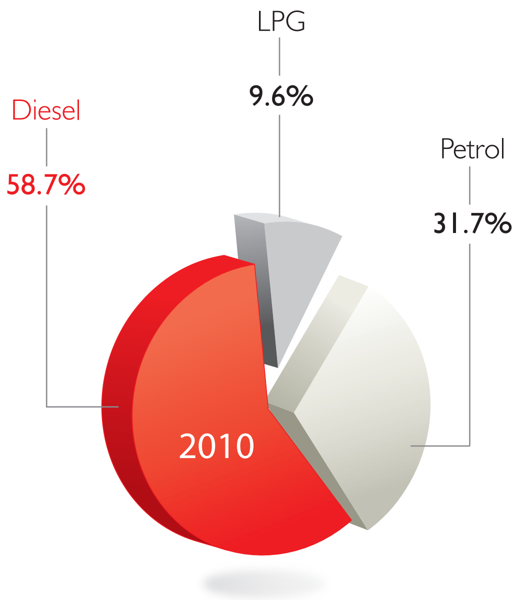


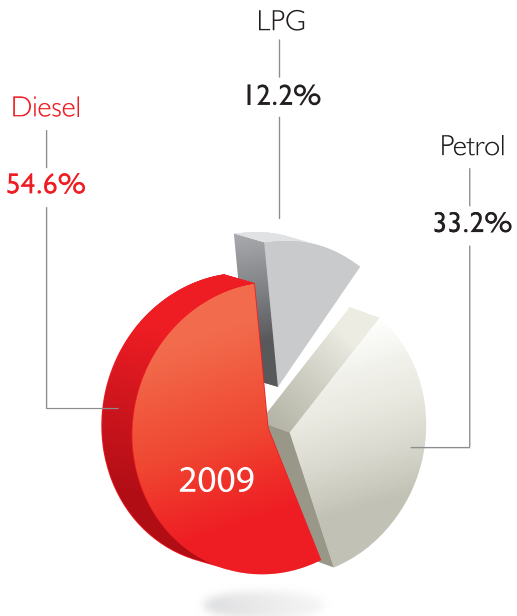
Retail segment..........{

In 2010, ORLEN Group carried out retail sales in Poland, the Czech Republic, Lithuania and Germany. The entities managing commercial activities on respective markets were, respectively: PKN ORLEN, Benzina, Ventus Nafta and ORLEN Deutschland.

Fuel sales in the retail segment in 2010 increased by 4.6% as compared to 2009 and reached the record level of 7,025 tonnes. Again the Company recorded a substantial (by 7.9%) increase of diesel fuel sales in comparison to the last year. As a result of changes in the structure of consumption there was a drop in retail sales of other fuels. In 2010 petrol sales decreased by 2.3%, and the sale of liquefied gas was higher by 30% as compared to the last year.

PKN ORLEN – STRUCTURE OF FUEL SALES ON THE POLISH MARKET





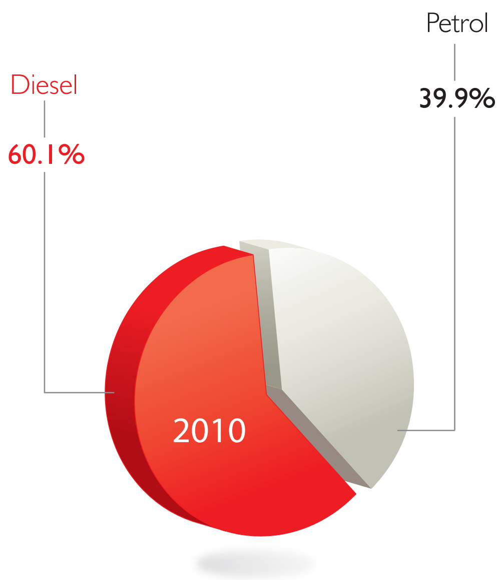
Poland

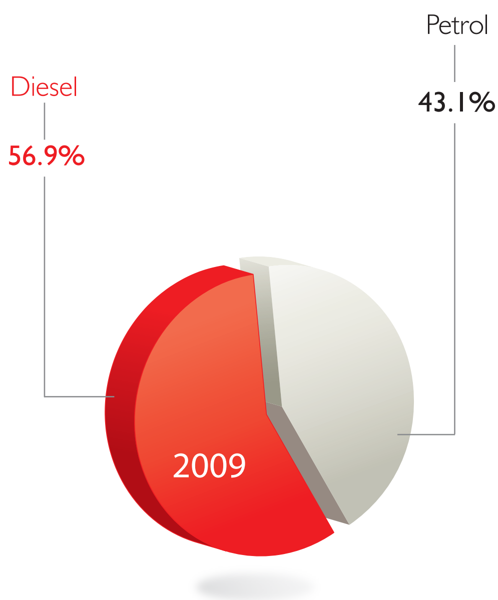
Fuel sales at PKN ORLEN fuel stations in Poland reached a record level of 4,344,000 tonnes. Increase of retail sales was possible mainly due to growing sales at BLISKA economy stations and expansion of fleet sales. Thanks to consistent implementation of the retail network development strategy PKN ORLEN managed to increase its share in the Polish market. Non-fuel sales also increased dynamically. In 2010 the Company recorded over 8% increase of turnover in shops at fuel stations.

In 2010 PKN ORLEN fleet programmes were distinguished many times and considered the best offer for business customers on the market.

At the end of 2010 the PKN ORLEN retail network in Poland was expanded by 48 fuel stations – to 1,714. As many as 1,333 of them were own stations, whereas 381 were franchised. In that period the PKN ORLEN network comprised in total 981 stations under ORLEN brand and 457 stations in the economy segment under BLISKA brand (other 276 stations within the PKN ORLEN network will be modernised or closed as part of network optimisation). At the same time 81 affiliated stations were transferred to service by the wholesale area

BENZINA – STRUCTURE OF FUEL SALES ON THE CZECH MARKET





The Czech Republic

In 2010 Benzina company, in the situation of decreasing consumption on the Czech market, increased Premium fuel sales. Consumption of Verva ON and Verva 100 fuel – offered only on the Czech market – amounted in total to over 37 mln litres, thus it increased against the previous year by as much as 68.9%.

At the end of 2010, Benzina managed a network of 337 premium and economy fuel stations. The number of Benzina Plus stations fulfilling the highest standards of premium brand and offering rich assortment of services and non-fuel products grew in 2010 from 107 to 113 with 224 stations in the economy segment. 325 own stations functioned in the CODO formula (Company Owned Dealer Operated), and 12 franchised stations –in the DOFO formula (Dealer Owned Franchise Operated).

Lithuania

In 2010 AB Ventus Nafta recorded an increase in sales by 3.1% as compared to the previous year in the situation of unchanged level of retail consumption on the Lithuanian market. Growth in that period was driven mainly by sales to fleet customers, which grew by 7.6% and reached 32.9% of share in the total fuel sales at Ventus Nafta stations.

By the end of 2010 ORLEN Group operated a network of 35 stations in Lithuania managed by AB Ventus Nafta company, including 26 in the COCO formula (Company Owned Company Operated) and 9 in the DOFO system (Dealer Owned Franchise Operated). Fuel sales at COCO stations grew by 2.8% as compared to the previous year, with an unchanged number of stations.

Germany

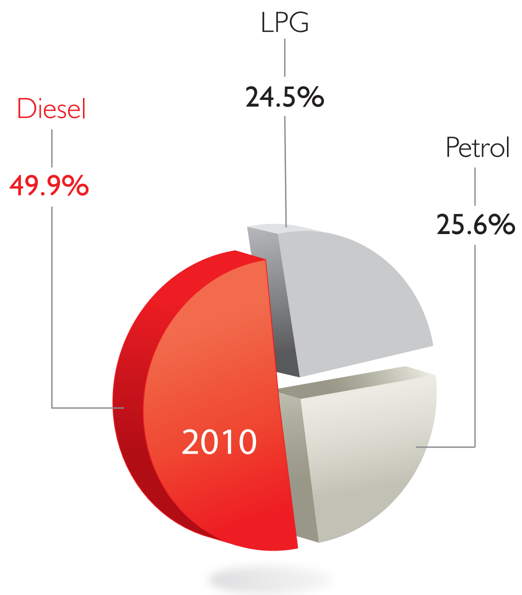
2010 was a record year for ORLEN Deutschland in terms of sales volumes. The company's retail sales exceeded in 2010 2 billion litres and in the situation of decreasing consumption on the German market it grew by 4% as compared to the previous year. Similarly strong growth was recorded in the non-fuel sales segment. Turnover of shops located at fuel stations increased against 2009 by 5.4%.

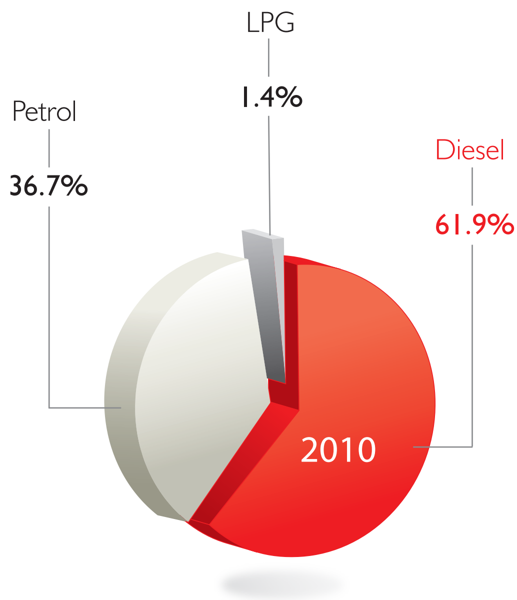
By the end of 2010, ORLEN Deutschland managed a network of 515* fuel stations, including 485 under the STAR brand, whereas 29 were stations located at hypermarkets. Efficient STAR brand positioning brought results in the form of strengthening of ORLEN Deutschland position as a strong player in the economic segment of the market.

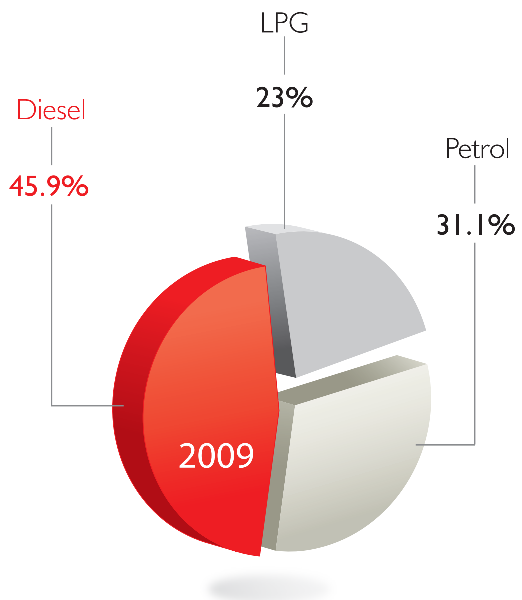
** ORLEN Deutschland manages one station under the ORLEN brand located in Hamburg.*

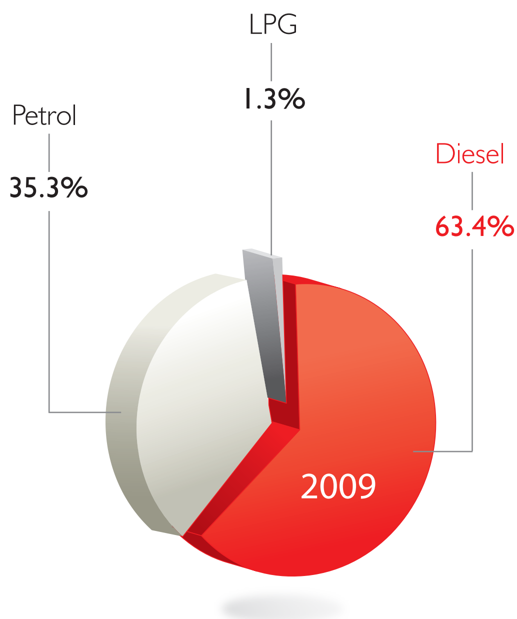
AB VENTUS NAFTA – STRUCTURE OF FUEL SALES ON THE LITHUANIAN MARKET

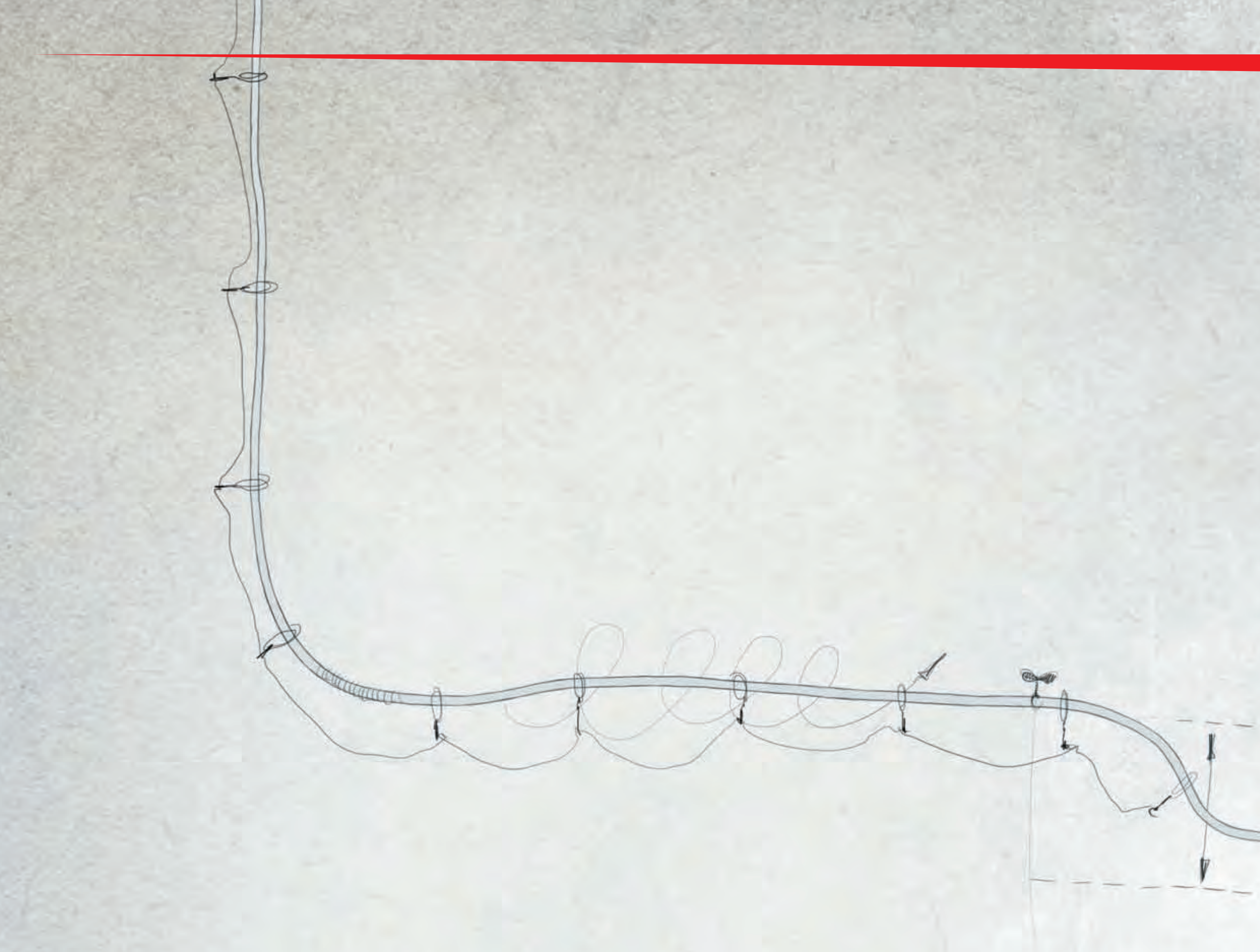
ORLEN DEUTSHLAND – STRUCTURE OF FUEL SALES ON THE GERMAN MARKET











IGNACY MOŚCICKI (1867–1946)

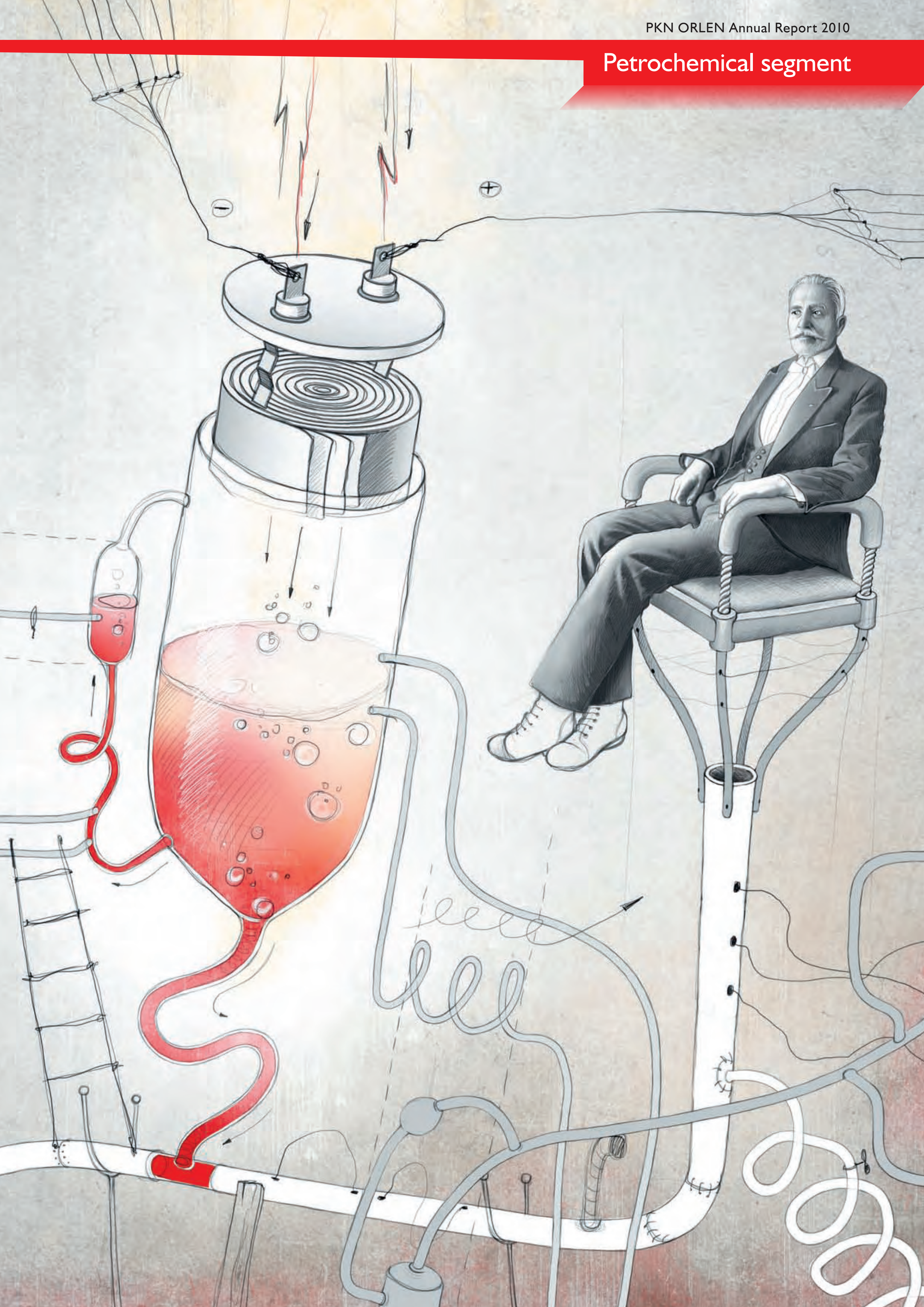
Born on 1 December 1867 in Mierzanowo - outstanding chemist, the President of the Republic of Poland in 1926–1936.

He graduated from the Technical University in Riga, and then he continued studies at the Finsbury Technical College and in Patent Library. He worked in Fribourg in Switzerland making numerous inventions.

In 1912 he was appointed to the Department of Physical Chemistry and Electrochemistry of the Lviv Polytechnic (until 1925) and in Technical University in Warsaw (1925–1926). He was a member of the Polish Academy of Arts and Sciences, from 1930 a member of the Warsaw Science Society and a honorary member of the Polish Chemical Society. He is the author of over 60 scientific works and patents. His greatest scientific achievement was development of industrial method for obtaining nitric acid from air by synthesis of nitrogen oxides in electric arc. He conducted works related to organization of chemical industry in independent Poland. He was also the rector at the Lviv Polytechnic.

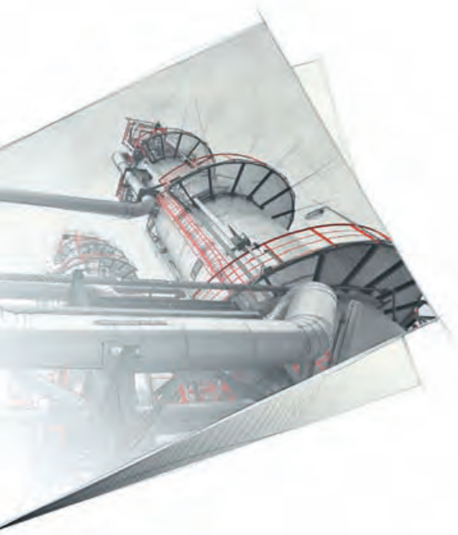
Supported by Józef Piłsudski, he was elected the president of the Republic of Poland in 1926. On 17 September 1939 he was interned in Romania, and on 30 September the same year he resigned from the office of the president. In December 1939 he moved to Switzerland where he spent the last years of his life.

Petrochemical segment



Petrochemical segment

The high quality of products and efficient distribution network make the petrochemical segment of ORLEN Group one of the strongest companies of this type in Central and Eastern Europe. In 2010 it comprised of selected units which were the Petrochemical Plant in Płock, Basell Orlen Polyolefins and business units from Unipetrol Group. The Company is the sole manufacturer of olefins, polyolefins and most petrochemicals in Poland and the Czech Republic.



Petrochemicals

In 2010 the market situation improved, which influenced prices of petrochemical products, mainly olefins. In the first half of the year the Company recorded their systematic increase. This was the result of the imbalanced market – demand significantly exceeded the supply. This effect intensified due to a large number of overhauls of units planned for that period by European producers. The third quarter brought stabilisation of the market situation and price reductions, whereas the fourth quarter – growing prices of raw materials and petrochemicals.

Restriction of production of certain products resulted in reduced sales in 2010, compared to the previous year. This was caused by a planned technological standstill of the Olefin unit in Płock, technological problems experienced by one of the main recipients of ethylene from the Production Plant in Płock and optimisation of operations of units related to the production chain.

ORLEN GROUP PETROCHEMICAL PRODUCTS SALES VOLUMES IN 2009–2010 ('000 TONNES)

	2009			2010		
	Poland	The Czech Republic	Total	Poland	The Czech Republic	Total
Polyethylene	171	286	457	181	288	469
Polypropylene	168	214	382	165	242	407
Ethylene	174	87	261	187	212	299
Propylene	178	36	214	170	43	213
Toluene	71	3	74	34	3	37
Benzene	81	182	263	71	211	282
Ortoxylene	20	0	20	6	0	6
Acetone	21	0	21	23	0	23
Butadiene	57	0	57	63	30	93
Glycols	68	2	70	64	1	65
Ethylene oxide	18	0	18	18	0	18
Phenol	34	0	34	35	0	35
Plastics	389	13	402	324	12	336
Artificial fertilizers	1,075	1	1,076	1,170	0	1,170
Others	545	925	1,470	437	843	1,280
Total	3,070	1,749	2,848	2,948	1,785	4,733

Polish and Czech plants of ORLEN Group produced over 956,000 tonnes of ethylene. This signifies almost 3% increase in comparison to the previous year. Propylene production in the reported period topped 577,000 tonnes, i.e. approximately 0.3% more than in the previous year.

Poland

The level of petrochemical production in 2010 was mainly influenced by the planned technological standstill of the Olefin unit, as well as related facilities in the Petrochemical Plant in Płock and polymer units in Basell Orlen Polyolefins. An additional factor restricting the production of ethylene was the substantial reduction – in the second half of 2010 – of products collected by ANWIL caused by failure at the Electrolysis Department resulting in restriction of PVC production (due to lack of supply of chlorine).

In 2010 the Company used increased production capacities of the Butadiene unit modernised two years earlier. Thus the production of butadiene increased by 14%. Moreover, construction of PX/PTA facility was completed (400,000 tonnes of paraxylene and 600,000 tonnes of PTA). Production on these units is planned to be launched in 2011.

In 2010 TE II unit was modernised, and thus its production capacities were increased.

The biggest recipients of ethylene and propylene from the plants in Płock were producers of plastics: Basell Orlen Polyolefins and ANWIL. Other products, apart from the domestic market, were sold mainly to Germany, the Czech Republic and Lithuania.

The biggest share in the structure of recipients of petrochemical products offered by PKN ORLEN was held by producers of plastics (PE, PP, PVC, PET). Other important purchasers were the producers of: 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.

PRODUCTION VOLUME OF SELECTED PETROCHEMICALS IN PKN ORLEN IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Ethylene	516*	502	-3%
Propylene**	358*	340	-5%
Butadiene	55	63	15%
Benzene	118*	108	-8%
Toluene	122*	111	-9%
Phenol	33	35	6%
Acetone	21	22	5%
Glycols	69	65	-6%
Cooling fluids	12	12	0%
Sulphur	135	145	7%
Ethylene oxide	18	18	0%

* *Total production for sale and own consumption.*

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

The Czech Republic

The situation on the Czech petrochemical market did not differ from that of other European markets, both in terms of demand and price levels. The agrochemical market was characterised by fluctuations of demand and prices. Price increase in the second half of 2010 was caused by growing prices of natural gas and increased demand for fertilisers.

The petrochemicals manufactured at Unipetrol RPA were mainly sold on the Czech market under long-term contracts concluded with key customers. Among foreign recipients the biggest volumes were contracted by entities from Germany, Poland, Austria and Ukraine.

In 2010 there was a substantial, as compared to 2009, increase of production at the Olefin unit. This resulted from absence of market restrictions and production capacities bigger than in 2009.

Plastic Materials

The volume of polypropylene production in 2010 totalled 568,000 tonnes, which was 6% more than in 2009. In 2010 ORLEN Group produced 6% more polyolefins than in 2009. In the period in question the production of polyethylene on units in Poland and in the Czech Republic reached the level of 642,000 tonnes, which was 6% more than in 2009.

Poland

In total, the Basell Orlen Polyolefins (BOP) produced over 24,000 tonnes of products more than in 2009.

Over 32% of overall sales of products from Basell Orlen Polyolefins were allocated on the Polish market. The rest was distributed within the European supply chain of LyondellBasell. In 2010, the main foreign recipients of Płock products were customers from Germany, Italy, France, Belgium and Sweden, as well as from Russia and Spain.

All the Basell Orlen Polyolefins products are packaged and dispatched from a modern logistics platform in Płock consisting of 63 silos of 400 tonnes each.

PRODUCTION VOLUME OF SELECTED PETROCHEMICALS IN UNIPETROL RPA IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Ethylene	416	455	9%
Propylene	217	237	9%
Benzene	182	213	17%
Carbamide	164	186	13%
Ammonia	266	249	-6%
Oxo alcohols	17	–	-100%

SALES OF THE MAIN PETROCHEMICAL PRODUCTS IN 2010 (%)

	Ethylene	Propylene	Benzene	Oxo	Ammonia	Carbamide
Domestic sales	72.8%	49.3%	89.2%	0%	99%	52.8%
Export	27.2%	50.7%	10.8%	0%	1%	47.2%

POLYOLEFIN PRODUCTION VOLUMES AT BOP IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
LDPE (Low Density Polyethylene)	92	96	4%
HDPE (High Density Polyethylene)	242	262	8%
PP (Polypropylene)	327	327	0%
Total	**661**	**685**	**3%**

The Czech Republic

Unipetrol took advantage of improving market conditions, recording increase of HDPE (high density polyethylene) production by 4%, whereas of polypropylene by 16%. Sales of HDPE and polypropylene were higher in 2010 as compared to the previous year by 1% and 13%, respectively. Better market situation also allowed to change directions of polymers sales. Therefore the company allocated more of its products in more profitable market segments.

The key foreign recipients of polyethylene and polypropylene manufactured in the Czech plants are German companies. Compared to 2009, HDPE export dropped by 4% and polypropylene export increased by 12% in 2010.

Investment projects

The main task carried out in 2010 was completion of the technical stage of construction of the PX plant (paraxylene production) and PTA plant (terephthalic acid production) in Włocławek. Commissioning of both units is planned for the first half of 2011.

Annual production capacities of the PX unit in Płock, producing raw material for production of terephthalic acid, amount to 400,000 tonnes. The expected time for commencement of continuous production at the PX unit is the 2nd quarter of 2011.

Whereas annual production capacities of the PTA unit, located on the premises neighbouring the ANWIL plant in Włocławek, amount to 600,000 tonnes of acid. The expected time for commencement of continuous production at the PTA unit is the 2nd quarter of 2011.

Other petrochemical companies of ORLEN Group carried out programmes for modernisation of existing infrastructure, obligatory and development projects. The Company completed, among others, the construction of Butadiene unit 120,000 tonnes in Unipetrol in the Czech Republic and construction of the oxygen generating unit as well as connection of utilities to the PTA plant in the ANWIL plants in Włocławek.

POLYOLEFINS SALES VOLUME AT BOP IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
HDPE	251	265	6%
LDPE	91	98	8%
PP	337	331	-2%
Total	**679**	**694**	**2%**

POLYOLEFIN PRODUCTION VOLUME AT UNIPETROL IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
HDPE	274	284	4%
PP	209	242	16%
Total	**483**	**526**	**9%**

POLYOLEFINS SALES VOLUME AT UNIPETROL IN 2009–2010 ('000 TONNES)

	2009	2010	Dynamics 2010/2009
HDPE	286	288	1%
PP	214	242	13%
Total	**500**	**530**	**6%**

JĘDRZEJ ŚNIADECKI (1768–1838)

Born in 1768 in Rydlewo near Żnin, died in 1838 in Vilnius - chemist, doctor, philosopher, biologist, publicist, called the father of Polish chemistry.

Professor of the Main School in Vilnius: in 1797–1822 of chemistry, in 1826–1832 of medicine, from 1832 at the Medical and Surgical Academy in Vilnius. Co-founder and the President (from 1819) of the Wastrel Society, founder of the Vilnius Medical Society.

He worked on the theory of dissolution processes. He discovered ruthenium (which he called "west" in his work "Treatise on the new metal discovered in raw platinum", 1808), however the discovery was not officially confirmed.

As for philosophical views, he was an advocate of empiricism and materialism of the French Enlightenment and the concept of "healthy reason" of the Scottish school of philosophy. The creator of Polish chemical terminology, he wrote the first chemistry handbook in Polish, he introduced the concept of metabolism in his "Innovative theory of organic existence" (1804–1811), which substantially preceded the development of natural sciences – it had a lot of editions, also translated into other languages.

He was also a propagator of hygiene and dietetics and pioneer of physical education in Poland.

Chemical segment.....{

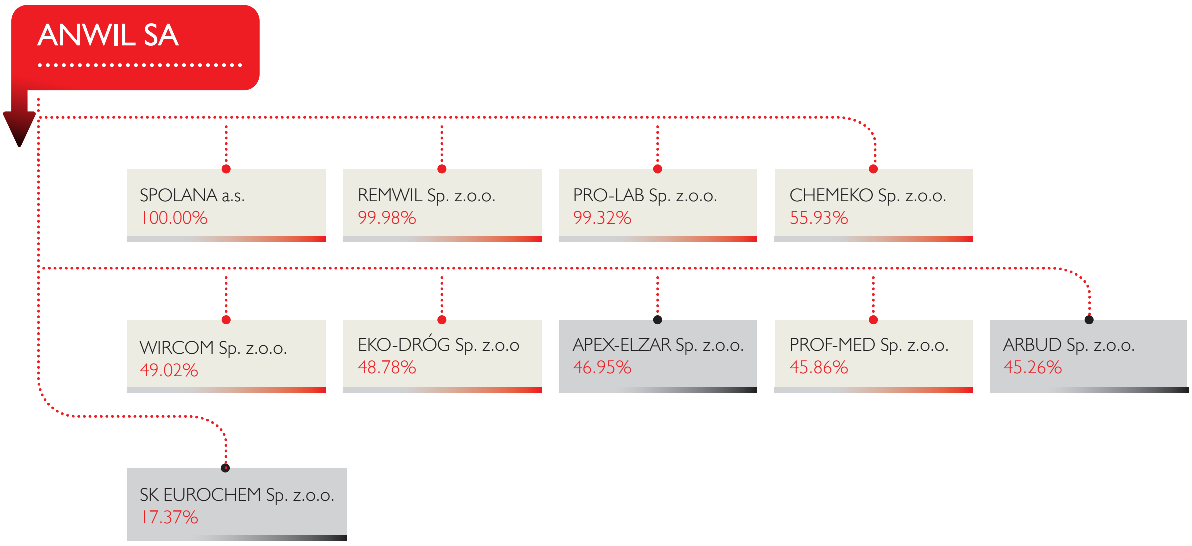
The most important entities of the chemical segment in 2010 were ANWIL (Poland) and Spolana (Czech Republic). As a result of optimisation of the core business in the 4th quarter of 2010 all assets in SK EUROCHEM and Arbud were sold, whereas the sale of shares in Apex-Elzar was finalised in January 2011.

Production

Main products of the chemical segment are:

- polyvinyl chloride,
- sodium hydroxide,
- granulates and mixtures on the basis of PVC,
- nitrogenous fertilisers,
- caprolactam.

STRUCTURE OF CHEMICAL SEGMENT IN 2010



PRODUCTION VOLUMES AT ANWIL ('000 TONNES)

	2009	2010	Dynamics 2010/2009
Polyvinyl chloride	257	195	-24%
PVC processing	53	52	-2%
Sodium hydroxide (per 100% NaOH)	155	76	-51%
Nitrogenous fertilisers* (per nitrogen)	281	282	0%
Total	**746**	**605**	**-19%**

** Covers nitrate and Canwil.*

Polyvinyl Chloride (PVC)

The year 2010 neutralised negative market trends that started at the time of 2008 crisis. Whereas due to a prolonged winter delaying the commencement of construction season the first quarter proved to be difficult, in April and May sales improved. In June there was already substantial increase of demand for PVC both in a Poland and on other European markets. This tendency was sustained in subsequent months, which was reflected in a sales increase and reduction of inventories in Europe reported by industry associations. In 2010 both indicators proved to be better compared to the previous year.

In June 2010 there was a failure at the Electrolysis Departement in ANWIL, which resulted in restriction of PVC production and thus drop in sales of products to domestic customers and withdrawal from performance of some foreign contracts. Therefore positive market tendencies could not be used in full. By neutralising the results of production restrictions as regards PVC, vinyl chloride and soda lye, capacity in Spolana was maximised. Moreover, the Company continued production on the basis of external sources of supply in raw materials and semi-finished products. The production situation necessitated replacement of Polanvil with Neralite and Ongrovil (Borsodchem). This generated additional costs resulting from necessity to ensure deliveries. Market shortages of unprocessed PVC resulting from the failure caused an increase of import, and thus decrease of ANWIL share in the market.

The continued common sales and distribution policy made it possible to divide the manufacturing of respective types of PVC between the Polish and Czech facilities. The Company also managed to effectively minimise the results of the failure in Włocławek. PVC production capacities in 2010 were 475,000 tonnes, including 340,000 tonnes in Włocławek (ANWIL) and 135,000 tonnes in Neratovice (Spolana).

In 2010 the chemical sector companies of ORLEN Group reported an approximately 40% share in the Polish PVC market, which is a drop by about 10% as compared to the previous year. In the period in question the share of ANWIL and Spolana in the Czech PVC market was approximately 30%, representing a drop of 3%.

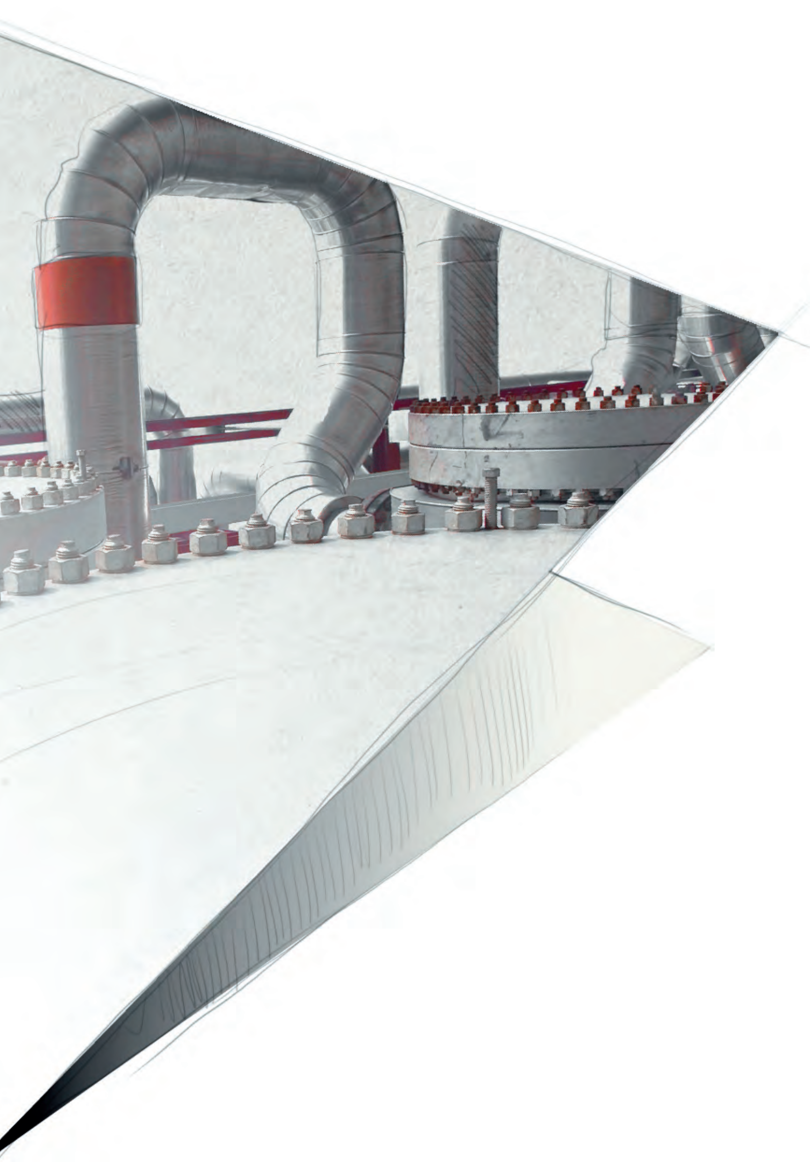
The most important investment in the segment in question was completion by ANWIL of works related to construction of the new oxygen generating unit. After precommissioning and commissioning, in November 2010 the production of oxygen and nitrogen was initiated, including supply of these gases to the plant network. At the turn of 2010 and 2011 the parameters for production of liquid argon were stabilized.

Activities regarding connection of utilities for the needs of the PTA Plant start-up were completed in time.

PRODUCTION VOLUMES AT SPOLANA (‘000 TONNES)	2009	2010	Dynamics 2010/2009
Polyvinyl chloride	117	110	-6%
Sodium hydroxide (per 100% NaOH)	88	85	-3%
Caprolactam	39	43	10%
Ammonium sulphate (per nitrogen)	37	41	11%
Total	**281**	**279**	**-1%**

Nitrogenous Fertilisers

In the 1st half of 2010 significant fluctuations of agricultural products prices and unfavourable weather conditions resulted in decreased demand for nitrogenous fertilisers. Moreover, in 2009 distribution networks and producers, having at their disposal relatively large inventories of fertilisers, conducted the policy of delaying the reduction of prices in retail sales. Farmers also delayed purchases, waiting for the reduction of fertilisers prices. This phenomenon contributed to a drop in demand at the beginning of 2010. Another factor contributing to the decrease in competitiveness of Polish fertiliser production companies were increased prices of gas for industry in Poland (compared to the prices for producers from Western Europe, Russia and Ukraine). Increase in import from the west and southern of Europe was one of the reasons for reduction of fertilisers prices in Poland. In that period Poland, so far the exporter of fertilisers, became their importer.



In the 2nd half of 2010 growing prices of agricultural products stimulated demand and influenced the increase of the price of fertilisers. This was the impulse initiating reconstruction of the domestic and export market. With the beginning of another agrotechnical season, in September and October the prices increased significantly. Whereas lower supply (connected with problems at units in Europe) and increased prices on international markets caused the reconstruction of export markets.

Despite a difficult 1st half-year, in 2010 ANWIL recorded record sales in the history reaching 971,800 tonnes of fertilisers. This was higher than the previous record made in 2006, by 18,300 tonnes, i.e. 1.9%. As compared to 2009, sales increased by 6.2%.

In 2010 ANWIL produced almost 908,000 tonnes of nitrogenous fertilisers (in mass), i.e. over 14,000 tonnes more than in 2009. The entire chemical segment production (including ammonium sulphate) amounted in 2010 to almost 1.1 mln tonnes of nitrogenous fertilisers (in mass). According to the Central Statistical Office (GUS) in 2010 the total production of nitrogenous fertilisers of all Polish producers increased by 5% as compared to 2009.

In the 2009/2010 season, ORLEN Group's chemical segment covered nearly 20% of the Polish nitrogenous fertiliser market, as per pure nitrogen.

The Company also continued investment projects under the name "Raising the energy efficiency level and production volume at the Fertiliser Plant." Investments constitute a practical verification of activities aimed at reducing the level of energy consumption of the production process in the area of fertilisers on the one hand, and on the other hand – at using energy potential in this area, previously not used in the optimal way. Moreover, these activities will bring environmental advantages. Character of investments qualifies them to co-financing from the National Fund for Environmental Protection and Water Management in Warsaw.

Caprolactam

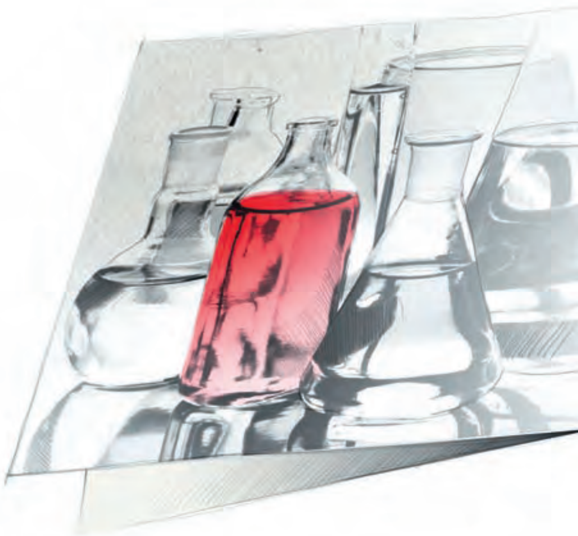
As from the end of 2009 situation on the market of caprolactam and polyamides has started to improve. In 2010 strong demand and record high prices in Asia resulted in increased export from Europe, which meant drop in supply in Europe. Spolana took advantage of the favourable situation on Asian markets – by increasing production of caprolactam in the form of flakes it was able to increase the level of sales in this region. By tightening cooperation with one of Polish producer of polyamides, it significantly increased the levels of sales of the product to the Polish market. The volume of ammonium sulphate, a parallel product generated in the production of caprolactam, manufactured in Spolana was higher than the level reported in the previous year.

In 2011 Polish and Czech markets will be crucial for the chemical segment in the scope of PVC. The segment will focus its sales intensification efforts first of all on those two markets. Due to improving situation on the domestic and European construction market, being the main driver of increase of demand for PVC, and restoration of full production capacity in ANWIL, it is assumed that sales in 2011 will be higher than in the previous year. Thanks to this the chemical segment will regain shares in the most important markets, lost as a result of failure in Włocławek.

In the season 2010/2011 ANWIL assumes to maintain its position on the nitrogenous fertilisers market in Poland, with maximum use of production capacities.

Investment projects

The most important undertaking of ANWIL Group for the years 2011–2015 is the construction of a new, own heat and power plant based on the gas and steam unit with a power of 100 MGW. Maximum levels of co-generation should fully satisfy the demand for heat energy of the entire industrial facility at the premises of ANWIL (including PTA plant and SK Eurochem company) and most demand for electricity of ANWIL itself. Construction and start-up of this unit will contribute to significant reduction of costs of heat and electricity production. Thus it will reduce costs of production of basic products, mainly PVC. In 2011 the Company will continue investments required pursuant to legal provisions regarding elimination of R-22 Freon from cooling systems. In the Fertiliser Plant, under the operational programme "Infrastructure and Environment" the Company will also carry out environmental and efficiency tasks.



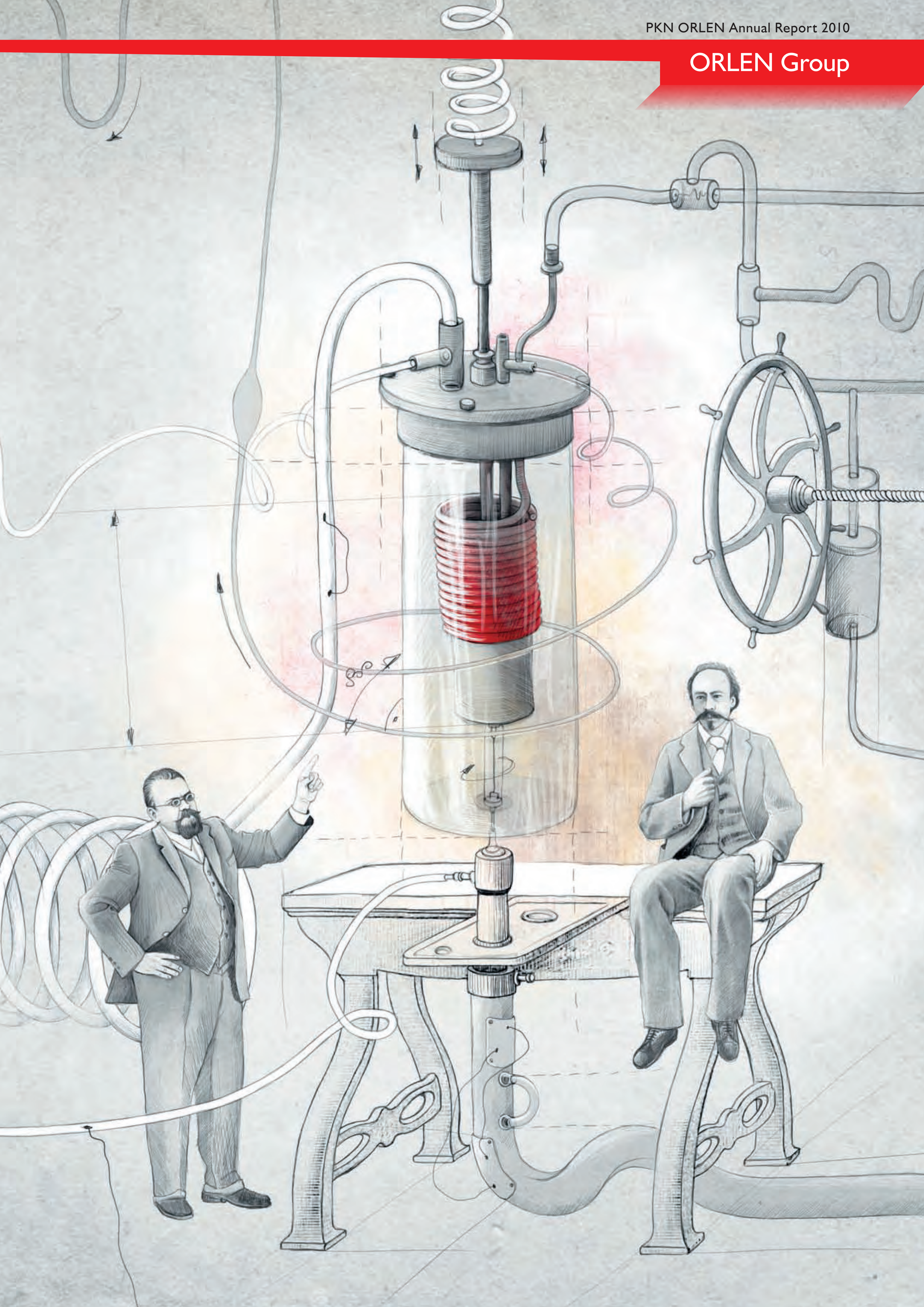
KAROL OLSZEWSKI & ZYGMUNT WRÓBLEWSKI

Karol Olszewski (1846–1915)
The founder of Polish and world cryogenics, physicist and chemist, professor at the Jagiellonian University. Member of the Polish Academy of Arts and Sciences in Krakow He contributed to the development of roentgenography.

Zygmunt Wróblewski (1845–1888)
Polish researcher – physicist. Member of the Polish Academy of Arts and Sciences, professor at the Jagiellonian University (from 1882). He conducted research into properties of gases and metals in low temperatures and gaseous diffusion. He determined critical temperatures of numerous gases, including critical parameters of hydrogen.

Karol Olszewski and Zygmunt Wróblewski conducted research on the condensation of air. In 1883 they were the first scientists in the world who condensed oxygen and nitrogen. Later both scientists consolidated carbon dioxide and methanol. For that purpose they used the cascade method of gas condensation under reduced pressure in which successive condensed and boiling gas reduced temperature for subsequent condensations in lower temperatures. Due to joint achievements both scientists are often listed together.

ORLEN Group



ORLEN Group

ORLEN Group companies are ascribed to respective divisions within PKN ORLEN and several business units.

As at the end of 2010, PKN ORLEN had direct shareholdings in 56 commercial companies, including:

- 34 subsidiaries (over 50% of shares);
- 2 co-related companies (50% of shares),
- 1 affiliated company (between 20% and 50% of shares),
- 19 minority companies (less than 20% of shares).

A strong Capital Group, being one of the objectives of PKN ORLEN, supports the core business, i.e. refinery and petrochemical production. Policy towards the Capital Group is realized by strengthening the position of PKN ORLEN in companies from the core business area and divestments of assets not strictly related to its core business.

Changes in ownership in 2010

In 2010 ORLEN Powiernik, Morfeo and Chemipetrol GmbH were liquidated a part of activities aimed at optimisation of the Capital Group structure.

The share capital of ORLEN Upstream was increased in February 2010 by PLN 2.45 mln by issuing 4,900 new shares of PLN 500 nominal value each. PKN ORLEN remains the only shareholder in the Company, and its total commitments in ORLEN Upstream amounts currently to PLN 24.95 mln.

In October ORLEN Capital AB with its seat in Sweden was set up, and PKN ORLEN purchased 500,000 shares of EUR 0.11 value each. Value of share capital amounts to EUR 55,000. PKN ORLEN share in the company's share capital amounts to 100%.

In December PKN ORLEN purchased from the State Treasury the block of over 750,000 ordinary registered shares of ANWIL, representing 5.56% of the company's share capital for the amount of PLN 81 mln. PKN ORLEN share in the company's share capital after the transaction amounts to 90.35%.

Also in December PKN ORLEN purchased from the State Treasury the block of over 395,000 ordinary registered shares of Rafineria Trzebinia, representing 9.19% of the company's share capital for the amount of PLN 34.9 mln. PKN ORLEN'S share in the company's share capital after the transaction amounts to 86.35%.

Perspectives for the nearest future

2011 will be another year of optimising the structure of ORLEN Group. Works aimed at sale of the block of Polkomtel shares and ANWIL. It is expected that the transaction of the sale of Polkomtel shares will be carried out in the first half of 2011. Due to lack of consensus regarding the price, negotiations with ZA Puławy concerning the sale of ANWIL chemical plants were closed. Taking into account improving macroeconomic conditions, postponement of the transaction may, in the opinion of PKN ORLEN and external experts, positively influence its terms. Currently the Company is conducting works and analyses aimed at investigating the possibility of separating ANWIL into fertilising and PVC parts.

The Company also undertook activities to strengthen the control in selected entities of key significance for PKN ORLEN. To fulfil this purpose the Company bought minority shares in: Rafineria Nafty Jedlicze, IKS "Solino", ORLEN Automatyka and ORLEN Wir.

The very successful programme for development of the retail network will be continued, outside Poland. ORLEN Deutschland owns already 571 fuel stations. The agreement for the purchase of 56 fuel stations from OMV Deutschland concluded in November will allow ORLEN to strengthen the position of the company on the market in Saxony and Thuringia, where the presence of the STAR brand was so far only marginal.

Moreover, divestment processes of ORLEN Budonaft and minority blocks of 17 companies will be carried out as well as mergers of ORLEN Eko and ORLEN Prewencja.

DIRECT AFFILIATES OF PKN ORLEN

as of 31.12.2010

Division of President of the Management Board

- ORLEN Upstream 100%
- ORLEN Intern. Exploration & Prod. Co BV 100%
- ORLEN Ochrona 100%
- Polkomtel 24.4%
- 17 spółek pozostałych <20%

Financial Division

- ORLEN Księgowość 100%
- ORLEN Holding Malta Ltd 99.5%
- ORLEN Insurance Ltd 0,0000101%
- ORLEN Finance AB 100%
- Petrolot 51%
- ORLEN Administarcja 100%
- ORLEN Capital AB 100%

Petrochemicals Division

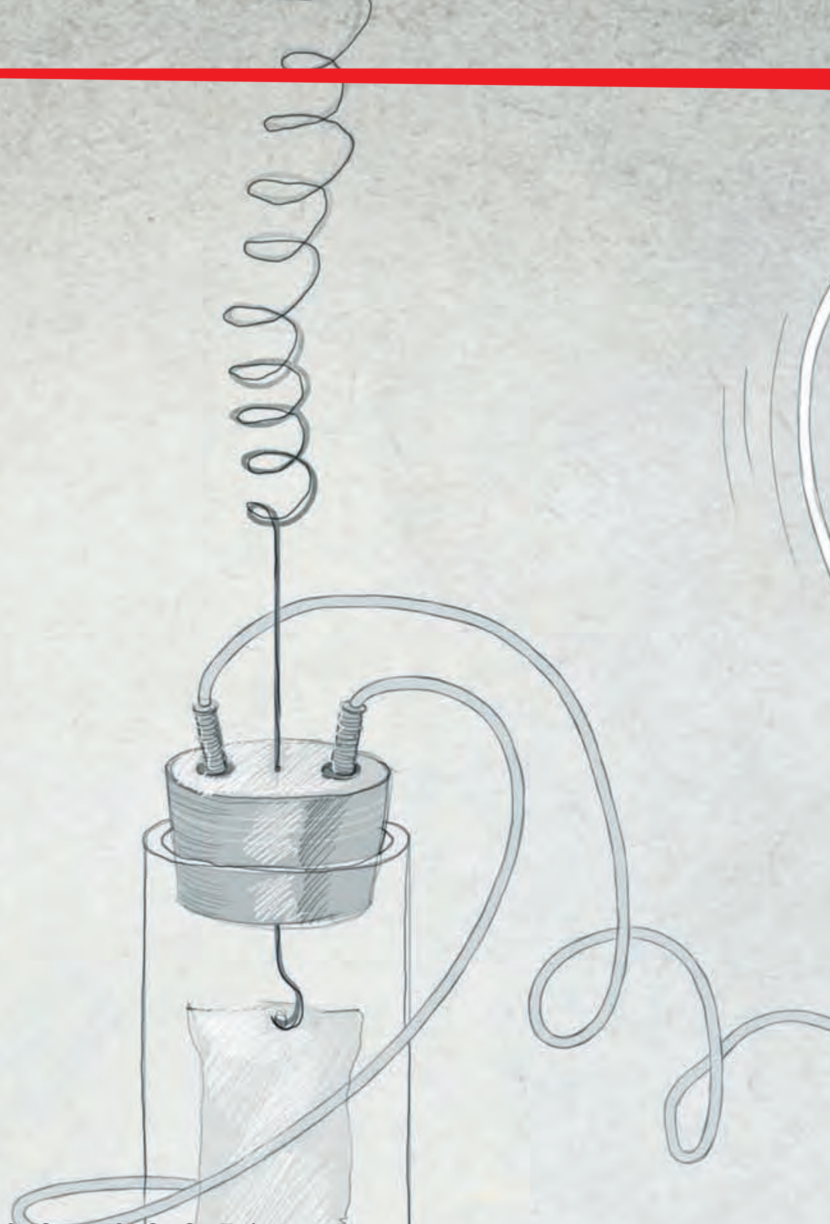
- Basell Orlen Polyolefins 50%
- ANWIL 90.4%
- ORLEN Prewencja 100%
- ORLEN Laboratorium 94.9%
- ORLEN Projekt 51%
- ORLEN Unipetrol a.s. 63%
- Płocki Park Przemysłowo Techniczny 50%
- ORLEN Medica 100%
- ORLEN Eko 100%
- ORLEN Budonaft 100%

Refinery Division

- AB ORLEN Lietuva 100%
- ORLEN Asfalt 82.5%
- Rafineria Nafty Jedlicze 75%
- Rafineria Trzebinia 86.3%
- ORLEN Oil 51.7%
- ORLEN Automatyka 52.4%
- ORLEN Wir 51%

Sales Division

- ORLEN Gaz 100%
- ORLEN PetroCentrum 100%
- ORLEN PetroTank 100%
- Ship Service 60.9%
- ORLEN Deutschland GmbH 100%
- ORLEN Centrum Serwisowe 99%
- IKS "Solino" 70.5%
- Naftoport 18%
- ORLEN KolTrans 99.9%
- ORLEN Transport 100%
- ORLEN Transport Kraków 98.39% *under bankruptcy*



W I K T O R   K E M U L A   (1 9 0 2 – 1 9 8 5)

Born on 6 November 1902 in Izmaił – an outstanding Polish chemist, founder of the Polish School of Polarography.

Professor at the University in Lviv (1936–1941), the head of the Inorganic Chemistry Department at the University of Warsaw (1945–1968), the head of the Physical and Chemical Analytical Methods Institute at the Polish Academy of Sciences in Warsaw (1952–1972). He was a member of the Warsaw Scientific Society (from 1945) and its President in the period from 1981 to 1985.

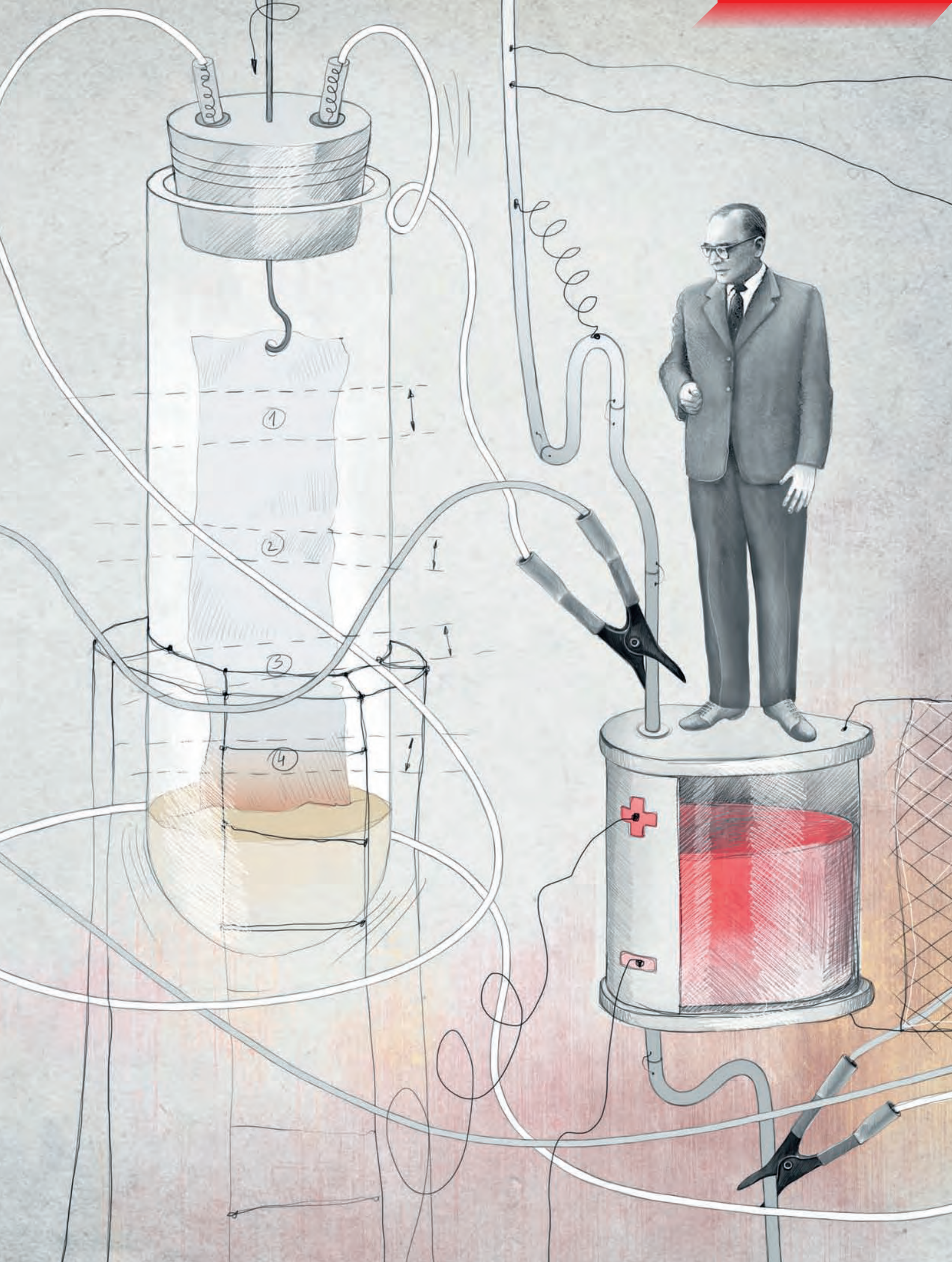
Member of the Polish Academy of Arts and Sciences from 1950, the Polish Academy of Sciences from 1956, the International Union of Pure and Applied Chemistry (1947–1985). The president of the Polish Chemical Society (1955-1959, 1972-1974). Member of a lot of international chemical societies, among others American Chemical Society (from 1938) and Royal Society of Chemistry (from 1979). Awarded the degree honoris causa of the University of Warsaw.

Editor of the following magazines: "Roczniki Chemii" and "Chemia Analityczna".

The founder of the Polish school of polarography. He devoted numerous works to the study of physical and chemical phenomena associated with polarographic analysis. He introduced significant modifications to this method, thus initiating cyclic voltammetry and cathodic oscillography. He conduced research into the reduction of organic compounds, properties of complex compounds, impact of surfactants on electrode processes and oxidation of amalgams.

Analytical methods developed by Wiktor Kemula have been used in studies of numerous technical products (e.g. reactor materials) as well as clinical and pharmaceutical tests.

Employees



Employees

As at the end of 2010, the number of ORLEN Group employees totalled 22,040* people, including:

- 4,513 in PKN ORLEN,
- 4,250 in Unipetrol Group,
- 2,696 in ORLEN Lietuva,
- 126 in ORLEN Deutschland.

Consistently conducted optimisation of employment concentrated on two key aspects. The first one concerning restructuring processes implemented mainly in ORLEN Lietuva Capital Group and UNIPETROL Capital Group allowed to decrease the employment by approximately 6%. The second part of activities focused on optimisation of employment related to development programmes carried out by PKN ORLEN, in particular regarding the area of petrochemistry. In connection with construction of the PX unit in Płock and the PTA unit in Włocławek, 111 people were employed directly at these units in 2010.

Due to systematically implemented efficiency improvement programmes, employment in PKN ORLEN in 2010, despite new recruitments, remained on the level similar to the one recorded in the previous year. In the entire ORLEN Group average employment dropped by over 3% as compared to 2009.

Employment Structure

In 2010, the majority of PKN ORLEN and ORLEN Lietuva personnel were university graduates, whereas most employees working for Unipetrol Group had secondary vocational education diplomas.

In terms of age groups, in PKN ORLEN, the most numerous were employees aged 31 to 40, whereas in ORLEN Lietuva and Unipetrol Group the largest group of employees were 41 to 50 years old.

The majority of employees were men, who represented about 68% of personnel in ORLEN Lietuva, about 74% in Unipetrol and about 80% in PKN ORLEN.

EMPLOYMENT STRUCTURE BY EDUCATION

Education	PKN ORLEN	Unipetrol	ORLEN Lietuva
University graduates	50.60%	15.51%	31.97%
Secondary	41.00%	35.14%	21.59%
Secondary vocational	7.11%	43.26%	21.88%
Primary	1.29%	6.10%	24.55%

EMPLOYMENT STRUCTURE BY AGE

Age	PKN ORLEN	Unipetrol	ORLEN Lietuva
<30	14.69%	6.78%	9.90%
31-40	29.83%	26.01%	31.86%
41-50	22.65%	33.96%	34.24%
51-60	28.59%	28.31%	22.81%
>60	4.23%	4.94%	1.19%

EMPLOYMENT STRUCTURE BY GENDER

Gender	PKN ORLEN	Unipetrol	ORLEN Lietuva
Women	19.61%	25.84%	31.53%
Men	80.39%	74.16%	68.47%

** In this context ORLEN Group refers to the Company and its subsidiaries covered by consolidation.*

Recruitment Policy in PKN ORLEN

The main objective of the 2010 recruitment policy was to recruit high-class specialists, whose knowledge and competencies – combined with experience of current employees – will allow to ensure continuity and the highest level of business processes implemented by the Company. Implementation of the recruitment strategy was in compliance with currently applicable procedures and the principles of corporate governance and corporate social responsibility. To ensure harmonious and consistent implementation of the strategy, ORLEN Capital Group companies received support consisting in, among others, knowledge sharing, exchange of experiences and good practices in the scope of recruitment projects.

In 2010 the Company developed new "Rules for adaptation of Employees in Polski Koncern Naftowy ORLEN Spółka Akcyjna". Their aim was to efficiently introduce new employees to their new duties, to provide support in adaptation to the new working environment and to strengthen loyalty towards the Company. The process also includes familiarisation with the principles of corporate governance and integration with the team of co-workers.

Human resources policy in ORLEN Group

One of the main objectives of the Company in the scope of HR is the creation of uniform rules and standards for personnel management. In 2010 the Company developed a document, whose aim – as its title indicates – is to improve and standardise HR solutions in all companies within ORLEN Group. "Guidelines for development of systemic HR solutions in ORLEN Group Companies" indicate directions of organizing and developing HR processes and the manner of their implementation in the Capital Group companies in accordance with PKN ORLEN standards.

The main aim of the remuneration system in the Company is to have a uniform, transparent, fair and motivating tool to increase productivity and efficiency of every company in ORLEN Capital Group.

A coherent and well-concerned remuneration system allows for fulfilment of basic objectives, such as: rewarding for individual and group results, ensuring stabilisation, providing long-term motivations or the ability to employ qualified and experienced specialists.

Bonus systems in ORLEN Group are aimed at motivating employees to fulfil objectives set by the Management Board of the Company and promoting outstanding achievements and desirable behaviour based on values of key importance for the Company.

A distinctive feature of the bonus system in ORLEN Group is the relation of bonus to fulfilment of set targets. The performance-oriented remuneration system supports the model of strong identification of employees with success of the Company on the strategic level and the organizational unit on operational level. Employees gain confidence that results of their work translate directly into their remuneration.

These universal principles have been reflected in new standards for awarding bonuses to executive management in ORLEN Capital Group, developed and adopted in 2010. Main assumptions of this system are, among others, making the bonus system more consistent across the entire Group and increasing responsibility of the highest management for results of the Company.

Student training

As in the previous years, in 2010 PKN ORLEN organised student training covering three types of projects:

- Individual Training Programme (for students who completed at least the 2nd year of studies),
- Group Training Programme (organised in cooperation with schools and universities),
- Diploma Training Programme (for students in the last years of their studies interested in using materials/data concerning the Company in their thesis).

In 2010, 388 people participated in the Student Training Programme, of which 46 took part in individual student trainings and 342 in group trainings (321 students from the local market and 21 students from other universities).

On-the-Job Training

PKN ORLEN as a company operating in accordance with the principles of corporate social responsibility, takes care not only of its employees but also of young people – university and secondary vocational schools graduates. In order to givie them opportunities to gain first professional experiences PKN ORLEN has organised since 2002 on-the-job training for graduates interested in starting cooperation with PKN ORLEN, in cooperation with Labour Offices across Poland.

On-the-Job Training programme allows us to accurately evaluate the skills and professional potential of young people. Those possessing the best skills and qualifications often become a part of the PKN ORLEN team. During the time spent in PKN ORLEN all trainees have a unique opportunity to gain professional experience, verify their skills and learn from the best experts in the industry.

In 2010, 52 people took part in on-the-job training. The programme involved on-the-job training in the PKN ORLEN headquarters in Płock and in facilities throughout Poland. The participants of the programme familiarized themselves with work in all areas of the Company's activities, from production to administration.

In 2010 PKN ORLEN signed the Letter of Intent regarding cooperation between the Warsaw University of Technology Business School and PKN ORLEN.

Professional development and training

The employee development policy in 2010 was prepared on the basis of the results of the competence survey and concentrated on the development of managerial skills. Employees responsible for business areas received necessary specialist knowledge.

The main projects implemented in 2010 included development programmes: Energetic Leadership and Champions League. Both will be implemented also in the next years, supporting development of succession processes and talent management.

The Energetic Leadership project is aimed at the development of managerial competencies from the level of line management to strategic management. In the programme special emphasis was put on the importance of enthusiasm at work and inspiring others to continuous improvement. The Champions League project is targeted at the group of production processes supervisors who manage the work of teams as part of their daily duties. The aim of the programme is to expand the set of tools necessary for adequate employee management: work organization, motivation and communication.

An important element in the scope of the training policy was also expansion of IT systems supporting monitoring of projects and development of e-learning courses.

During specialist and development trainings in 2010 the Company trained in total over 8,000 employees.

Social dialogue

Principles of social dialogue applied in PKN ORLEN are based on internal agreements and regulations resulting from general legal provisions in force.

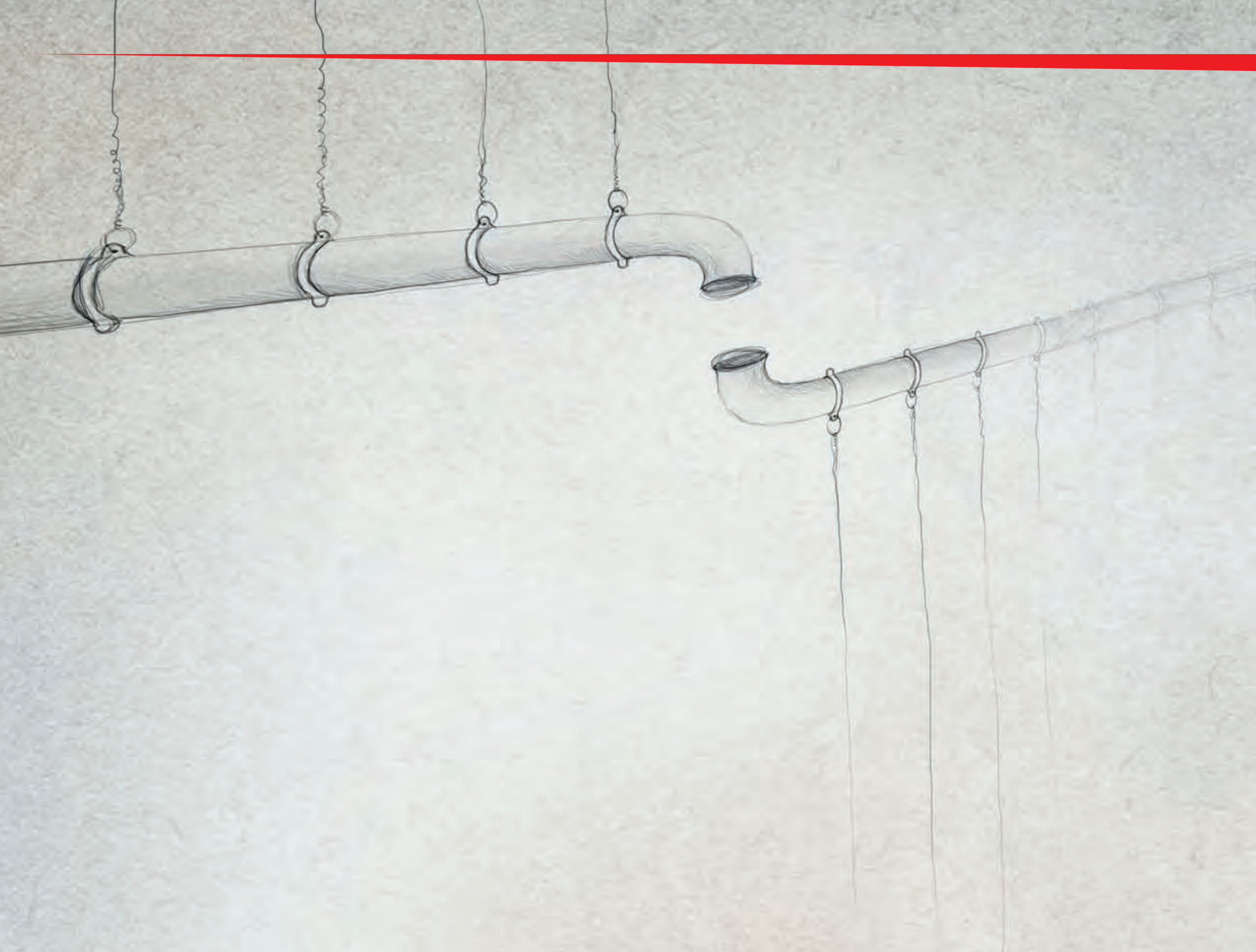
These principles are crucial in the case of complex social processes and allow us to minimise potential disputes.

Observance of the principles of social dialogue is crucial by implementation of restructuring processes and undertaking of activities concerning companies set up as a result of transformations inside PKN ORLEN. Frameworks of social dialogue in this scope are specified by the provisions of "The agreement regarding rules of cooperation between the Employer and the Trade Unions concerning restructuring issues", which (after verification in 2010) was adjusted to capabilities of the Company and market solutions practiced in this scope.

Social Benefits

As a responsible employer PKN ORLEN provides social support to its employees in the form of various benefits, including in particular: co-financing of employee holidays, sanatorium treatment, holidays for children and youths, recreation and sports activities, rehabilitation treatment and cultural and educational activities, non-repayable aid (financial or in-kind), repayable housing loans and Christmas presents for children. In total about 37,000 various benefits were provided.

Due to the tragedy caused by flooding which occurred in Poland in June 2010 the Company initiated the financial aid action from the Company Social Benefits Fund. The action lasted until 15 December. One-off aid was provided for the current and former employees of the Company. People who suffered because of the flood could apply for aid in the form of non-repayable aid and repayable loan for renovation of a house or a flat, granted on preferential terms.



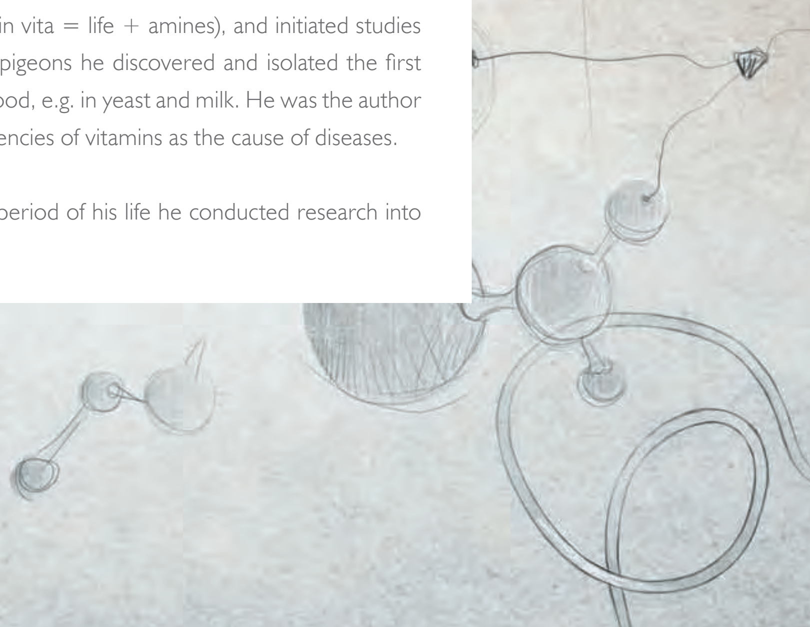
KAZIMIERZ FUNK (1884–1967)

Born on 23 February 1884 in Warsaw, where he graduated from grammar school. He studied biology in Geneva, and then chemistry in Bern (Switzerland) where in 1904 he was awarded PhD degree. As a biochemist, he conducted most of his research at the Pasteur Institute in Paris, as well as in Germany and Great Britain.

He acted as the head of the biochemistry department at the National Institute of Hygiene in Warsaw, and spent the last years of his life in the USA.

He coined the term "vitamins", which he introduced in 1912 (from Latin vita = life + amines), and initiated studies about these compounds. After long and strenuous tests on rats and pigeons he discovered and isolated the first vitamin – vitamin B, and subsequently discovered it in various types of food, e.g. in yeast and milk. He was the author of the work "Die Vitamine" about properties of vitamins and the deficiencies of vitamins as the cause of diseases.

Kazimierz Funk also worked on isolating insulin and niacin. In the last period of his life he conducted research into causes of cancer.



Environmental protection

Environmental protection

Activities in the area of environmental protection carried out last year allowed PKN ORLEN to solidify the position of the leader in the scope of ecological approach towards business. Taking responsibility for current and future environmental impact, the Company conducted numerous activities aimed at minimising its influence on environment.

Capital expenditure on tasks related to environmental protection in the ORLEN Production Plant in Płock in 2010 amounted to over PLN 148 mln, whereas at fuel stations – to over PLN 47 mln, i.e. 46% more compared to 2009. In the following years the Company will continue activities aimed at protecting environment, increasing power and balancing the energy needs of PKN ORLEN.

The separate Environmental Protection Office, established in December 2009, dedicated to fulfil environmental objectives of the Company, carried out various voluntary initiatives and programmes. Operations of the Office also brought measurable quality effects in the scope of fulfilment of obligations imposed by the law. The Office carried out operational duties regarding environmental conditions of functioning of the plant in Płock and supervised content-related works of ORLEN Prewencja conducting tasks for terminals and fuel stations. An important new element was the implementation of activities coordinating environmental questions within the operations of the Capital Group. These activities resulted in development of the first "Environmental report of ORLEN Capital Group".

Despite the unfavourable macroeconomic situation, the Company fulfilled tasks resulting from environmental programmes as well as investment tasks. The most important of them included:

- paraxylene unit,
- Hydrodesulphurisation ON VII unit,
- II Hydrogen Production Plant,
- Claus II unit,
- construction of K8 boiler at the Combined Heat and Power Plant equipped with an exhaust gas catalytic denitrogenation unit,
- modernisation of existing fuel stations and the construction of new ones, equipped with necessary environmental protections.

Construction of some of the mentioned units has been already completed, while in the case of others commissioning works are still being performed.

One of the important events was commencement of works on the construction of a new gas turbine powered by natural gas – so called "blue fuel" characterised by the lowest emission indicators.

Another challenge that faces the Company in the scope of environmental protection is adjustment of the Combined Heat and Power Plant to requirements established for such types of sources in the Directive on industrial emissions of 24 November 2010. Works on modernisation of the CHP plant have to be completed by 2016.

In 2010 there was the first review of integrated permits for the Company's units required by law. The review conducted by the Marshal Office of Masovian Voivodeship brought positive results. Units covered by the CO_2 emission allowances trading system obtained positive verifications of reports for 2010, and the Company holds allowances in the number corresponding to verified CO_2 emissions.

Another important event was receipt in June 2010 of the integrated permit for a new production unit for production of tetraphthalic acid in Włocławek.

In 2010, the Company reported a slight increase in total emissions to the atmosphere as compared to the previous year caused mainly by extreme weather conditions in the 1st and the 2nd quarter of 2010. Necessity to produce heat by the CHP plant for the Company's own needs as well as other industrial recipients and Płock resulted in an increased amount of consumed fuel.

Load of sewage discharged to the Vistula also went up due to an increase of 28% of rainwater and drainage sewage caused by strong rainfall and high groundwater level. Despite recorded increases emissions did not exceed amounts specified in the allowances, and the Company did not record any exceeded standards of air quality in continuous emission measurements.

The year 2010 was the period of intensified activities regarding implementation of the Responsible Care (RC) Programme. The Company implemented the Framework Responsible Care Management System being the consequence of the Global Responsible Care Support Declaration signed by PKN ORLEN in 2007. The objective of the System is to introduce the mechanism for cyclical self-assessment of the Company in the area of broadly understood safety and integration of principles of the Responsible Care Programme with commercial processes, e.g. product management, transport of raw materials and products. The compliance assessment audit, carried out at the turn of 2010 and 2011, confirmed implementation of the system on the level allowing the jury to award the Certificate of implementation of the Framework Responsible Care Management System compliant with guidelines of the CRF-IC (European Chemical Industry Council).

Under the Responsible Care Programme the Company implemented 43 projects, the most popular one among employees being the next, fourth edition of the photo competition "Catch the hare", aimed at promoting the beauty of nature. Award winning photos were sent to the national stage where employees from all companies taking part in the Responsible Care Programme compete.

Two photos sent by PKN ORLEN employees were distinguished on the national stage. All award-winning photos were presented in the 2011 calendar published by the Programme Secretariat.

Tasks undertaken by the Company in 2010 in the scope of environmental protection were distinguished by two important environmental awards:

- "Environmentally Friendly Company 2010" and
- "Polish Environmental Pantheon" in the category of the institutions supporting the implementation of environmental protection projects – Let's save the peregrine falcon.

POLLUTANT EMISSIONS FROM THE PRODUCTION PLANT IN PŁOCK IN 2009–2010 [MG]	2009	2010	Change	
Sulphur dioxide	20,975.23	22,381.42	1,406.19	6.70%
Nitrogen monoxide (as per nitrogen dioxide)	7,124.27	8,460.74	1,336.47	18.76%
Carbon monoxide	1,010.87	1,309.07	298.20	29.50%
Total hydrocarbons	1,238.12	1,412.07	173.95	14.05%
Fuel combustion dust	399.75	509.65	109.90	27.49%
Carbon dioxide	6,126,894.42	6,351,440.32	224,545.90	3.67%
Other pollutants	370.05	370.99	0.94	0.25%
Total pollutant emission	**6,158,012.71**	**6,385,884.25**	**227,871.54**	**3.70%**

Air Protection

According to the control measurements carried out by the Company and authorised auditing bodies in 2010, the top emission limits set out in the Integrated Permit were not exceeded by the refinery and petrochemical facilities in Płock.

In 2010, PKN ORLEN Group companies undertook various measures to reduce their environmental impact.

ANWIL

- construction of the medium-pressure steam boiler unit on line A of ammonia unit. The investment influenced reduction of the natural gas consumption by approximately 369 Nm^3/h, decrease of CO_2 emissions (by approximately 725 kg/h) and reduction of environmental charges,
- modernisation of two production lines at the demineralisation station. This resulted in reduction of hydrochloric acid and soda lye consumption by 75% and reduction of the amount of sewage by 50% as compared to the values reached by the lines before modernisation,
- modernisation of the monitoring system of continuous exhaust gas emissions from EC. The effect was increased confidence of exhaust gas emissions control and prevention of uncontrolled increases of exhaust gas emissions.

Ceska Rafinerska

- modernisation of the sewage treatment plant,
- expansion of the hydraulic barrier protecting the ground and water environment,
- overhaul of sewer systems in both refineries of the company.

ORLEN Asfalt

- overhaul works connected with replacement of insulation on the K-201 column (reduction of heat emission to atmosphere).

ORLEN Centrum Serwisowe – servicing centre

- modernisation of the boiler room (replacement of heat medium from heating oil to gas and lower emission charges),
- additional thermal insulation of the roof of the warehouse in Opole (reduction of consumption of heat medium and limit heat emission to atmosphere),
- purchase of new cars complying with EURO 4.5 requirements (reduction of depreciation costs and emission charges).

ORLEN Eko

- the Company initiated in December 2010 implementation of the system for selective collection of municipal waste on the premises of facilities owned by PKN ORLEN as well as its collection and transport (in cooperation with EKO-MAZ Sp. z o.o.).

ORLEN Lietuva

- application of a new method for gas utilisation in the torch system allowing for purification of gas from hydrogen sulphide and subsequent transfer to the general production system. Modernisation of the torch system resulted in reduction of sulphur dioxide emission.

ORLEN Oil

- introduction to the market of new motor oil – Platinum Ultor Futuro. The oil was produced in Mid-SAPS technology reducing the content of sulphate ash, phosphor and sulphur.

ORLEN PetroCentrum

- modernisation of the fuel station in Sławno, construction of tight trays at the site of fuel reloading. This resulted in the upgrade of the process for rainwater discharge from the territory of fuel reloading to the company's storm drainage system and to the stormwater treatment plant.

ORLEN Transport

- the company's fleet was supplemented by 15 new Volvo FM tractor units meeting high requirements regarding environmental protection. Currently lease 60 tractor units. Tractor units have EURO 5 class, characterized by lower CO_2 emissions.

ORLEN Wir

- purchase and assembly of the pressure washing facility operating in closed system at the premises of the ORLEN Wir workshop (prevention of soil pollution by uncontrolled washing of renovated machines).

Paramo

- completion of modernisation of VR28 tank, construction of emergency tanks (reduction of risk related to serious industrial failures),
- reconstruction of N11 and N12 tanks (reduction of risk related to serious industrial failures),
- installation of heat exchangers.

Petrolot

- assembly of an oil derivatives separator (reduction of the possibility of outflow of oil derivatives through the sewer network),
- modernisation of a slop unit with separator (reduction of the amount of hazardous waste containing oil derivatives).

Rafineria Nafty Jedlicze

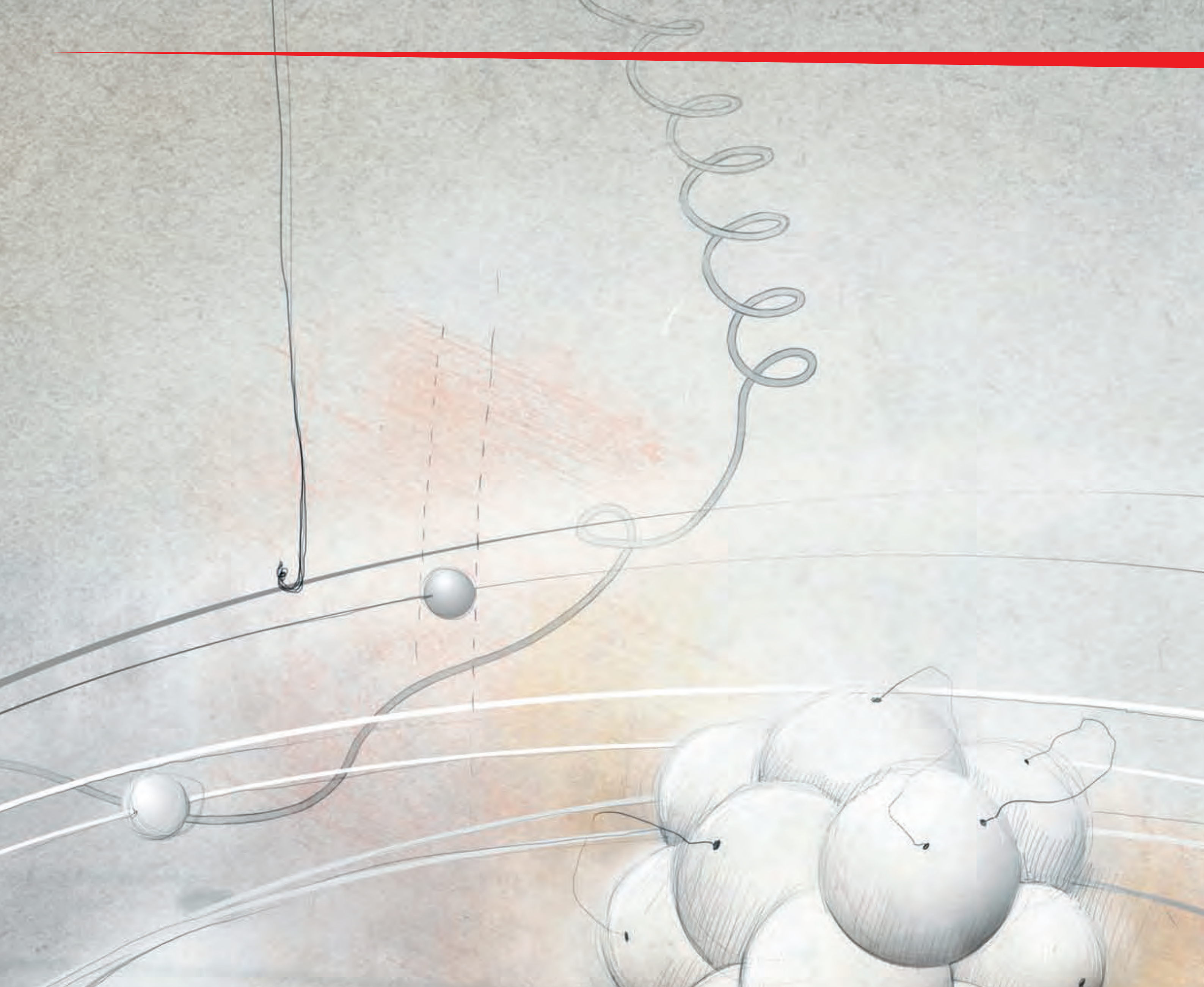
- adjusting storage tanks to current legislation. The achieved effect is securing soil from penetration of crude oil products by mounting leak-proof platforms, securing the interior of the tanks, installing a constant measuring system to monitor the fill-up level of the tanks, installing an anti-overflow system, modernisation of the unit of water treatment for steam boilers.

IKS "Solino"

- hydrogeological monitoring of Mogilno Mine (helping prevent events related to release of salt to groundwater),
- modernisation of dedusting unit (reduction of dusting of production facilities),
- unit for technological discharges from the mining field of the Mogilno Mine (securing the ground and water environment).

Unipetrol RPA

- replacement of TEA pumping engines (improved efficiency and operational reliability of equipment),
- reconstruction of the sewer system at the Steam Cracker unit (protection against release of sewage to soil and groundwater),
- implementation of projects regarding wastewater treatment – POX unit (increasing capacity and efficiency of wastewater treatment).



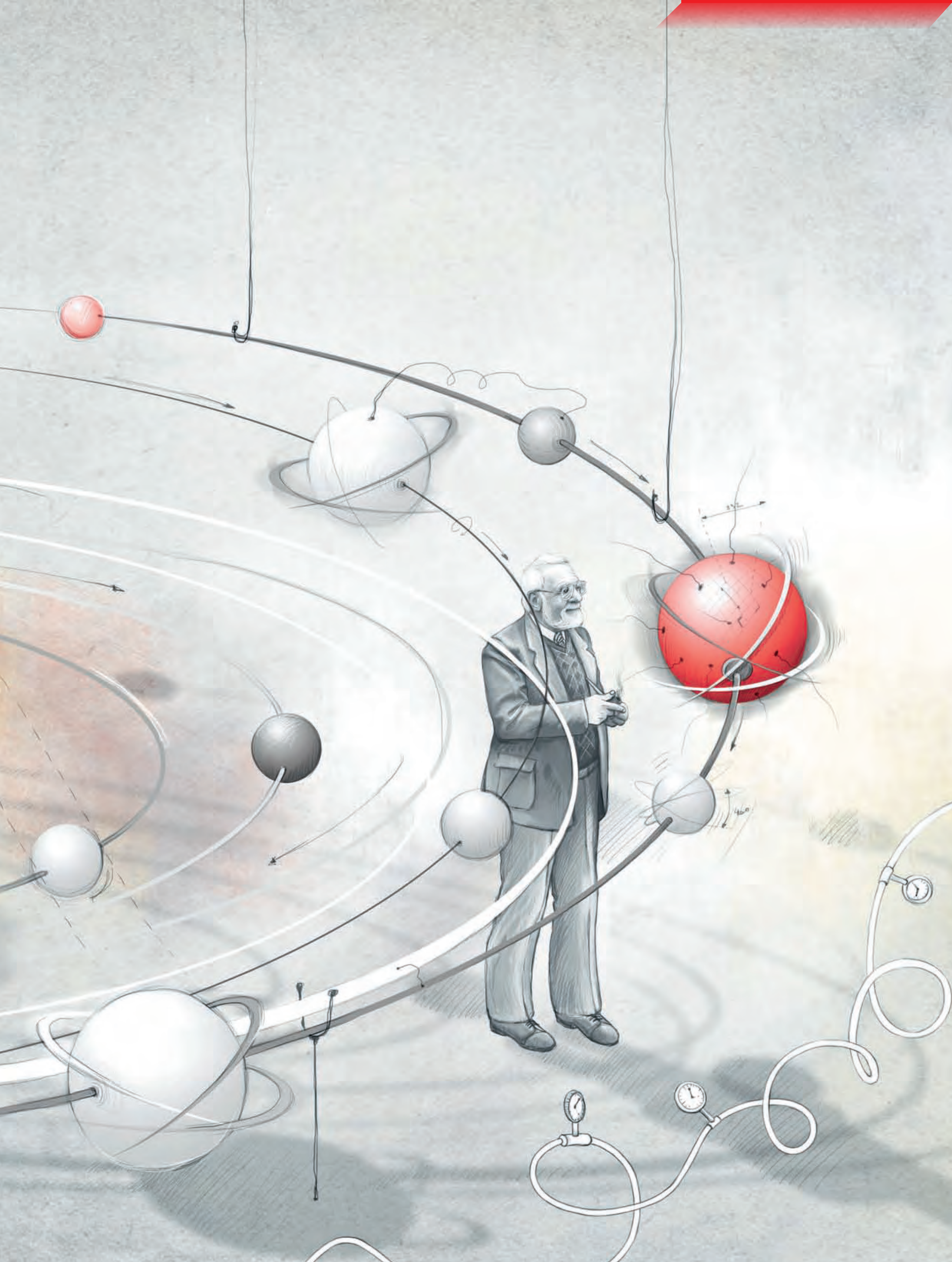
ANDRZEJ SADLEJ (1941–2010)

Born in Lublin in 1941, died in 2010. He commenced his scientific career at faculties of sciences at the University of Warsaw and the Jagiellonian University, where he studied chemistry. In 1964 he was awarded a PhD degree. In 1972 he obtained a habilitation degree in theoretical chemistry at the Jagiellonian University.

From 1996 he worked at the Faculty of Chemistry at the Nicolaus Copernicus University where he was the founder and the head of the Quantum Chemistry Institute. He was one of the most outstanding quantum chemists of our times. He published over 250 scientific works. Works published in the 1990 in The Journal of Physical Chemistry, Collection of Czechoslovak Chemical Communications, Theoretica Chimica Acta, Chemical Physics entered the canon of the modern quantum chemistry.

He cooperated with the best scientific centres in Poland and abroad, amongst others: the Institute of Organic Chemistry of the Polish Academy of Sciences, the University in Arhus (Denmark), in Lund (Sweden), in Sheffield (Great Britain) and Florida University (USA).

Key risk factors



Key risk factors

ORLEN Group manages the market risks in a co-ordinated manner through the units which are mostly exposed to such risks, i.e. PKN ORLEN, Basell Orlen Polyolefins (BOP), ORLEN Asfalt, ANWIL, Unipetrol Capital Group (Unipetrol Group) and ORLEN Lietuva Capital Group (ORLEN Lietuva Group).

Market risk

PKN ORLEN manages the market risk on the basis of its adopted policy, which determines the rules for measuring individual exposures, parameters and time for securing the given risk and the security instruments. The market risk is managed by the designated organisational units supervised by the Financial Risk Committee, Management Board and Supervisory Board of PKN ORLEN.

Management and Supervisory Boards of particular companies are responsible for the risk management and compliance with the adopted policy relating to the above in the companies of the ORLEN Group. PKN ORLEN, which received relevant powers of attorney under respective agreements, is responsible for the implementation of hedging transactions on behalf of individual companies of the ORLEN Group covered by the coherent hedging policy. Effectiveness and performance of hedging transactions are monitored by individual companies of the ORLEN Group and presented to the PKN ORLEN Financial Risk Committee and the Management Board of PKN ORLEN.

The Group is exposed to market risks relating to the exchange rates, interest rates, goods and CO_2 emission rights prices.

The process of market risk management aims at mitigating the undesirable effects of changes of market and financial risk factors on the cash flows and performance in short- and medium-term perspective.

Risk of changes in the exchange rates

The ORLEN Group is exposed to the currency risk arising out of the current accounts receivable and current accounts payable, cash, capital expenditures and loan liabilities as well as own bonds denominated in foreign currencies and future planned cash flows relating to sale and purchase of goods and refinery and petrochemical products. The currency risk exposure is hedged with such instruments as forwards or swaps.

For the USD/PLN exchange is secured (hedged) naturally to a certain extent, since the revenues from the sales of products, whose value is dependent on the USD exchange rate, are balanced with the costs of crude oil purchases in the same currency.

In the case of EUR/PLN exchange rate, in this currency the revenues from the sale of petrochemical products are denominated. For this group the natural hedging applies to a limited extent (i.e., interest on the loans denominated in EUR, part of investment purchases).

Risk of changes in the interest rates

The risk of cash flow fluctuations due to changes of interest rates results from the extended loans, bank deposits held and fluctuating interest rate loans. The Capital Group holds derivative transactions which hedge the cash flow risk due to the interest rate payments relating to the issuance of bonds in PLN and the cash flows relating to the interest rate payments as regards the external financing in EUR and USD, using the IRS (interest rate swaps), for which the cash flow hedging accounting is applied.

Risk relating to the procurement of raw materials

The risk relating to the procurement of raw materials is due to the necessity of securing continuous and punctual supply of raw materials needed for the production. In PKN ORLEN the procurement is performed mainly via a pipeline system, by land and sea transport. The strategy adopted by PKN ORLEN is aimed at preventing any disturbances in the raw materials procurement, mainly due to the diversification of sources and adaptation of the production installation to process various types of raw materials.

Risk of changes in the prices of crude oil, refinery and petrochemical products

The operating result reported by the Capital Group is exposed to the risk of changes in the prices of crude oil and refinery and petrochemical products. Changes of margin quotations (crack) on refinery and petrochemical products directly influence the level of revenues and operating result. The fluctuations of crude oil quotations are directly reflected in the level of sales revenues, while the production cost is calculated using weighted average cost for stock valuation, which may result in disproportional effects at cost side. Sensitivity of reported result to price fluctuations is mainly due to the requirement to keep mandatory reserves.

The Capital Group carries out the transactions hedging the risk of changes in prices of crude oil to which it applies the hedge accounting.

Risk of changes in legislation

The risk arising out of changes in legislation concerns mainly the implementation of the National Indicative Target (NIT) and the quantity limit relating to the rights to CO_2 emission.

In accordance with the Council of Ministers' Ordinance of 2007, as part of the adjustment to the community law regulation involving the achievement of ambitious goals as regards the share of energy from the renewable sources, improvement of power efficiency and the reduction in greenhouse gases emission – the so called 3x20 package, since 2008 the obligation to satisfy the National Indicative Target (NIT) has been imposed on fuel producers. NIT determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and biofuels used up in transport during the calendar year. The value of the index is updated annually and in 2010 it amounted to 5.75% in comparison to 4.60% in 2009 and 3.45% in 2008. The increasing value of NIT and no regulations on the sale of E10 fuels (gasoline with 10% of bioethanol) and B7 fuels (diesel oil with 7% of bioethanol) compels PKN ORLEN to enter B100 fuel into trading. Moreover, in the half of 2011 it is planned to lift the tax reliefs relating to the use of biocomponents and biofuels, which may result in the increase in the costs of economic activity and difficulties in the implementation of NIT goals in the future.

Under the applicable legal regulations arising out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change adopted by the European Union, companies of the ORLEN Group were allocated with the CO_2 emission rights.

Annually, the Capital Group verifies the number of such rights and determines the way of systematic balancing of the discovered deficits/surpluses as intra-group or futures and spot transactions. In 2010, the ORLEN Group sold its surpluses of CO_2 emission rights and entered into forward transactions for the purchase of such rights.

Risk of changes in the trends in fuels consumption and import

Change in the trends in the fuels consumption and import may exert a material influence on the volume of sales and the level of prices of products of the ORLEN Group companies that are possible to be achieved and, therefore, on the ORLEN Group's financial standing.

Credit risk

The ORLEN Group is exposed to the credit risk related mainly to trade accounts receivable. The Capital Group, when conducting commercial activity sells products and services to business entities with deferred payment date, therefore the risk may emerge of non-payment for the products and services delivered.

To mitigate the credit risk and to keep working capital at the lowest feasible level, the ORLEN Group applies the procedure of trade credit limit allocated to its business partners and determines the way in which it is secured. A business partner with the deferred payment term is assessed individually in terms of the credit risk. Trade receivables of the business partners are monitored on a regular basis by the financial departments. Should the overdue accounts receivable arise, the sale is suspended and the debt collection procedures are launched, in accordance with the applicable procedures. Additionally, part of the accounts receivable is insured under the organised programmes of trade credit insurance.

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

Liquidity risk

As at 31 December 2010, the current assets to trade accounts payable ratio (current liquidity ratio) amounted to 1.3. As at 31 December 2010 the ORLEN Group held more than EUR 1 billion of free funds under available credit lines.

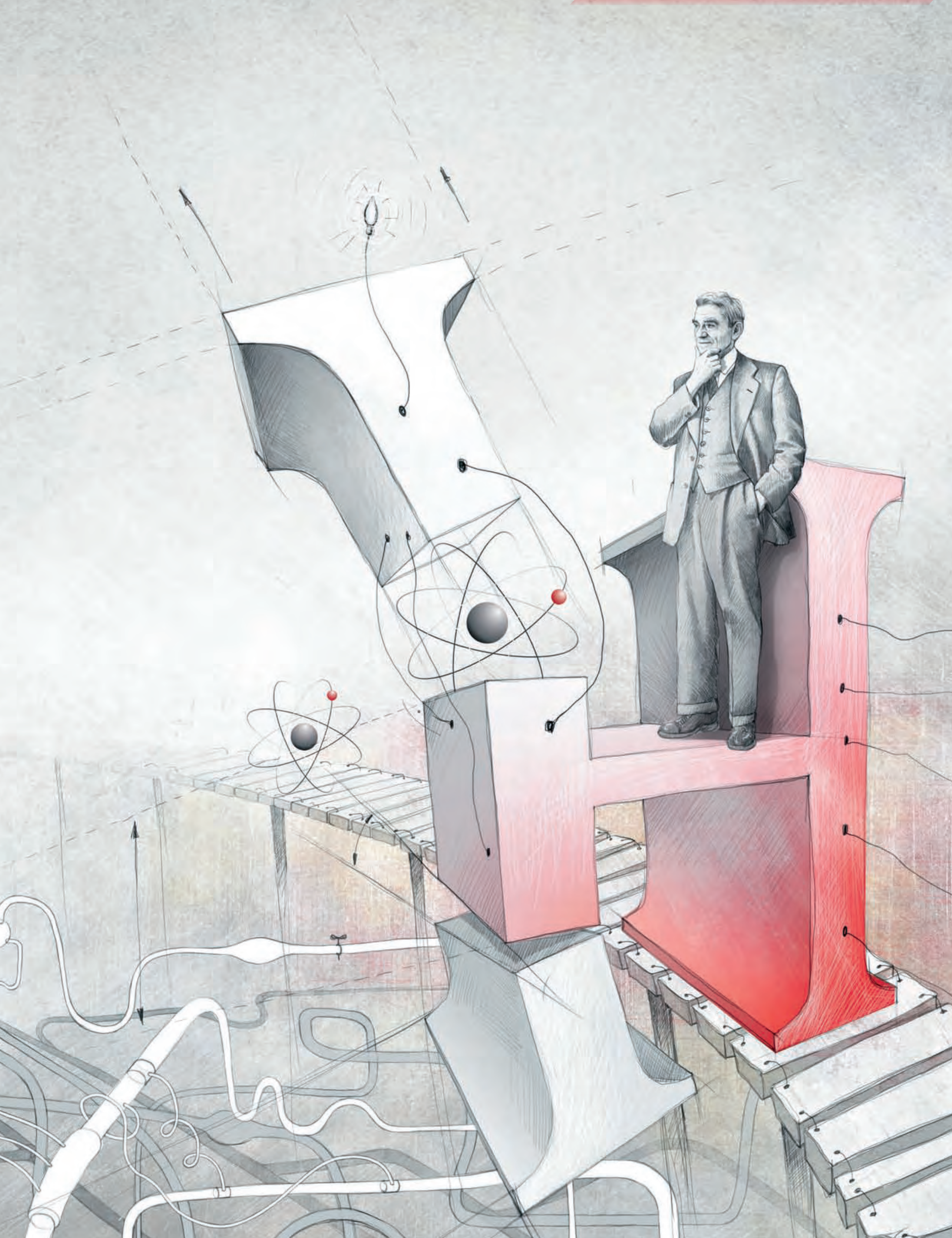
In order to ensure an additional source of funds needed to secure its financial liquidity, the ORLEN Group signed the Bond Issue Programme with the debt limit of up to PLN 2 billion. As at 31 December 2010, the ORLEN Group used PLN 1,155,289 thousand of that limit.

WŁODZIMIERZ KOŁOS (1928–1996)

Born in Pińsk in 1928. Outstanding Polish physicist and chemist, professor at the Institute for Nuclear Studies (1961-1966) and the University of Warsaw, member of the Polish Academy of Sciences, the first laureate of the award of the International Academy of Quantum Molecular Science, W. Świętosławski Polish Chemical Society scientific award.

One of the founders of the modern quantum chemistry. He was the first to propose general approach to the problem of three molecules interacting via Coulomb's law, performed precise computer calculations for the hydrogen molecule. Co-author of the first accurate adiabatic and relativistic approach to H_2 molecule and calculations of: energy of quasi-bound states related to HeH+, cross-section of electron dispersion to H_2, decay energy spectrum of tritium molecule and energy levels of muon molecule.

Corporate governance



Corporate governance

Report on PKN ORLEN's compliance with corporate governance principles in 2010

1. A set of corporate governance rules followed by PKN ORLEN in 2010

In 2010, PKN ORLEN complied with the "Best Practice for Companies Listed on the Stock Exchange" (further the "Best Practice for WSE Listed Companies") valid for the Warsaw Stock Exchange. The Code of Best Practice for WSE Listed Companies can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab. In mid-2010 the Warsaw Stock Exchange (WSE) reviewed the Code of Best Practice for WSE Listed Companies and adjusted it to make it compliant with the amendments introduced to the provisions of law, international guidelines and stakeholders' expectations.

In 2010 PKN ORLEN applied all the corporate governance rules set out in both: the formerly applicable and updated Code of Best Practice for WSE Listed Companies.

The Company follows also those recommendations provided for in the "Code of Best Practice for WSE Listed Companies", which are not mandatory. Thus, it undertakes a number of activities with a view to improve communication with its environment. In order to reach a wide range of recipients it applies both traditional and modern tools of communication with the capital market representatives. It organizes direct internet transmissions with simultaneous translation into English from media conferences following each significant event in the Company's life, such as quarterly results publication, announcement of strategies, as well as from the PKN ORLEN General Meeting. Video records from the conference are stored on the Company's website, thus, it is possible to view a selected past event.

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. The internet service contents are prepared in a transparent, fair and complete way so as to enable the investors and analysts to take decisions based on the information presented by the Company. The Company provides all the interested parties with equal access to the information published on the website. The investor relations section is maintained both in Polish and in English.

The PKN ORLEN website in its present form was launched at the turn of 2009/2010 under the current address: www.orlen.pl. The portal was developed with the use of new technology and contains also a new service for the Company's shareholders and for the stock exchange investors and analysts. It contains a lot of modern tools and information on the Company, in line with the latest market standards.

One can find there, among others:

- interactive diagrams and tables fastly comparing the Company's financial ratios in different time periods,
- interactive diagrams and tables showing PKN ORLEN's share quotations with a calculator of the return on investment in the Company's stock,
- special form for contact with the Company in respect of PKN ORLEN General Meetings, in accordance with the most recent amendments to the Commercial Code,
- possibility to subscribe for various types of PKN ORLEN newsletters, including the most recent investor relations news.

The investor relations section on the corporate website is divided into a few tabs to find all the current and periodical reports published by the Company as well as presentations prepared for material events in the Company with audio and video recording of such events.

There is also the WSE best practice tab on the website, in the investor relations section. One can find there the Company's annual reports on complying with best practice rules and the "Code of Best Practice for WSE Listed Companies" as well as brief information on best practice applied by the Company and the rules for selecting an entity authorized to audit the financial statements.

Via the corporate website the dates of general meetings, draft resolutions and the whole set of documents presented to the shareholders at general meetings are all provided. The Company also ensures communication with its shareholders via a special Internet contact form related to general meetings.

On a regular basis the Company actively participates in the meetings with investors and analysts both in Poland and abroad. Conferences, individual and group meetings, and teleconferences are organized with stakeholders on the capital market. The Company's representatives regularly go for the so-called roadshows – series of meetings with investors at their work place. For the capital market stakeholders interested in the Company's operations, the so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant, which allow them to get to know the Company specifics.

During the meetings with the capital market representatives, the representatives of PKN ORLEN provide information about the Parent Company, however, it is also possible to get feedback for the Company from the shareholders, investors or stock exchange analysts. Thanks to this feedback the Company, being aware of the information needs of its stakeholders, can develop and improve its relations with the capital market.

The Company is striving to broaden and diversify its investor base. Thus, it undertakes activities aimed to actively promote its business activity amongst prospective shareholders, also in new financial centres worldwide.

With a view to develop the forms and quality of communication with the capital market, the Company publishes on a quarterly basis the so-called "trading statement", i.e. operational and financial estimates and expectations of operating profit (EBIT) trends, taking into account the impact of macroeconomic factors and significant one-offs on the operating profit (EBIT). These estimates are published a few weeks prior to the date of publication of the quarterly report. "Trading statements" allow for a fair building of consensus in respect of the Company's forecasted financial results on the capital market prior to their publication. This report creates new standards in the area of investor relations. Its favourable reception confirms how important for PKN ORLEN an appropriate and timely communication with the market on the key topics for the investors is.

The care for communication with the capital market players was appreciated also in 2010 and reflected through the awards granted to the Company in the area of investor relations:

- Listed Company of the Year in the Investor Relations category – ranking by Puls Biznesu/Pentor,
- First rank in WarsawScan 2010 – best information policy and corporate governance,
- First rank in WarsawScan 2010 – best website devoted to investor relations,
- "Best investor relations in Poland 2010" – IR Magazine.

2. Description of key features of PKN ORLEN's internal audit and risk management systems related to the process of financial reporting

The Company's system of internal control and risk management in the process of drawing up financial statements is implemented through:

- verification whether a single accounting policy is applied by the ORLEN Capital Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS),
- following accounting standards and monitoring compliance with them,
- a review, by an independent auditor, of the published financial reports for the 1st quarter, the half-year and the 3rd quarter of the year and the audit of the annual financial statements of PKN ORLEN and the ORLEN Capital Group,
- procedures to authorise and give opinions about financial statements before they are published,
- carrying out an independent and objective evaluation of risk management and internal control systems.

In order to ensure that unified accounting standards are applied, the ORLEN Group companies have to follow, for the purpose of preparing the consolidated financial statements, the accounting policy adopted by PKN ORLEN, periodically updated to ensure that it complies with the applicable laws, specifically with the IFRS, the Accounting Act dated 29 September 1994 and the Ordinance of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities. The Corporate Accounting Office monitors whether this obligation is fulfilled and conducts comprehensive analytical procedures supplemented with control activities, as well as develops instructions and guidelines on identified issues, requiring detailed explanations to ensure proper and uniform financial reporting principles.

The consolidated financial statements are drawn up based on reporting packages provided by the ORLEN Group companies which are reviewed in terms of their cohesion, completeness and continuity. Data required for the standalone financial statements is derived from accounting records kept in accordance with the PKN ORLEN procedures. The disclosures also cover additional information provided by individual organisational units of PKN ORLEN, which is also checked by the Corporate Accounting Office.

In order to reduce the risks relating to the process of drawing up financial statements on a current basis, they are quarterly checked by an auditor, i.e. more often than required under the applicable law. The financial statements for the 1st quarter, the half-year and the 3rd quarter of the year are reviewed, whereas the annual financial statement is subject to audit. The auditor presents the results of the reviews and audits to the Management Board and the Audit Committee of the Supervisory Board.

The Company has certain procedures to authorise the financial statements under which the periodical reports are submitted to the Management Board and, subsequently, forwarded to the Audit Committee of the Supervisory Board for their opinion. Once the opinion has been obtained from the Audit Committee and once the auditor has ended its review, the financial statements are approved by the Management Board for publication and subsequently forwarded by the Investor Relations Office to the appropriate capital market institutions and made public. Before the publication, the financial statements are treated as confidential by the Company and provided solely to persons involved in the preparation, control and approval process.

The Company has an Audit Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyse business processes. The Department operates based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board itself. The Audit Department can also carry out ad hoc audits as ordered by the Company's Supervisory Board or the Management Board.

In pursuit of the tasks and objectives set, the Audit Department provides recommendations as to the implementation of solutions and standards designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes. Additionally, the Audit Department monitors the follow-up on its own recommendations as well as those given by the auditor as to the Company's financial statements.

Twice a year the Audit Department draws up a report for the Management Board and the Audit Committee of the Supervisory Board on monitoring the recommendations, summarising the conclusions regarding the audit tasks performed, identified risks and information about the implementation status of the recommendations given.

3. PKN ORLEN's shareholders with a significant stake

PKN ORLEN shares are listed on the Warsaw Stock Exchange Main List in the continuous trading system and in WIG20, the biggest companies index, WIG index as well as the industry index – WIG fuels. Since 19 November 2009 PKN ORLEN shares have been listed in the index of companies involved in corporate social responsibility – Respect Index.

PKN ORLEN shares are listed also in the form of Global Depositary Receipts (GDR) on the London Stock Exchange. Depositary receipts are also traded in the USA on the OTC market.

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

PKN ORLEN depositary receipts are lodged with The Bank of New York Mellon. The transaction unit on the London Stock Exchange is 1 GDR which accounts for two PKN ORLEN shares.

The ownership rights relating to PKN ORLEN shares are fully transferable.

Below is a list of PKN ORLEN's shareholders holding a significant stake is presented, specifying the number of shares held, the percentage of their share in the Company's share capital, the number of votes conferred by the shares held and their percentage share in the total number of votes at PKN ORLEN's General Meeting.

The year 2010 saw two changes in the structure of shareholders with more than 5% in the Company's share capital. The first one occurred on 5 February 2010 when Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK acquired the Company's shares representing 5.08% of the PKN ORLEN' s share capital. Then, at the end of the year, on 23 November 2010, the Company was notified by ING Otwarty Fundusz Emerytalny (ING Open Pension Fund) that the fund reduced its share in the overall number of votes at the General Meeting of PKN ORLEN below 5%. ING Otwarty Fundusz Emerytalny maintained its over 5% shareholding in the Company's share capital from 18 February 2009.

Shareholders	Number of sharesi	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
SHAREHOLDING STRUCTURE IN PKN ORLEN AS AT 1 JANUARY 2010				
State Treasury	117,710,196	117,710,196	27.52%	27.52%
ING Otwarty Fundusz Emerytalny*	22,118,813	22,118,813	5.17%	5.17%
Others	287,880,052	287,880,052	67.31%	67.31%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

Shareholders	Number of sharesi	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
SHAREHOLDING STRUCTURE IN PKN ORLEN AS AT 31 DECEMBER 2010				
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK**	21,744,036	21,744,036	5.08%	5.08%
Others	288,254,829	288,254,829	67.40%	67.40%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

** in accordance with information received by the Company on 20 February 2009.*

*** in accordance with information received by the Company on 9 February 2010.*

4. PKN ORLEN's shareholders vested with special control rights and voting right restrictions

One PKN ORLEN share confers the right to one vote at the Company's General Meeting.

As regards the voting right of particular shareholders, the Articles of Association state as follows:

- the voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held, provided that such a restriction of the voting right does not apply for the purpose of determining the duties of acquirers of significant stakes in accordance with the Act on Public Trading in Securities. The restriction, referred to in the previous sentence, does not apply to Nafta Polska S.A.*, the State Treasury and the depository bank which issued depositary receipts in connection with the Company's shares under an agreement with the Company (if the bank exercises the voting right from the Company's shares). The voting right exercised by the subsidiary is deemed to be exercised by the parent company within the meaning of the Act on Public Trading in Securities. In order to calculate the number of votes held by a shareholder, the voting rights from the shares is added to the number of votes that the particular shareholder would acquire in the event of converting the depositary receipts held into shares,

- a shareholder is deemed to be each person, including the parent company and its subsidiary, that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder, in particular a user, pledgee, a person authorised from the depositary receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorised to participate in the General Meeting despite the shares held having been disposed of following the day when the right to participate in the General Meeting was established,

- the parent company and the subsidiary shall accordingly mean a person:
  – that has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  – that has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  – that exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations Between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  – whose votes from the Company's shares held directly or indirectly are accumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings,

- shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The cumulation of votes involves summing up the votes held by individual shareholders of the Shareholders Grouping. The reduction of the number of votes involves decreasing the overall number of votes in the Company vested in the shareholders being members of the Shareholders Grouping to be exercised at the General Meeting. The number of votes is reduced in accordance with the following rules:
  – the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus votes in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,

** Nafta Polska SA creased to be a shareholder of a Company as at 22 July 2009.*

- if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company,
- in each case, the shareholder whose voting right has been restricted, preserves the right to exercise at least one vote,
- restriction of the voting right also applies to the shareholder absent during the General Meeting,

- in order to establish the basis for the votes being cumulated and reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual members of such bodies may request the Company's shareholder to provide information on whether he/she is a person:
  - who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  - who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  - who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  - whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.

The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective,

- the restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury and Nafta Polska S.A. ,
- in the event of doubts, the provisions of this chapter should be interpreted in accordance with Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorised to appoint and revoke one of the Supervisory Board members. Moreover, one of the PKN ORLEN Management Board members is appointed and revoked by the Supervisory Board at request of the minister in charge of State Treasury.

In accordance with the applicable provisions of the Company's Articles of Association, until the minister in charge of State Treasury or another minister exercises the rights from PKN ORLEN shares owned by the State Treasury under the generally applicable law, the appropriate minister can appoint one or two Observers for the Company, who will be authorised to monitor the Company's activities, participate in the meetings of the Company's authorities, review the Company's documents, request reports and explanations, inspect the Company's assets. Detailed rules regulating the Observers' activity and their powers are set out in the General Meeting, Supervisory Board and Management Board Regulations. In accordance with the Act of 18 March 2010 on Specific Rights Vested in the Minister in Charge of State Treasury and The Exercise of Such Powers In Certain Capital Companies or Capital Groups Conducting Business Activities in the Electricity, Crude Oil and Gas Fuel Sectors (the "18 March 2010 Act on Specific Rights Vested In the Minister in Charge of State Treasury"), the Act of 3 June 2005 on Specific Powers Vested in the Minister in Charge of State Treasury and

Their Exercise in Capital Companies Significant for Public Order and Safety, which Act introduced the institution of the Observer in the Company, has expired. Thus, the Company's Management Board proposed to the General Meeting that the provisions concerning the Observer be removed from the Company's Articles of Association. The Annual General Meeting, on 25 June 2010, did not however express the consent to such change in the Company's Articles of Association. While the above act was in force, nobody was appointed to perform the function of the Observer in the Company.

Additionally, specific rights vested in the State Treasury shareholders may also arise out of the commonly applicable provisions of law, especially the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury. Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the functioning, business continuity and integrity of the critical infrastructure. The Minister In Charge of State Treasury may also object to the Company's body passing resolution on:

- dissolution of the Company,
- change of function of, or ceasing, the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management,
- change of the Company's business activity,
- disposal or lease of the Company's enterprise or its organized part and establishment of a limited property right thereon,
- adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
- moving the Company's' seat abroad

provided that such a resolution, if performed, would actually pose a real threat to the operations, business continuity and integrity of the critical infrastructure.

In accordance with the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury, the Company's Management Board, in agreement with the Minister in charge of State Treasury and the Director of the Government Centre for Security is authorized to appoint and revoke a plenipotentiary in charge of the protection of critical infrastructure in the Company. The scope of the plenipotentiary's tasks includes providing the Minister in charge of State Treasury with information on the Company's authorities having undertaken the above specified legal actions, providing the information on the critical infrastructure to the Director of the Government Centre for Security on request, transferring and collecting information on any threats to the critical infrastructure in cooperation with the Director of the Government Centre for Security.

5. Rules for amending PKN ORLEN's Articles of Association

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting of Shareholders and has to be entered in the companies register. The resolution of the General Meeting of Shareholders to amend the Company's Articles of Association is adopted by three quarters of votes. The General Meeting may authorise the Supervisory Board to formulate the uniform text of the Articles of Association or make other editorial changes as set out in the resolution passed by the General Meeting.

Once the amendments to the Articles of Association are entered in the companies register, PKN ORLEN publishes a relevant current report.

6. Proceedings of PKN ORLEN's General Meeting of shareholders, its key powers, and shareholders' rights and their exercise

Proceedings and powers of PKN ORLEN's General Meeting of Shareholders are regulated in the Articles of Association and the Regulations of PKN ORLEN's General Meeting. The documents can be found on the PKN ORLEN's website: www.orlen.pl in the "Company" and "Investor relations" sections in the "General Meeting" tab.

6.1. Convening and calling off PKN ORLEN's General Meetings

The rules for convening and organising the General Meetings of Shareholders were materially amended by the General Meeting of Shareholders of PKN ORLEN on 15 July 2009. The provisions of corporate documents were then adjusted to comply with the provisions of law commonly applicable in this respect.

The General Meeting is to be convened in the manner and under the rules stipulated in the generally applicable provisions of law. The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and making it public. The announcement should be placed at least 26 days before the scheduled date of the General Meeting.

The Ordinary General Meeting of Shareholders should be held no later than within six months from the end of every financial year.

The Extraordinary General Meeting of Shareholders is convened by the Management Board on its own initiative, on the motion of the Supervisory Board or on the motion of a shareholder or shareholders representing no less than one twentieth of the Company's share capital, within fourteen days from filing the motion. The motion for the General Meeting to be held should specify the issues for the agenda or include draft resolution on the proposed agenda. The Supervisory Board may convene the Extraordinary General Meeting if the Supervisory Board recognises that it is advisable to do so. The Supervisory Board may also convene the Extraordinary General Meeting if the Management Board fails to do so within two weeks following the submission of the relevant request by the Supervisory Board. The Extraordinary General Meeting may also be convened by the shareholders representing at least one half of the share capital or at least one half of the overall number of votes in the Company.

The shareholder or shareholders representing no less than one twentieth of the Company's share capital may request that specific issues be placed on the agenda of the nearest General Meeting under the rules stipulated in the generally applicable provisions of law.

All the materials to be presented to the shareholders at the General Meeting, specifically draft resolutions to be adopted by the General Meeting and other important materials are made available by the Company following the day when the General Meeting has been convened in the Company's seat in Płock and in the Warsaw office, as well as on the corporate website www.orlen.pl.

Regardless the requirements set out in the generally applicable law on publishing draft resolutions to be presented at the General Meeting on the Company's website as soon as from the day when the General Meeting has been convened, the Company is obliged to provide draft resolutions in the form of a current report at least 26 days before the date the General Meeting is to be held in order to enable the shareholders to review and assess them.

The General Meetings of PKN ORLEN are held in the Company's seat in Plock, however, they can also be held in Warsaw.

For the shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

In accordance with the General Meeting Regulations the cancellation and the change in the date of the General Meeting should be effected forthwith once the requirement for the cancellation and the change in the date has occurred but no later than seven days prior to the day when the General Meeting is to be held. If the cancellation and change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held unless it is impossible or excessively hindered due to the circumstances. In such case, the cancellation and change in the date of the General Meeting may be effected at any time prior to the day when the General Meeting is to be held. The cancellation and the change in the date of the General Meeting is effected by announcement placed on the Company's website together with the reasons and complying with other legal requirements. Only the body or the person to have convened the General Meeting is competent to cancel the same. The General Meeting with the agenda containing specific issues put therein at the request of eligible entities, or which was convened at such a request, may be cancelled only with consent of such requesting entities.

6.2. Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:

- consider and approve the Company's annual financial statements, the annual report on the Company's business operations, the consolidated financial statements of the ORLEN Capital Group and the report on the ORLEN Capital Group business operations for the previous financial year,
- acknowledge the discharge of duties by the Supervisory Board and Management Board members,
- decide on the allocation of profit and the absorption of losses as well as on the use of funds set up from profit, subject to special regulations which provide for a different way of their usage,
- appoint the Supervisory Board members, subject to the provisions of § 8 item 2 of the Articles of Association, and establish principles for their remuneration,
- increase and decrease the share capital unless otherwise stated in the Commercial Code and the Company's Articles of Association,
- decide on claims for the rectification of damage caused when setting up the Company or exercising supervision or management,
- approve the sale and lease of the Company's enterprise or an organised part thereof and establish a limited property right on such enterprise or an organised part thereof,
- grant consent to the sale of real estate, perpetual usufruct or interest in real estate whose net book value exceeds one twentieth of the Company's share capital,
- amend the Company's Articles of Association,
- set up and dissolve reserve capitals and other capitals and the Company's funds,
- pass resolutions to redeem shares and buy shares to be redeemed and to establish the redemption rules,
- issue convertible bonds or bonds with pre-emptive rights and the issue of warrants,
- pass resolutions on winding-up the Company, its liquidation, restructuring and merger with another company,
- conclude holding contracts within the meaning of Article 7 of the Polish Commercial Code.

Purchase of real estate, perpetual usufruct or interest in real estate, regardless of its value, as well as disposal of real estate, perpetual usufruct or interest in real estate where net book value does not exceed one twentieth of the Company's share capital does not require a consent resolution of the General Meeting of Shareholders.

6.3 Voting at PKN ORLEN's General Meetings

Unless stated otherwise in the Commercial Code and the Articles of Association, resolutions of the General Meeting of Shareholders are passed with an absolute majority of votes cast, while votes cast mean votes "for", "against" and "abstain."

Resolutions of the General Meeting of Shareholders regarding preferred shares and the Company's merger as a result of all the Company's assets being transferred to another company, winding-up of the Company (including winding-up as a result of the Company's seat or business operations center being transferred abroad), liquidation of the Company, its restructuring and decrease in the share capital by redemption of some shares without the capital being simultaneously increased are passed with a majority of 90% of votes cast.

The General Meeting's resolution to renounce the examination of an issue placed on the agenda may be adopted only in case when there are substantial reasons to do so. The resolutions to remove or not to consider an item placed on the agenda on the motion of the shareholders require the majority of 75% of votes cast provided that the shareholders present at the General Meeting who requested this issue be placed on the agenda previously agreed to the issue being removed from the agenda or not considered at all.

One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held. The detailed rules for exercising the voting right have been described in chapter IV of this report.

The shareholders can participate in the General Meeting and exercise their voting rights in person or by proxy.

6.4. Participation in PKN ORLEN's General Meetings

In accordance with Article 406(1) § 1 of the Polish Commercial Code, the right to participate in the Company's General Meeting is vested only in the persons that are the Company's shareholders sixteen days before the date of the General Meeting (date of registration in the General Meeting).

At the request of the shareholder, filed no earlier than the announcement of convening the General Meeting has been published and no later than on the working day following the day when the participation in the General Meeting has been registered, the entity where the securities account is kept issues a personal certificate of entitlement to attend the General Meeting. This certificate includes:

- the business name, seat, address and stamp of the issuer and the certificate number,
- number of shares held,
- type and code of shares,
- the business name, seat and address of the Company,
- nominal value of shares,
- name and surname or the business name of the shareholder,
- the seat (place of residence) and address of the shareholder,
- purpose of issuing the certificate,
- date and place of issuing the certificate,
- signature of the person authorised to issue the certificate.

At the request of the shareholder, the certificate should specify part or all of shares registered in his/her securities account.

The list of shareholders eligible to participate in the General Meeting is compiled by the Company on the basis of a specification prepared by the entity maintaining the securities deposit in accordance with the provisions of the Act on Trading in Financial Instruments dated 29 July 2005 (at present The National Depository for Securities, KDPW). KDPW prepares the list of entities entitled to participate in the General Meeting on the basis of specifications provided no later than twelve days prior to the date of the General Meeting date by the eligible entities. The lists submitted to KDPW are compiled on the basis of issued certificates of entitlement to participate in the General Meeting. KDPW provides such a list for the company's review no later than a week prior to the date of the General Meeting.

The General Meeting may be attended by the members of the Management Board and the Supervisory Board, who can take the floor, even if they are not shareholders, without any invitations being sent. An Ordinary General Meeting of Shareholders can be attended by the members of the Management Board and the Supervisory Board whose mandates have expired before the date of the General Meeting and who exercised their functions in the financial year for which the Management Board report and the financial statements are to be approved by the Ordinary General Meeting of Shareholders.

General Meetings of Shareholders can also be attended by other persons invited by an authority convening the General Meeting or allowed to enter the meeting room by the Chairman, specifically, certified auditors, legal and financial advisers or the Company's employees. PKN ORLEN, as far as admissible under the applicable law and with due consideration of the Company's interests, allows media representatives to attend the General Meetings. The Management Board ensures that each General Meeting is attended by an independent expert specialised in commercial law.

Members of the Management Board and the Supervisory Board and the Company's certified auditor provide the Meeting participants with explanations and information about the Company, within the scope of their authorisation and to the extent required for the issues discussed by the General Meeting to be resolved. Questions posed by the General Meeting participants are answered in view of the fact that PKN ORLEN, as a public company, fulfills its reporting obligations in a manner specified in the applicable capital market regulations and the information cannot be provided otherwise than in conformity with these regulations.

General Meetings can be attended by an Observer appointed by the minister in charge of State Treasury affairs. Until the publication of this report, the minister in charge of State Treasury affairs has not appointed any Observer for PKN ORLEN and, as stated in chapter IV of this report, the Act of 3 June 2005 on Specific Powers Vested in the State Treasury and Their Exercise in Joint-stock and limited-liability Companies of Material Significance for Public Order or Public Security, which established the institution of Observer in the Company, has expired.

In accordance with the Act of 18 March 2010 on Specific Powers Vested in the Minister in Charge of State Treasury, the right to request from the Company's authorities, including the General Meeting, any documents, information and explanations relating to the issues listed in the Act (i.e. concerning the Company's property disclosed in a uniform list of facilities, installations, devices and services comprised by the critical infrastructure referred to in the Act of 26 April 2007 on Crisis Management) is vested in charge of critical infrastructure protection.

PKN ORLEN pays special attention to activities facilitating the Company's communication with the external environment. For shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

A special section dedicated to the Company's General Meetings is included on the corporate PKN ORLEN website where information about the planned shareholders' meetings is provided along with material relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meetings.

6.5. General Meeting in 2010

The General Meeting of the Company was held, on 25 June 2010. This was the Ordinary General Meeting of PKN ORLEN.

During the debates of the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Capital Group as well as the financial statements for 2009. They also resolved on confirming the performance of duties by all the Supervisory and Management Board members.

The General Meeting resolved also to allocate the Company's entire profit generated in 2009 to the Company's reserve capital.

The debates concerned included amendments to the PKN ORLEN's Articles of Association relating, among others, to the adjustment of current provisions of PKN ORLEN's Articles of Association to commonly applicable provisions of law. Moreover, the provisions of the Articles of Association relating to the Company's objects were extended to include two new areas, i.e. retail sales of alcoholic and non-alcoholic beverages carried on in specialised stores and the publishing of newspapers.

The General Meeting also consented to the disposal, lease or encumbrance with any other third party rights, of a few fuel stations as organized parts of the Company.

At the meeting last year, the Supervisory Board members for the new term of office were appointed. Mr Maciej Mataczyński was appointed to perform the function of Chairman, and Ms Angelina Sarota, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Marek Karabuła, Mr Krzysztof Kołach, Mr Leszek Jerzy Pawłowicz and Mr Piotr Wielowieyski – to the function of Supervisory Board Members. On the same day the State Treasury appointed also Mr Janusz Zieliński to the PKN ORLEN Supervisory Board.

7. Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees

7.1. Composition of PKN ORLEN's Management Board in 2010

Name and surname	Position held in PKN ORLEN's Management Board
IN 2010 THE FOLLOWING PERSONS WERE ACTING AS MEMBERS OF THE MANAGEMENT BOARD IN PKN ORLEN:	
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer as of 18 September 2008 Vice-President of the Management Board in charge of Crude Oil and Capital Group as of 17 June 2008 Vice- President of the Management Board as of 7 June 2008
Sławomir Jędrzejczyk	Vice-President of the Management Board, Chief Financial Officer as of 23 September 2008 Vice-President of the Management Board as of 18 September 2008 Member of the Management Board, Chief Financial Officer as of 17 June 2008 Member of the Management Board as of 7 June 2008
Wojciech Kotlarek	Member of the Management Board in charge of Sales as of 17 June 2008 Member of the Management Board as of 7 June 2008
Krystian Pater	Member of the Management Board in charge of Refinery as of 17 June 2008 Member of the Management Board as of 7 June 2008 Member of the Management Board in charge of Production from 20 March 2007 to 6 June 2008
Marek Serafin	Member of the Management Board in charge of Petrochemistry as of 17 June 2008 Member of the Management Board as of 7 June 2008

7.2. Composition of PKN ORLEN's Supervisory Board in 2010

Name and surname	Position held in PKN ORLEN's Supervisory Board
IN 2010 THE COMPANY'S BUSINESS WAS MONITORED BY THE SUPERVISORY BOARD IN THE FOLLOWING COMPOSITION:	
Maciej Mataczyński	Chairman of the Supervisory Board as of 7 February 2008
Marek Karabuła	Vice-Chairman of the Supervisory Board from 15 February 2008 to 26 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 7 February 2008
Grzegorz Borowiec	Member of the Supervisory Board as of 7 February 2008
Krzysztof Kołach	Member of the Supervisory Board as of 7 February 2008
Jarosław Roclawski	Member of the Supervisory Board from 13 June 2008 to 25 June 2010
Piotr Wielowieyski	Member of the Supervisory Board as of 7 February 2008
Angelina Sarota	Secretary of the Supervisory Board from 13 June 2008 to 25 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 13 June 2008
Janusz Zieliński	Member of the Supervisory Board as of 6 July 2007
Artur Gabor	Member of the Supervisory Board as of 25 June 2010
Leszek Jerzy Pawłowicz	Member of the Supervisory Board as of 25 June 2010

7.3 Composition of Supervisory Board Committees in PKN ORLEN in 2010

Name and surname	Position held in PKN ORLEN's Supervisory Board Committee
Audit Committee	
from 20 July 2010 to 31 December 2010	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
from 1 January 2010 to 25 June 2010	
Piotr Wielowieyski	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Corporate Governance Committee	
from 20 July 2010 to 31 December 2010	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
from 1 January 2010 to 25 June 2010	
Grzegorz Borowiec	Committee Chairman
Maciej Mataczyński	Committee Member
Angelina Sarota	Committee Member
Strategy and Development Committee	
from 20 July 2010 to 31 December 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
from 1 January 2010 to 25 June 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Nomination and Remuneration Committee	
from 20 July 2010 to 31 December 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
from 1 January 2010 to 25 June 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Jarosław Roclawski	Committee Member

7.4 The rules of conduct of the Management Board and Supervisory Board and Supervisory Board Committees in PKN ORLEN

Apart from generally applicable laws, the rules of conduct for PKN ORLEN's Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Regulations, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

7.5 The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

Members of PKN ORLEN's Supervisory Board are appointed for a common term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. Individual members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorised to appoint and recall one member of the Supervisory Board, other members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 25 June 2010 the Annual General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office.

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members of the Supervisory Board):

- he/she is not an employee of the Company or a Related Entity,
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
- he/she is not a member of supervisory and management authorities of a Related Entity,
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,

- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
- he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

Independent members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement confirming that they comply with the above mentioned provisions. If the said provisions are not met, a member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.

If the number of independent members of the Supervisory Board is less than two, the Company's Management Board is obliged to immediately convene a General Meeting of Shareholders and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 item 9 point a of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board members) do not apply.

Organisation of PKN ORLEN's Supervisory Board's operations

Sessions of the Supervisory Board are held when necessary, however, not less frequently than once every two months. Moreover, as stated in the Company's Articles of Association, a Supervisory Board session should be convened following a written request of a shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board. In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board session is not convened within two weeks of the request being filed, the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the session.

Sessions of the Supervisory Board can only take place when all its members have been properly invited. Sessions can also be held without the meeting being formally convened if all the Supervisory Board members are present and grant their consent to the session being held and certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the session. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast, in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes "for", "against" and "abstain." This does not apply to any members of the Management Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favour of the resolution.

Passing resolutions on the following matters:
- any contribution to members of the Management Board provided by the Company or any related entities,
- giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities,
- appointing a certified auditor to audit the financial statements of the Company requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

With a view to fulfilling its duties, the Supervisory Board can review all the Company documents, demand reports and explanations from the Management Board and the employees, and inspect the Company's assets.

Competence of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company's operations, in all fields of its activity, specifically, the Supervisory Board is authorised to act as set out in the Commercial Code and the Company's Articles of Association. The Supervisory Board takes relevant steps required to regularly obtain exhaustive information from the Management Board about all the material issues relating to of PKN ORLEN's operations and the risk related to the business operations and risk management methods applied.

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:
- appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share),
- represent the Company in contracts with the Management Board, including the terms of their employment contracts,
- suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties,
- approve the Management Board Regulations,
- appoint an entity authorised to audit the financial statements of the Company and the consolidated financial statements of the ORLEN Capital Group in accordance with the Accounting Act,
- assess the financial statement in terms of its accuracy both in terms of its compliance with the accounting books and documents, the factual status, assess the Management Board's report on the Company's business operations, as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments,
- assess the financial statement of the ORLEN Capital Group and the Management Board's report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment,
- issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders,
- grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities,

- grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company's share capital,
- set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company's development strategy,
- approve the Company's development strategy and long-term financial plans,
- issue opinions on the annual financial plans,
- give consent, upon the Management Board's motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital,
- give consent, upon the Management Board's motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital,
- give consent to purchase the Company's own shares to prevent serious damage referred to in Article 362 § 1 item 1 of the Commercial Code, posing a direct threat to the Company,
- appoint the acting President of the Management Board, referred to in § 9 sec. 3 item 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

The Articles of Association also stipulate that the consent of PKN ORLEN's Supervisory Board is required to:

- set up a branch abroad,
- sell or encumber fixed assets whose net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken,
- dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines,
- incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
  - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading,
  - activities approved by the Supervisory Board in the annual financial plans,
  - activities which need the consent of the Shareholders Meeting in order to be performed,
  - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task,
  - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association,
- carry out capital or tangible investments abroad worth more than one twentieth of the share capital,
- exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company,
- establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market,
- pay interim dividends to the shareholders.

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.

Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it.

Committees of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or ad hoc committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN: Audit Committee, Strategy & Development Committee, Nomination & Remuneration Committee and Corporate Governance Committee. The said Committees report annually to the Supervisory Board on its activities.

The members of all Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members. At least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

The Committee resolutions are passed with a simple majority of the votes cast. In the event of a tie, the Committee chairman has the casting vote.

Audit Committee

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company's certified auditors. In particular, the tasks of the Committee are: to monitor the work of the Company's certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the Company's certified auditors, to discuss with the Company's certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the Company's certified auditors, to review interim and annual financial statements of the Company (consolidated and unconsolidated), with particular focus on:

- any changes of accounting standards, rules and practice,
- main areas of judgement,
- material corrections following from the audit,
- going concern statements,
- compliance with applicable accounting regulations.

Furthermore, the tasks of the Audit Committee include:

- to discuss any problems or objections that may result from the audit of the financial statements,
- to analyse the letters to the Management Board drawn up by the Company's certified auditors, independency and objectivity of their audit and the Management Board's replies,
- to give opinions on annual and long-term financial plans,
- to give opinions on the dividend policy, profit distribution and issue of securities,
- to review the management accounting system,
- to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment, to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to such findings, to review the independency of internal auditors and to give opinions on the Management Board's intentions as to employment or dismissal of the head of internal audit,

- to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyse the conditions for internal auditors' operation, cooperation with the Company's organisational units in charge of audit and control and to evaluate their work on a periodical basis,
- to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board,
- to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the financial statements by the Company.

Corporate Governance Committee

The task of the Corporate Governance Committee is to evaluate the implementation of the corporate governance principles, to submit recommendations to the Supervisory Board as to the implementation of the corporate governance principles, issue opinions on normative corporate governance documents, evaluate reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange, issue opinions on the draft amendments of the Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board, to monitor the management of the Company in terms of legal and regulatory compliance, including the compliance with the PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets, evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets, issues opinions on any strategic documents which the Management Board submits to the Supervisory Board, issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include: to initiate and issue opinions on the solutions in the area of Management Board members nomination system, to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management, to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest, to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment, to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration,in the context of evaluating the degree to which the Company's specified tasks and goals are met, to assess the Company's human resources management system.

7.6 The rules of PKN ORLEN's Management Board operations

The PKN ORLEN Management Board's principal objective is to realise the Company's interest, which is understood as building the value of its assets entrusted by its shareholders, with due respect for the rights and interests of the parties other than the shareholders, involved in the Company operations, especially creditors and employees.

The Management Board of PKN ORLEN ensures transparency and efficiency of the Company's management system, and guarantees that the Company's affairs will be handled in accordance with applicable law and good business practice.

Appointing and recalling PKN ORLEN's Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice-Presidents and others members of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. One member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the minister in charge of State Treasury.

The term of office of the Management Board members is a joint term of office, ending on the day when the Annual General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. So determined joint term of office is assumed to commence on 7 June 2008.

The President, Vice-Presidents, and other members of the Management Board may be suspended from duty for significant reasons by the Supervisory Board.

Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office, all his/her powers, except for the right to the casting vote referred to in § 9 sec. 5 item 2 of the Articles of Association, are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN's Management Board activity

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. Each member of the Management Board may request in writing for a Management Board meeting to be convened or certain issues to be placed on the agenda. The request should contain the proposed agenda and the justification for the request. The meeting should be held within seven days of the request being filed.

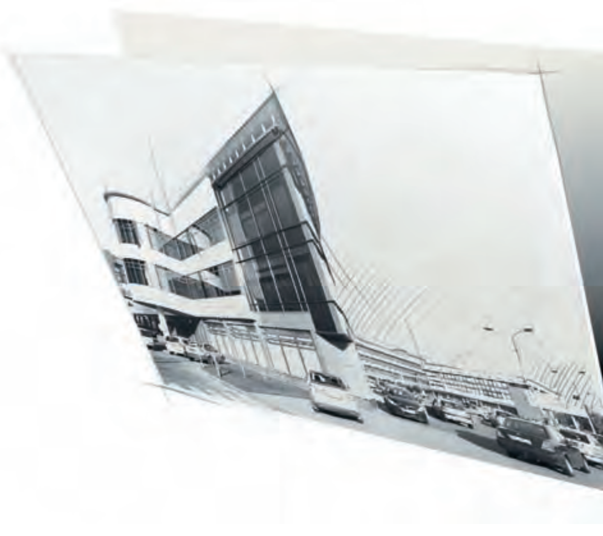
The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two members of the Management Board. The meeting can also be held without being formally convened if all the Management Board members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.

Invited Company employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board.

Meetings of the Management Board are held in the Company's seat in Płock or in the Company's Headquarters in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

The Management Board adopts resolutions at the meeting. For a resolution to be effective the scheduled meeting has to be notified to all the members of the Management Board and at least one half of the Management Board members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all members of the Management Board is required. A Management Board member who voted against a resolution that was adopted may communicate its dissenting opinion, however, such communication has to be provided with the reasoning.

Resolutions are adopted in an open vote. A secret ballot may be ordered at request of each member of the Management Board. Resolutions are signed by all members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".



Competences of PKN ORLEN's Management Board

The Management Board has to handle all the affairs of PKN ORLEN which are not reserved to be considered by other authorities of the Company under the provisions of the Commercial Code or the Articles of Association. All the members of the Management Board are obliged and authorised to handle the affairs of PKN ORLEN.

All the maters going beyond the ordinary course of business are subject to resolutions of the Management Board, however, the consent of the Management Board is not required to carry out an activity being an integral part of another activity which has already been approved by the Management Board unless the resolution of the Management Board provides otherwise. Activities falling within the scope of the ordinary course of business are activities related to fuels trading within the meaning of the Company's Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels, including natural gas, industrial gas and fuel gas), and any other activities not specified in the Management Board Regulations. A resolution of the Management Board is required, among others to:

- adopt and amend the Management Board Regulations,
- adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
- adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and / or the Company's Articles of Association,
- convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
- approve annual and long-term financial plans as well as the Company's development strategy
- approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
- incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule),
- dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,
- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements, the ORLEN Capital Group's annual, half-yearly and quarterly financial statements,
- adopt and change the Company's employees' remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments / offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks. Additionally, the Management Board has to draw up and adopt annual and long-term financial plans and the Company development strategy in the form, to the extent and by the deadlines set by the Supervisory Board. The Management Board of PKN ORLEN has also to draw up and submit to the Supervisory Board the annual financial statements of PKN ORLEN and the annual financial statements of the ORLEN Group for the previous financial year.

7.7 Description of the remuneration policy and the rules for its determination

The remuneration for the Supervisory Board Members is determined by the Company's General Meeting.

The remuneration for the Management Board Members is determined by the Supervisory Board. As part of the Supervisory Board, the Nomination & Remuneration Committee operates whose tasks, among others, include:

- to periodically review and recommend, the rules for determining incentive pay to the Management Board members and to the senior management, taking into account the Company's interest,
- to periodically review, the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive systems and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the reasons underlying the awarded performance-driven remuneration in the context of evaluating the degree to which the Company's specified tasks and goals are met.

The main components of the Management Board Members remuneration system include:

- monthly fixed base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

Additional benefits for the Management Board Members:

- company car,
- tools and technical appliances necessary to perform the duties of the Management Board Member,
- reimbursement of business trips costs and costs of representation to the extent and in the amount relevant to the function held,
- life and endowment insurance agreement,
- private health insurance for the Management Board Member and his/her closest family.

7.8 Rules for awarding bonuses to the key executive personnel

In 2010 the ORLEN Group's key executive personnel was subject to the annual MBO bonus system. The regulations applicable to PKN ORLEN Management Board, executive directors of PKN ORLEN, management boards of the PKN ORLEN Group and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual targets set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board Members for the key executive personnel. The targets set are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System Regulations. The bonus systems are structured in a way so as to promote the cooperation between individual employees in view to achieve the best possible results at PKN ORLEN and ORLEN Group level.

In 2010 new MBO bonus standards were developed and approved for the senior managerial personnel in the ORLEN Group to be in force as of 2011. The main goal for implementation of the changes is to match the bonus system with PKN ORLEN Management Board's goals and to increase top management responsibility for ORLEN Group results.

MICHAŁ SĘDZIWÓJ (1566–1636)

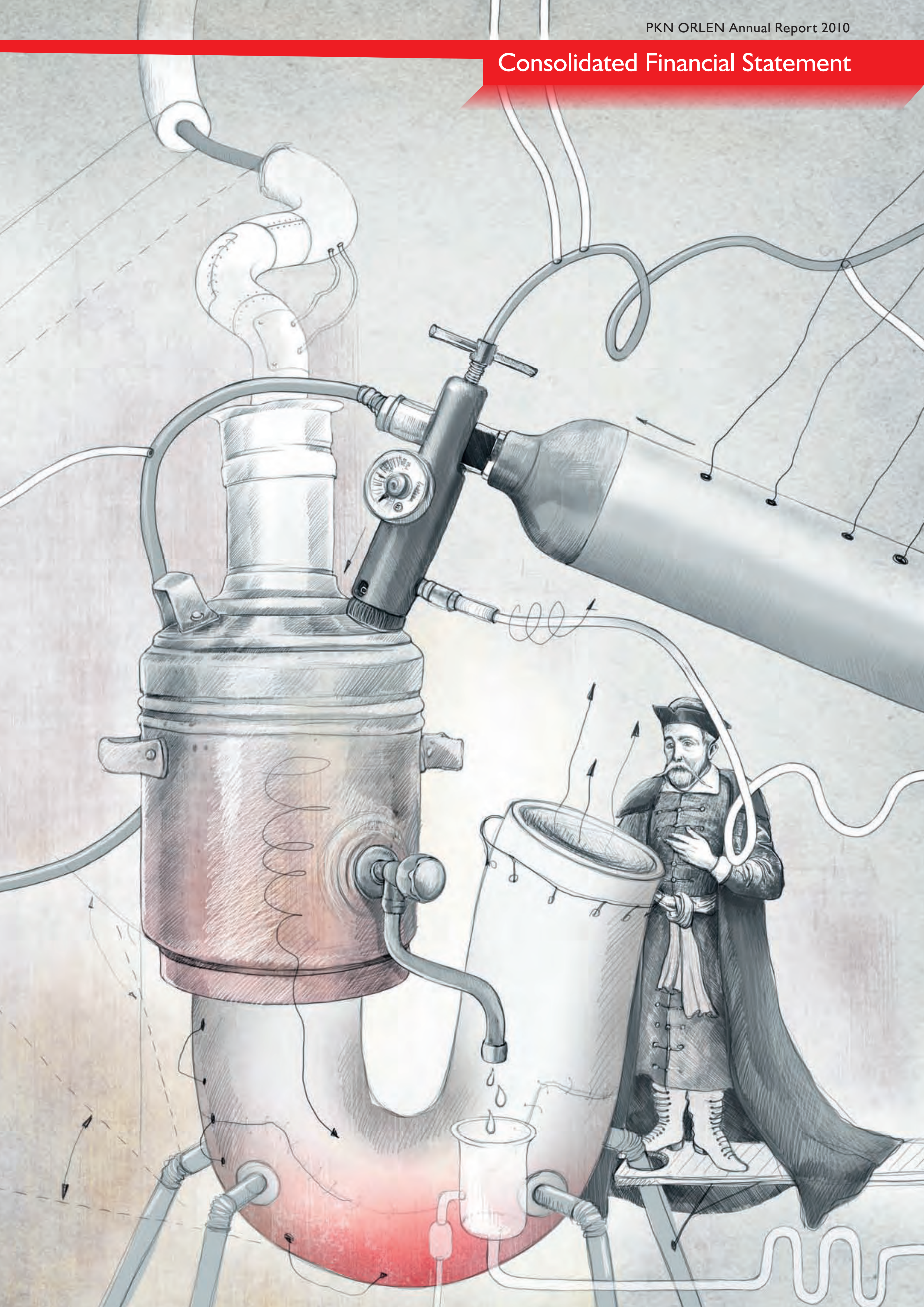
Michał Sędziwój of Ostoja coat of arms (Lat. Sendivogius Polonus), born on 2 February 1566 in Łukowica, died in 1636 in Krawarz.

A famous Polish alchemist, scientist, philosopher and diplomat from the 17th century. He studied in Krakow, Leipzig, Vienna and Altdorf, then he worked at the court of the Emperor Rudolf II in Prague. In 1599 he came back to Poland and was admitted to the court of the king Zygmunt III Waza. He conducted alchemical studies in Krzepice.

He was the author of famous alchemic works, e.g. "Tractatus de lapide philosophorum and cosmopolitani novum lumen chymicu" (1604) published under various titles and translated into a lot of languages. He developed methods for obtaining numerous metals, he also studied salts ands sulphur. Wealthy men and kings strived to win him over believing that he acquired the ability to turn metal into gold. At that time no other Pole in Europe could compete with him in terms of popularity.

Today it is known that he was the first scientist who discovered oxygen, calling it mysterious food of life. However at that time he was not associated with discovery of oxygen but rather secret knowledge about production of gold. During his life he had a reputation of a great alchemist and magician, but in fact he was a down-to-earth scientist, applying classical empiricism in his research.

Consolidated Financial Statement



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 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Company 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 and preparation of the Report on the Group's activities. Management of the Parent Company is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2009, No. 152, item 1223 with amendments) ("the Accounting Act"), Management of the Parent Company and members of the Supervisory Board are required to ensure that the consolidated financial statements and the Report on the Group's activities are in compliance with the requirement set forth in "the Accounting Act".

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, national standards on auditing issued by Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion of the Independent Auditor

Opinion

In our opinion, the accompanying consolidated financial statements of PKN ORLEN S.A. Group have been prepared and presented fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

As required under the Accounting Act, we also report that the Report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 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.

On behalf of KPMG Audyt Sp. z o.o.
registration number 458
ul. Chłodna 51, 00-867 Warsaw

Certified Auditor No. 10427
Marta Zemka

Certified Auditor No. 10268
Director
Monika Bartoszewicz

29 March 2011, Warsaw

Consolidated Financial Statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group for the year ended 31 December 2010

Prepared in accordance with International Financial Reporting Standards as adopted by the European Union

Polish Financial Supervision Authority
Consolidated Annual Report RS 2010 (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 2010, that is for the period from 1 January 2010 to 31 December 2010 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 31 March 2011
(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 classification of Warsaw Stock Exchange:	OIL&GAS
zip code:	09-411
location:	PŁOCK
street:	CHEMIKÓW
number:	7
telephone:	48 24 256 81 80
fax:	48 24 367 77 11
e-mail:	ir@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 CONSOLIDATED FINANCIAL DATA		PLN thousand		EUR thousand	
		for the year ended 31.12.2010	for the year ended 31.12.2009	for the year ended 31.12.2010	for the year ended 31.12.2009
I.	Sales revenues	83,547,432	67,927,990	20,863,908	16,963,338
II.	Profit from operations	3,122,649	1,097,076	779,804	273,968
III.	Profit before tax	3,070,167	1,440,652	766,698	359,767
IV.	Net profit attributable to equity holders of the parent	2,371,358	1,308,521	592,188	326,771
V.	Net profit	2,455,467	1,300,167	613,192	324,685
VI.	Total comprehensive income attributable to equity holders of the parent	2,537,678	1,233,166	633,722	307,953
VII.	Total comprehensive income	2,658,224	1,211,414	663,826	302,521
VIII.	Net cash provided by operating activities	6,110,199	5,161,793	1,525,871	1,289,030
IX.	Net cash (used in) investing activities	(2,920,060)	(2,526,615)	(729,213)	(630,960)
X.	Net cash (used in) financing activities	(3,297,740)	(1,034,966)	(823,529)	(258,457)
XI.	Net (decrease)/increase in cash and cash equivalents	(107,601)	1,600,212	(26,871)	399,613
XII.	Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	5.54	3.06	1.38	0.76

		as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
XIII.	Non-current assets	30,430,874	29,655,024	7,683,982	7,488,075
XIV.	Current assets	20,718,918	19,433,046	5,231,654	4,906,963
XV.	Total assets	51,149,792	49,088,070	12,915,636	12,395,038
XVI.	Long-term liabilites	10,684,821	13,223,343	2,697,983	3,338,975
XVII.	Short-term liabilities	16,225,018	14,157,516	4,096,916	3,574,859
XVIII.	Equity	24,239,953	21,707,211	6,120,737	5,481,204
XIX.	Equity attributable to equity holders of the parent	21,627,938	19,037,903	5,461,187	4,807,187
XX.	Share capital	1,057,635	1,057,635	267,059	267,059
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)	50.57	44.51	12.77	11.24

The above data for 2010 and 2009 was 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 at 31 December 2010 – 3.9603 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 2010 – 4.0044 PLN/EUR.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2010

(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of financial position

	Note	as at 31.12.2010	as at 31.12.2009 (restated data)
ASSETS			
Non-current assets			
Property, plant and equipment	6	27,403,013	26,998,132
Investment property	7	71,976	71,487
Intangible assets	8	1,102,709	690,376
Perpetual usufruct of land	9	96,354	96,043
Investments accounted for under equity method	10	1,501,016	1,401,586
Financial assets available for sale	11	42,783	59,633
Deferred tax assets	30.2	163,893	290,820
Other non-current assets	12	49,130	46,947
Total non-current assets		30,430,874	29,655,024
Current assets			
Inventories	14	11,294,851	10,619,859
Trade and other receivables	15	6,288,802	5,624,933
Other short-term financial assets	16	224,601	181,005
Income tax receivable		48,273	34,032
Cash and cash equivalents	17	2,820,742	2,941,039
Non-current assets classified as held for sale	18	41,649	32,178
Total current assets		20,718,918	19,433,046
Total assets		51,149,792	49,088,070

	Note	as at 31.12.2010	as at 31.12.2009 (restated data)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity			
Share capital	19.1	1,057,635	1,057,635
Share premium	19.3	1,227,253	1,227,253
Hedging reserve	19.5.1	63,872	14,849
Foreign exchange differences on subsidiaries from consolidation	19.5.3	(149,492)	(266,789)
Retained earnings	19.4	19,428,670	17,004,955
Total equity attributable to equity holders of the parent		21,627,938	19,037,903
Non-controlling interest	19.6	2,612,015	2,669,308
Total equity		24,239,953	21,707,211
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	20	9,123,987	11,610,532
Provisions	21	635,618	661,921
Deferred tax liabilities	30.2	818,581	836,330
Deferred income	24	16,960	16,855
Other long-term liabilities	22	89,675	97,705
Total long-term liabilities		10,684,821	13,223,343
Short-term liabilities			
Trade and other liabilities	23	13,435,998	11,494,542
Interest-bearing loans and borrowings	20	1,543,740	1,593,695
Income tax liability		23,370	24,169
Provisions	21	1,002,428	847,117
Deferred income	24	74,959	80,519
Other financial liabilities	25	144,523	117,474
Total liabilities		16,225,018	14,157,516
Total equity and liabilities		26,909,839	27,380,859
Total liabilities		51,149,792	49,088,070

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of comprehensive income

	Note	for the year ended 31.12.2010	for the year ended 31.12.2009 (restated data)
Income statement			
Sales revenues	26	83,547,432	67,927,990
Cost of sales	27	(75,566,961)	(61,843,276)
Gross profit on sales		**7,980,471**	**6,084,714**
Distribution expenses		(3,394,612)	(3,507,700)
General and administrative expenses		(1,365,195)	(1,504,707)
Other operating revenues	28.01	771,321	1,258,334
Other operating expenses	28.02	(869,336)	(1,233,565)
Profit from operations		**3,122,649**	**1,097,076**
Financial revenues	29.1	446,754	1,094,275
Financial expenses	29.2	(751,248)	(1,023,074)
Financial revenues and expenses		**(304,494)**	**71,201**
Share in profit from investments accounted for under equity method		252,012	272,375
Profit before tax		**3,070,167**	**1,440,652**
Income tax expense	30	(614,700)	(140,485)
Net profit		**2,455,467**	**1,300,167**
Items of other comprehensive income:			
Hedging instruments valuation		25,502	(4,491)
Hedging instruments settlement		35,020	146,024
Foreign exchange differences on consolidation		153,734	(203,395)
Deferred tax on other comprehensive income items		(11,499)	(26,891)
		202,757	**(88,753)**
Total net comprehensive income		**2,658,224**	**1,211,414**
Net profit attributable to:		**2,455,467**	**1,300,167**
equity holders of the parent		2,371,358	1,308,521
non-controlling interest		84,109	(8,354)
Total comprehensive income attributable to:		**2,658,224**	**1,211,414**
equity holders of the parent		2,537,678	1,233,166
non-controlling interest		120,546	(21,752)
Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN per share)		5.54	3.06

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of cash flows

	Note	for the year ended 31.12.2010	for the year ended 31.12.2009 (restated data)
Cash flows – operating activities			
Net profit		**2,455,467**	**1,300,167**
Adjustments for:			
Share in profit from investments accounted for under equity method		(252,012)	(272,375)
Depreciation and amortisation	27	2,422,747	2,562,221
Foreign exchange (gain)		(36,860)	(122,715)
Interest and dividend, net		389,978	383,602
Loss/(Profit) on investing activities		206,817	(714,716)
Change in receivables	31	(799,146)	655,338
Change in inventories	31	(608,981)	(1,662,679)
Change in liabilities	31	2,282,677	2,820,956
Change in provisions	31	715,077	(2,086)
Income tax expense	30	614,700	140,485
Income tax (paid)/received		(517,882)	19,255
Other adjustments	31	(762,383)	54,340
Net cash provided by operating activities		**6,110,199**	**5,161,793**
Cash flows – investing activities			
Acquisition of property, plant and equipment and intangible assets		(3,724,370)	(2,670,628)
Disposal of property, plant and equipment and intangible assets		686,025	827,802
Disposal of shares		53,339	1,354
Acquisition of shares		(115,927)	(1,019,488)
Acquisition of short-term securities and deposits		(174,955)	(56,822)
Disposal of other securities		198,711	—
Interest and dividend received		158,737	423,922
Other		(1,620)	(32,755)
Net cash (used in) financing activities		**(2,920,060)**	**(2,526,615)**
Cash flows – financing activities			
Proceeds from loans and borrowings		14,688,673	11,192,817
Repayment of loans and borrowings		(17,408,772)	(11,461,010)
Interest paid		(545,378)	(666,133)
Payment of liabilities under finance lease agreements		(24,060)	(80,384)
Dividends paid to non-controlling interest		(10,468)	(13,382)
Other		2,265	(6,874)
Net cash (used in) financing activities		**(3,297,740)**	**(1,034,966)**
Net (decrease)/increase in cash and cash equivalents		(107,601)	1,600,212
Effect of exchange rate changes		(12,696)	(3,397)
Cash and cash equivalents, beginning of the period	17	**2,941,039**	**1,344,224**
Cash and cash equivalents, end of the period	17	**2,820,742**	**2,941,039**
incl. restricted cash	17	68,289	24,459

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(all amounts in PLN thousand)
(Translation of a document originally issued in Polish)

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Non--controlling interest	Total equity
1 January 2010	2,284,888	14,849	(266,789)	17,004,955	19,037,903	2,669,308	21,707,211
Total comprehensive income	—	49,023	117,297	2,371,358	2,537,678	120,546	2,658,224
Change in non-controlling interest's structure	—	—	—	52,357	52,357	(168,284)	(115,927)
Dividends	—	—	—	—	—	(9,555)	(9,555)
31 December 2010	**2,284,888**	**63,872**	**(149,492)**	**19,428,670**	**21,627,938**	**2,612,015**	**24,239,953**
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	—	—	—	(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

Accounting principles, notes and other explanatory information

1. GENERAL INFORMATION

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

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

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

According to Warsaw Stock Exchange classification PKN ORLEN belongs to oil and gas sector.
The principal activity of the Polski Koncern Naftowego ORLEN S.A. Capital Group („Group", „Capital Group", „ PKN ORLEN S.A. Capital Group") includes among others:

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

Concessions

Concessions granted by public authoritiesas at 31.12.2010	periods, for which concessions were granted (in years)
Electrical energy: manufacturing, transfer, distribution and trade	10–22
Heating energy: manufacturing, transfer, distribution and trade	10–20
Liquid and gaseous fuels: manufacturing, transmission, distribution, trade, storage and transportation	10–45
International profit-making road transportation services	5
Non-reservuar storage of crude oil and liquid fuels	30
Rock salt: exploitation and recognition	4–30
Exploration and recognition of crude oil and natural gas	5
Personal and property security services	indefinetely

As at 31 December 2010 and 31 December 2009 the Group had no liabilities related to concession services.

Shareholders' structure

The shareholders' structure of PKN ORLEN S.A. as at 31 December 2010 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%
Aviva OFE	21,744,036	21,744,036	27,180,045	5.08%
Others	288,254,829	288,254,829	360,318,536	67.40%
Total	**427,709,061**	**427,709,061**	**534,636,326**	**100.00%**

Composition of the Management Board of the Parent

Composition of the Management Board as at 31 December 2010 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, Refinery
- Marek Serafin – Member of the Management Board, Petrochemistry

On 24 March 2011 the Supervisory Board of PKN ORLEN S.A. has chosen the President of the Management Board, Vice-President of the Management Board and three Management Board Members for a new term. The new term Management Board will be as follows:

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

The appointed Board of Directors will start its activity after the PKN ORLEN S.A. General Meeting, which will accept the financial statement for 2010.

Composition of the Supervisory Board of the Parent

Composition of the Supervisory Board as at 31 December 2010 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
- Artur Gabor – Member of the Supervisory Board (from 25 June 2010)
- Krzysztof Kołach – Member of the Supervisory Board
- Leszek Jerzy Pawłowicz – Member of the Supervisory Board (from 25 June 2010)
- Piotr Wielowieyski – Member of the Supervisory Board
- Janusz Zieliński – Member of the Supervisory Board

On 25 June 2010 Ordinary General Meeting did not appoint for the new term of office Mr. Jarosław Roclawski to the Member of the Supervisory Board.

1.2. Statement of the Management Board

1.2.1. In respect of the reliability of consolidated financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing consolidated financial statements and comparative data were prepared in compliance with the Group accounting principles in force and that they reflect true and fair view on financial 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 Capital Group, including basic risks and exposures.

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

The Management Board of PKN ORLEN declares that the entity authorized to conduct audit and conducting the audit of the 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.

KPMG Audyt Sp. z o.o. is the entity authorized to conduct audit of unconsolidated financial statements of PKN ORLEN S.A. and consolidated financial statements of PKN ORLEN S.A. Capital Group for the year 2010.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

2. ACCOUNTING POLICIES

2.1. Principles of presentation

The consolidated financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and were in force as at 31 December 2010. The scope of consolidated financial statements is compliant with Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognition as equivalent information required by the law of a non-Member state (Official Journal no. 33, item 259) with further amendments.

The foregoing consolidated financial statements cover the period from 1 January to 31 December 2010 and the comparative period from 1 January to 31 December 2009.

Presented consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2010 and comparative data as at 31 December 2009, results of its operations and cash flows for the year ended 31 December 2010 and comparative data for the year ended 31 December 2009.

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

2.2. Impact of amendments and interpretations of IFRSs on consolidated financial statements of the Group

2.2.1. Binding amendments and interpretations to IFRSs

The amendments adopted from 1 January 2010 had no impact on the foregoing consolidated financial statements.

2.2.2. IFRSs and interpretations to IFRSs not yet effective

The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2010, in accordance with their effective date. In the current reporting period, the Group did not make decision to voluntary early adopt amendments and interpretations to standards.

IFRSs and interpretations to IFRSs adopted by EU

Amendments to IFRS 1 – Limited exemptions from comparative IFRS 7 disclosures for First-time Adopters

The amendment refers to limited exemptions from comparative IFRS 7 disclosures for First-time Adopters. The exemption refers to first reporting periods beginning earlier than 1 January 2010.

The amended standard was published on 1 July 2010. According to the Commission Regulation no 574/2010 all entities shall apply the amendments to IFRS 1 and IFRS 7 as from the commencement date of its first financial year starting after 30 June 2010.

The amended standard is not relevant to financial statements of the Group.

Amendments to IAS 24 – Related Parties Disclosures

The amendment introduces exemptions to disclosures of related party transactions, outstanding balances, including contingent liabilities with: (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised standard requires specific disclosures to be provided if a reporting entity take advantage of this exemption. The revised standard also amends the definitions of a related party which resulted in new relations being included in the definition such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel.

The amended standard was published on 20 July 2010. According to the Commission Regulation no 632/2010 all entities shall apply the amended standard at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

The amendments to IAS 24 will have no impact on consolidated financial statements of the Group.

Amendments to IAS 32 – Classification of rights issues

The amendment requires that rights, options and warrants issued to acquire a fixed number of entity's own equity instruments for a fixed amount of any currency are classified as equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of entity's non-derivative equity instruments.

The amendments to standard were published on 24 December 2009. According to the Commission Regulation no 1293/2009 all entities shall apply the amendments at the latest, as from commencement date of its first financial year starting after 31 January 2010.

Amendments to IAS 32 are not relevant to consolidated financial statements of the Group due to the fact that the Group did not issue such instruments at any time in past.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirements

Amended IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirement. According to the amendments, the entity is required to recognise certain prepayments as an asset, on the basis that the entity has future economic benefits, from the prepayment in the form of reduced cash outflows in future years in which minimum funding requirements payments would otherwise be required.

Amendments to interpretation were published on 20 July 2010. According to the Commission Regulation no 633/2010 all entities shall apply the amendments at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

Amendments to IFRIC are not relevant to consolidated financial statements of the Group due to the fact, that the Group does not have any defined benefit plans with minimum funding requirements.

New interpretation IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

Interpretation clarifies that the equity instruments issued to a creditor of an entity to extinguish all or part of a financial liability, in form of 'debt for equity swaps' are considered paid in accordance with IAS 39.41.

The initial recognition of equity instruments issued to extinguish a financial liability is at the fair value of the equity instrument issued, unless that fair value cannot be reliably measured, in which the equity instrument shall be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the initial measurement amount of equity instruments issued should be recognised in profit or loss of the current period.

The interpretation was published on 24 July 2010. According to the Commission Regulation no 662/2010 all entities shall apply the above amendments at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

Since the interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have. In the current period the Group did not issue equity instruments to cover financial liabilities. For the same reason the above interpretation will not have a significant influence on the comparative data disclosed in the consolidated annual financial statements for the year ended 31 December 2010.

Improvements to International Financial Reporting Standards in 2010

The improvements contain 11 amendments to 6 standards and 1 interpretation and are mainly focused on solving discrepancies and specifying wording. Introduced changes specified required accounting treatment in the situation when previously, free interpretation was acceptable.

The improvements were published on 19 February 2011. According to the Commission Regulation no 149/2011 all entities shall apply the above improvements at the latest as from the commencement date of its first financial year starting after 30 June 2010 or 31 December 2010.

Since the improvements can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the interpretation will have.

Standards and interpretations waiting for approval of EU

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

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

An entity shall apply those amendments for annual periods beginning on or after 1 July 2011.

It is expected that at the date of adoption, the amendments to standard will have no impact on future consolidated financial statements.

Amendments to IFRS 7 Disclosures – Transfers of financial assets

The amendment requires disclosure of information that enables to help users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment defines "continuing involvement" for the purposes of applying the disclosure requirements.

An entity shall apply that amendment for annual periods beginning on or after 1 July 2011. When applied, it is expected that the amendment to IFRS 7 will increase the current level of disclosures in the consolidated financial statements.

New standard and amendments to IFRS 9 – Financial instruments

New standard replaces guidance in IAS 39 Financial Instruments: Recognition and Measurement about classification and measurement of financial assets. The standard eliminates existing IAS 39 categories: held for maturity, available for sale and loans and receivables.

At the initial recognition, financial assets will be classified as: financial assets measured at amortised cost or financial assets measured at fair value.

The 2010 amendments to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement about classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. The standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities. The standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, shall be presented in other comprehensive income, with only the remaining amount of the total gain or loss included in profit or loss of current period. If the requirements would create or enlarge an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss of the current period.

The amounts presented in other comprehensive income are not subsequently reclassified to profit or loss of the current period, but may be transferred within equity.

Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

An entity shall apply IFRS 9 with amendments for annual periods beginning on or after 1 January 2013.

It is expected that the amendments to the Standard, when initially applied, will have a significant impact on future consolidated financial statements and comparative data, since they will be required to be retrospectively applied.

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

Amendments introduced in 2010 provide the exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using fair value model in IAS 40 by introducing a rebuttable presumption that that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

An entity shall apply those amendments for annual periods beginning on or after 1 January 2012.

The impact of the initial application will be dependent on the specific assets held and their fair values at the date of the initial application. Until the date of the initial application of the Standard the Group is unable to determine the effects the application will have on future consolidated financial statements.

2.2.3. Presentation changes

- Starting from 1 January 2010 the Group recognises in the consolidated statement of financial position CO_2 emission rights granted free of charge as intangible assets and deferred income at the fair value of CO_2 emission rights at the date of their receipt.
  The Group recognises provision for estimated CO_2 emissions in the reporting period. In the consolidated result the cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge.
  In the financial statements for the previous reporting periods intangible assets were compensated, and presented net with deferred income and provision for CO_2 emissions. The change in presentation had no impact on consolidated statement of comprehensive income for the year ended 31 December 2009, nor, due to the sale of CO_2 emissions rights in 2009, on the consolidated statement of financial position as at 31 December 2009.
- In segment data relating to consolidated statement of comprehensive income for the year ended 31 December 2009 (disclosed in note 5.1 to the consolidated financial statement) a reclassification adjustments of PLN 1,304,031 thousand was made from the position of sales revenues and operating expenses of the refining segment to the position of sales revenues and operating expenses of the retail segment. The adjustment reflects sales volumes generated through DOFO (Dealer Owned Franchise Operated) channel, previously presented in the refining segment.
- Starting from the December 2010 the Group recognises government grants received related to non-current tangible and intangible assets directly as a decrease of the value of non-current tangible or intangible asset. Grant settlement is recognised in the consolidated statement of comprehensive income in operating activities as a decrease in depreciation.
  In the financial statements for previous reporting periods government grants received related to non-current tangible and intangible assets were presented as deferred income in correspondence with other operating income.
  In the statement of financial position as at 31 December 2009 the value of government grants decreased the value of non-current tangible assets, deferred income and other long term liabilities by PLN 72,305 thousand. In the statement of comprehensive income

for the year ended 31 December 2009 the value of government grants decreased the depreciation costs and other operating income by PLN 5,425 thousand, with no effect on the result of the period.

According to the Management Board the above mentioned changes ensure better presentation of results of Group's operations.

2.2.4. Functional currency and presentation currency of financial statements and methods applied to translation of data for consolidation purposes

The functional and presentation currency of the foregoing consolidated financial statements is Polish Złoty.

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:
- particular assets, equity and liabilities – at spot exchange rate as at the end of the reporting period;
- respective items of statement of comprehensive income and statement of cash flows are translated at the average rate (arithmetic average of average exchange rates published by the National Bank of Poland ("NBP") in the reporting period).

	average exchange rate for the reporting period		exchange rate at the end of the reporting period	
CURRENCIES	31.12.2010	31.12.2009	31.12.2010	31.12.2009
PLN/EUR	4.0044	4.3406	3.9603	4.1082
PLN/USD	3.0402	3.1236	2.9641	2.8503
PLN/CZK	0.1585	0.1639	0.1580	0.1554

Accounting policies for foreign currency transactions are disclosed in note 2.3.2

2.3. Applied accounting policies

2.3.1. Changes in accounting policies and estimates

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

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

Items of consolidated financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

2.3.2. Transactions in foreign currencies

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

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

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 shall be recognised by the Group in consolidated profit or loss in the period in which they arise, except for the monetary items which hedge the currency risk and are accounted in accordance with the cash flow hedge accounting principles.

2.3.3. Principles of consolidation

The consolidated financial statements of the Group include data of PKN ORLEN S.A., its subsidiaries and jointly controlled entities (joint ventures) prepared as at the end of the 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. Data of subsidiaries and jointly controlled entities (joint ventures) that together do not significantly impact the financial statements of the Capital Group are not consolidated.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

2.3.3.1. Investments in subsidiaries

Subsidiaries are entities under the Parent's control. It is assumed that the Parent Company controls another entity if it holds directly or undirectly – through its subsidiaries – more than 50% of the voting rights in an entity, unless in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the Parent Company owns half or less of the voting power of an entity when there is:

- power over more than half of the voting rights by virtue of an agreement with other investors,
- power to govern the financial and operating policies of the entity under a statute or an agreement,
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body, or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Subsidiaries are consolidated using the full conolidation method.

Non-controlling interests shall be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the Parent Company.

2.3.3.2. Investments in jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. The requirement ensures that no single venturer is in a position to control the activity unilaterally.

It is assumed that the party has joint control when the strategic financial and operating decisions require the unanimous consent of the parties sharing control. Investments in jointly controlled entities are accounted for using the proportionate method. The application of proportionate consolidation means that the venturer assumes its proportionate share in assets, liabilities and equity, income and expenses of the jointly controlled entity, which are added together with the like items in consolidated financial statements and then performs adequate consolidation procedures, including eliminations. Intra group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from the transactions with jointly controlled entity are proportionately eliminated.

2.3.3.3. Investment in associates

Investments in associates (entities over which the investor 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.

It is assumed that the Investor 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.

2.3.3.4. 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.

Consolidated financial statements are the financial statements of a Group presented as those of a single economic entity.

In preparing consolidated financial statements using line by line method, an entity combines the financial statements of the Parent Company and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses and then performs adequate consolidation procedures, including eliminations. Intra-group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from intra-group transactions are eliminated. Unrealized losses are eliminated after assets, to which they relate are tested for impairment. Unrealized profits and losses are settled proportionately with non controlling interest.

In line by line method the following steps are then taken:

- the carrying amount of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary are eliminated,
- non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified,
- non-controlling interests in the net assets of consolidated subsidiaries are identified and presented separately from the parent's ownership interests in them,
- intra group balances are eliminated,
- unrealized profits or losses from intra group transactions are eliminated,
- intra group revenues and expenses are eliminated.

The application of proportionate consolidation means that the venturer assumes its proportionate share in assets, liabilities and equity, income and expenses of the jointly controlled entity, which are added together with the like items in consolidated financial statements and then performs adequate consolidation procedures, including eliminations. Intra group balances, revenues and expenses, as well as unrealized profits and losses and cash flows from the transactions with jointly controlled entity are proportionately eliminated. Unrealized losses are eliminated after assets, to which they relate are tested for impairment.

Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor.

2.3.4. Business combinations

An entity shall account for each business combination by applying the acquisition method. Applying the acquisition method requires:

- identifying the acquirer;
- determining the acquisition date;
- recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- recognising and measuring goodwill or a gain from a bargain purchase.

Business combinations under common control (within the Group) are accounted by applying the acquisition method or uniting of interest method, choosing the method that adequately reflects the economic nature of the transaction.

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

2.3.5. 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 Group'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 were divided into the following segments:

- the refining segment, which includes refinery products processing and wholesale, oil production and sale as well as supporting production,
- the retail segment, which includes sales at petrol stations,
- the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals

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

Segment revenues are revenues reported in the 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 the Group's expenses that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Segment expenses do not include:

- income tax expense,
- interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature,
- losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other expenses arising at the level of the Group as a whole, unless they are directly attributable to the segment and can be allocated to the segment on a reasonable basis.

Segment result is calculated on the level of operating result.

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

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.

2.3.6. Property, plant and equipment

Property, plant and equipment are assets that:

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

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

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

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

Depreciation of an item of property, plant and equipment begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated economic useful life, considering the residual value. Fixed assets are depreciated 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.

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

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

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

Appropriateness of the applied depreciation rates is verified periodically (at least once a year). The adjustments are accounted for prospectively.

The cost of significant repairs and regular maintenance programs is recognised 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 recognised as an expense when it is incurred.

The Group assesses (once a year) the residual value of property, plant and equipment.

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

2.3.7. Investment property

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.

After initial recognition, a Group shall measure all of its investment property at fair value, estimated based on a valuation performed by and independent expert. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises. A Group determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

If a Group determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Group shall measure that investment property in accordance with rules set for property, plant and equipment.

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

2.3.8. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Group.

An intangible asset shall be recognised if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group, and
- the cost of the asset can be measured reliably.

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

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

After initial recognition, an intangible asset shall be presented in the consolidated financial statements in its net carrying amount.

Intangible assets with finite useful life are amortised using straight-line method. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life. The amortisation period and the amortisation method shall be reviewed periodically (at least at each financial year-end). The changes are reflected in the future accounting periods (prospectively).

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

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

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

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

2.3.8.1. Goodwill

Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The acquirer shall recognise goodwill as of the acquisition date measured as the excess of a) over b) below:
a) the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and – in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in point (b) exceeds the aggregate of the amounts specified in point (a). If that excess remains, after reassessment of correct identification of all acquired assets and liabilities, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date as other operating profit for the period.

The acquirer shall measure goodwill in the amount recognised at the acquisition date less any accumulated impairment allowances.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided the test is performed at the same time every year.

A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

2.3.8.2. Rights

Carbon dioxide emission rights (CO_2)

CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.

Granted emission allowances should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.

For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the consolidated statement of comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of evaluated annual emission. The surplus of grant over the estimated emission in the reporting period is recognised as other operating income.

Granted/purchased CO_2 emission allowances are amorised against the book value of provision, as its settlement. Outgoing of allowances is recognised using FIFO method (first in, first out).

Nitrous suboxide emission reduction units (N_2O)

Recognised units of emission reduction are presented gross in receivables in correspondence with deferred income (grant in scope of IAS 20) at fair value as at the last working day of a monthly period.

At the end of the following month, value of receivables recognised until then is updated to reflect the effects of measurement the unit of reduction and valuation of total value of units of reduction being the basis for accounting for receivables at fair value as at the end of the month.

As at the date of issue of the administrative decision relating to grant of emission reduction units in the following period, recognised receivable is settled through recognition of intangible assets at fair value at that day.

At each period deferred income is also updated.

Grants should be recognised on a systematic basis in the accounting periods. Due to lack of current cost related to granted emission reduction units, income is recognised in the same month as receivables by the settlement of deferred income. Grant is recognised as other operating income.

2.3.9. Perpetual usufruct of land

Perpetual usufruct of land is recognised at the acquisition cost and presented in a separate line of the consolidated statement of financial position.

As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost less any accumulated depreciation and impairment losses.

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

2.3.10. Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are directly charged into the consolidated profit or loss.

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

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

Borrowing costs may include:

- interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement,
- finance charges in respect of finance leases recognised in accordance with IAS 17 Lease, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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

The commencement date for capitalization is the date when all of the following three conditions are met:

- expenditures for the asset are incurred,
- borrowing costs are incurred,
- activities necessary to bring the asset into its intended use or sale are undertaken.

Capitalising of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user are not the basis for the capitalization.

After putting 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.

2.3.11. Impairment of assets

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

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less costs to sell.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units). To the cash generating unit following assets are allocated:

- goodwill, if it may be assumed, that the cash generating unit benefited from the synergies associated to a business combination with another entity,
- corporate assets, if they may be allocated on a reasonable and coherent basis.

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit in the following order:

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

At the end of each reporting period an assessment shall be made whether an impairment loss recognised in prior periods for an asset shall be partly or completely reversed. Indications of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in prior periods.

An impairment loss recognised for goodwill shall not be reversed.

Reversal of an impairment loss is recognised in profit or loss.

2.3.12. Inventories

Inventories are assets:

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

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

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

Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

The production costs do not include:

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

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realisable value, after deducting any impairment losses.

Outgoings of finished goods, semi-finished products and work in progress is determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and raw materials are measured initially at acquisition cost.

As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any impairment allowances.

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

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

Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.

2.3.13. Receivables

Receivables, including trade receivables, are recognised initially 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 consolidated financial statements, particularly if the payment term of receivables is not long. Receivables, including trade 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 impairment allowances.

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

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO method.

2.3.15. Non-current assets held for sale

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

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

Reclassification is reflected in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.

While a non-current asset is classified as held for sale it shall not be depreciated (or amortised).

A non-current assets held for sale (excluding among others financial assets and investment property) shall be measured at a lower of: book value or fair value less costs to sell.

A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Group shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Group ceases to classify a discontinued operation, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

2.3.16. Equity

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

2.3.16.1. Share capital

The share capital is a equity paid by shareholders and is stated at nominal value in accordance with the Parent Company's articles of association and the entry in the Commercial Register.

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

2.3.16.2. Share premium

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

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

2.3.16.3. Hedging reserve

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

2.3.16.4. Revaluation surplus

Revaluation surplus relates to a difference between the fair value and the purchase cost, after deducting deferred tax, of assets held for sale, if there is a market price available from active regulated market, or fair value may be calculated on other reliable basis.

2.3.16.5. Foreign exchange differences on subsidiaries from consolidation

Foreign exchange differences on subsidiaries from consolidation result mainly from translation of financial statements of subsidiaries into functional and presentation currency of the Group.

2.3.16.6. Other reserve capital

Additional payments to equity are initially recognised at fair value.

Non repayable additional payments to equity received or payments with non-confirmed repayment date are presented in equity. Non repayable additional payments to equity made or payments with non-confirmed repayment date are presented as investments in shares.

Repayable additional payments to equity received are presented as liabilities (short or long term). Repayable additional payments to equity made are presented as current or non-current receivables based on the repayment date.

2.3.16.7. Retained earnings

Retained earnings include:

- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/loss,
- advance dividends paid,
- the effects (profit/(loss)) of prior period errors,
- changes in accounting principles.

2.3.17. Liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method. The Group uses simplified methods of liabilities measurement, including trade liabilities that are usually measured at amortized cost, if it does not distort information included in the financial statements, particularly if the payment term of liabilities is not long. Liabilities, including trade 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.

2.3.17.1. Government grants

Government grants are transfers of resources to the Group by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants shall not be recognised until there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them.

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.

Government grants related to assets, shall be presented net with the related asset and is recognised in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges.

2.3.18. Provisions

A provision is a liability of uncertain timing or amount.

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

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

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

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

The provisions are created, among others, for:
- environmental risk,
- jubilee bonuses and post-employment benefits,
- business risk,
- shield programs,
- CO_2 emission.

Provisions are not recognised for the future operating losses.

2.3.18.1. 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.

2.3.18.2. Jubilee bonuses and post employment benefits

Under the remuneration plans employees are entitled to jubilee bonuses as well as retirement and pension benefits.
The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement (pension) benefits are paid once at retirement (pension). The amount of retirement and pension benefits as well as jubilee bonuses depends on the number of years 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 defined benefit plans.

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

The provisions equal to the present value of these liabilities are estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumption including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

Actuarial gains or losses are recognised in profit or loss.

2.3.18.3. Business risk

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

2.3.18.4. Shield programs

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

2.3.18.5. CO_2 emissions

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

2.3.19. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

Accruals relate for example to:
- uninvoiced services,
- unused holidays,
- investment liabilities.

2.3.20. Revenues from sale

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

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

Revenues from sales of finished goods, merchandise, materials and services are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the 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, raw materials and services are recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenues include received or due payments for delivered goods or services rendered decreased by the amount of any trade discounts, value added tax (VAT), excise tax and fuel charges. Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognised based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognised up to the cost incurred, but not greater than the cost which are expected to be recovered by the Group.

2.3.20.2. Revenues from licenses, royalties and trade mark

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

2.3.20.3. Franchise revenues

Franchise revenues are recognised in accordance with the substance of the relevant agreement, in a way reflecting the reason of charging with franchise fees.

2.3.21. Costs

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

The Group recognises costs in accordance with matching and prudence concept.

2.3.21.1. Cost of sales

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

2.3.21.2. Distribution expenses

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

2.3.21.3. General and administrative expenses

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

2.3.22. Other operating revenues and expenses

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

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

2.3.23. Financial revenues and expenses

Financial revenues include, in particular, profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Revenues from dividends are recognised when the shareholders' right to receive payments is established.

Financial costs include, in particular, the loss on the sale 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.

2.3.24. Income tax expense

Income tax expense comprises current tax and deferred tax.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences.

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

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

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

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

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

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each reporting date).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities.

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 recognised 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.

2.3.25. Earnings per share

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

For the purpose of calculating basic earnings per share, the amounts attributable to ordinary equity holders of the Parent in respect of:
- profit or loss from continuing operations attributable to the Parent Company; and
- profit or loss attributable to the Parent Company,

shall be the amounts above adjusted for the after-tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity.

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

2.3.26. 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.

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

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

Dividends received are presented in consolidated cash flows from investing activities.

Dividends paid are presented in consolidated cash flows from financing activities.

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

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

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

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

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

Cash flows from corporate income tax are presented in cash flows from operating activities, unless it may be related to investing or financing activities.

2.3.27. 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.

2.3.27.1. Recognition and derecognition in the consolidated statement of financial position

The Group recognises a financial asset or a financial liability in 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 recognised by the Group as at trade date.

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

The Group derecognises 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.

2.3.27.2. Measurement of financial assets and liabilities

When a financial asset is recognised 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. Transaction costs comprise particularly fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies
and security exchanges and transfer of taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the 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, when doing so results in more relevant information.

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

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 by the Group 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.

a. 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 recognised through profit or loss.

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

b. Amortized cost measurement of financial assets

The Group measures loans and other 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 statement of financial position, especially when the maturity date is not long. 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 less any cumulated impairment losses.

c. Fair value 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. 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.

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.

d. Amortised cost measurement of financial liabilities

The Group measures other financial 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, especially when the maturity date is not long. 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.

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 recognised less, when appropriate, cumulative amortisation.

2.3.27.3. Transfers

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

The Group does not reclassify financial instruments into category of fair value through profit or loss after initial recognition.

2.3.27.4. 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 other 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss as revenue.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial 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 recognised in the consolidated statement of comprehensive income is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

2.3.27.5. 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 recognised in the consolidated statement of comprehensive income (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

The 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.

2.3.27.6. Hedge accounting

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

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the 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.

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

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

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

If a fair value hedge is used, it is accounted for as follows:

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

The 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 recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

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

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

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

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

Net investment in a foreign operations is the amount of the reporting entity's interest in the net assets of that operations.

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

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

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

2.3.28. 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 recognised 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 recognised as assets of the lessor.

Transfer of risks and rewards within the finance lease agreements includes i.e. the following situations:
- the lease transfer ownership of the asset to the lessee or that by the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,

- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

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

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

The present value of the minimum lease payments is recognised in the statement of financial position as financial 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 there is a reasonable uncertainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the sorter of the lease term or useful life.

If the Group conveyed to another entity the right to use an asset under the operating lease, the asset is recognised 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 recognised as revenues from sale.

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 recognised 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.

2.3.29. Exploration and extraction of hydrocarbons/salt

For exploration and extraction of hydrocarbons/salt the Group applies accounting principles based on Successful Efforts Method.

The stages of exploration and excavation of hydrocarbons/salt are classified into:
- 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 recognised in consolidated profit or loss when incurred.

Cost incurred, related to acquisition of rights to explore and extract are recognised 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 costs are recognised in consolidated profit or loss when incurred.

Expenditures related to exploration and recognition:
- Expenditures incurred for each exploratory drilling is initially recognised as construction in progress. If the exploratory drilling is unsuccessful, the cost previously recognised as an asset is included in consolidated profit or loss. If the appraisal is successful, the cost incurred for all appraisal drillings (including unsuccessful drillings) is transferred to property, plant and equipment at the date put into use. In case of performance exploratory drillings on already extracted resource, the Group analyzes, if costs incurred enable rising new boreholes-– expenditures are recognised in non-current assets at the date of put into use. If despite the expenditures, new borehols do not rise, expenditures are recognised in consolidated profit or loss when incurred.
- Other expenditures at the exploration and recognition stage is initially recognised 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, initially incurred costs, previously recognised as an asset are included in consolidated profit or loss.
- When the commercial 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/salt resource.
- General and administrative expenses that can be directly attributed to the stage of exploration and recognition should be recognised as an asset and included in previously defined cash generating unit. If cost cannot be allocated, it is included in consolidated profit or loss when incurred.

Cost incurred for resource site planning are recognised 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 recognised as an asset and included in previously defined cost generating unit. If cost cannot be allocated, it is included in consolidated profit or loss when incurred.

Cost directly attributed to hydrocarbons/salt resource extraction is included in the consolidated profit or loss as the cost of the current period.

Depreciation of non-current assets used for exploration and extraction activity is calculated proportionally to the amount of extracted hydrocarbons/salt, 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/salt or using of assets on multiple stages of exploration or exploration) 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 recognised 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 recognised as a financial expense in the consolidated profit or loss. 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 extraction activity, both for proved and unproved assets/resources.

The Group performs impairment tests of assets used in exploration and exploitation activity, both for proved and unproved assets/ resources on the cash generating unit level, defined as hydrocarbons/salt deposit.

2.3.30. Contingent assets and contingent liabilities

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

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

Contingent assets are not recognised in the consolidated statement of financial position, however the respective information on the contingent asset is disclosed in the additional information to financial statements if the inflow of economic benefits is probable and if practicable is estimates the influence on financial results, as according to accounting principles for valuation of provisions.

Contingent liability is:

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

Contingent liabilities are not recognised 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 (in such situation the events are not disclosed in the consolidated financial statements).

Contingent liabilities due to business combinations are disclosed in the consolidated statement of financial position as provisions.

2.3.31. Subsequent events after reporting date

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

- those, that provide evidence of conditions that existed as the end of the reporting period (adjusting events after the reporting period) and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

The Group adjusts the amounts recognised in its consolidated financial statements to reflect adjusting events after the reporting date.

The Group does not adjust the amounts recognised in its consolidated financial statements to reflect non-adjusting events after the reporting period.

3. THE MANAGEMENT BOARD ESTIMATES AND ASSUMPTIONS

The preparation of consolidated 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 might base its estimates on opinions of independent experts.

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

Actual results may differ from the estimated values.

Judgments, which have a significant impact on carrying amounts recognised in the consolidated financial statements were disclosed in the following notes:

- 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 32). The Management Board classifies the financial instruments depending on the purpose of the purchase and nature of the instrument and decides whether hedge accounting should be applied to decrease or neutralize risks. The fair value of financial instruments is measured using common practiced valuation models. Details of the applied estimates and sensitivity analysis has been presented in the above note.
- Leases classification (note 33). The Management Board classifies lease agreements as finance lease or operating lease on the basis of business nature analysis.

Estimates and assumptions, which have a significant impact on carrying amounts recognised in the consolidated financial statements were disclosed in the following notes:

- Impairment of property, plant and equipment and intangible assets (notes: 6 and 8). The Management Board assess, if there is an objective indicator for impairment of assets or cash generating units. If there is an indicator for impairment the Group assesses the recoverable amount of an asset or cash generating units by determing higher of fair value less cost to sell or value in use by applying the proper discount rate.
- Estimated economic useful lives of property, plant and equipment and intangible assets (note 6 and 8). As described in note 2.3 the Group verifies economic useful lives of property, plant and equipment and intangible assets at least once a year. The effect of verification performed in the current reporting year was disclosed in note 6 and 8.
- Provisions (note 21). As described in note 2.3, recognition of provisions requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Details of applied estimates and their influence on the foregoing consolidated financial statements are disclosed in note 21.
- Contingent liabilities (note 35). As described in note 2.3, disclosing of contingent liabilities requires estimate of the probable outflow of economic benefits and defining the best estimate of the expenditure required to settle the present and possible obligation at the end of reporting period.

4. ENTITIES CONSOLIDATED USING FULL AND PROPORTIONATE METHOD

These consolidated financial statements for the years 2010 and 2009 include the following Group entities located mainly in Poland, Germany, Lithuania and Czech Republic.

Name of the group/entity		Share in total voting rights				
		Parent Company	31.12.2010	31.12.2009	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 Koltrans Sp. z o.o.		PKN ORLEN	100%	100%	full	refining
ORLEN Transport S.A.		PKN ORLEN	100%	100%	full	refining
ORLEN Asfalt Sp. z o.o. (formerly Bitrex Sp. z o.o.)	7	PKN ORLEN	100%	100%	full	refining
ORLEN Laboratorium Sp. z o.o.		PKN ORLEN	95%	95%	full	CF
Capital Group of ORLEN Oil Sp. z o.o.	7	PKN ORLEN	100%	100%	full	refining
Orlen Oil Cesko s.r.o.		ORLEN OIL	100%	100%	full	refining
Platinum Oil Sp. z o.o. (formerly Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.)		ORLEN OIL	100%	100%	full	refining
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	3	PLATINIUM OIL	—	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
Capital Group of Anwil S.A.	2	PKN ORLEN	90%	85%	full	petrochemical
Przedsiebiorstwo Inwestycyjno--Remontowe Remwil Sp. z o.o.		ANWIL S.A.	100%	100%	full	petrochemical
Przedsiebiorstwo Produkcyjno--Handlowo-Usługowe Pro-Lab Sp. z o.o.		ANWIL S.A.	99%	99%	full	petrochemical
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.		ANWIL S.A.	56%	56%	full	petrochemical
Spolana a.s.		ANWIL S.A.	100%	100%	full	petrochemical
Capital Group of Rafineria Trzebinia S.A.	2	PKN ORLEN	86%	77%	full	refining
Energomedia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
Euronaft Trzebinia Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
Fabryka Parafin Naftowax Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	100%	100%	full	refining
EkoNaft Sp. z o.o.		RAFINERIA TRZEBINIA S.A.	99%	99%	full	refining
Capital Group of Rafineria Nafty Jedlicze S.A.		PKN ORLEN	75%	75%	full	refining
RAF-KOLTRANS Sp. z o.o.		RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	refining
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.		RAFINERIA NAFTY JEDLICZE S.A.	81%	81%	full	refining
Inowrocławskie Kopalnie Soli „Solino" S.A.		PKN ORLEN	71%	71%	full	refining
Capital Group of Unipetrol a.s.		PKN ORLEN	63%	63%	full	multisegment
UNIPETROL TRADE a.s.		UNIPETROL A.S.	100%	100%	full	petrochemical
CHEMAPOL (SCHWEIZ) AG in liquidation		UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL DEUTSCHLAND GmbH		UNIPETROL TRADE a.s.	100%	100%	full	petrochemical
UNIPETROL RPA s.r.o. (formerly 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

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

Name of the group/entity		Share in total voting rights				
		Parent Company	31.12.2010	31.12.2009	Consolidation method	Operating segment
PETROTRANS s.r.o.		BENZINA s.r.o.	100%	100%	full	retail
PARAMO a.s.		UNIPETROL A.S.	100%	100.00%	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
Ship-Service S.A.	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 S.A.		PKN ORLEN	51%	51%	full	CF
ORLEN Wir Sp. z o.o.		PKN ORLEN	51%	51%	full	refining
Capital Group of Basell ORLEN Polyolefins Sp. z o.o.		PKN ORLEN	50%	50%	proportionate	petrochemical
Basell ORLEN Polyolefins Sprzedaż Sp. zo.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 S.A.		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
Capital Group of ORLEN Holding Malta Ltd.		PKN ORLEN	100%	100%	full	CF
Orlen Insurance Ltd.		ORLEN HOLDING MALTA	100%	100%	full	CF
Capital Group of Orlen Lietuva (formerly GK AB Możejki Nafta)		PKN ORLEN	100%	100%	full	multisegment
UAB Mažeikių naftos sveikatos priežiūros centras		ORLEN Lietuva	100%	100%	full	CF
UAB PASLAUGOS TAU		ORLEN Lietuva	100%	100%	full	refining
UAB EMAS		ORLEN Lietuva	100%	100%	full	refining
UAB Remonto mechanicos centras in liquidation	4	ORLEN Lietuva	—	100%	full	refining
AB Ventus-Nafta		ORLEN Lietuva	100%	100%	full	retail
Capital Group of UAB Mažeikių naftos prekybos namai		ORLEN Lietuva	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
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 Capital AB	5	PKN ORLEN	100%	—	full	CF
ORLEN International Exploration & Production Company BV		PKN ORLEN	100%	100%	full	CF
SIA Balin Energy	6	OIEP Co BV	50%	50%	proportionate	CF
ORLEN Ochrona Sp. z o.o.		PKN ORLEN	100%	100%	full	CF
ORLEN Centrum Serwisowe Sp. z o.o.		PKN ORLEN	99%	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 S.A., where it accounts for to 61%.
2) Acquisition of shares in the entity in the IV quarter 2010.
3) Companies merged into one entity – Platinium Oil Sp. z o.o. – on 01.01.2010.
4) Entity liquidated in the II quarter of 2010.
5) Entity founded in the IV quarter 2010.
6) Entity consolidated from the IV quarter 2010.
7) (%) share in consolidated financial data; in the IV quarter of 2010 the acquisition of additional shares in RT caused the increase of indirect shares in Orlen Asfalt from 95.99% in 2009 to 97.61% in 2010 and in Orlen Oil from 88.87% in 2009 to 92.90% in 2010.
* CF – Corporate functions.

5. OPERATING SEGMENTS

The assignment of entities of the PKN ORLEN S.A. Capital Group to operating segments and corporate functions is presented in note 4.

Accounting principles used in reportable segments are in line with the Group accounting principles, described in note 2.3. The segment's result is the result generated by respective segments without the allocation of Corporate Functions, 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.

Revenues from transactions with external parties and 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 operating result.

5.1. Revenues and financial results by operating segments

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical	Corporate Functions	Adjustments	Total
Sales to external customers	45,478,727	27,037,040	10,952,844	78,821	—	83,547,432
Transactions with other segments	18,503,242	115,150	2,654,105	198,512	(21,471,009)	—
Total sales revenues	63,981,969	27,152,190	13,606,949	277,333	(21,471,009)	83,547,432
Total operating expenses	(61,343,255)	(26,351,006)	(13,218,690)	(884,841)	21,471,024	(80,326,768)
Other operating revenues	187,529	154,070	303,771	126,033	(82)	771,321
Other operating expenses	(344,975)	(130,796)	(205,662)	(187,985)	82	(869,336)
Segment operating profit/(loss)	**2,481,268**	**824,458**	**486,368**	**(669,460)**	**15**	**3,122,649**
Financial revenues						446,754
Financial expenses						(751,248)
Share in profit from investments accounted for under equity method	1,527	—	341	250,144	—	252,012
Profit before tax						**3,070,167**
Income tax expense						(614,700)
Net profit						**2,455,467**
Depreciation and amortisation	**1,249,921**	**320,843**	**737,170**	**114,813**		**2,422,747**
Additions to non-current assets	**778,026**	**353,723**	**1,748,482**	**130,961**		**3,011,192**

for the year ended 31 December 2009

	Refining Segment (restated data)	Retail Segment (restated data)	Petrochemical (restated data)	Corporate Functions (restated data)	Adjustments (restated data)	Total (restated data)
Sales to external customers	35,265,571	23,687,734	8,877,040	97,645	—	67,927,990
Transactions with other segments	14,829,637	92,372	4,178,774	181,375	(19,282,158)	—
Total sales revenues	50,095,208	23,780,106	13,055,814	279,020	(19,282,158)	67,927,990
Total operating expenses	(49,082,990)	(22,862,444)	(13,319,009)	(873,423)	19,282,183	(66,855,683)
Other operating revenues	684,319	102,181	325,917	146,177	(260)	1,258,334
Other operating expenses	(572,432)	(139,821)	(259,073)	(262,499)	260	(1,233,565)
Segment operating profit/(loss)	**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 investments 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**
Depreciation and amortisation	**1,287,543**	**354,444**	**804,812**	**115,422**		**2,562,221**
Additions to non-current assets	**991,779**	**304,196**	**2,356,255**	**124,095**		**3,776,325**

Additions to non-current assets include acquisitions and other increases, which are described in details in notes 6, 7, 8 and 9.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

5.2. Other segment data

5.2.1. Assets by operating segments

	as at 31.12.2010	as at 31.12.2009 (restated data)
Refining Segment	26,965,016	26,430,278
Retail Segment	5,530,917	5,416,802
Petrochemical Segment	13,264,657	12,227,047
Total segment assets	**45,760,590**	**44,074,127**
Corporate Functions	5,718,371	5,476,376
Adjustments	(329,169)	(462,433)
Total	**51,149,792**	**49,088,070**

including:

	Non-current assets classified as held for sale		Invesments in shares accounted for under equity method	
	as at 31.12.2010	as at 31.12.2009 (restated data)	as at 31.12.2010	as at 31.12.2009 (restated data)
Refining Segment	31,276	4,589	4,918	13,986
Segment Detal	275	—	—	—
Petrochemical Segment	3,304	16,787	24,878	30,755
Total segment assets	**34,855**	**21,376**	**29,796**	**44,741**
Corporate Functions	6,794	10,802	1,471,220	1,356,845
Total	**41,649**	**32,178**	**1,501,016**	**1,401,586**

Operating segments include all assets except for financial assets and tax assets. Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

5.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	for the year ended 31.12.2010	for the year ended 31.12.2009	for the year ended 31.12.2010	for the year ended 31.12.2009
Refining Segment	(392,284)	(161,981)	42,787	178,691
Segment Detal	(61,523)	(79,824)	73,275	61,351
Petrochemical Segment	(183,884)	(69,511)	56,161	19,582
Impairment allowances by segment	**(637,691)**	**(311,316)**	**172,223**	**259,624**
Corporate Functions	(69,597)	(108,140)	66,866	110,366
Total	**(707,288)**	**(419,456)**	**239,089**	**369,990**

Impairment allowances of assets by segment include items recognised in the consolidated statement of comprehensive income i.e.:
- receivables allowances;
- inventories allowances;
- non-current impairment allowances.

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

In 2010 allowances recognised in the refining segment concerned primarily impairment of property, plant and equipment of Orlen Lietuva. Allowances recognised in the retail segment concerned primarily impairment of property, plant and equipment on petrol stations. In 2010 allowances in the petrochemical segment resulted primarily from impairment of property, plant and equipment in Spolana. Allowances for idle assets and obsolete raw materials were recognised in corporate functions.

5.2.3. Geographical information

Sales revenues

	for the year ended 31.12.2010	for the year ended 31.12.2009
Poland	39,011,668	31,006,893
Germany	13,693,847	12,482,039
Czech Republic	9,494,295	8,289,715
Lithuania, Latvia and Estonia	5,430,452	5,194,438
Other countries, including:	15,917,170	10,954,905
Switzerland	5,499,430	3,131,377
Denmark	1,008,822	1,109,150
Ukraine	1,801,453	1,292,116
Finland	17,570	23,982
Total	**83,547,432**	**67,927,990**

Non-current assets

	as at 31.12.2010	as at 31.12.2009 (restated data)
Poland	16,876,331	15,476,260
Germany	763,891	749,638
Czech Republic	5,629,991	5,881,317
Lithuania, Latvia, Estonia	5,370,587	5,729,220
Other countries	33,251	19,603
Total	**28,674,052**	**27,856,038**

The above non-current assets consist of property, plant and equipment, investment properties, intangible assets and perpetual usufruct of land.

5.3. Revenues from sale of core products and services

	for the year ended 31.12.2010	for the year ended 31.12.2009 (restated data)
Refining Segment	**45,478,727**	**35,265,571**
Gasoline	11,592,025	9,871,097
Diesel fuel	19,456,694	15,190,182
Light heating oil	1,888,467	1,540,447
Jet A-1 fuel	1,831,153	1,458,344
Heavy heating oil	3,787,558	2,471,591
LPG	894,484	499,199
Bitumens	1,599,712	1,471,036
Engine oils	363,668	282,535
Other	4,064,966	2,481,140
Retail Segment	**27,037,040**	**23,687,734**
Gasoline	10,579,008	9,970,451
Diesel fuel	11,936,468	9,601,830
Light heating oil	733,690	625,336
LPG	1,022,864	855,355
Other	2,765,010	2,634,762
Petrochemical Segment	**10,952,844**	**8,877,040**
Polyethylene	1,866,461	1,561,136
Polypropylene	1,777,184	1,224,365
Ethylene	975,805	710,283

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

	for the year ended 31.12.2010	for the year ended 31.12.2009 (restated data)
Propylene	738,042	520,483
Toluene	89,258	135,867
Benzene	790,846	516,891
Butadiene	342,459	128,260
Glycol	193,223	149,250
PVC	883,257	913,666
PVC Granulate	212,419	234,989
Canwil	275,499	232,028
Ammounium nitrate	429,510	479,922
Other	2,378,881	2,069,900
Corporate Functions	78,821	97,645
Total consolidated revenues	**83,547,432**	**67,927,990**

5.4. Information about major customers

In 2010 and 2009 no leading external customers were recognised in the Capital Group, for which turnover would exceeded 10% of total revenues from sale of the PKN ORLEN S.A. Capital Group.

6. PROPERTY, PLANT AND EQUIPMENT

	as at 31.12.2010	as at 31.12.2009 (restated data)
Land	895,828	893,847
Buildings and constructions	9,211,310	9,301,184
Machinery and equipment	10,843,336	11,427,677
Vehicles and other	755,271	863,386
Construction in progress	5,697,268	4,512,038
	27,403,013	**26,998,132**

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 2010	924,950	15,027,606	25,816,266	2,005,978	4,561,426	48,336,226
Acquisitions	45	30,237	40,274	26,955	2,802,713	2,900,224
Other increases	238	7,145	2,749	1,720	—	11,852
Reclassifications	6,703	569,575	808,399	122,281	(1,592,838)	(85,880)
Decreases	(2,251)	(87,141)	(337,588)	(138,347)	(11,803)	(577,130)
Foreign exchange differences	(2,039)	62,933	412,092	18,796	17,802	509,584
31 December 2010	**927,646**	**15,610,355**	**26,742,192**	**2,037,383**	**5,777,300**	**51,094,876**
Accumulated depreciation and impairment allowances						
1 January 2010	31,103	5,671,192	14,371,514	1,142,592	49,388	21,265,789
Depreciation	—	583,872	1,513,785	221,675	—	2,319,332
Other increases	737	15,991	18,007	6,113	—	40,848
Impairment allowances, net	84	127,402	75,841	(152)	31,089	234,264
recognition	407	191,032	115,638	3,070	50,028	360,175
reversal	(323)	(63,630)	(39,797)	(3,222)	(18,939)	(125,911)
Reclassifications	—	6,609	(6,347)	(941)	—	(679)
Decreases of depreciation due to liquidation and sale of property, plant and equipment and other decreases	(250)	(59,553)	(276,178)	(94,764)	—	(430,745)

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Government grants – settlement	—	3,255	1,862	74	—	5,191
Foreign exchange differences	144	20,500	170,443	7,174	(445)	197,816
31 December 2010	**31,818**	**6,369,268**	**15,868,927**	**1,281,771**	**80,032**	**23,631,816**
Gross book value						
1 January 2009	927,151	14,186,253	25,310,048	1,935,661	3,411,193	45,770,306
Acquisitions	1,524	25,874	161,671	85,383	3,386,602	3,661,054
Other increases	—	10,052	19,003	15,326	—	44,381
Reclassifications	9,006	987,131	1,081,494	154,695	(2,169,356)	62,970
Decreases	(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 (restated data)	**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
Depreciations	—	611,562	1,634,707	214,204	—	2,460,473
Other increases	773	5,206	63,077	17,055	—	86,111
Impairment allowances, net	(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)
Reclassifications	—	225,861	(218,624)	(82)	—	7,155
Decreases of depreciation due to liquidation and sale of property, plant and equipment and other decreases	(14)	(54,854)	(314,077)	(101,471)	—	(470,416)
Government grants – settlement	—	—	—	—	—	—
Foreign exchange differences	(2,669)	(43,852)	(146,747)	(50,189)	(113)	(243,570)
31 December 2009 (restated data)	**31,103**	**5,671,192**	**14,371,514**	**1,142,592**	**49,388**	**21,265,789**
Government grants						
1 January 2010	**—**	**55,230**	**17,075**	**—**	**—**	**72,305**
31 December 2010	**—**	**29,777**	**29,929**	**341**	**—**	**60,047**
1 January 2009	—	—	—	—		—
31 December 2009 (restated data)	**—**	**55,230**	**17,075**	**—**	**—**	**72,305**
Net book value						
1 January 2010	**893,847**	**9,301,184**	**11,427,677**	**863,386**	**4,512,038**	**26,998,132**
31 December 2010	**895,828**	**9,211,310**	**10,843,336**	**755,271**	**5,697,268**	**27,403,013**
1 January 2009	**891,185**	**9,200,217**	**11,934,523**	**875,729**	**3,367,103**	**26,268,757**
31 December 2009 (restated data)	**893,847**	**9,301,184**	**11,427,677**	**863,386**	**4,512,038**	**26,998,132**

Impairment allowances of property, plant and equipment as at 31 December 2010 and 31 December 2009 amounted to PLN 3,132,778 thousand and PLN 2,812,957 thousand, respectively, and referred mainly to impairment of property, plant and equipment in ORLEN Lietuva Group, Rafineria Trzebinia Group and Anwil Group.

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

The Group reviews economic useful lives of property, plant and equipment and adjustment of depreciation expense is introduced prospectively.

Should the rates from 2009 be applied, depreciation expense for 2010 would be higher by PLN 55,412 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2010 and 31 December 2009 amounted to PLN 4,283,859 thousand and 3,887,075 thousand, respectively.

As at 31 December 2010 and 31 December 2009 items of property, plant and equipment of PLN 626,054 thousand and PLN 738,049 thousand, respectively, were used as a pledge for the Group's liabilities.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

The net book value of temporarily idle property, plant and equipment as at 31 December 2010 and 31 December 2009 amounted to PLN 81,634 thousand and PLN 174,954 thousand, respectively.

The net book value of property, plant and equipment retired from active use and not classified as held for sale as at 31 December 2010 and 31 December 2009 amounted to PLN 47,074 thousand and PLN 55,272 thousand, respectively.

As at 31 December 2010 and 31 December 2009 the Group recognised impairment allowance for property, plant and equipment retired from active use of PLN 39,117 thousand and PLN 36,066 thousand, respectively.

As at 31 December 2010 and 31 December 2009 the net book value of leased non-current assets amounted to PLN 93,419 PLN and PLN 178,516 thousand, respectively. A detailed division of non-current assets by class is disclosed in note 33.1.

7. INVESTMENT PROPERTY

	for the year ended 31.12.2010	for the year ended 31.12.2009
Beginning of the period	71,487	71,757
Reclassification from property, plant and equipment	15	—
Purchase	—	773
Sale	(303)	—
Fair value adjustment	(122)	(257)
Decrease due to liquidation	—	(228)
Reclassification to property, plant and equipment	—	(134)
Foreign exchange differences	899	(424)
	71,976	**71,487**

Investment property includes social buildings and office space, as well as land.

In 2010 and 2009 the Group gained rental income from investment property amounted to PLN 10,711 thousand and PLN 11,954 thousand, respectively.

Direct operating expenses arising from investment property in 2010 and 2009, that in the given period generated rental income, amounted to PLN 2,649 thousand and PLN 2,898 thousand, respectively. Direct operating expenses arising from investment property, that in a given period did not generate rental income in 2010 and 2009 amounted to PLN 380 thousand and PLN 425 thousand, respectively.

Depending on the characteristics of the investment property, its fair value was estimated 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 flow 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, in the same location, technical conditions, standard and designed for similar purposes.

8. INTANGIBLE ASSETS

	as at 31.12.2010	as at 31.12.2009
Software	64,019	40,950
Patents, trade marks and licenses	482,316	494,383
Goodwill	88,247	89,811
Rights	384,307	—
Intangible assets under development	26,622	32,322
Other	57,198	32,910
	1,102,709	**690,376**

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

The changes in intangible assets were as follows:

	Software	Patents, trade marks and licenses	Goodwill	Rights	Intangible assets under development	Other	Total
Gross book value							
1 January 2010	210,673	966,733	107,199	—	32,322	90,853	1,407,780
Acquisitions	8,216	9,805	—	29,069	36,326	27,536	110,952
Other increases	24,705	16,924	—	1,593,253	2,999	13,487	1,651,368
Reclassifications	11,709	43,929	—	—	1,767	1,060	58,465
Decreases	(15,809)	(28,880)	(912)	(1,210,852)	(47,744)	(9,927)	(1,314,124)
Foreign exchange differences	1,852	6,032	(744)	(8,442)	952	1,163	813
31 December 2010	**241,346**	**1,014,543**	**105,543**	**403,028**	**26,622**	**124,172**	**1,915,254**
Accumulated amortisation and impairment allowances							
1 January 2010	169,723	472,350	17,388	—	—	57,943	717,404
Amortisation	17,546	72,612	—	—	—	11,758	101,916
Other increases	4,383	104	1,746	28,410	—	—	34,643
Impairment allowances, net	26	12,424	(369)	3,184	—	(14)	15,251
recognition	23	12,471	—	3,184	—	59	15,737
reversal	3	(47)	(369)	—	—	(73)	(486)
Decreases	(16,128)	(28,062)	(886)	(12,873)	—	(3,532)	(61,481)
Government grants – settlement	—	—	—	—	—	—	—
Foreign exchange differences	1,756	2,694	(583)	—	—	819	4,686
31 December 2010	**177,306**	**532,122**	**17,296**	**18,721**	**—**	**66,974**	**812,419**
Gross book value							
1 January 2009	197,990	919,297	110,710	—	5,616	87,806	1,321,419
Acquisitions	12,554	6,266	—	—	79,532	9,884	108,236
Purchase			(40,531)	—			(40,531)
Other increases	3,600	3,874	22,639	670,793	16,931	67,517	785,354
Reclassifications	4,629	76,037	—	—	—	89	80,755
Decreases	(5,153)	(35,655)	14,151	(670,793)	(68,331)	(73,509)	(839,290)
Foreign exchange differences	(2,947)	(3,086)	230	—	(1,426)	(934)	(8,163)
31 December 2009 (restated data)	**210,673**	**966,733**	**107,199**	**—**	**32,322**	**90,853**	**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, net	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)
Decreases	(1,831)	(34,983)	(8)	—	—	(12,294)	(49,116)
Government grants – settlement	—	—	—	—	—	—	—
Foreign exchange differences	841	(1,495)	(286)	—	—	(795)	(1,735)
31 December 2009 (restated data)	**169,723**	**472,350**	**17,388**	**—**	**—**	**57,943**	**717,404**
Government grants							
1 January 2010	**—**	**—**	**—**	**—**	**—**	**—**	**—**
31 December 2010	**21**	**105**	**—**	**—**	**—**	**—**	**126**
1 January 2009	**—**	**—**	**—**	**—**	**—**	**—**	**—**
31 December 2009 (restated data)	**—**	**—**	**—**	**—**	**—**	**—**	**—**

	Software	Patents, trade marks and licenses	Goodwill	Rights	Intangible assets under development	Other	Total
Net book value							
1 January 2010	40,950	494,383	89,811	—	32,322	32,910	690,376
31 December 2010	64,019	482,316	88,247	384,307	26,622	57,198	1,102,709
1 January 2009	42,808	484,102	87,633	—	5,616	24,522	644,681
31 December 2009 (restated data)	40,950	494,383	89,811	—	32,322	32,910	690,376

Impairment allowances of intangible assets as at 31 December 2010 and 31 December 2009 amounted to PLN 32,585 thousand and PLN 16,917 thousand, respectively.

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

The Group reviews economic useful lives of intangible assets and adjustment of amortisation expense is introduced prospectively.

Should the rates from 2009 be applied, amortisation expense for 2010 would be higher by PLN 109 thousand.

The gross book value of fully depreciated intangible assets still in use as at 31 December 2010 and as at 31 December 2009 amounted to PLN 458,289 thousand and PLN 487,281 thousand, respectively.

The net book value of intangible assets with undetermined useful life as at 31 December 2010 amounted to PLN 8,502 thousand. As at 31 December 2009 no intangible assets with undetermined useful life were recognised.

The Group incurred expenses related to registration of produced or imported chemicals (described in Regulation No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals – so called REACH. Due to the fact, that the registration is indefinite and the period of production or import of particular chemicals is unknown, indefinite useful life was assumed.

Rights

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

Change in CO_2 emission rights granted in 2010:

	Quantity (in tonnes)	Value
Granted free of charge	14,329,783	798,702
Settled in 2009	(11,388,570)	(635,350)
Purchase/(Sale), net	2,666,124	153,048
Foreign exchange differences	—	(8,442)
As at 31 December 2010	**5,607,337**	**307,958**
Emission in 2010	11,985,369	644,703
Shortage	(6,378,032)	(336,745)
Planned coverage of shortage	6,378,032	336,745
Usage of the rights granted for the following year	4,393,636	224,444
Term repurchase of rights sold in previous years	1,984,396	112,301

As at 31 December 2010 the market value of one EUA allowance (European Union Emission Allowance) allocated to installations according to National Allocation Program (NAP) amounted to EUR 13.75.

Furthermore in 2008 one Company of the Group accomplished investment in Nitric Acid Plant reducing emission of nitrous suboxide, which in accordance to regulations in force enabled recognition of ERU 1,734,000 (Emission Reduction Unit) amounting to PLN 75,690 thousand.

As at 31 December 2010 the Group possessed origin certificates rights to energy produced in high efficiency – cogeneration sources (yellow energy rights) and origin certificates rights to energy produced from renewable energy sources (green energy rights) of PLN 139 thousand and PLN 520 thousand respectively.

Goodwill

Annual impairment test:

As at 31 December 2010 the Group reviewed the recoverable amount of goodwill in accordance with the requirements of IAS 36 and declared the lack of necessity to recognise or reverse impairment allowances. Detailed information was disclosed in note 8.

9. PERPETUAL USUFRUCT OF LAND

	as at 31.12.2010	as at 31.12.2009
Beginning of the period	96,043	99,247
Acquisitions	16	90
Other increases	—	6
Reclassifications	1,882	—
Depreciation	(1,499)	(1,424)
Other decreases	(77)	(1,871)
Foreign exchange differences	(11)	(5)
	96,354	**96,043**

As at 31 December 2010 and 31 December 2009 the Group recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 993,948 thousand and PLN 981,672 thousand, respectively. Perpetual usufruct of land was fair valued in prior years.

The total amount of perpetual usufruct charges, recognised as expenses in profit or loss in 2010 and 2009 amounted to PLN 41,862 thousand and PLN 40,783 thousand, respectively.

10. INVESTMENTS IN SHARES ACCOUNTED FOR UNDER EQUITY METHOD

	Carrying amount as at		Group's share in capital/voting rights as at		
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	Principal activity
Polkomtel S.A.	1,451,334	1,347,403	24.39%	24.39%	rendering mobile telecommunication services
Other	49,682	54,183			
	1,501,016	**1,401,586**	**24.39%**	**24.39%**	

Condensed financial data comprising total assets and liabilities as at 31 December 2010 and 31 December 2009, revenues, financial expenses and profit for 2010 and 2010 in Polkomtel S.A. are disclosed below.

	as at 31.12.2010	as at 31.12.2009
Non-current assets	6,596,916	7,065,775
Current assets	1,369,002	1,360,195
Long-term liabilities	1,892,622	940,432
Short-term liabilities	2,321,642	4,282,778

	for the year ended 31.12.2010	for the year ended 31.12.2009
Revenues from sale	7,672,409	7,773,120
Profit from operations	1,534,825	1,378,019
Profit before tax	1,429,302	1,230,236
Income tax expense	(279,143)	(248,489)
Net profit	1,150,159	981,747

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

10.1. Jointly controlled entities consolidated using proportionate method

PKN ORLEN holds 50% share in a joint-venture entity Basell ORLEN Polyolefins Sp. z o.o. (BOP), involved in production, distribution and sale of polyolefins and in Płocki Park Przemysłowo-Technologiczny S.A. (PPPT), involved in advisory, business management services, holding management services and planning, purchasing and sales of real estates on its own accounts.

As at 31 December 2010 and for the year ended 31 December 2010 and as at 31 December 2009 and for the year ended 31 December 2009, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	as at 31.12.2010	as at 31.12.2009
Non-current assets	650,761	713,142
Current assets	568,362	440,694
Long-term liabilities	280,290	345,027
Short-term liabilities	420,304	342,867

	for the year ended 31.12.2010	for the year ended 31.12.2009
Revenues	1,513,023	1,178,196
Cost of finished goods, merchandise and raw materials sold	(1,356,508)	(1,059,890)
Gross profit on sales	**156,515**	**118,306**
Distribution expenses	(66,367)	(69,772)
General and administrative expenses	(11,531)	(11,833)
Other operating revenues and expenses, net	(819)	288
Profit from operations	**77,799**	**36,989**
Financial revenues and expenses, net	(12,417)	(47,977)
Profit/(loss) before tax	65,381	(10,988)
Income tax expense	12,795	5,403
Net profit/(loss)	**52,587**	**(16,391)**
Cash flows from operating activities	127,045	6,117
Cash flows from investing activities	(14,245)	(19,192)
Cash flows from financing activities	(66,050)	(71,363)

As at 31 December 2010 and for the year ended 31 December 2010 and as at 31 December 2009 and for the year ended 31 December 2009 the Group's share in assets and liabilities, revenues and expenses (PPPT) was as follows:

	as at 31.12.2010	as at 31.12.2009
Non-current assets	9,736	26,001
Current assets	22,802	22,698
Long-term liabilities	—	—
Short-term liabilities	336	16,565

	for the year ended 31.12.2010	for the year ended 31.12.2009
Revenues	892	852
Cost of finished goods, merchandise and raw materials sold	(686)	(672)
Gross profit on sales	**206**	**180**
General and administrative expenses	(1,394)	(2,063)
Other operating revenues and expenses, net	245	706
(Loss) from operations	**(943)**	**(1,177)**
Financial revenues and expenses, net	951	1,082
Profit/(loss) before tax	73	(95)
Income tax expense	5	(21)
Net profit/(loss)	**68**	**(75)**
Cash flows from operating activities	50	260
Cash flows from investing activities	21	150
Cash flows from financing activities	—	—

11. FINANCIAL ASSETS AVAILABLE FOR SALE

	as at 31.12.2010	as at 31.12.2009
Quoted shares	1,151	869
Wodkan S.A.	1,151	869
Unquoted shares	41,632	58,764
Naftoport sp. z.o.o.	39,502	31,026
Other	2,130	27,738
	42,783	59,633

As at 31 December 2010 and 31 December 2009 impairment allowances of financial assets available for sale amounted to PLN 73,748 thousand and PLN 78,570 thousand, respectively.

12. OTHER LONG-TERM ASSETS

	as at 31.12.2010	as at 31.12.2009
Loans granted	35,356	34,967
Other	4,983	8,978
Financial assets	40,339	43,945
Advances for construction in progress	2,760	698
Other	6,031	2,304
Non-financial assets	8,791	3,002
	49,130	46,947

13. IMPAIRMENT OF NON-CURRENT ASSETS

As at 31 December 2010 an impairment test for particular Cash Generating Units (CGUs) was carried out, where indicators for impairment as according to IAS 36 were identified. During tests, impairment of non-current assets was identified in the company belonging to Anwil Group – Spolana a.s. and Rafineria Trzebinia S.A.

Impairment allowances in Spolana a.s. amounted to PLN (85,428) thousand and concerned machinery and equipment of PLN (46,131) thousand, buildings and constructions of PLN (39,297) thousand.

Impairment allowances in Rafineria Trzebinia amounted to PLN (44,780) thousand and concerned buildings and constructions of PLN (24,462) thousand, machinery and equipment of PLN (16,589) thousand and vehicles of PLN (156) thousand. Additionally impairment allowance of PLN (3,573) thousand was recognised on intangible assets and concerned mainly acquired licenses.

The analysis were performed based on financial projections for years 2011–2013 included in the approved Midterm Plan for the years 2009–2013 adjusted by approved budgets for 2011 and concerned necessary adjustments mainly relating to capital expenditures and effectiveness activities for years 2012 and 2013. The period of CGU analysis was established on the basis on planned useful life of assets for the particular CGU.

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 Group's control. The change of these variables and assumptions might influence the Group'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 Capital Group.

Information about recognitions and reversals of allowances by category of non-current non-financial assets was disclosed in note 6 and 8.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

14. INVENTORIES

	as at 31.12.2010	as at 31.12.2009
Raw materials	4,854,391	5,289,699
Work in progress	1,148,723	763,586
Finished goods	4,038,525	3,544,367
Merchandise	716,079	495,514
Spare parts	537,133	526,693
Inventories, net	**11,294,851**	**10,619,859**
Impairment allowances of inventories	137,179	142,097
Inventories, gross	**11,432,030**	**10,761,956**

Change in impairment allowances of inventories

	for the year ended 31.12.2010	for the year ended 31.12.2009
Beginning of the period	142,097	511,930
Recognition	201,888	139,795
Reversal	(39,459)	(70,995)
Usage	(170,385)	(436,853)
Foreign exchange differences	3,038	(1,780)
	137,179	**142,097**

As at 31 December 2010 and as at 31 December 2009 inventories of PLN 123,642 thousand and PLN 161,460 thousand respectively, were used as a pledge for the Group's liabilities.

As part of optimisation processes, PKN ORLEN sold a part of its mandatory reserves of crude oil in March 2010 and December 2010 for the total amount of PLN 1,724,387 thousand. Simultaneously, agreements regarding the gathering and keeping of inventories with LAMBOURN Sp. z o.o. and Maury Sp. z o.o. have been signed. The companies will be providing inventories keeping services regarding the mandatory reserves of crude oil on PKN ORLEN's account. PKN ORLEN will guarantee that the inventories will be stored in its current location.

15. TRADE AND OTHER RECEIVABLES

	as at 31.12.2010	as at 31.12.2009
Trade receivables	5,296,717	4,491,501
Receivables due to sale of non-current non-financial assets	13,673	3,830
Receivables due to insurance compensation of Orlen Lietuva Group	12,830	12,338
Finance lease	421	287
Other	119,284	119,214
Financial assets	**5,442,925**	**4,627,170**
Excise tax and fuel charge receivables	211,205	188,878
Other taxation, duty social security receivables and other benefits	387,095	430,121
Advances for construction in progress	36,971	158,710
Prepayments for deliveries	9,374	12,607
Prepayments	180,019	207,447
Other	21,213	—
Non-financial assets	**845,877**	**997,763**
Receivables, net	**6,288,802**	**5,624,933**
Receivables impairment allowance	576,800	572,387
Receivables, gross	**6,865,602**	**6,197,320**

As at 31 December 2010 and as at 31 December 2009 trade and other receivables denominated in foreign currencies amounted to PLN 3,012,189 thousand and PLN 2,492,442, respectively. Detailed information about receivables from related parties is disclosed in note 37.

Change in impairment allowances of trade and other receivables

	for the year ended 31.12.2010	for the year ended 31.12.2009
Beginning of the period	572,387	564,262
Recognition	112,956	161,794
Reversal	(91,967)	(112,240)
Usage	(17,689)	(39,086)
Other	(165)	1,668
Foreign exchange differences	1,278	(4,011)
	576,800	**572,387**

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

16. OTHER SHORT-TERM FINANCIAL ASSETS

	as at 31.12.2010	as at 31.12.2009
Cash flow hedge instruments	175,498	81,666
foreign currency forwards (operating exposure)	34,314	46,439
foreign currency forwards (investing exposure)	728	13,812
interest rate swaps	—	21,415
commodity swaps	140,456	—
Derivatives not designated as hedge accounting	3,002	41,279
foreign currency forwards	1,662	6,511
interest rate swaps	885	563
foreign currency swap	415	18,304
other	40	15,902
Embedded derivatives	1,026	1,929
foreign currency swap	1,026	1,929
Bonds/other debt securities	34,876	55,852
Loans granted	5,710	32
Other	4,489	247
	224,601	**181,005**

17. CASH AND CASH EQUIVALENTS

	as at 31.12.2010	as at 31.12.2009
Cash on hand and in bank	2,757,599	2,890,883
Other cash (incl. cash in transit)	63,143	35,410
Other monetary assets	—	14,746
	2,820,742	**2,941,039**
incl. restricted cash	68,289	24,459

Restricted cash refers mainly to blocked funds on bank accounts due to guarantees granted.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

18. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	as at 31.12.2010	as at 31.12.2009
Shares	3,388	17,041
Items of non-current assets	29,019	15,137
Items of current assets	9,242	—
	41,649	**32,178**

As at 31 December 2010 and 31 December 2009 items of non-current assets classified as held for sale comprise mainly buildings and constructions, land, machinery and equipment and vehicles.

As at 31 December 2010 and as at 31 December 2009 the impairment allowances of non-current assets classified as held for sale amounted to PLN 9,753 thousand and PLN 4,404 thousand, respectively.

19. SHAREHOLDERS' EQUITY

19.1. Share capital

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2010 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 2010 and 31 December 2009 consisted of the following series of shares:

	Number of shares issued		Number of shares authorized	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
A Series	336,000,000	336,000,000	336,000,000	336,000,000
B Series	6,971,496	6,971,496	6,971,496	6,971,496
C Series	77,205,641	77,205,641	77,205,641	77,205,641
D Series	7,531,924	7,531,924	7,531,924	7,531,924
	427,709,061	**427,709,061**	**427,709,061**	**427,709,061**

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

As at 31 December 1996, in accordance with IAS 29.24 and 29.25 the share capital and share premium were revalued on a basis of monthly general price indices by PLN 691,802 thousand (PLN 522,999 thousand concerning revaluation of share capital and PLN 168,803 thousand concerning revaluation of share premium) and presented as share capital revaluation adjustment and share premium revaluation adjustment (note 19.3).

	as at 31.12.2010	as at 31.12.2009
Share capital	534,636	534,636
Share capital revaluation adjustment	522,999	522,999
	1,057,635	**1,057,635**

19.2. Capital management policy

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

The Management Board monitors on the Group the level following ratios:

- equity debt ratio (net financial leverage) which is calculated as a ratio of average debt ratio to average equity. As at 31 December 2010 and 31 December 2009 Group financial leverage amounted to 39.4% and 54.0%, respectively;
- net debt ratio to earnings before interest, taxes, depreciation and amortisation plus dividends from Polkomtel S.A. As at 31 December 2010 and as at 31 December 2009 this ratio for the Group amounted to 1.38 and 2.52, respectively;
- dividend per ordinary shares – dividend amount depends on current finance condition of the Group. Detailed description of dividends policy is disclosed in note 19.7.

19.3. Share premium

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

	as at 31.12.2010	as at 31.12.2009
Nominal share premium	1,058,450	1,058,450
Share premium revaluation adjustment	168,803	168,803
	1,227,253	**1,227,253**

19.4. Retained earnings

	as at 31.12.2010	as at 31.12.2009
Reserve capital	16,173,572	14,812,694
Other capital	883,740	883,740
Net profit for the period	2,371,358	1,308,521
	19,428,670	**17,004,955**

19.5. Other equity items

19.5.1. Hedging reserve

The amount of the hedging reserve results from valuation and settlement of derivatives meeting the requirements of cash flows hedge accounting.

19.5.2. Revaluation reserve

The difference between the fair value and the acquisition cost of assets available for sale, netted by deferred tax, 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.

19.5.3. Foreign exchange differences on subsidiaries from consolidation

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net investment hedge in a foreign operation, are also recognised in this position. Detailed information in case of hedge accounting of net investment in foreign entity is presented in note 32.6.

19.6. Equity attributable to non-controlling interest

	as at 31.12.2010	as at 31.12.2009
Capital Group of Unipetrol	2,118,726	2,040,319
Capital Group of Anwil	233,353	337,488
Capital Group of Rafineria Trzebinia	55,272	95,999
Capital Group of Rafineria Nafty Jedlicze	34,625	33,310
Inowrocławskie Kopalnie Soli "Solino" S.A.	41,833	38,279
Petrolot Sp. z o.o.	34,240	31,948
Other equity holders/non-controlling interest	93,966	91,965
	2,612,015	**2,669,308**

19.7. Suggested distribution of the Parent Company's profit for 2010

The Dividend Policy of PKN ORLEN S.A. assumes setting recommended dividend in relation to free cash flows 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 2010 (all amounts in PLN thousand)

Considering current debt level, working capital initiatives and planned development investments, the FCFE ratio is negative. The Management Board proposes to distribute the net profit for the year 2010 of PLN 2,357,127,065.35 to reserve capital of the Company.

19.8. Distribution of the Parent Company's profit for 2009

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 art. 7 point 3 of Company's Articles of Association, the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, has decided to distribute the net profit for 2009 of PLN 1,635,885,461.24 to the Company's reserve capital.

20. INTEREST-BEARING LOANS AND BORROWINGS

	Long-term		Short-term		Total	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Bank loans	7,662,239	9,927,045	1,289,840	1,342,948	8,952,079	11,269,993
Borrowings	345,134	547,976	215,225	212,709	560,359	760,685
Debt securities	1,116,614	1,135,511	38,675	38,038	1,155,289	1,173,549
	9,123,987	**11,610,532**	**1,543,740**	**1,593,695**	**10,667,727**	**13,204,227**

20.1. Bank loans

- by currency (translated into PLN)

	as at 31.12.2010	as at 31.12.2009
PLN	201,491	805,206
EUR	3,777,860	5,692,169
USD	4,925,289	4,656,226
CZK	46,196	106,856
LTL	1,243	9,536
	8,952,079	**11,269,993**

- by interest rate

	as at 31.12.2010	as at 31.12.2009
WIBOR	201,491	805,206
LIBOR	4,925,289	4,656,226
EURIBOR	3,777,860	5,692,169
PRIBOR	46,196	106,856
VLIBOR	1,243	9,536
	8,952,079	**11,269,993**

The PKN ORLEN S.A. Capital Group bases its financing on floating interest rate. Depending on the currency of financing these are 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 amortisation and dividend from Polkomtel S.A.).

At the end of reporting period unused credit lines exceeded short term liabilities less current receivables and cash and cash equivalents by PLN 3,178,486 thousand.

As at 31 December 2010 and 31 December 2009 bank loans of PLN 404,090 thousand and PLN 454,942 thousand, respectively, were pledged on the Group's assets.

As at 31 December 2010 and as at 31 December 2009 there were no cases of violations of loans repayment nor breaches of covenants.

In the period covered by these consolidated financial statements, as well as after the reporting period end, there were no cases of violations of principal or interest payment nor breaches of other terms of agreements (covenants).

20.2. Borrowings

- by currency (translated into PLN)

	as at 31.12.2010	as at 31.12.2009
PLN	20,773	22,909
USD	539,586	737,776
	560,359	**760,685**

- borrowings by interest rate

	as at 31.12.2010	as at 31.12.2009
WIBOR	20,773	22,909
Fixed interest rate	539,586	737,776
	560,359	**760,685**

As at 31 December 2010 and 31 December 2009 borrowings of PLN 43,237 thousand and PLN 44,853 thousand, respectively, were pledged on the Group's assets.

During the period covered by these consolidated financial statements, as well as after the reporting period end, there were no cases of violations of borrowings repayment (principal or interest) nor breaches of other terms of agreements (covenants).

20.3. Debt securities

- by currency (translated into PLN)

	as at 31.12.2010	as at 31.12.2009
PLN	761,064	762,087
CZK	394,225	411,462
	1,155,289	**1,173,549**

- by interest rate

	Long-term fixed rate bonds		Long-term floating rate bonds	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Nominal value	316,000	310,800	750,000	750,000
Carrying amount	394,225	411,462	761,064	762,087
Expiration date	2013-12-28	2013-12-28	2012-02-27	2012-02-27

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

21. PROVISIONS

	Long-term		Short-term		Total	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Environmental provision	329,033	335,263	36,101	37,365	365,134	372,628
Jubilee and post-employment benefits provision	242,475	229,831	33,315	31,700	275,790	261,531
Business risk provision	40,402	63,917	80,006	78,256	120,408	142,173
Shield programs provision	—	—	41,426	51,369	41,426	51,369
Provision for CO_2 emission	—	—	644,703	588,869	644,703	588,869
Other	23,708	32,910	166,877	59,558	190,585	92,468
	635,618	**661,921**	**1,002,428**	**847,117**	**1,638,046**	**1,509,038**

Change in provisions in 2010

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2010	372,628	261,531	142,173	51,369	588,869	92,468	1,509,038
Recognition	31,297	46,458	20,524	4,309	667,531	157,644	927,763
Reclassification	—	(163)	—	—	—	163	—
Usage	(17,176)	(24,402)	(3,336)	(13,456)	(586,160)	(52,361)	(696,891)
Reversal	(22,063)	(6,783)	(36,916)	(1,422)	(18,895)	(15,657)	(101,736)
Foreign exchange differences	448	(851)	(2,037)	626	(6,642)	8,328	(128)
31 December 2010	**365,134**	**275,790**	**120,408**	**41,426**	**644,703**	**190,585**	**1,638,046**

Change in provisions in 2009

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2009	391,709	283,988	638,912	90,028	—	95,710	1,500,347
Recognition	8,502	34,331	91,568	11,898	588,869	32,879	768,047
Reclassification	—	—	(710)	—	—	710	—
Usage	(17,948)	(33,015)	(558,752)	(50,775)	—	(25,717)	(686,207)
Reversal	(8,719)	(23,661)	(28,325)	(1,317)	—	(9,696)	(71,718)
Foreign exchange differences	(916)	(112)	(520)	1,535	—	(1,418)	(1,431)
31 December 2009	**372,628**	**261,531**	**142,173**	**51,369**	**588,869**	**92,468**	**1,509,038**

21.1. Environmental provision

The Group has legal obligation to clean contaminated land – water environment in the area of:

- plants located in Poland and Lithuania,
- petrol stations, fuel warehouses located In Poland and Germany.

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 best estimate based on the average level of costs necessary to remove contamination by facilities.

The Government of the Czech Republic is responsible for liabilities arising from contamination of land-water environment before date of entity's privatization (so called Old Ecological Burdens). In case of new contamination that arose after date of the entity's privatization the company is responsible for those liabilities and in such situations provisions are provided in adequate amount on the basis of analysis of the independent experts.

The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

In 2010 the value of environmental provision decreased mainly due to the update of following assumptions: petrol stations cleaning unit cost, the frequency ratio, contaminated soil cleaning ratio, the quantity and volume of contaminated land and the discount rate. Should previous assumptions be used, environmental provision would be lower by PLN 8,696 thousand.

21.2. Provision for jubilee bonuses and post-employment benefits

The companies of the 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 as well as other post-employment benefits. Provision for jubilee bonuses and post-employment benefits are calculated individually for each employee. The base for the calculation of provision for an employee is expected benefit, which the Group is obliged to pay in accordance with internal regulation. 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 depend on the number of years of service and an employee's remuneration. 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.

Change in employee benefits obligations in 2010

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2010	147,045	114,486	261,531
Current service cost	8,614	4,590	13,204
Interest expense	7,700	6,803	14,503
Actuarial gains	11,200	1,869	13,069
Benefits paid	(18,720)	(7,566)	(26,286)
Past service cost	241	56	297
Other	(903)	375	(528)
31 December 2010	155,177	120,613	275,790

Change in employee benefits obligations in 2009

	Jubilee bonuses provisions	Post-employment benefits	Total
1 January 2009	162,617	121,371	283,988
Current service cost	8,507	5,295	13,802
Interest expense	7,959	6,883	14,842
Actuarial gains	(8,192)	(8,719)	(16,911)
Benefits paid	(23,007)	(11,943)	(34,950)
Past service cost	11	12	23
Other	(850)	1,587	737
31 December 2009	147,045	114,486	261,531

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2010 and 31 December 2009.

As at	Present value of the above mentioned employee benefits obligation
31.12.2010	275,790
31.12.2009	261,531
31.12.2008	283,988
31.12.2007	260,271
31.12.2006	215,814

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

Total expense recognised in profit or loss

	for the year ended 31.12.2010	for the year ended 31.12.2009
Current service cost	13,204	13,802
Interest expense	14,503	14,842
Actuarial gains/(losses)	13,069	(16,911)
Past service cost	297	23
Other	(528)	737
	40,545	**12,493**

In 2010 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be higher by PLN 1,755 thousand.

For updating the provision at as at 31 December 2010 the Group adopted the following actuarial assumptions:
- discount rate: 5.5%;
- expected inflation rate: 2.5%;
- remuneration increase rates: from 3.79% in 2011 up to 2.17% in 2014; 1.50% in years 2015–2020 and 2.5% in following years.

Costs of benefits are presented in the following lines of the statement of comprehensive income

	for the year ended 31.12.2010	for the year ended 31.12.2009
General and administrative expenses	29,210	9,536
Distribution expenses	6,719	41
Cost of sales	3,097	2,081
Other operating expenses	1,058	1,121
Other operating revenues	1,293	(1,044)
Change in Group structure	—	758
Foreign exchange differences	(832)	—
	40,545	**12,493**

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

21.3. Business risk provision

A decrease of business risk provision in 2010 results mainly from revision of status of administrative and court proceedings concerning the to perpetual usufruct of land.

21.4. Shield programs provision

Employee shield programs were launched to support the restructuring process conducted in the Group. The programs provide additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process.

Employees, who agreed to change the workplace, are entitled to receive the relocation package comprising relocation bonus and refund of relocation costs.

In 2010 the value of shield programs provision changed as a result of an update of assumptions, which influenced the average benefit cost and different number of employees entitled to restructuring program. Should the prior year assumptions be used, the shield programs provision would be higher by PLN 11,997 thousand.

21.5. CO_2 emission provision

The Group recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision in the consolidated profit or loss is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. Detailed description is disclosed in note 2.3.8.2 and note 32.7.

21.6. Other provisions

The increase of other provisions in 2010 by PLN 98,120 thousand is mainly the result of an update of estimates regarding risks connected with proceedings led by the Office for Competition and Consumer Protection – detailed information has been disclosed in note 41.

22. OTHER LONG-TERM LIABILITIES

	as at 31.12.2010	as at 31.12.2009
Derivatives not designated as hedge accounting	3,414	5,555
interest rate swaps	3,414	5,555
Investment liabilities	1,474	1,902
Financial lease	65,811	70,525
Guarantees granted	14,408	14,357
Financial liabilities	85,107	92,340
Non-financial liabilities	4,568	5,365
	89,675	97,705

23. TRADE AND OTHER LIABILITIES

	as at 31.12.2010	as at 31.12.2009
Trade liabilities	9,130,835	7,130,654
Investment liabilities	880,499	1,214,824
Dividend liabilities	5,441	5,719
Finance lease liabilities	26,095	28,951
Uninvoiced services	62,813	63,660
Other	82,195	80,101
Financial liabilities	10,187,878	8,523,909
Prepayments for deliveries	49,373	32,095
Payroll liabilities	200,023	194,710
Environmental liabilities	11,892	9,646
Special funds	19,652	19,347
Excise tax and fuel charge	1,574,267	1,561,697
Value added tax	1,018,359	791,151
Other taxation, duties, social security and other benefits	87,320	96,572
Accruals	287,234	265,415
Holiday pay accrual	48,378	48,376
Customers' discounts and rebates	78,637	64,174
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	160,219	152,865
Non-financial liabilities	3,248,120	2,970,633
	13,435,998	11,494,542

Trade and other liabilities denominated in foreign currencies as at 31 December 2010 and 31 December 2009 amounted to PLN 9,614,535 thousand and PLN 9,429,566 thousand, respectively.

As at 31 December 2010 and as at 31 December 2009 trade and other liabilities of PLN 86,135 thousand and PLN 68,983 thousand, respectively, were pledged on the Group's assets.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

24. DEFERRED INCOME

	as at 31.12.2010	as at 31.12.2009
Long-term accruals	16,960	16,855
Government grants	16,691	12,308
Other	269	4,547
Short-term accruals	74,959	80,519
Government grants	1,842	6,312
Unsettled points in loyalty program VITAY	61,537	64,565
Other	11,580	9,642
	91,919	97,374

VITAY is a loyalty program created for individual customers, operating 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 recognised with regard to the unrealized amount of points recorded on customers' accounts and adjusts sales of finished goods. The deferred income is estimated on the basis of proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

24.1. Government grants

As at 31 December 2010 and as at 31 December 2009 government grants received from National Environmental Protection Fund and European Regional Development Fund amounted to PLN 18,533 thousand and PLN 18,621 thousand, respectively.

25. OTHER FINANCIAL LIABILITIES

	as at 31.12.2010	as at 31.12.2009
Cash flow hedge instruments	98,263	52,417
foreign currency forwards (operating exposure)	3,095	6,193
foreign currency forwards (investing exposure)	—	7,371
interest rate swaps	95,168	38,853
Derivatives not designated for hedge accounting	29,060	24,025
foreign currency forwards	12,551	502
interest rate swaps	4,554	11,046
foreign currency – interest rate swap	11,955	12,476
Embedded derivatives	1,314	40,826
foreign currency swap	1,314	40,826
Other	15,886	206
	144,523	117,474

26. SALES REVENUES

	for the year ended 31.12.2010	for the year ended 31.12.2009
Sales of finished goods	62,975,218	50,039,509
Sales of services	1,538,707	1,404,486
Revenues from sales of finished goods and services, net	64,513,925	51,443,995
Sales of merchandise	17,085,722	16,186,628
Sales of raw materials	1,947,785	297,367
Revenues from sales of merchandise and raw materials, net	19,033,507	16,483,995
	83,547,432	67,927,990

27. OPERATING EXPENSES

Cost of sales

	for the year ended 31.12.2010	for the year ended 31.12.2009
Cost of finished goods and services sold	(57,665,333)	(46,820,284)
Cost of merchandise and raw materials sold	(17,901,628)	(15,022,992)
	(75,566,961)	(61,843,276)

Costs by kind

	for the year ended 31.12.2010	for the year ended 31.12.2009
Materials and energy	(54,438,067)	(43,380,026)
Cost of merchandise and raw materials sold	(17,901,628)	(15,022,992)
External services	(3,712,213)	(3,699,892)
Payroll, social security and other employee benefits	(1,991,488)	(2,003,670)
Depreciation and amortisation	(2,422,747)	(2,562,221)
Taxes and charges	(414,461)	(421,907)
Other	(1,239,838)	(1,634,767)
	(82,120,442)	(68,725,475)
Change in inventories	738,373	480,187
Cost of products and services for own use	185,965	156,040
Operating expenses	(81,196,104)	(68,089,248)
Distribution expenses	3,394,612	3,507,700
General and administrative expenses	1,365,195	1,504,707
Other operating expenses	869,336	1,233,565
Cost of finished goods, merchandise and raw materials sold	**(75,566,961)**	**(61,843,276)**

In 2010 and 2009 external services included research expenditures of PLN 15,985 thousand and PLN 12,047 thousand, respectively.

Employee benefits costs

	for the year ended 31.12.2010	for the year ended 31.12.2009
Payroll expenses	(1,579,573)	(1,588,453)
Future benefits expenses	(5,086)	(2,110)
Social security expenses	(319,043)	(350,374)
Other employee benefits expenses	(87,786)	(62,733)
	(1,991,488)	(2,003,670)

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

28. OTHER OPERATING REVENUES AND EXPENSES

28.1. Other operating revenues

	for the year ended 31.12.2010	for the year ended 31.12.2009
Profit on sale of non-current non-financial assets	114,798	773,714
Reversal of provisions	66,941	46,714
Reversal of receivables impairment allowances	77,342	99,140
Reversal of impairment allowances of property, plant and equipment and intangible assets	106,291	184,153
Penalties and compensations earned	127,233	58,386
Grants	110,634	1,101
Other	168,082	95,126
	771,321	**1,258,334**

As a consequence of sale of CO_2 emission rights in the year ended 31 December 2010 and 31 December 2009 the line profit from sale of non-financial non-current assets included PLN 39,552 thousand and PLN 717,177 thousand, respectively.

Other operating revenues due to grants received concerns mainly to revenues from reduction of nitrous suboxides emission in Anwil S.A. Detailed description is disclosed in note 2.3.

28.2. Other operating expenses

	for the year ended 31.12.2010	for the year ended 31.12.2009
Loss on sale of non-current non-financial assets	(30,585)	(50,579)
Recognition of provisions	(189,167)	(696,427)
Recognition of receivables impairment allowances	(97,693)	(152,971)
Recognition of impairment allowance for useless materials	(14,714)	(860)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(376,510)	(118,120)
Costs and losses on removal of damages and breakdowns	(53,025)	(19,055)
Other	(107,642)	(195,553)
	(869,336)	**(1,233,565)**

In 2010 the Group changed presentation of provision for estimated CO_2 emissions in the reporting period. Detailed information is disclosed in note 2.2.3.

Detailed description of impairment allowances is disclosed in notes 6, 8, 14 and 15.

29. FINANCIAL REVENUES AND EXPENSES

29.1. Financial revenues

	for the year ended 31.12.2010	for the year ended 31.12.2009
Interest	62,014	58,799
Foreign exchange gain	237,904	679,407
Profit from sale of shares and other securities	13,185	316
Decrease in receivables impairment allowances	14,625	13,100
Settlement and valuation of financial instruments	96,008	330,222
Reversal of investment impairment allowances	1,370	2,626
Other	21,648	9,805
	446,754	**1,094,275**

29.2. Financial expenses

	for the year ended 31.12.2010	for the year ended 31.12.2009
Interest	(386,697)	(463,148)
Foreign exchange loss	(254,421)	(183,348)
Loss on sale of shares and other securities	—	(41)
Increase in receivables impairment allowances	(15,263)	(8,823)
Settlement and valuation of financial instruments	(57,650)	(318,219)
Investment impairment allowances	(1,220)	(870)
Other	(35,997)	(48,625)
	(751,248)	**(1,023,074)**

According to IAS 23, 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 2010 and in the year ended 31 December 2009 amounted to PLN 156,727 thousand and PLN 126,367 thousand, respectively. In 2010 and in 2009 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.14% per annum and 3.52% per annum, respectively.

30. INCOME TAX EXPENSE

	for the year ended 31.12.2010	for the year ended 31.12.2009
Current income tax	(503,823)	(331,702)
Deferred income tax	(110,877)	191,217
	(614,700)	**(140,485)**

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

	for the year ended 31.12.2010	for the year ended 31.12.2009
Profit before tax	3,070,167	1,440,652
Corporate income tax for 2010 and 2009 by the valid tax rate (19% in Poland)	(583,332)	(273,724)
Differences between tax rates	(22,286)	(2,433)
Lithuania (15%)	(14,278)	5,168
Czech Republic (2009: 20%; 2010: 19%)	—	2,557
Germany (29%)	(8,008)	(10,158)
Valuation of entities accounted for under the equity method	47,515	51,247
Tax losses	94	6,781
Non-deductible provisions	(10,848)	(14,506)
Other	(45,843)	92,150
Income tax expense	**(614,700)**	**(140,485)**
Effective tax rate	**20%**	**10%**

The line other in 2010 includes the effect of revaluation of tax value of non-monetary assets in Orlen Lietuva due to changes in LTL/USD exchange rates of PLN (45,436) thousand, whereas in 2009 in line other the Group recognised the effect of revaluation of deferred tax of PLN 55,270 thousand resulting from the change of tax rates used in Lithuania.

30.2. Deferred tax

As at 31 December 2010 and 31 December 2009 deferred tax assets amounted to PLN 163,893 thousand and PLN 290,820 thousand, respectively, while deferred tax liabilities amounted to PLN 818,581 thousand and PLN 836,330 thousand, respectively.

Deferred tax assets are presented net with deferred tax liabilities in the financial statements of Group companies.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

	as at 31.12.2010	as at 31.12.2009
Deferred tax assets		
Assets allowances	69,830	554,746
Provisions and accruals	304,777	298,922
Unrealized foreign exchange losses	208,993	179,294
Difference between carrying amount and tax base of property, plant and equipment	61,786	93,721
Tax loss	157,056	237,213
Financial instruments valuation	—	10,920
Other	52,293	43,890
	854,735	**1,418,706**
Deferred tax liabilities		
Investment relief	74,260	82,685
Difference between carrying amount and tax base of property, plant and equipment	1,329,877	1,787,653
Difference in contribution in kind	42,870	42,870
Finance lease trated as operating for tax purposes	9,544	13,688
Financial instruments valuation	10,075	—
Other	42,797	37,320
	1,509,423	**1,964,216**
Deferred tax liability, net	**654,688**	**545,510**

As at 31 December 2010 and as at 31 December 2009 the Group possessed unsettled tax losses amounting to PLN 11,261 thousand and PLN 133,260 thousand respectively, for which no deferred tax asset was recognised.

30.3. Change in deferred tax liabilities, net

	as at 31.12.2010	as at 31.12.2009
Beginning of the period	545,510	649,324
Deferred tax recognised in the income statement	110,877	(191,217)
Deferred tax recognised in other comprehensive income	(13,667)	65,511
Foreign exchange differences	11,968	21,892
	654,688	**545,510**

31. EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

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

	as at 31.12.2010	as at 31.12.2009
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	(666,052)	987,747
Change in invesment receivables	(109,834)	(378,689)
advances for construction in progress	(119,677)	(368,166)
investment receivables from sale of non-current non-financial assets	9,843	(10,523)
Change in the Capital Group structure	—	3,478
Change in receivables transfered to non-current assets classified as held for sale	—	(14,969)
Change in prepayments regarding bank commisions	(22,373)	42,175
Foreign exchange differences	10,006	20,296
Other	(10,893)	(4,701)
Change in receivables in the statement of cash flows	**(799,146)**	**655,338**
Change in inventories presented in the statement of financial position	(674,992)	(1,530,812)
Foreign exchange differences	59,032	(79,066)
Reclassifications of inventories from/to property, plant and equipment and non-current assets held for sale	6,979	(53,027)
Other	—	226
Change in inventories in the statement of cash flows	**(608,981)**	**(1,662,679)**
Change in trade and other liabilities presented in the statement of financial position	1,933,426	3,109,242
Change in investment liabilities	331,095	(408,560)
Change in financial liabilitiesdividend	7,848	30,130
liabilities	278	(4,634)
lease liabilities	7,570	34,764
Change in the Capital Group structure	—	(7,508)
Foreign exchange differences	884	93,054
Other	9,423	4,598
Change in liabilities in the statement of cash flows	**2,282,677**	**2,820,956**
Change in provisions presented in the statement of financial position	129,008	8,691
Change in the Capital Group structure	1,837	(1,981)
Usage of prior year provision for CO_2 emission rights	588,869	—
Foreign exchange differences	(4,396)	(8,796)
Other	(241)	—
Change in provisions in the statement of cash flows	**715,077**	**(2,086)**

In cash flows from operating activities for 2010, PLN (762,383) thousand has been presented in line other, relating mainly to change in:

- deferred income relating to investing activities as a result of CO_2 emission rights granted free of charge amounting to PLN (798,702) thousand,
- receivables/liabilities relating to derivatives not designated as hedge accounting amounting to PLN 23,996 thousand.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

32. FINANCIAL INSTRUMENTS

32.1. Financial instruments by category and class

Financial assets

as at 31 December 2010

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note						
Quoted shares	11	—	—	—	1,151	—	1,151
Unquoted shares	11	—	—	—	41,632	—	41,632
Bonds/other debt securities	16	—	—	34,876	—	—	34,876
Trade receivables	15	—	5,296,717	—	—	—	5,296,717
Receivables from sale of non-current non-financial assets	15	—	13,673	—	—	—	13,673
Loans granted	12, 16	—	41,066	—	—	—	41,066
Embedded derivatives and hedging instruments	16	4,064	—	—	—	175,462	179,526
Cash and cash equivalents	17	—	2,820,742	—	—	—	2,820,742
Other	12, 15, 16	—	142,007	—	—	—	142,007
		4,064	8,314,205	34,876	42,783	175,462	8,571,390

as at 31 December 2009

		Financial instruments by category					
		Financial assets at fair value through profit or loss	Loans and receivables	Financial assets held to maturity	Financial assets available for sale	Hedging financial instruments	Total
Financial instruments by class	Note						
Quoted shares	11	—	—	—	869	—	869
Unquoted shares	11	—	—	—	58,764	—	58,764
Bonds/other debt securities	16	—	—	55,852	—	—	55,852
Trade receivables	15	—	4,491,501	—	—	—	4,491,501
Receivables from sale of non-current non-financial assets	15	—	3,830	—	—	—	3,830
Loans granted	12, 16	—	34,999	—	—	—	34,999
Embedded derivatives and hedging instruments	16	43,208	—	—	—	81,666	124,874
Cash and cash equivalents	17	—	2,941,039	—	—	—	2,941,039
Other	12, 15, 16	—	141,064	—	—	—	141,064
		43,208	7,612,433	55,852	59,633	81,666	7,852,792

Financial liabilities

as at 31 December 2010

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	Note					
Debt securities	20	—	1,155,289	—	—	1,155,289
Loans	20	—	8,952,079	—	—	8,952,079
Borrowings	20	—	560,359	—	—	560,359
Finance lease	22, 23	—	—	—	91,906	91,906
Trade liabilities	23	—	9,130,835	—	—	9,130,835
Investment liabilities	22, 23	—	881,973	—	—	881,973
Embedded derivatives and hedging instruments	22, 25	33,788	—	98,263	—	132,051
Other	22, 23, 25	—	180,743	—	—	180,743
		33,788	**20,861,278**	**98,263**	**91,906**	**21,085,235**

as at 31 December 2009

		Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortized cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Financial instruments by class	Note					
Debt securities	20	—	1,173,549	—	—	1,173,549
Loans	20	—	11,269,993	—	—	11,269,993
Borrowings	20	—	760,685	—	—	760,685
Finance lease	22, 23	—	—	—	99,476	99,476
Trade liabilities	23	—	7,130,654	—	—	7,130,654
Investment liabilities	22, 23	—	1,216,726	—	—	1,216,726
Embedded derivatives and hedging instruments	22, 25	70,406	—	52,417	—	122,823
Other	22, 23, 25	—	164,043	—	—	164,043
		70,406	**21,715,650**	**52,417**	**99,476**	**21,937,949**

32.2. Gains/(Losses) due to financial instruments recognised in financial revenues and expenses by category

	for the year ended 31.12.2010	for the year ended 31.12.2009
Financial assets and liabilities at fair value through profit or loss	74,265	102,418
Loans and receivables	(94,706)	(31,695)
Financial assets held to maturity	2,993	—
Financial assets available for sale	32,324	382,751
Financial liabilities measured at amortized cost	(300,056)	(285,358)
Hedging financial instruments	(13,546)	(90,451)
Assets and liabilities excluded from IAS 39	(5,768)	(6,464)
	(304,494)	**71,201**

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

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

	for the year ended 31.12.2010	for the year ended 31.12.2009
Quoted shares	(254)	(273)
Unquoted shares	(966)	(597)
Trade receivables	(15,263)	(8,823)
	(16,483)	**(9,693)**

Impairment allowances of receivables were disclosed in the note 11 and 28.

32.4. Fair value of financial instruments

	as at 31.12.2010		as at 31.12.2009	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Quoted shares	1,151	1,151	869	869
Unquoted shares	not applicable	41,632	not applicable	58,764
Bonds and other debt securities	34,665	34,876	55,852	55,852
Trade receivables	5,296,717	5,296,717	4,491,501	4,491,501
Receivables from sale of non-current non-financial assets	13,673	13,673	3,830	3,830
Loans granted	43,403	41,066	34,887	34,999
Embedded derivatives and hedging instruments	179,526	179,526	124,874	124,874
Cash and cash equivalents	2,820,742	2,820,742	2,941,039	2,941,039
Other	137,520	142,007	140,643	141,064
	8,527,397	**8,571,390**	**7,793,495**	**7,852,792**
Financial liabilities				
Debt securities issued	1,197,053	1,155,289	1,206,947	1,173,549
Loans	8,945,948	8,952,079	11,306,383	11,269,993
Borrowings	573,885	560,359	748,576	760,685
Finance lease	79,419	91,906	91,364	99,476
Trade liabilities	9,130,835	9,130,835	7,130,654	7,130,654
Investment liabilities	881,973	881,973	1,216,726	1,216,726
Embedded derivatives and hedging instruments	132,051	132,051	122,823	122,823
Other	180,743	180,743	169,039	164,043
	21,121,907	**21,085,235**	**21,992,512**	**21,937,949**

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2010 and 31 December 2009 the Group held unquoted shares in entities amounting to PLN 41,632 thousand and PLN 58,764 thousand respectively, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognised as financial assets available for sale and measured at acquisition cost less impairment allowances. As at the period end there are no binding decisions relating to ways and dates of disposure of those assets.

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

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

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

Fair value hierarchy

	Note	as at 31.12.2010		as at 31.12.2009	
		Level 1	Level 2	Level 1	Level 2
Financial assets					
Quoted shares	11	1,151	—	869	—
Embedded derivatives and hedging instruments	16	—	179,526	—	124,874
		1,151	**179,526**	**869**	**124,874**
Financial liabilities					
Embedded derivatives and hedging instruments	22, 25	—	132,051	—	122,823
		—	**132,051**	**—**	**122,823**

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

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

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as loans liabilities and other financial instruments are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates (as at 31 December 2010 and 31 December 2009 according to quotations of 1-month and 3-months interest rates, respectively) increased by margins proper for particular financial instruments.

	as at 31.12.2010	as at 31.12.2009
WIBOR	3.6600%	4.2700%
EURIBOR	0.7820%	0.7000%
LIBOR	0.2606%	0.2506%
PRIBOR	0.9900%	1.5400%
VILIBOR	1.0500%	3.9000%

32.5. Financial assets pledged as collateral for liabilities or contingent liabilities

	as at 31.12.2010	as at 31.12.2009
Cession of receivables	359,489	278,609
Cash in bank pledged as collateral	92,538	134,787

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.

32.6. 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 rates (EUR/PLN for sale and USD/PLN for purchases and sale). The Group hedges also cash flows from investment projects against changes in exchange rates (EUR/PLN, JPY/PLN). Foreign exchange forwards are used as hedging instruments.

The Group hedges its cash flows from crude oil settlements using commodity swaps.

Additionally, the Group hedges cash flows from interest payments connected with issuance of bonds in PLN as well as cash flows from interest payments concerning external financing in EUR and USD, using interest rate swaps (IRS).

In case of hedging the exposure with derivative instruments within the period of more than 12 months, application of hedge accounting is obligatory.

Hedging transactions, settlement and fair value measurement which influence the foregoing financial statements were concluded in the years 2007–2010.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

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

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

	as at 31.12.2010	as at 31.12.2009
Planned realization date of hedged cash flows		
Currency operating exposure		
2010	—	40,246
2011	31,216	—
Interest rate exposure		
until 1Q 2012	(7,132)	(5,154)
until 1Q 2014	(88,036)	(12,284)
Commodity risk exposure		
1Q 2011	126,092	—
1Q 2012	14,364	—
	76,504	**22,808**

In case of interest rate exposure, the interest rate swap hedging the issue of bonds denominated in PLN is based on 6-month WIBOR, whereas the interest rate swaps hedging loans denominated in EUR and USD are based on 1-month EURIBOR and 1-month LIBOR.

- **fair value which will be included in the initial cost of property, plant and equipment at the realization date, and recognised in the profit or loss through depreciation charges in the following periods:**

	as at 31.12.2010	as at 31.12.2009
Planned realization date of hedged cash flows		
2010 (currency investment exposure)	—	6,440
2011 and following years (currency investment exposure)	728	—
	728	**6,440**

In 2010 as a result of settlement of hedge instruments the amount of PLN 12,876 thousand was recognised and an increase of equity and included:

- in profit or loss as sales of finished goods – PLN 26,369 thousand, in foreign exchange differences surplus – PLN (4,300) thousand and in interest expense – PLN (61 212) thousand, and
- in construction in progress – PLN 52,019 thousand.

In 2009 as a result of settlement of hedge instruments the amount of PLN (214,031) thousand decreased the equity and included:

- in profit or loss of sales of finished goods – PLN (313,143) thousand, in foreign exchange differences surplus – PLN 9,776 thousand, in interest expense – PLN 261 thousand and in financial expenses from the settlement and valuation of financial instruments – PLN (15,364) thousand, and
- in construction in progress – PLN 104,444 thousand.

In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2010 and 2009 amounting to PLN (1,622) thousand and PLN (1,162) thousand, respectively.

Limitations in application of cash flows hedge accounting

For the transactions concluded and settled in the same quarter the Group does not apply hedge accounting. The settlement result is recognised in the current period profit or loss.

As at 31 December 2010 and 31 December 2009 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 applied due to separation of embedded derivatives for these contracts, amounted to PLN 765 thousand and PLN 17,886 thousand, respectively.

Net investment hedge in a foreign operation

Starting from the second quarter of 2008 the Group uses net investment hedges in a foreign. 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 amounting to PLN 489,234 thousand (net of deferred tax) were recognised in other comprehensive income in the line "Foreign exchange differences on subsidiaries from consolidation"

32.7. Financial risk management

The Group is exposed particularly to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk, risk of changes in commodity prices, risk of changes in CO_2 emission rights prices).

Credit risk

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 portion of trade receivables is insured within an organized trade credit insurance program. Trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

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

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

	as at 31.12.2010	as at 31.12.2009
Group I	3,631,698	2,978,780
Group II	1,030,722	897,147
	4,662,420	**3,875,927**

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

	Current receivables		Loans granted	
	as at 31.12.2010	as at 31.12.2009	as at 31.12.2010	as at 31.12.2009
Up to 1 month	702,517	629,167	—	—
1–3 months	21,083	37,578	—	—
3–6 months	8,484	18,349	—	—
6–12 months	9,356	15,659	—	78
Above 1 year	39,065	50,490	—	—
	780,505	**751,243**	**—**	**78**

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.

In order to reduce the risk of recoverability of trade receivables, the Company receives from its customers securities such as: bank and issuance guarantees, blockade of cash on bank accounts, mortgages and bills of exchange.

Credit risk associated with cash and cash equivalents and deposits is assessed by the Group as low.

All entities in which the Group's free cash and cash equivalents are deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit credibility (81% of deposited cash and cash equivalents) or good credibility (19% of deposited cash and cash equivalents).

Rating A-1 in Standard & Poor's, F1 in Fitch and Prime-1 in Moodys are treated as the highest credibility, while A-2 in Standard & Poor's, F2 in Fitch and Prime-2 in Moodys are considered to be good credibility.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

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 factors significant for bank choice is rating on the level not lower than A.

As at 31 December 2010 and 31 December 2009 due to changes in payment terms referring to trade receivables, the Group did not recognise impairment loss of receivables in profit or loss in the amount PLN 528 thousand and PLN 13,409 thousand, respectively.

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure in relation to particular financial assets by category is equal to their carrying amount.

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 disclosed in the note 32.3.

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between short term liabilities and current assets.

As at 31 December 2010 and as at 31 December 2009 current assets to short-term liabilities ratio (current ratio) amounted to 1.28 and 1.37, respectively.

Detailed information regarding loans is disclosed in the note 20.1.

In 2006 the Group entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Group to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. For the Group the cost of gaining cash is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within the domestic and foreign entities of the Group.

In order to optimize financial expenses the Group uses cash pool facility. As at 31 December 2010 the domestic cash pool facility comprised 20 entities belonging to the Group, while cross border cash pool facility comprised 3 foreign entities belonging to the Group.

As at 31 December 2010 and 31 December 2009 the maximum possible indebtedness due to loans amounted to PLN 17,989,434 thousand and PLN 17,029,569 thousand, respectively, of which as at 31 December 2010 and 31 December 2009 PLN 7,685,036 thousand and PLN 4,794,093 thousand respectively remained unused.

Maturity analysis for financial liabilities:

	as at 31.12.2010					
	up to 1 year	1–3 years	3–5 years	above 5 years	Total	Carrying amount
Debt securities	—	1,196,737	—	—	1,196,737	1,155,289
Floating rate bonds – undiscounted value	—	761,366	—	—	761,366	761,064
Fixed rate bonds – undiscounted value	—	435,371	—	—	435,371	394,225
Loans – undiscounted value	1,233,322	7,069,165	14,182	647,145	8,963,814	8,952,079
Borrowings – undiscounted value	216,721	345,134			561,855	560,359
Finance lease	26,095	35,238	12,830	17,743	91,906	91,906
Trade liabilities	9,130,835	—	—	—	9,130,835	9,130,835
Investment liabilities	880,499	1,474	—	—	881,973	881,973
Embedded derivatives and hedging instruments including:	22,932	20,608	88,036	—	131,576	132,051
Gross settled amounts	22,932	13,476	—	—	36,408	36,883
Net settled amounts	—	7,132	88,036	—	95,168	95,168
Other	161,310	15,901	2,792	740	180,743	180,743
	11,671,714	**8,684,257**	**117,840**	**665,628**	**21,139,439**	**21,085,235**

As at 31 December 2010, the line „loans – undiscounted value" includes the amount of PLN 864,526 thousand relating to long-term liabilities reclassified to short-term liabilities due to the fact, that the due date of those loans falls in 2011.

	as at 31.12.2009					
	up to 1 year	1–3 years	3–5 years	above 5 years	Total	Carrying amount
Debt securities	—	762,272	453,026	—	1,215,298	1,173,549
Floating rate bonds – undiscounted value	—	762,272	—	—	762,272	762,087
Fixed rate bonds – undiscounted value	—	—	453,026	—	453,026	411,462
Loans – undiscounted value	1,337,468	9,019,421	40,138	878,021	11,275,048	11,269,993
Borrowings – undiscounted value	212,709	547,976			760,685	760,685
Finance lease	28,947	38,205	12,538	19,786	99,476	99,476
Trade liabilities	7,130,654	—	—	—	7,130,654	7,130,654
Investment liabilities	1,214,824	1,902	—	—	1,216,726	1,216,726
Embedded derivatives and hedging instruments including:	78,330	10,710	33,699	—	122,739	122,823
Gross settled amounts	78,330	5,555	—	—	83,885	83,969
Net settled amounts		5,155	33,699	—	38,854	38,854
Other	147,644	19,130	—	—	166,774	164,043
	10,150,576	**10,399,616**	**539,401**	**897,807**	**21,987,400**	**21,937,949**

Market risks

The Company 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 S.A. Group is performed by entities exposed to the highest risks, i.e. PKN ORLEN, Basell ORLEN Polyolefins, ORLEN Asfalt, Anwil, Unipetrol Group and ORLEN Lietuva.

The PKN ORLEN S.A. Group 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 of PKN ORLEN, the Management Board of PKN ORLEN and the Supervisory Board of PKN ORLEN.

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

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

• Currency risk

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

For USD/PLN exchange rate there is partially a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. 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).

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

Currency structure of financial instruments as at 31 December 2010

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other	Total after conversion to PLN
Financial assets							
Unquoted shares	116	—	189,525	—	—	—	30,403
Bonds/other debt securities	—	11,766	—	—	—	—	34,876
Trade receivables	285,401	172,842	5,489,828	162,409	—	6,685	2,703,290
Receivables from sale of non current non-financial assets	—	—	9,720	—	—	—	1,536
Loans granted	5,442	105	99,614	—	—	3,668	41,066
Embedded derivatives and hedging instruments	3,801	54,503	—	—	19,987	—	177,332
Cash	46,483	353,194	4,371,754	23,643	67,051	27,325	1,982,730
Other	—	32,780	117,266	—	—	—	115,692
	341,243	**625,190**	**10,277,707**	**186,052**	**87,038**	**37,678**	**5,086,925**
Financial liabilities							
Debt securities	—	—	2,495,096	—	—	—	394,226
Loans	953,872	1,662,277	292,992	1,545	—	—	8,750,588
Borrowings	—	182,040	—	—	—	—	539,586
Finance lease	24	—	24,412	—	—	—	3,953
Trade liabilities	51,360	2,168,470	4,207,640	111,319	30,438	11,953	7,436,693
Investment liabilities	5,458	6,339	428,476	—	2,000,540	—	181,004
Embedded derivatives and hedging instruments	15,587	13,067	76,203	—	—	—	112,501
Other	5,663	9,776	120,620	—	—	—	70,463
	1,031,964	**4,041,969**	**7,645,439**	**112,864**	**2,030,978**	**11,953**	**17,489,014**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2010) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

	Influence of financial intruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(542,331)	–15%	542,331
USD/PLN	+15%	(478,133)	–15%	478,133
JPY/PLN	+15%	(9,223)	–15%	9,223
		(1,029,687)		**1,029,687**

	Influence of financial intruments on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(145,942)	–15%	145,942
USD/PLN	+15%	(59,230)	–15%	59,230
JPY/PLN	+15%	6,771	–15%	(6,771)
		(198,401)		**198,401**

	Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation including net investment hedge in foreign entities			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	6,021	–15%	(6,021)
USD/PLN	+15%	(1,066,500)	–15%	1,066,500
CZK/PLN	+15%	76,391	–15%	(76,391)
LTL/PLN	+15%	25,995	–15%	(25,995)
		(958,093)		**958,093**

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(682,252)	–15%	682,252
USD/PLN	+15%	(1,603,863)	–15%	1,603,863
CZK/PLN	+15%	76,391	–15%	(76,391)
JPY/PLN	+15%	(2,452)	–15%	2,452
LTL/PLN	+15%	25,995	–15%	(25,995)
		(2,186,181)		**2,186,181**

The influence of changes in relevant currencies in relation to functional currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2010:

	Sensitivity of a net investment in a foreign operations including hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	73,267	–15%	(73,267)
USD/PLN	+15%	8,364	–15%	(8,364)
CZK/PLN	+15%	901,869	–15%	(901,869)
		983,500		**(983,500)**

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 2010.

Total influence of changes in exchange rates of relevant currencies in relation to functional currency (PLN) on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2010:

	Total influence on other comprehensive income			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(615,006)	–15%	615,006
USD/PLN	+15%	(528,999)	–15%	528,999
CZK/PLN	+15%	901,869	–15%	(901,869)
JPY/PLN	+15%	(2,452)	–15%	2,452
		(244,588)		**244,588**

Currency structure of financial instruments exposed to market risk as at 31 December 2009

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other	Total after conversion to PLN
Financial instruments by class							
Financial assets	—	—	198,346	—	—	—	30,823
Unquoted shares	—	—	359,408	—	—	—	55,852
Bonds/other debt securities	233,872	48,621	5,691,648	—	—	—	2,317,572
Trade receivables	—	—	16,746	—	—	—	2,602
Receivables from sale of non-current non-financial assets	5,156	37	85,830	—	—	—	34,640
Loans granted	7,590	19,965	—	—	447,123	—	101,899
Embedded derivatives and hedging instruments	91,956	242,082	741,018	243,916	103	24,764	1,504,490
Cash and cash equivalents	445	35,278	141,667	—	—	—	124,394
Other	**339,019**	**345,983**	**7,234,663**	**243,916**	**447,226**	**24,764**	**4,172,272**
Financial liabilities							
Debt securities	—	—	2,647,762	—	—	—	411,462
Loans	1,391,121	1,633,776	688,198	8,058	—	—	10,464,787
Borrowings	—	258,842	—	—	—	—	737,776
Finance lease	42	—	36,780	—	—	—	5,891
Trade liabilities	272,590	2,177,488	737,559	—	—	—	7,368,653
Investment liabilities	144	3,963	397,287	—	6,498,365	—	274,406
Embedded derivatives and hedging instruments	15,668	6,075	—	—	220,929	—	88,507
Other	5,526	11,505	1,091,133	—	—	—	157,612
	1,685,091	**4,091,649**	**5,598,719**	**8,058**	**6,719,294**	**—**	**19,509,094**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amounts of financial instruments (as at 31 December 2009) arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency (PLN) on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

	Influence of financial intruments on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(760,774)	–15%	760,774
USD/PLN	+15%	(515,838)	–15%	515,838
JPY/PLN	+15%	(30,109)	–15%	30,109
		(1,306,721)		**1,306,721**

	Influence of financial intruments on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(109,247)	–15%	109,247
USD/PLN	+15%	3,158	–15%	(3,158)
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 including net investments hedge in foreign entities			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	5,159	–15%	(5,159)
USD/PLN	+15%	(938,630)	–15%	938,630
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**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(864,862)	–15%	864,862
USD/PLN	+15%	(1,451,310)	–15%	1,451,310
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 functional currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2009:

	Sensitivity of a net investment in a foreign operations including hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	74,075	–15%	(74,075)
USD/PLN	+15%	176,386	–15%	(176,386)
CZK/PLN	+15%	870,094	–15%	(870,094)
		1,120,555		**(1,120,555)**

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 functional currency (PLN) on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2009.

	Total influence on other comprehensive income			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(795,946)	–15%	795,946
USD/PLN	+15%	(336,294)	–15%	336,294
CZK/PLN	+15%	870,094	–15%	(870,094)
JPY/PLN	+15%	9,318	–15%	(9,318)
		(252,828)		**252,828**

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

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

For other currencies the sensitivity of financial instruments is irrelevant to the Group.

- **Interest rate risk**

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

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

Interest rate structure of financial instruments:

Financial instruments by class	as at 31.12.2010 EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Financial assets						
Bonds/other debt securities	—	34,876	—	—	—	34,876
Loans granted	21,552	311	15,739	—	3,464	41,066
Embedded derivatives and hedging instruments	15,053	162,281	—	—	2,192	179,526
	36,605	**197,468**	**15,739**	**—**	**5,656**	**255,468**
Financial liabilities						
Debt securities	—	—	—	—	761,064	761,064
Loans	3,777,860	4,925,289	46,196	1,243	201,491	8,952,079
Borrowings	—	—	—	—	20,773	20,773
Embedded derivatives and hedging instruments	61,729	38,732	12,040	—	19,550	132,051
	3,839,589	**4,964,021**	**58,236**	**1,243**	**1,002,878**	**9,865,967**

Financial instruments by class	as at 31.12.2009 EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	TOTAL
Financial assets						
Bonds/other debt securities	—	—	55,852	—	—	55,852
Loans granted	21,182	104	13,338	—	375	34,999
Embedded derivatives and hedging instruments	31,181	70,718	—	—	22,975	124,874
	52,363	**70,822**	**69,190**	**—**	**23,350**	**215,725**
Financial liabilities						
Debt securities	—	—	—	—	762,087	762,087
Loans	5,692,169	4,656,226	106,856	9,536	805,206	11,269,993
Borrowings	—	—	—	—	22,909	22,909
Embedded derivatives and hedging instruments	64,367	24,140	—	—	34,316	122,823
	5,756,536	**4,680,366**	**106,856**	**9,536**	**1,624,517**	**12,177,812**

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:

Interest rate	Assumed variation as at 31.12.2010	Assumed variation as at 31.12.2009	Influence on profit before tax 2010	Influence on profit before tax 2009	Influence on hedging reserve 2010	Influence on hedging reserve 2009	Total 2010	Total 2009
WIBOR	+50	+50	(4,899)	(7,949)	2,062	3938	(2,837)	(4,011)
LIBOR	+50	+50	(24,451)	(23,281)	19,635	23,810	(4,816)	529
EURIBOR	+50	+50	(19,008)	(28,425)	21,062	28,890	2,054	465
PRIBOR	+50	+50	(212)	(188)	—	—	(212)	(188)
			(48,570)	**(59,843)**	**42,759**	**56,638**	**(5,811)**	**(3,205)**
WIBOR	–50	–50	4,899	7,949	(2,084)	(3,895)	2,815	4,054
PRIBOR	–50	–50	212	188	—	—	212	188
			5,111	**8,137**	**(2,084)**	**(3,895)**	**3,027**	**4,242**

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

The Company does not take the potential decrease of EURIBOR and LIBOR into consideration because of market forecasts and low level of EURIBOR and LIBOR interest rates as at the end of 2010 and market forecast.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010 and 31 December 2009. 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 derivatives) multiplied by adequate variation of interest rate. In case of derivatives, 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 inventories 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 product prices on the global market.

As at 31 December 2010 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from crude oil settlements.

Sensitivity analysis for risk of changes in crude oil prices

The influence of derivatives on hedging reserve due to changes in crude oil prices as at 31 December 2010:

	Increase of brent price	Total influence	Decrease of brent price	Total influence
USD/BBL	+27%	559,591	–27%	(559,591)
		559,591		**(559,591)**

The above variations of oil prices described above were calculated based on historical volatility of crude oil prices for 2010 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2010. The influence of changes in crude oil prices was presented on annual basis.

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

The carrying amount of hedging instruments for crude oil deliveries as at 31 December 2010 amounted to PLN 140,456 thousand.

As at 31 December 2009 the Group did not have financial instruments hedging the risk of changes in commodity prices.

- **Risk of changes in CO_2 emission rights prices**

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

Every year the Group performs 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 2010 the Group sold surpluses of CO_2 emission rights and concluded forward purchase transactions. More information relating to CO_2 emission rights is disclosed in note 8.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

33. LEASES

33.1. Capital Group as a lessee

Operating lease

As at 31 December 2010 and as at 31 December 2009, the Capital 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 contingent liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

The total lease payments, resulting from non-cancellable operating lease agreements recognised as expenses in profit or loss, in 2010 and 2009 amounted to PLN 115,753 thousand and PLN 122,850 thousand, respectively.

Future minimum lease payments under non-cancellable operating lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31.12.2010	as at 31.12.2009
Up to 1 year	81,777	86,888
Between 1 and 5 years	282,877	336,321
Above 5 years	542,834	657,335
	907,488	**1,080,544**

Finance lease

The Capital Group as at 31 December 2010 and as at 31 December 2009 possesses 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 contingent liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

Future minimum lease payments under finance lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31.12.2010	as at 31.12.2009
Up to 1 year	25,160	26,969
Between 1 and 5 years	48,029	52,668
Above 5 years	23,087	27,539
	96,276	**107,176**

Present value of future minimum lease payments under finance lease agreements as at 31 December 2010 and as at 31 December 2009 were as follows:

	as at 31.12.2010	as at 31.12.2009
Up to 1 year	22,285	23,831
Between 1 and 5 years	41,003	43,197
Above 5 years	16,246	18,163
	79,534	**85,191**

The difference between total value 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 2010 and as at 31 December 2009 the net carrying amount of for each class of assets was as follows:

	as at 31.12.2010	as at 31.12.2009
Intangible assets	998	1,132
Property, plant and equipment	92,421	177,384
buildings and constructions	22,454	24,034
machinery and equipment	2,505	72,442
vehicles	67,462	80,383
other	—	525

Disclousures resulting from IFRS 7 relating to finance lease are captured in note 32 and are presented jointly with other financial instruments.

33.2. Capital Group as a lessor

Operating lease

As at 31 December 2010 and as 31 December 2009 the Capital Group did not posses no-cancellable operating lease agreements as a lessor.

Financial lease

As at 31 December 2010 and as 31 December 2009 the Capital Group did not posses no-cancellable financial lease agreements as a lessor.

34. INVESTMENT EXPENDITURES INCURRED AND FUTURE COMMITMENTS RESULTING FROM SIGNED INVESTMENT CONTRACTS

Investment expenditures inccured in 2010 and in 2009 accounted for PLN 3,011,192 thousand and PLN 3,776,325 thousand respectively, including PLN 192,187 thousand and PLN 254,375 thousand of environmental protection related investments. As at 31 December 2010 and as at 31 December 2009 the value of future liabilities resulting from contracts signed until this date amounted to PLN 502,491 thousand and PLN 969,098 thousand.

35. CONTINGENT LIABILITIES

	as at 31.12.2009	increase/ (decrease)	as at 31.12.2010
Anti trust proceeding of the Office for Competition and Consumer's Protection	18,500	—	18,500
Other legal cases	5,653	14,297	19,950
	24,153	**14,297**	**38,450**

36. GUARANTEES AND SURETIES

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,663,831 thousand and PLN 1,289,169 thousand, respectively.

Guarantees granted as at 31 December 2010 and as at 31 December 2009 amounted to PLN 107,191 thousand and PLN 224,765 thousand, respectively.

37. RELATED PARTY TRANSACTIONS

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

In 2010 and 2009 there were no material related party transactions in the Group concluded on other than market terms.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

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

In 2010 and 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 Parent Company and its related parties.

In 2010 and 2009 there were no significant transactions concluded with members of the Management Board, Supervisory Board of the Parent Company, their spouses, siblings, descendants, ascendants or their own relatives.

37.3. Transactions with related parties concluded through the key management personnel of the Parent Company and the Group companies

In 2010 and 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:

	Type of relation through key executive personnel of the Parent Company and Group Companies							
	Sales		Purchase		Receivables		Liabilities	
	for the year ended		for the year ended		as at		as at	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Supervising persons	—	442,266	—	244,639	—	18,072	—	2,414
Managing persons	70	68	12	16	—	—	—	—
Other key executive personnel	139	16	—	—	—	—	—	—
	209	**442,350**	**12**	**244,655**	**—**	**18,072**	**—**	**2,414**

37.4. Transactions and balance of settlement of the Group with related parties

for the year ended 31 December 2010

	Jointly controlled entities	Associates	Total related parties
Sales	1,447,935	144,396	1,592,331
Purchases	476,782	174,342	651,124
Interest income	34,117	1,120	35,237
Dividend income	—	146,658	146,658
Interest expenses	44	59	103
Trade and other receivables (net)	295,115	21,829	316,944
Other short-term financial assets	1,014	—	1,014
Trade and other liabilities	210,865	26,144	237,009

for the year ended 31 December 2009

	Jointly controlled entities	Associates	Total related parties
Sales	1,102,182	132,764	1,234,946
Purchases	403,852	179,037	582,889
Interest income	14,114	787	14,901
Dividend income	—	418,222	418,222
Interest expenses	8	24	32
Trade and other receivables (net)	257,696	23,064	280,760
Other short-term financial assets	8	—	8
Trade and other liabilities	199,892	24,235	224,127

The above transactions with related parties include sale and purchase of petrochemicals and refinery producst and sale and purchase of repair, transportation and other services. Settlements with related parties include trade and financial receivables and liabilities.

The Group granted guarantees and sureties on behalf of related parties as at 31 December 2010 and as at 31 December 2009 amounted to PLN 1,218,886 thousand and PLN 777,923 thousand, respectively.

38. REMUNERATION TOGETHER WITH PROFIT-SHARING PAID AND DUE OR POTENTIALLY DUE TO MANAGEMENT BOARD, SUPERVISORY BOARD AND OTHER MEMBERS OF KEY EXECUTIVE PERSONNEL OF PARENT COMPANY AND THE CAPITAL GROUP COMPANIES IN ACCORDANCE WITH IAS 24

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

	as at 31.12.2010	as at 31.12.2009
Remuneration of the Management Board members of the Company	**12,140**	**12,297**
– remuneration and other benefits	6,040	6,031
– bonus paid for previous year	5,454	2,873 1)
– remuneration of the Management Board Members performing the function in previous years	646 2)	3,393 3)
Bonus potentially due to Management Board members, to be paid in the following year 4)	**5,454**	**5,454**
Remuneration and other benefits of the key executive pesonnel	**172,985**	**176,692**
– other key executive personnel of the Company	31,522	32,584
– key executive personnel of the subsidiaries belonging to the Group	141,463	144,108
Remuneration of the Supervisiory Board Members of the Company	**1,213**	**1,210**

1) For the period of performing the function from 7 June till 31 December 2008.
2) Payment in respect of court settlement regarding the remuneration for 2005.
3) Concerns the period of performing the function from 1 January till 6 June 2008.
4) Bonus estimated assuming full realization of the Management Board Members objectives.

38.1. Principles of incentives for key executive personnel of the ORLEN Capital Group

In 2010 the ORLEN Group's key executive personnel was participating in the annual MBO bonus system (Management by objectives). The regulations applicable to PKN ORLEN Management Board, Management Boards of the ORLEN Group entities and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel members. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the ORLEN Group. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

In 2010 new standards of MBO for key executive personnel in the ORLEN Group were developed and accepted, to enter into force starting from 2011. The basic assumptions for implementing the changers is to make the bonus system match the PKN ORLEN Management Board's goals and to enhance the highest management's liability for the results generated by the ORLEN Group.

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

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

In case of other companies of the PKN ORLEN S.A. Capital Group Members of the Management Board by standards are obliged to obey a non-completion clause for 6 months, starting from the date of termination or expiration of the contract. In the period Members of the Management Board are entitled to receive remuneration in amount of 50% of six basic monthly remuneration, paid in six equal monthly installments. Furthermore remuneration payments in amount of three or six basic monthly remuneration are due in case of dissolution of the contract because of dismission from the position held.

Explanatory notes to consolidated financial statements for the year ended 31 december 2010 (all amounts in PLN thousand)

39. REMUNERATION ARISING FROM THE AGREEMENT WITH THE ENTITY AUTHORIZED TO CONDUCT AUDIT OF THE FINANCIAL STATEMENTS

In the period covered by this consolidated financial statement the entity authorized to conduct audit of the Group's financial statements is KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 with subsequent amendments for period 2005–2010 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of unconsolidated and consolidated financial statements.

	for the year ended 31.12.2010	for the year ended 31.12.2009 (restated data)
Fees payable to KPMG Audyt Sp. z o.o. in respect of the Parent Company	1,892	1,843
audit of the annual financial statements	647	615
reviews of financial statements	572	725
related services	673	503
Fees payable to KPMG companies in respect of subsidiaries belonging to the Capital Group	4,569	5,199
audit of the annual financial statements	2,723	2,752
reviews of financial statements	1,784	2,447
related services, including:	61	—
tax advisory services	6	—
	6,461	7,042

Remuneration comprises net fees due or paid to the entity authorized to conduct audit for:

- audit of unconsolidated and consolidated financial statements,
- review of interim unconsolidated and consolidated financial statements,
- services related comprising mainly other services related to the audit and review of unconsolidated and consolidated financial statements, not included in the above mentioned positions.

40. EMPLOYMENT STRUCTURE

	as at 31.12.2010	as at 31.12.2009
Average employment in persons		
Blue collar workers	12,548	13,010
White collar workers	9,713	9,953
	22,261	22,963
Employment in persons		
Blue collar workers	12,380	12,617
White collar workers	9,660	9,918
	22,040	22,535

41. INFORMATION CONCERNING SIGNIFICANT PROCEEDINGS IN FRONT OF COURT, BODY APPROPRIATE FOR ARBITRATION PROCEEDINGS OR IN FRONT OF PUBLIC ADMINISTRATION BODIES

As at 31 December 2010 the PKN ORLEN S.A. Capital Group entities were parties in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

41.1. Proceedings in which the PKN ORLEN S.A. Capital Group entities act as a defendant

41.1.1 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 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN S.A. regarding the payment of CZK 19,464,473,000 with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN S.A. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.

The Court of Arbitration ruling dated 21 October 2010 ended the least of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL shares by PKN ORLEN S.A.

Agrofert Holdings a.s. had the right to issue a motion to revoke the sentence of the Court of Arbitration until 4 February 2011. As at the date of publication of these consolidated financial statement, PKN ORLEN S.A. did not receive a copy of the sentence.

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

a) Tax proceedings in Rafineria Trzebinia S.A.

As at 31 December 2010 at the end of the reporting period in Rafineria Trzebinia S.A. following tax proceedings and controls are in progress:

- **Tax proceedeing concerning the determiantion of excise tax liability for the period May–September 2004**

  As a result of the Customs Office proceeding, the excise tax liability for the period May–September 2004 was set at the amount of PLN 100 million. The Management Board of Rafineria Trzebinia 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).

  According to the sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia, overruled the decision of Director of the CC. On 16 January 2009 the Director of the Customs Chamber in Kraków filed an annulment the above sentence to the Supreme Administrative Court (SAC) in Warsaw.

  On 25 September 2009 the SAC overruled the annulment of the Director of the Customs Chamber in Kraków, according to above the sentence as at 12 November 2008 is legally binding, which dismissed the decision of Director of the Customs Chamber and decided to revoke them to reexamination. On 25 September 2009 the first instance authority (Head of the Customs Office – HCO) issued decisions determining the amount of excise tax liability for the period: May–August 2004 of approximately PLN 80 million. On 14 October 2009 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision. On 22 January 2010 the Director of the Customs Chamber in Kraków dismissed entirely the first instance authority's decisions and decided to revoke them to reexamination by this authority.

  In respect of excise tax liability for September of 2004 on 25 August 2009 the Supreme Administrative Court overruled the annulment of the Director of the Customs Chamber in Kraków concerning the determination of excise tax liability for this period. On 24 November 2010 Head of the Customs Office in Kraków issued once again a decision determining the amount of excise tax liability for September 2004 of app. PLN 38 million. On 15 December 2010 Rafineria Trzebinia S.A. raised a complaint to the Director of the Customs Chamber in Kraków regarding the above mentioned decision.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and for 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. 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. Rafineria Trzebinia 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 stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the respective 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 S.A. 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 S.A. and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia S.A. raised a complaint to the Woivodship Administrative Court in Kraków against the above mentioned decision of the Director of the Customs Chamber in respect of faulty formulation of legal justification.

As at the date of publication of these consolidated financial statements, the above proceeding is suspended.

- **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 yet known.

  Based on opinions of recognised tax advisors, the Board of Directors believes, that the above mentioned proceedings are likely to give a satisfactory outcome for Rafineria Trzebinia S.A. Therefore, in these consolidated financial statements for 2010 and 2009, no provision to cover potential liabilities have been recognised.

b) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia S.A.

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 S.A. entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning the necessity to carry out evidence proceedings, repealed the sentence of CCCP District Court and revoked the case to its reexamination.

In the verdict dated 7 June 2010 the District Court in Warsaw–Court of Competition and Consumer Protection discharged the proceedings. In October 2010 the ERO appealed against this verdict.

As at the date of publication of these consolidated financial statements the outcome of the case is not yet known.

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

As at the date of preparation of these consolidated financial statements PKN ORLEN participates in two court proceedings concerning the settlement of system fee with ENERGA OPERATOR S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the 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 S.A. and PKN ORLEN which was signed without determining contentious issues concerning system fee. The case was regarded as a civil case so contentious system fee should be judged by an appropriate court.

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

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

  On 10 September 2009 of ENERGA-OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment.

  On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In connection with the Supreme Court verdict, PKN ORLEN called on ENERGA-OPERATOR S.A. to return paid receivables by the Company based on the verdict of the Court of Appeals in Warsaw from 10 September 2009 in total amount of PLN 75,879 thousand. On 4 March 2011 ENERGA-OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand.

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

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

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

  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

Anti-trust proceedings concern an allegation that:

- PKN ORLEN S.A. concluded an agreement with the Lotos S.A. Group which limited competition on the domestic market of trading in universal petrol U95, initiated in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN S.A. and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN S.A. amounted to PLN 4,500 thousand. PKN ORLEN S.A. appealed to the Court of Competition and Consumer Protection. On 6 May 2010 the Court of Competition and Consumer Protection issued a verdict, revoking the appeals of PKN ORLEN S.A. and the Lotos S.A. Group. On 12 July 2010 PKN ORLEN S.A. has issued an appeal against this verdict. On 11 February 2011 the Court of Appeals in Warsaw issued a verdict, revolving the appeals of PKN ORLEN S.A. and LOTOS Group.
- proceedings in connection with an allegation that in the years 2000–2004 PKN ORLEN S.A. 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 S.A. in the amount of PLN 14 million. PKN ORLEN S.A. appealed against this decision. On 6 October 2010 the Court of Competition and Consumer Protection revolved the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN's S.A. leading position on the glycol market and repealed the penalty imposed on PKN ORLEN S.A. The President of the OCCP has issued an appeal against this verdict. PKN ORLEN S.A. responded to the appeal of the OCCP Chairman. The Court of Appeal in Warsaw has not yet set a date of the next appeal proceeding.
- in the years 1996–2007 PKN ORLEN S.A., Petrol Station Kogut sp.j. and MAGPOL B. Kułakowski i Wspólnicy sp.j. were using practices limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. The proceeding was instituted in July 2008. PKN ORLEN S.A. 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 the competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine. On 16 July 2010 the President of the Office of Competition and Consumer Protection ("OCCP") issued a decision, in which PKN ORLEN S.A. and Stacja Paliw Kogut Sp.j. were

found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN S.A. of PLN 52.7 million. On 2 August 2010 PKN ORLEN S.A. appealed from the decision of the President of the OCCP to the Court of Competition and Consumer Protection. The date of appeal proceeding has not been set yet.

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

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy Sp.j.). 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 S.A. as a security, based on the agreement dated 20 December 2002. The subjects of the security were receivables acquired by PKN ORLEN S.A. from ORLEN PetroTank Sp. z o.o. based on the trust receivable transfer agreement. The Court of Appeals in Warsaw pronounced that PKN ORLEN S.A. is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy sp.j. The verdict is binding in this respect. 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. Tankpol appealed against the above sentence. On 21 January 2011 the Court of Appeal overruled the appeal of Tankpol. As at the date of publication of the foregoing financial statements, the verdict is legally binding, but an annulment regarding this verdict can be submitted.

f) Claim connected with 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 has not been delivered yet.

As at the date of publication of these foregoing consolidated financial statements the status of the case is not yet known.

41.2. Court proceedings in which Companies of the Capital Group act as plaintiff

Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN S.A. 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 ORLEN Lietuva (previously AB Mažeikių Nafta) shares. Claims of PKN ORLEN concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB – Mažeikių Nafta shares by PKN ORLEN S.A. 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 ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

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.

On the first seating of the Arbitration Court, PKN ORLEN S.A. and Yukos International agreed i.a. proceedings schedule and extent of competence of the Court of Arbitration. On 3 May 2010, according to the schedule, PKN ORLEN S.A. issued a law suit in which it demands from Yukos International a reimbursement of USD 250 million with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claim and for refund of proceeding costs. At present, the parties exchange correspondence regarding mutual disclosure of possessed documents. The Court of Arbitration in London hearing was set for the period: 28 November – 9 December 2011.

42. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period there were no significant events that should have been presented in the consolidated financial statement for 2010.

43. FACTORS AND EVENTS THAT MAY INFLUENCE FUTURE RESULTS

The Parent Company has decided to terminate negotiations with Zakłady Azotowe "Puławy" S.A. in June 2010 regarding the process of sale of its 84.79 % stock of ANWIL S.A. to due to sustaining differences of standpoints concerning price and non-price terms of transaction.

According to approved strategy PKN ORLEN S.A. will continue operations connected with the sale of the ANWIL Group. As at 31 December 2010 total assets of the ANWIL Group amounted to PLN 2,645,389 thousand, equity amounted to PLN 1,993,931 thousand, net profit for the year ended 31 December 2010 amounted to PLN 46,114 thousand.

The Parent Company started preparatory works concerning sales of shares in Polkomtel S.A. which were accounted in the foregoing consolidated financial statements of the PKN ORLEN S.A. Capital Group under the equity method of PLN 1,451,334 thousands as at 31 December 2010.

44. SIGNATURES OF THE MANAGEMENT BOARD MEMBERS

The foregoing consolidated financial statements were authorized by the Management Board of the Parent Company in Warsaw on 29 March 2011.

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

Rafał Warpechowski
Executive Director Planning and Reporting

Contact data............{

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Sources:
Institute of Physical Chemistry Polish Academy of Sciences (PAN) – www.ichf.edu.pl, Museum and the Marie Curie-Sklodowska – www.muzeum.if.pw.edu.pl, Ministry of Science and Higher Education – www.nauka.gov.pl, Encyclopedia of Polish Scientific Publishers – www. encyklopedia.pwn.pl, Oil Industry Museum – www.museo.pl, www.swiatchemii.pl.

www.orlen.pl