verva RACING TEAM

PKN ORLEN Annual Report 2011

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..

ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

PKN ORLEN Annual Report 2011

Verva Racing Team

Contents

PKN ORLEN Supervisory Board

Maciej Mataczyński
Chairman of the Supervisory Board

Cezary Banasiński
Independent Member of the Supervisory Board

Grzegorz Borowiec
Member of the Supervisory Board

Artur Gabor
Independent Member of the Supervisory Board

Michał Gołębiowski
Member of the Supervisory Board

Leszek Jerzy Pawłowicz
Independent Member of the Supervisory Board

Angelina Sarota
Secretary of the Supervisory Board

Composition of the Supervisory Board as of 11 May 2012.

Letter from the Chairman of the Supervisory Board of PKN ORLEN

Dear Ladies and Gentlemen,

In the past year the global economy again faced major challenges. This was also a particularly difficult period for Europe, affected by a slowdown and instability. Despite unfavourable macro-economic environment PKN ORLEN achieved in 2011 good financial results, while optimising costs, reducing debt and improving the liquidity situation. This was possible due to consistent implementation of the Company's development strategy – the strategy that in another consecutive year works well during the market boom, as well as during a slowdown.

PKN ORLEN closed the year 2011 with net profit of PLN 2 billion and operating profit of about PLN 2.1 billion. The major determinants of good results were proceeds from divestments, including successful sale of Polkomtel, revaluation of crude oil stocks and larger sales volumes across all segments. It should be noted that in 2011 the Company achieved the highest total sales volumes in its history at the level of nearly 35.5 million tonnes and all-time high sales revenue of nearly PLN 107 billion.

The strategy adopted by the Company in 2008 provides not only for cost optimisation but also funding for investments necessary to ensure stable development of PKN ORLEN. In mid-2011 the Company launched the most efficient PX/PTA facility in Europe, which has led to a significant increase in profits in the petrochemical sector.

The Company also continued investments constituting one of the elements of the second part of the strategy aimed at creation of a multi-utility company. Activities undertaken by PKN ORLEN in this area covered the power generation sector and the upstream segment. In 2011 the Company performed advanced preparatory works to construct CCGT unit in Włocławek and continued modernisation works on the CHP plant at the Production Plant in Płock. These activities were complemented by analyses regarding the possibility to build another power unit in this city.

Another direction on which PKN ORLEN concentrated its attention in 2011 was exploration of hydrocarbons. Particularly large capital expenditure was earmarked for appraisal of unconventional gas deposits in Poland. In accordance with the plan the Company completed two first drillings in the Lublin region. Currently the Company is preparing for new drillings. The Company also continues exploration of conventional deposits in the region, as well as in the Latvian shelf and in the Sieraków field.

Activities conducted by foreign companies of PKN ORLEN Capital Group were primarily concentrated on optimisation of the operations of the refineries in the Czech Republic and Lithuania, and of our retail network in Germany. In 2011 the Company managed again to improve the performance of the German assets and the profitability of the refinery in Mažeikiai. A particularly important success on the Lithuanian market would not be possible without successful negotiations with Klaipedos Nafta, the owner of a cargo terminal, which allowed to reduce costs of crude oil shipments by sea. In the months to come the Company plans to renegotiate the charges for railway transport in Lithuania.

In 2011 the opinion of PKN ORLEN, the biggest Polish company, was attentively considered in strategic issues regarding the future of Poland and Europe. Representatives of the Company participated in debates and discussions concerning economics, economy and energy sector. The Company also initiated numerous activities to support Polish sport, culture and education. These were repeatedly appreciated by the public and awarded in independent competitions and rankings.

As a result of activities undertaken in 2011 the position of PKN ORLEN is stable and the Company may continue its consistent development. I hope that this year will bring improvement of the macroeconomic environment, allowing for even more dynamic growth of PKN ORLEN.

Maciej Mataczyński

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

In 2011 Jacek Krawiec was appointed for the second term as the President of the Management Board of PKN ORLEN SA.

He is a graduate of the Poznań University of Economics. In the years 1992–1997 he worked for Bank Pekao SA and consulting firms Ernst & Young and Price Waterhouse. In 1998 he was responsible for the Polish market in the British branch of the Japanese investment bank, Nomura plc in London. In the period from 1998 to 2002, he held the position of the President of the Management Board and CEO of Impexmetal SA, and in 2002 he was the President of the Management Board of Elektrim SA. From 2003 to 2004 he was the Managing Director of Sindicatum Ltd. London. From 2006 to 2008 he held the position of the President of the Management Board of Action SA. He has a wealth of experience working in corporate supervisory bodies. For instance, currently he is the Chairman of the Supervisory Board of Unipetrol a.s.

Jacek Krawiec represents PKN ORLEN SA in the European Energy Forum and the World Economic Forum. He is also a member of the Industry Advisory Board, an advisory body operating at the International Energy Agency. He is also a member of the the Lesław A. Paga Award Committee, the National Ecological Council and the Warsaw University of Technology Convention. Moreover, Jacek Krawiec is a member of the Programme Council of the European Forum for New Ideas, the Main Board of the Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan) and the Council of the Bronisław Geremek Foundation.

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

On 7 June 2008 Sławomir Jędrzejczyk was appointed a Member of the Management Board of PKN ORLEN SA, and the Vice-President of the Management Board, CFO on 23 September 2008. On 24 March 2011 the Supervisory Board of PKN ORLEN SA adopted the resolution regarding the appointment of Mr. Sławomir Jędrzejczyk to the position of the Vice--President of the Management Board for another term of the Company's Management Board as from 30 June 2011.

He is a graduate of the Łódź University of Technology. In 1997, he graduated from the Association of Chartered Certified Accountants in London, where he obtained the title of a British Certified Auditor.

In the years 1992–1997 he worked for: Telebud, ASEA Brown Boveri, Price Waterhouse. In the period 1997–2002, he was a Member of the Management Board, CFO in Impexmetal SA. He served as the Chairman and a Member of the Supervisory Boards of the Group's companies in Poland, Europe, Singapore and the US. In the years 2002–2003 he held the position of Chief Financial Officer in ORFE SA and a 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 the President of the Management Board, CEO of TP Emitel Sp. z o.o. controlled by Telekomunikacja Polska Group.

Currently, he serves as the Vice-Chairman of the Supervisory Board of Unipetrol a.s. and a Member of the Management Board of AB ORLEN Lietuva.

Composition of the Management Board as of 11 May 2012.

Piotr Chełmiński – Member of the Management Board, Petrochemical Operations

Appointed to the position of a Member of the Management Board of PKN ORLEN SA on 6 March 2012.

He is a graduate of the Warsaw University of Life Sciences. In 1996, he completed postgraduate studies in management at the University of Management and Marketing in Warsaw (partner of the University of Denver, USA). During his professional career he has accumulated years of experience as a member of management boards of Polish and foreign companies, including listed companies.

In the years 1995–1996 he served as the Vice-President for Sales, Marketing and Export of Okocimskie Zakłady Piwowarskie SA. From 1996 to 1999 he held the position of the Regional Director for Central and Eastern Europe in Eckes Granini GmbH & Co. KG and the President of its subsidiary, Aronia SA. In the years 1999–2001 he was a member of the Management Board of Browar Dojlidy Sp. z o.o., and from 2001 to 2002 he held the position of a member of the Management Board and a member of the Supervisory Board of Werner & Merz Polska Sp. z o.o. In the period from 2001 to 2006 he was a member of the Management Board and a member of the Supervisory Board of Kamis-Przyprawy SA, being responsible for direct operational supervision of Sales and Marketing. From 2006 to October 2009 he held the position of the Vice-President for Sales and Marketing in Gamet SA in Toruń and a member of the Board of Directors at Gamet Holdings SA in Luxembourg.

From December 2009 he has held the position of the Chairman of the Board of Directors and CEO at Unipetrol, a.s.

Krystian Pater – Member of the Management Board, Refinery Operations

Appointed to the position of a Member of the Management Board of PKN ORLEN SA on 15 March 2007. On 24 March 2011 the Supervisory Board of PKN ORLEN SA adopted the resolution regarding the appointment of Mr. Krystian Pater to the position of a Member of the Management Board for another term of the Company's Management Board as from 30 June 2011.

He is a graduate of the Nicolaus Copernicus University in Toruń, Faculty of Chemistry. He completed postgraduate 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 SA, and then PKN ORLEN SA, where from 2005 to 2007 he performed the duties of the Executive Director for Refinery Production.

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

Marek Podstawa – Member of the Management Board, Sales

Appointed to the position of a Member of the Management Board of PKN ORLEN SA on 14 March 2012.

He is a graduate of the AGH University of Science and Technology in Cracow, faculty of Electrical engineering, Automatics and Electronics (1989). He holds an MBA from the University of Minnesota/Warsaw School of Economics (2000). He completed postgraduate courses in International Trade at the Cracow University of Economics and in Business Management at the University of Economics in Katowice.

From 1990 to 1992 he worked as an engineer at the Central Plants of Metallurgy Automation. In subsequent years (1993–1996) he worked at DuPont Conoco Poland as the Regional Representative, and then as the Regional Director. After the company transformed into ConocoPhillips, he worked in Central Europe countries, in Germany and in the United States, where he held positions, among others, in the area of retail and wholesale trade, marketing and business development. In the period from 2006 to 2007, he served as the Director for Wholesale Programmes at the ConocoPhillips headquarters in Houston, Texas, and then as the Director for Strategic Planning (2007–2008).

In January 2009 he became the Executive Director for Retail Sales at PKN ORLEN SA. He was also the Chairman of the Supervisory Board of ORLEN Deutschland GmbH (2009–2011) and a Member of the Management Board of Benzina, s.r.o. (2009–2010).

Letter from the President of the Management Board of PKN ORLEN

Dear Ladies and Gentlemen,

Entering the year 2011, we knew that it would be a difficult time for the global and in particular, for the European economy. We were also aware of the market challenges ahead.

Instability had a particularly strong impact on the fuel sector. A nearly 40% year-on-year rise in crude oil prices, low refining margins, volatile URAL/Brent differential and unfavourable exchange rates of the Polish złoty against foreign currencies – these were the key factors affecting the performance of companies in the fuel sector. I am all the more pleased to report that, despite such challenging macroeconomic conditions, PKN ORLEN delivered robust financial performance, as evidenced by the highest total sales volumes in our history, almost 35.5 million tonnes, and all-time high sales revenue of nearly PLN 107 billion.

In 2011, PKN ORLEN earned PLN 2 billion in net profit and PLN 2.1 billion in operating profit, thanks to proceeds from divestments, revaluation of crude oil stocks and larger sales volumes across all segments. It should be noted that due to the deterioration of the macroeconomic environment caused by the global crisis, in particular the growing pressures on refining and petrochemical margins, we recognised a PLN 1.8 billion net impairment due to loss on tangible assets, primarily at the Unipetrol and ANWIL Groups.

We are particularly glad to see sales having grown in the retail and petrochemical segments, driven by, respectively, a pricing policy aimed at boosting demand and by investments in advanced technologies and production assets in recent years. In mid-2011 we launched production of terephthalic acid at the PX/PTA complex in Płock and Włocławek

In turn, the pressure to keep retail margins low had a material impact on the segment's result. Outperforming the market in retail sales in 2011 clearly demonstrates that in that challenging year we were able not only to retain regular customers but also to attract new ones, which translated into record sales volumes.

Please note the strong and improving liquidity position of PKN ORLEN, which at the outbreak of the global crisis was on the verge of defaulting on its credit agreements. Through our consistent efforts, in 2011 we were able to reduce the financial leverage to 30.2% (net debt was down by another PLN 0.3 billion). Concurrently, we worked on refinancing of maturing loans. To that end, PKN ORLEN executed credit facility agreements for nearly EUR 3 billion and thus secured financing of its operations for the next five years.

Bearing in mind the need to enhance corporate control and grow the PKN ORLEN Group's value, last year we continued to purchase shares in our Group companies, such as ANWIL, IKS "Solino", Rafineria Nafty Jedlicze, ORLEN Automatyka and ORLEN Wir.

There is no doubt that one of the key M&A transactions in this part of Europe was the disposal of shares in Polkomtel, in which PKN ORLEN held over 24% equity interest. We were the main initiator and one of the coordinators of this complex process. With PLN 3.7 billion in proceeds, PKN ORLEN was also among the chief beneficiaries of the transaction. Although first declarations concerning the sale of the assets were made already in 2000, it was only last year that the transaction was successfully completed. The proceeds will be applied toward reducing the Company's debt and financing projects designed to transform PKN ORLEN into a modern multi-utility company.

To achieve that objective, in 2011 we focused our efforts on two areas: continued investment in the power generation segment and intense work on the development of our upstream segment. We were also involved in the construction of the CCGT unit in Włocławek. Apart from the environmental permit, we also obtained the building permit and executed an agreement for construction of the gas supply pipeline for the new unit. The process of selecting the contractor is underway and we expect to complete it by mid-2012. We have also continued modernisation work on the CHP plant at our Płock facilities and we are considering construction of another power unit in the city.

The development area of key importance for PKN ORLEN's future is exploration for and production of hydrocarbons. Last year, we focused on the appraisal of unconventional gas deposits in Poland. We completed two first wells in our licence areas in the Lublin region and we are readying for new drillings. Concurrently, we continue exploration for conventional reserves in the region, as well as in the Latvian shelf, in cooperation with Kuwait Energy Company, and in the Sieraków field, as part of a project jointly implemented with PGNiG.

Among the developments of key importance for the Company's future growth, I would like to draw your attention to those securing stable crude oil supplies to PKN ORLEN. In 2011, we executed crude oil purchase agreements guaranteeing supplies for the next three years. We also took steps to diversify gas supplies by entering into gas supply contracts with companies other than PGNiG.

Our activities conducted by foreign subsidiaries were primarily aimed at optimising the operations of our refineries in the Czech Republic and Lithuania, and of the retail network in Germany. We consider it a major success that we managed to improve the performance of the German assets and the profitability of the refinery in Mažeikiai. Further, in Lithuania we completed negotiations and, in consequence, executed an agreement with Klaipedos Nafta, the owner of a cargo terminal, to reduce costs of crude oil shipments by sea. We expect that in the months to come we will be able to successfully renegotiate the charges for railway transport in Lithuania, which would further improve the profitability of fuel production in Mažeikiai.

We are glad that PKN ORLEN's successes have been appreciated by experts: Fitch's analysts upheld our rating at BB+ and we came eight in the global Refining and Marketing category of the Platts Top Global Energy Company ranking. The prestigious *Euromoney* magazine for the fifth time named PKN ORLEN "The Best Managed Company in Poland", whereas the *Rzeczpospolita* daily and the Polityka weekly placed PKN ORLEN first on the list of the largest companies in Poland and the region. PKN ORLEN has been the first and so far the only Polish company to be invited to participate in the discussion attended by the world's most important energy sector players during a plenary session of the CERAWeek 2011, an oil industry conference held in Houston, USA. Furthermore, PKN ORLEN was handed two awards in the "Eagles of Polish Business" competition as one of the largest Polish businesses in Germany. We were also distinguished for the quality of our investor relations efforts by *IR Magazine*, receiving "Best Investor Relations by a Polish Company 2011" title, and in the WarsawScan 2011 report for the quality of the disclosure policy and corporate governance. In 2011, our shares were for the third time included in the RESPECT Index, an index of socially responsible companies listed on the Warsaw Stock Exchange. Our brand was also recognised by customers, who awarded the Company the Consumer's Laurel in the "Service Stations – Business Customers" category.

Let me also mention two major initiatives in which we were involved in 2011. We supported the Polish Presidency of the Council of the European Union and actively participated in the events organised as part of the International Year of Chemistry, engaging in a number of activities popularising chemistry among young people. Those efforts led to the launch, simultaneously in Poland and the Czech Republic, of the "Poczuj chemię" ("Feel the Chemistry") website as part of a joint project of PKN ORLEN and Unipetrol.

Despite concerns about the economic development of Europe and the world, reflected in the soaring crude oil prices, faltering demand for fuels in our region and the resulting low margins, we will continue consistent implementation of our plans. We are also aware of the increasingly larger burdens imposed by the changes in the regulations relating to environmental standards and CO_2 emissions, which will undoubtedly affect the Group's future growth.

It should be emphasised that 2012 may become a landmark year in the exploration for new energy sources in Poland. Despite the lowering of estimates for Polish shale gas reserves by the Polish Geological Institute, shale gas exploration will be a significant factor with a bearing on the Group's future development, as we plan to step up our efforts in that area in 2012.

In such difficult and unstable conditions as were seen in recent months, we had many an occasion to see that Company's success depends mainly on its people – their ability to cope with the ever changing environment, flexibility, ability to make the right decisions and, most of all, their understanding of the long-term direction and vision of the Company's development.

I would like to thank members of the Supervisory Board for the support provided to the Management Board as we coped with the challenges faced in 2011 – both those planned and those unexpected which required from us quick response and close cooperation. I would like to thank the Company's employees for their professionalism, hard work and the resulting successes of our organisation in recent years.

Dariusz Jacek Krawiec

President of the Management Board, CEO
of PKN ORLEN

About PKN ORLEN

VERVA Racing Team on F1 circuits

VERVA Racing Team established by PKN ORLEN is the first Polish racing team competing with teams from all over the world in the prestigious Porsche Supercup racing series, held immediately before Formula 1 races.

The sprint nature of the events, extraordinary setting and proximity to the legendary F1 series draw hundreds of thousands of people to the stands, and millions to their televisions. Starting in the competition is tremendously prestigious for the drivers representing the white-and-red flag of Poland, who have the opportunity to compete with the top drivers in their category and get the chance to gain an international career.

>>>>>>>>> About PKN ORLEN

PKN ORLEN is the largest Polish company by revenue and the strongest Polish brand. We are also a precursor of the latest trends in management, innovations and the highest standards of corporate social responsibility. In brief, PKN ORLEN is one of showpieces of the Polish economy.

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.

Such extensive and diversified operations make the Company a leading producer and distributor of refined products and petrochemicals in the region. PKN ORLEN also owns the biggest fuel station network in Central Europe comprising 2,696 facilities on the territory of 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 2011 ORLEN Group employed 22,380 persons, most of them in PKN ORLEN – 4,445 persons. In Unipetrol Group, ORLEN Lietuva Group and ORLEN Deutschland the number of employees totalled: 4,275, 2,552 and 138, respectively.

PKN ORLEN on the Capital Market

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

The Company shares are listed on the official market at the Warsaw Stock Exchange in the continuous trading system and are included among the largest companies indexes: WIG20 and WIG, and WIG-fuel index. Since 19 November 2009, the shares of PKN ORLEN have been included in the Respect Index, an index of companies involved in corporate social responsibility. Following its update in 2011, PKN ORLEN maintained its position in this elite group.

The Company's 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.

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, Unipetrol a.s., is also present on the capital market.

Unipetrol shares are listed on the Prague Stock Exchange and the OTC market (RM-SYSTÉM, a.s.). The 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 are free-float shares. Bonds issued by Unipetrol are also listed on the Prague Stock Exchange. Currently, 2,000 bonds are traded, of total par value of CZK 2,000,000,000.

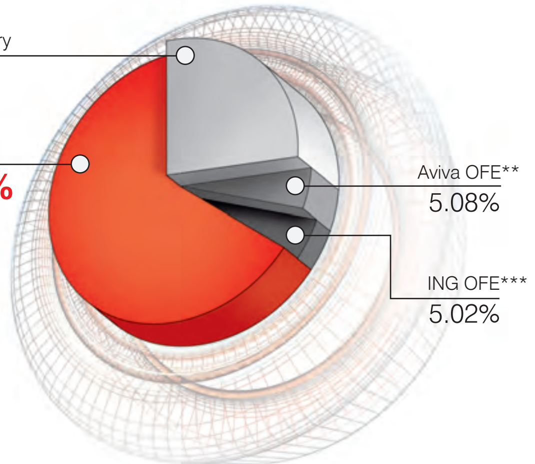
PKN ORLEN share performance in 2011

The year 2011 was marked by declines on most global stock exchanges. Also the Warsaw Stock Exchange did not manage to resist these trends. The largest companies index WIG20 lost in value by 21.9%. The price of ORLEN shares dropped by 26%, closing the year at the level of PLN 33.9, which means that the market value of the Company amounted to almost PLN 14.5 million.

On the continuous quotation market in the previous year about 322,357,387 shares changed their owner, which constitutes 75.4% of issued shares. The lowest price in that year was PLN 30.33, whereas the highest price was PLN 58.85.

PKN ORLEN shareholders structure

as at 30 March **2012***



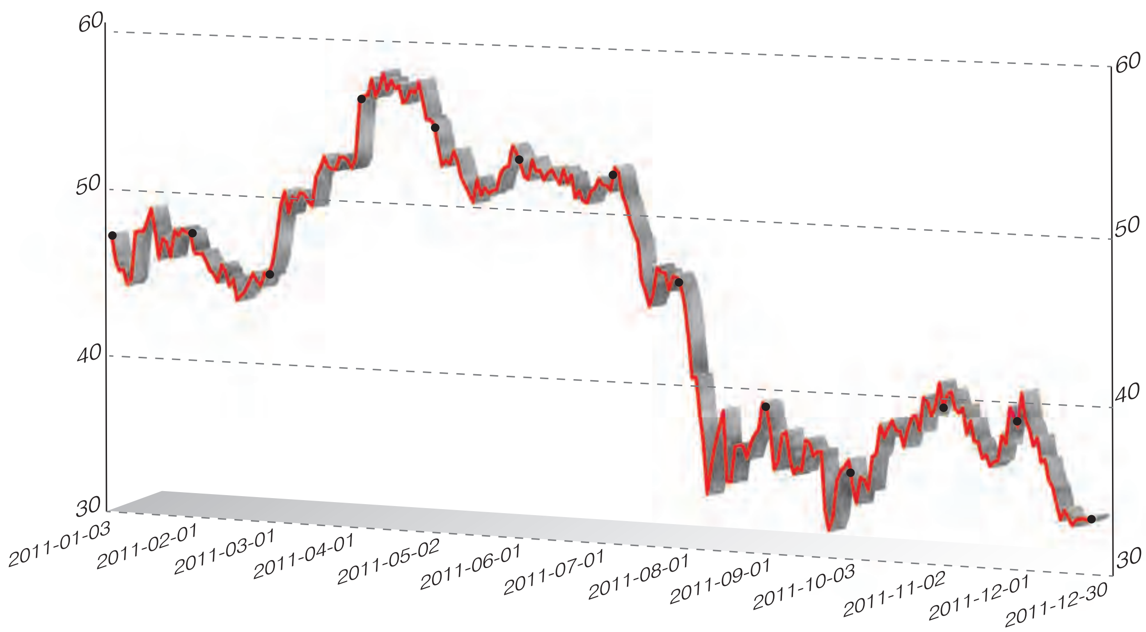
* *PKN ORLEN shareholders structure as at 31 December 2012 is presented on page 125.*

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

*** *According to information submitted to the Company on 30 March 2012.*

PKN ORLEN share performance on the Warsaw Stock Exchange

in **2011**



ORLEN Brand

In 2011, just eleven years after its creation, the ORLEN brand again proved to be the strongest Polish brand. Recent years have confirmed the validity of the bold marketing concept of PKN ORLEN – resignation from the previously used trademarks (CPN, Petrochemia Płock) and their replacement with the new premium brand – ORLEN, and subsequent addition in 2006 of the economy brand – BLISKA. Modernisations of fuel stations accompanying the process of rebranding perfectly embedded themselves into the Company's strategic goal: increased efficiency while fostering the welfare of customers. These efforts include not only the continuous improvement of service standards and provision of the highest quality fuel. They also comprise efforts to continuously extend the offer by introducing innovative products and services that respond to changing customers' needs: from innovative loyalty and fleet management programmes to tasty, fast meals (under Stop Cafe and Stop Cafe Bistro brands) or business meeting points (the first Meeting Point Stop Cafe was established in December 2011 in Gdańsk).

ORLEN again topped the ranking of the Most Valuable Polish Brands – MARQA organised by *Rzeczpospolita* daily. In the ranking recapitulating 2011 the ORLEN brand was valued at over PLN 3.8 billion. BLISKA took the thirteenth place and was valued at PLN 774 million. In another ranking, from May 2011, covering the results of the biggest European consumer survey organised by *Reader's Digest* monthly, ORLEN was awarded for the tenth time the title of the Trusted Brand (in the category: fuel station).

For stock market analysts as well as observers and business practitioners the Company provides a unique example of effective transformation and impressive expansion. PKN ORLEN won for the fifth time the title of the Best Managed Company in Poland, awarded by a recognised British financial monthly – *Euromoney*. Moreover, the Company moved up 38 positions (to the 80th position) in the overall "Top 250 Global Energy Company Rankings", maintaining the eighth position in the category: Refining & Marketing. Already for the third time *IR Magazine* acknowledged the Company with the award Best Investor Relations by a Polish Company 2011. Whereas according to analysts participating in WarsawScan 2011 survey, ORLEN is the best company in terms of the quality of disclosure policy and adherence to the principles of corporate governance.

The Company's care for environment was appreciated by the National Ecological Council in the 12th edition of the "Environmentally Friendly" competition under the patronage of the President of the Republic of Poland. In recognition of responsible approach to business PKN ORLEN was also a laureate of the competition "Responsible Business Leaders 2011" in the category: fuel and energy sector, organised by the Employers of Poland.

FLOTA, the fleet programme of the Company, present on the Polish market for 11 years, already for the third time in a row was awarded the "Customer Laurel 2011" in the category: Service Stations – Business Customers. The awarded fuel cards allow non-cash purchases of fuel, goods and services at ORLEN and BLISKA network stations on the entire territory of Poland. For the fifth time, PKN ORLEN FLOTA cards were also awarded the Fleet Product of the Year title in the Polish Fleet Awards 2011 plebiscite organised by *Flota* magazine and Fleet Management Institute Central-Eastern Europe. The Company's offer comprises also BIZNESTANK and TANKBANK as well as VITAY and SUPERVITAY cards for demanding but diverse customer groups.

Corporate social responsibility (CSR)

PKN ORLEN perceives CSR as an indispensable condition for sustainable development and long-term commitment towards employees, environment and stakeholders. The range of activities undertaken by the Company is very wide – from projects implemented to the benefit of employees, charity and sponsorship as well as cooperation with local communities, to participation in global initiatives, such as Global Impact or Responsible Care and Fair Trade.

Each year, CSR activities are extended with new projects. From activities initiated in 2011, it is worth to mention the signing of the "Declaration on sustainable development in the energy sector" and the "Declaration on compliance with the Corporate Responsibility Code". The Company also implements own innovative projects, e.g. innovative stakeholder survey regarding CSR issues. Thanks to such activities the Company strengthened its position among the responsible business leaders in Poland, which is reflected e.g. in titles and awards received in prestigious competitions:

- Company with a Good Image (organizer: Business Centre Club),
- Responsible Business Leaders in the energy sector (organizer: Employers of Poland),
- special award in the 2011 Top Corporate Philanthropists competition (organizer: Donors Forum),
- main award in the "CSR Reports" contest for the "Responsible Development" report (organizer: Responsible Business Forum and CSR Consulting),
- good practices of PKN ORLEN again qualified to the prestigious publication of the Responsible Business Forum "Responsible Business in Poland 2010. Good practices" report.

ORLEN. Safe Roads

Since 2006, PKN ORLEN has been implementing its programme dedicated to road safety issues – ORLEN. Safe Roads.

Another edition focused on the problem of coexistence of drivers and motorcyclists as equal road users. The informational campaign was carried out under the slogan "Long live drivers, long live motorcyclists". Apart from the informational campaign, the Company conducted numerous activities addressed directly to motorcyclists; on selected fuel stations the range of products was extended with products for motorcyclists.

Social sponsoring

One of priorities of PKN ORLEN social activities is patronage over major events in the world of art and culture. In 2011, the Company supported the exhibition "We want to be modern" organised at the National Museum in Warsaw, presenting the achievements of Polish industrial design and art in the years 1955 – 1968.

The Company traditionally sponsored the "Złote Kaczki" ("Gold Ducks") award ceremony – the oldest Polish movie awards granted by readers of the *Film* monthly – as well as another edition of the Ludwig van Beethoven Easter Festival.

Engaging in the life of Płock city community, PKN ORLEN continued its cooperation with the most important local cultural institutions – the Mazovian Museum, the Zieliński Family Library and the Płock Symphony Orchestra.

The Company actively participated also in educational and social events. An original educational project – "ORLEN Chemistry Lesson" was implemented as part of the International Year of Chemistry, under the auspices of ORLEN. Under this initiative over 500 lessons were conducted in the entire Poland, allowing almost 22 thousand pupils in the 2. class of junior high schools to get acquainted with the subject of production, processing and use of crude oil.

Sports sponsoring

Lasting more than a decade, a successful marriage of business and sport allows the Company to strengthen major premium brands (ORLEN, VERVA) through their global exposure, while providing the most talented Polish athletes with an opportunity to develop and participate in prestigious competitions.

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 of Poles in a unique way. The year 2011 was primarily the year of successes of Polish runners: Adam Kszczot – gold medallist and Marcin Lewandowski – sliver medallist at the European Athletics Indoor Championships in Paris.

Handball

The Company supports the Wisła Płock handball team, which gives a lot of positive emotions to inhabitants of Płock. The handball players of ORLEN Wisła Płock team finished the 2010/2011 season as the champions of Poland.

Thursdays with Athletics

Already for the fourth time in a row PKN ORLEN was the patron of Thursdays with Athletics – the biggest sporting event in Poland addressed to children and young people.

Thursdays with Athletics have been organised for 16 years in over 60 Polish cities. In the history of the event there are a lot of examples showing that the best athletes have presented their abilities at this very event, also those who nowadays participate in the Olympics and achieve successes at athletics competitions at the international level.

Own projects

ORLEN Team

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 2011 the ORLEN Team drivers again achieved excellent results at all key events. Krzysztof Hołowczyc opened the year with a good result in the 33rd Dakar Rally, taking the 5th place in the final classification, thus becoming the highest ranked Polish rally driver in the history of this extremely difficult competition.

Other successes belonged to: Marek Dąbrowski – the World Champion in cross-country rally in the Open Trophy category, Kuba Przygoński, who won the title of the world vice-champion in the cross-country rally in the 450 class, and Jacek Czachor, who came fourth in the general classification in the same class. Szymon Ruta, participating in flat rallies, finished his another season in the European Rally Championships at the 5th position.

VERVA Racing Team

The year 2011 was the second season for VERVA Racing Team to participate in the prestigious Porche Supercup. Kuba Giermaziak, the VRT driver, staying at the forefront throughout the entire season, finally took the third position in the general classification. He stood on the podium four times, taking gold twice. In recognition of his successes Kuba Giermaziak received the title "Discovery of the Year 2011" in the *Przegląd Sportowy* daily plebiscite.

VERVA Racing Team is not only a sports project, but also a marketing communication platform supporting sales of VERVA fuel. The project was widely publicized by the media. Media value generated by the project reached PLN 20 million. Prompted awareness of VERVA brand was 83% in December 2011 (as compared to 79% in December 2010).

VERVA Street Racing

Another edition of the show on the street track in the centre of Warsaw was the biggest international motor sports event in Poland. In June 85 thousand spectators at Plac Teatralny in Warsaw and 15.5 million TV viewers watched the racing of world's top racing series. 110 sports cars from 10 countries appeared in the shows. VERVA Street Racing received very positive feedback, which is confirmed by a very high rate of willingness to participate again – 92%. Great media success is reflected in the amount of information in the press, radio, television and Internet – over 5.5 thousand throughout the two-month campaign.

Mobile Stop Cafe

Mobile Stop Cafe is a unique bistro of this type on 16 wheels, which has travelled on Polish roads for over three years. The stylish, American truck with 11-metre restaurant visits the biggest events in Poland, serving always fresh coffee and crispy hot-dogs. So far the bistro has participated in such events as: the Schuman's Parade, ARTPOP Festival or AIR SHOW. An annual visit of Mobile Stop Cafe in the Polish mountains has become a tradition. Then it turns into the Winter Stop Cafe and provides skiers with energetic snacks.

Stop Cafe brand recorded a growth by 17% in brand recognition. In December 2011 it amounted to 60%, whereas one year earlier it was 43%.

ORLEN Group Strategy

Ambitious plans of the VERVA Racing Team

in the season 2012

The 2012 racing season will be the third year of starts of the white-and-red team on the F1 circuits in prestigious Porsche Supercup. VERVA Racing Team with Kuba Giermaziak and Patryk Szczerbiński has ambitious plans – fight for victory. The team started another season in the desert Sakhir circuit in the Bahrain Grand Prix in April 2012. The season will end in September 2012 at the Italian Grand Prix.

ORLEN Group Strategy

The past year was another stage of consistent implementation of the strategy for the years 2009 – 2013. In 2011 the Company focused on activities that promote growth of the Company's value, strengthening of its position in the home markets as well as product and geographic expansion. They covered three areas:

- increase of efficiency in key business segments,
- development of the upstream segment and construction of the energy segment,
- divestments of non-core business assets.

Effective measures to strengthen efficiency, focused on ensuring operational efficiency, asset integration and segment management provide a solid basis for further development of the Company in the area of core business, extension of the value chain, as well as the use of new business areas to leverage the dynamic growth.

The year 2011 was difficult for the refinery industry in our region. Low refining margins, volatile Ural and Brent oil differential, soaring oil prices and weakening of the Polish zloty – all these factors affected the macroeconomic environment of PKN ORLEN. However, despite relatively unfavourable external surrounding, 2011 was very successful for PKN ORLEN. In 2011 the Company increased its total sales volumes by 4%, to an all-time high level of almost 35.5 million tonnes. Also revenue from sales reached record levels and amounted to almost PLN 107 billion. Sales in the refinery segment increased by 3% against last year, while the volume of processed crude oil dropped by 1%.

Start-up of the PX/PTA facility in June 2011 and initiation of the sale of terephthalic acid, as well as higher sales of plastics led to increased sales volumes in the petrochemical segment by 7%. In 2011 the Company also continued activities aimed at strengthening the financial position of PKN ORLEN: debt was reduced to the level of PLN 7.6 billion; the Company also signed debt refinancing loan agreements for the total value of almost EUR 3.0 billion, which allowed to provide the Company's financing for 5 years.

Strategic activities in segments

One of the key tasks in 2011 was initiation of activities to improve efficiency, focusing on maintenance of operational efficiency, asset integration and segment management. They brought measurable financial benefits and allowed for further development of ORLEN Group.

It was possible to develop and strengthen the efficiency of key operating segments due o implementation of the overhaul programme. The Company carried out, among others, a big overhaul combined with replacement of the catalyst at the Hydrocracking plant in Płock, as well as an overhaul of the Catalytic Cracking, Alkylation and Tar Hydro-desulphurisation (HOG) plant. Moreover, the Company conducted a major overhaul of the Hydrogen Plant I. The refinery in Litvinov, the Czech Republic was also refurbished.

The implemented investment programme also proved to be successful. In 2011 the Company put into operation the Sulphur Recovery plant – Claus II, which will allow to further increase the volume of processed oil in subsequent years. In the logistics area, the Company is implementing the cavern strategy aimed at securing its own and commercial storage needs in the scope of crude oil and petroleum products.

In the petrochemical segment, construction of the Paraxylene (PX) and Terephthalic Acid (PTA) plant was completed. On 30 April 2011 the commissioning reports were signed, and performance tests were carried out in May and in June. They confirmed all guaranteed parameters and both production plants obtained so called PAC (Performance Acceptance Certificate).

The year 2011 was also characterised by further development of the retail segment. Activities of the Company in this area concentrated on improvement of sales efficiency. At the same time care was taken to maintain, despite rising energy prices and labour costs, the lowest possible operating costs. This was achieved through continuous efforts to improve and maintain high operating standards, and active support of fuel and non-fuel sales by promotional activities. Acquisition of additional fuel stations in Germany contributed to strengthening of the Company's presence on that market. PKN ORLEN, as the first fuel company in Poland, initiated the sale of innovative natural fuel – BIO85.

The Company also consistently develops the non-fuel offer. In December 2011 the Company launched in Gdańsk the first Meeting Point in Poland, which broadens the offer of existing Stop Cafe and Stop Cafe Bistro points.

Development of new areas

The principal purpose of the PKN ORLEN strategy is development of an integrated, multi-segment fuel and energy entity with diversified asset structure – a multi-utility company. Major development investments are focused on new segments – hydrocarbon exploration and production (upstream) and electricity production. These activities will be carried out both independently, as well as in cooperation with Polish and foreign industry partners.

As regards exploration and production projects, in 2011 the Company implemented those which were characterised by an acceptable level of risk and ensured building of competence in a stable environment. They include e.g. Kambr (Cambrian), Karbon (Carboniferous), Lublin Shale and Sieraków projects, as well as newly launched Hrubieszów Shale and Mid-Poland Unconventionals projects which will allow to significantly strengthen the position of PKN ORLEN Capital Group on the market of unconventional resources in Poland. In 2011, the Company initiated, among others, drilling works under the Lublin Shale project aimed at appraisal of the resources and possibilities for gas production from unconventional deposits (shale gas). The Lublin Shale project is an excellent example of synergy with another objective of the development strategy of PKN ORLEN Capital Group, i.e. development of the energy segment, as success of this project will provide a source of fuel for future gas power plants.

In the scope of projects for development of energy sectors, key activities in 2011 were related to the implementation of the energy strategy adopted in 2009. They were implemented in three areas: the project for construction of the gas power plant in Włocławek (including initiation of activities regarding future gas supplies), establishment of PKN ORLEN position in the area of renewable energy sources and activities aimed at adaptation of production sources to environmental standards 2016 (CHP plant in Płock, CHP plant Litvinov, ORLEN Lietuva and Trzebinia).

The first stage of the adopted energy strategy is construction of the gas and steam power plant in Włocławek. Start-up of the unit is planned for the turn of 2014/2015. All key issues related to the preparation of the investment have been completed. In connection with implementation of the energy strategy in the scope of renewable energy sources the Company carried out analyses of the possibility of obtaining energy from wind farms.

A number of design works were carried out due to necessity to adapt the Company's CHP plants to new environmental requirements in place since 2016. The key task is to adjust the CHP plant in Płock to the aforementioned standards. Currently tenders are being organised for the selection of a contractor for flue gas denitrogenation units for seven boilers installed at the CHP plant and joint flue gas desulphurisation unit for all boilers.

Further strengthening of PKN ORLEN Capital Group

In the scope of the third pillar of the strategy, regarding reorganisation of ORLEN Group, the Company undertook activities aimed mainly at:

- strengthening of the segment management mechanisms in the Group,
- increasing efficiency of companies in the scope of core business,
- withdrawal from companies not directly related to core business of PKN ORLEN.

The year 2011 was another year of ordering the ORLEN Group structure in accordance with the adopted segment management model. The Company increased its share in subsidiaries: ANWIL, IKS "Solino" and Rafineria Trzebinia. In November 2011 the Company executed the agreement for the sale of Polkomtel, which allowed to release the capital in the amount of PLN 3.7 billion and will facilitate further growth. Moreover, with the aim to strengthen the Capital Group management, the Company conducted in 2011 the processes of acquisition of minority shareholders in, among others, ORLEN Automatyka, ORLEN Wir, Rafineria Jedlicze, and consolidated and restructured assets of Paramo.

Upstream segment

VERVA Racing Team driver

Kuba Giermaziak

Kuba Giermaziak began his adventure in motorsports at the age of 9, when he raced in the Polish Karting Championships. He competed in karting until 2006 with excellent results, taking, among others, the second place in the ROK Cup International Final at the track in Lonato, recognized as the World Championship of Karting. Later in his career he competed in a lot of important series: in Formula Renault 2000 Northern European Cup (NEC), EUROCUP and ADAC GT Masters. Since 2010 he has been the driver of the VERVA Racing Team participating in the prestigious Porsche Supercup. He finished his first season in Porsche Supercup in the second place among rookies and in the 10th place in the general classification. In the next Porsche Supercup season Kuba Giermaziak steadily climbed to the top and fought for a place on the podium in the general classification. Eventually, after a great fight and fierce competition he took the third place in the driver classification, and with VERVA Racing Team – the fourth place in the Porsche Supercup 2011 team classification!

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 2011 works on strengthening and expansion of ORLEN Group position in the upstream segment were continued. Two first vertical exploration wells in the Lublin region were successfully completed. Three new concessions were added to the Company's portfolio: Hrubieszów, Łódź and Sieradz.

Activities carried out last year included mainly implementation of projects held in the portfolio, defining project assumptions for coming years and analysis of potential investment objectives.

In 2011 the Company consistently expanded the team of experts prepared for conducting comprehensive assessment of extraction projects, in terms of their technical and economic potential. Apart from the G&G (geological-geophysical) team, reservoir engineering and M&A divisions, the personnel of ORLEN Upstream was expanded by operational staff, supervising drilling works carried out by the Company. 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 selection in such a way that they correspond to the Company's strategy to the fullest possible extent.

The major expansion projects contributing to the development of the upstream sector in 2011 included:

- consecutive stages of the exploration and production projects in the Lublin region (including completion of two wells for exploration of shale gas),
- ongoing exploration and appraisal project on the Baltic Shelf in the Latvian Economic Zone (including preparation for exploration drilling),
- implementation of the first stage of the Sieraków project, covering initial appraisal and drilling of the first well,
- initial analyses of available data and development of project assumptions for newly acquired Hrubieszów, Łódź and Sieradz concessions,
- studies and analyses of several dozen 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.

Over the next few years, the Company will continue six ongoing projects. Three of the projects are focused on exploration and appraisal of hydrocarbon from unconventional deposits: Lublin project, Hrubieszów project and Mid-Poland project; the other three are designed to provide crude oil and gas from unconventional deposits: the Lublin Basin project, the Baltic Sea project and the Sieraków project.

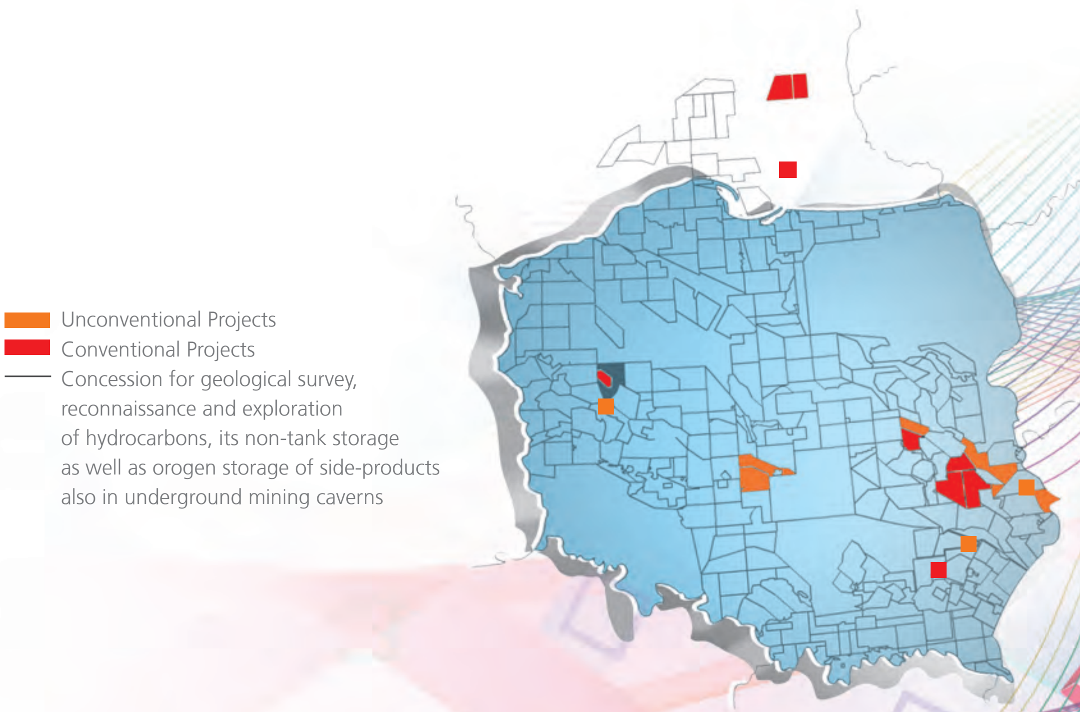
Lublin Basin project

This project is carried out by ORLEN Upstream, fulfilling the role of an operator. Key tasks performed under this project in 2011 include mainly integrated data assessment process and verification of knowledge on the geologic structure of the region and preparation of recommendations for potential drilling sites. The best perspectives concern sandy and silty Carboniferous formations and carbonate Devonian formations lying at the depth of appr. 1.2 km to over 4 km, which cover the biggest deposits ever discovered in this region.

For 2012, the company has planned additional 3D seismic works in this area. One exploration well is also possible, provided that the potential of the studied area is positively appraised.

Offshore project on the Baltic Sea

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 2011 under this project the company conducted numerous activities, most important of which concern reinterpretation and integration of available historic geological data as well as results of newly performed 3D seismic tests covering the area of over 300 km^2. Data collected from measurements helped determine more precisely the structural and tectonic construction of initially identified – on the basis of 2D tests – areas of potential hydrocarbon resources (potential crude oil and natural gas deposits). At the end of 2011 the technical team initiated the selection of sites for future wells. Designs of wells have been developed and it is possible that ORLEN Upstream will drill the first exploration well in 2012. The project carried out in the Latvian Economic Zone allows to build competence and experience by ORLEN Upstream in the scope of upstream operations at sea.



Sieraków project

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 appraisal of the structure of the Main Dolomite, confirmation of existence of industrial deposit resources, their development and launching of production.

At the beginning of 2011 the company drilled the Sieraków-5 appraisal well. Collected data served to update the static geological model and dynamic simulation model of the deposit, and consequently to select subsequent sites for appraisal wells. If planned drillings confirm the accumulation of hydrocarbon in industrial quantities, the project will enter the development stage, as part of which the company plans to make three production wells and to construct a surface facility over the next few years. In accordance with previous assumptions, another appraisal drilling is planned for 2012.

Lublin project

This is the most advanced project to confirm the presence of unconventional gas deposits, carried out by ORLEN Upstream under five concessions (Bełżyce, Garwolin, Lubartów, Lublin, Wierzbica). In the initial period the company performed 2D field seismic works under the project. Collected data were processed and integrated with historical data. In 2011, the company also developed two geological and technical projects for Wierzbica and Lubartów sites, and then drilling and measurement works were carried out on these wells. Decision regarding further works in this area will be made on the basis of results of analyses and tests of core samples. If conclusions are positive, the company plans to carry out horizontal wells and fracturing.

Drilling works were preceded by a series of meetings with inhabitants of Wierzbica and Niedźwiada municipalities, as well as with representatives of local authorities at all levels. The meetings were accompanied by lectures on the exploration and appraisal of unconventional gas deposits. Moreover, the company engaged in the life of local community by initiating educational programmes in schools in Berejów, Niedźwiada i Wierzbica, and by supporting local sports organisations and promoting environmental activities. The wells are subject to comprehensive technical supervision, which confirmed that all operations were carried out properly, in compliance with all procedures provided for by law and best operational practices. Moreover, monitoring of the natural environment and infrastructure was carried out before initiation of drilling, and the same scope of measurements has been recommended after completion of works.

Hrubieszów project

In March 2011, the Department of Geology and Geological Concessions of the Ministry of Environment granted to ORLEN Upstream another five-year concession for exploration and appraisal of natural gas deposits in the Lublin region. The area covered by the concession encompasses 414.5 km² and is located within the south-eastern part of the Lublin Coal Basin, in Chełm and Hrubieszów poviats. ORLEN Upstream plans to carry out three stages of geological works in this region. The first one will cover the analysis of historical geological data and designing of field seismic works. The second one – design, execution and interpretation of 2D seismic images covering a length of 50 km and 3D seismic images covering the area of 30 km. The third stage will include design and execution of appraisal wells. Acquisition and interpretation of seismic data is planned for 2012.

Mid-Poland project

In July 2011 the concession procedure for two new areas: Łódź and Sieradz was completed. Exploratory concessions granted to ORLEN Upstream cover the total area of 1,683.5 km² and are located in the south-western part of the Łódzkie Voivodship. The main geological targets in this area include assessment of the potential presence of hydrocarbons in unconventional deposits of tight gas and shale gas type. The three-year exploratory programme was divided into two stages. During the first year, the company will concentrate on analysis, reprocessing and reinterpretation of historical geological information. The second two-year stage will cover the acquisition of new 2D and/or 3D seismic data, integration of new and historical geological data, assessment of the area and development of recommendation for appraisal by drilling methods. The next stage will be acquisition of an appraisal concession and drilling of exploratory and appraisal wells. Reinterpretation of historical seismic data is planned for 2012.

Refinery

VERVA Racing Team driver

Patryk Szczerbiński

Patryk Szczerbiński began his sports career at the age of 8 in the Polish Karting Championships where he won Polish team championship as a rookie. Between 2007 and 2009 he competed in karting series in Great Britain with considerable successes, winning, among others: the third place in the TVKC (KF3) Championship, the second place in the Ginetta Kart Masters (KF3) and the second place in Winter Series (KF2). In 2010 Patryk Szczerbiński switched from karts to single-seat racing cars. In his rookie season he won Autosport Young Guns Championship. In 2011 he moved to compete in the BMW InterSteps series, taking the third place in the general classification.

In 2012 he has replaced Stefan Rosina and will be racing with Jakub Giermaziak in the colours of the VERVA Racing Team, in the Porsche Supercup series.

Refinery

ORLEN Group manages the complex of seven refineries located in Poland (Płock, Trzebinia, Jedlicze), in Lithuania (Mažeikiai) and in the Czech Rebublic (Litvinov, Kralupy and Pardubice). The ORLEN Group refinery segment also includes the assets of ORLEN Asfalt, ORLEN Oil (Poland) and Paramo (the Czech Republic)*.

Crude oil processed

In 2011, the 7 refineries of ORLEN Group processed 27.8 mln tonnes of crude oil, which is 1.1% less than in 2010.

In all ORLEN Group refineries, production was mainly based on REBCO, Russian crude oil, whose share in the total processed volume was 88.44%. The other crude oil brands processed in our refineries were: Brent Blend, Statfjord and Forties.

Poland

Fuel Production

PKN ORLEN, in accordance with legal provisions in force, was obliged in 2011 to fulfil the National Index Target. In 2011, the fulfilment of the National Index Target was 6.209% E (required level was 6.2). Reserve in fulfilment of the National Index Target as per BIO100 was 989 tonnes.

In total, in 2011 the Company released to the market:

- 2 402.4 thousand tonnes of petrol with biocomponents,
- 6 339.1 thousand tonnes of diesel fuel with biocomponents,

including:

- 131 thousand tonnes of ethanol in petrol,
- 304 thousand tonnes of esters in diesel fuel,
- 221 thousand tonnes of ester fuel – BIO100,
- 11.3 thousand litres of BIO85 (pilotage).

Płock

In 2011, the Refinery put great emphasis on maintaining high and effective oil processing. A new sulphur utilisation unit – Claus II, one of the biggest units of this type in Europe, was launched in October at the PKN ORLEN Production Plant. Output capacity of the new unit is twice bigger than of any of the already operating Oxyclaus and four times bigger than a single Claus. It should be emphasised that Claus II is included in the list of the consistently implemented Programme for Environmental and Power Engineering Investments.

One of the major completed investment tasks was start-up of the HON VII unit. In 2011, in the Refinery Plant the Company undertook modernisation works the HF Alkylation unit, planned to be completed in 2012.

Amount of ORLEN Group crude oil processed in 2010 – 2011, in the respective countries ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Polish refineries	14,745	14,836	0.6%
Czech refineries	4,353	3,942	-9.4%
Lithuanian refinery	8,985	9,007	0.2%
Total	**28,083**	**27,785**	**-1.1%**

** ORLEN Group oil sector is provided in the "Oils" chapter of this Report.*

At the Production Plant in Płock the Company is implementing the Programme for Environmental and Power Engineering Investments at the combined heat and power plant. It constitutes the basic source of heat and electricity for production units at the Production Plant in Płock, external recipients connected to the PKN ORLEN network and the city of Płock in the scope of heating water supplies.

In accordance with the Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions, as from 1 January 2016 the volume of concentrated emissions from combustion process (sulphur dioxide, carbon monoxide and dust) from boilers of the combined heat and power plant must be reduced by about 90%. Such big reduction of emissions will be possible due to completion of new units covering the wet flue gas desulphurisation unit, flue gas catalytic denitrogenation unit and enclosure of electrofilters, which will allow to adjust the CHP plant to the new standards.

The Company continues the tendering process for selection of a contractor for construction of the flue gas catalytic denitrogenation unit and the flue gas desulphurisation unit. Conclusion of contracts for furnishing of these units is planned in mid-2012.

In order to satisfy the growing needs of the Production Plant in Płock for power media, the Company continues the construction of the steam boiler (K8) with a power of 300 MWt, whose start-up is planned for 2012. It will meet the most stringent environmental requirements for emissions of sulphur dioxide, nitrogen oxides and dust. The new unit should be put into operation in mid-2012. After the start-up of the new boiler, the Company plans to turn off, one by one, the existing boilers to adapt them to environmental requirements provided in the Directive 2010/75/EU in the scope of NO_x and dust emissions.

In 2011, production and sale of Super urban diesel oil was replaced with winter diesel oil ON Ekodiesel Ultra, class 2 (arctic) with improved low-temperature properties.

Production volume of selected refinery products in 2010 – 2011 (Płock; '000 tonnes)

	2010	2011	Dynamics 2011/2010
Crude oil processed	14,452	14,547	1%
Total petrol	2,736	2,469	-10%
Total diesel fuel	5,359	5,646	5%
Ekoterm Plus heating oil	699	372	-47%
Aviation fuel	394	393	0%
Propane-butane fraction	241	186	-23%
Total fuels	9,429	9,066	-4%
Fuel output (%)	78.0	76.1	-1.9 p.p.

Rafineria Trzebinia – refinery

In 2011, Rafineria Trzebinia focused on ensuring the company's competitiveness and adequate efficiency of activities in such key areas as: biofuels production, crude oil processing, paraffin hydro-refining and fuel terminal services. The year 2011 was the first year of implementation of the strategy of Rafineria Trzebinia Capital Group for the years 2011 – 2015.

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. The Company aims to achieve an appropriate level of operating profitability through cost optimisation, intensification of the use of infrastructure, technological progress and implementation of new initiatives. An 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.

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 2011. In subsequent years the company foresees intensification of production capacity of esters.

In 2011 the company produced 116,000 tonnes of fatty acid methyl esters constituting biocomponent to conventional diesel oil. They were also used as self-contained fuel 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.

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. Paraffin production in 2011 amounted to almost 48,000 tonnes.

It is possible to guarantee safety and the highest quality of products from this segment 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 slack wax supplies concluded with ORLEN Oil ensures access to perfect-quality material for processing, simultaneously building the value chain of ORLEN Group.

Production volume of selected refinery products in 2010 – 2011 (Trzebinia; '000 tonnes)

	2010	2011	Dynamics 2011/2010
Crude oil processing	250	234	-6%
Biofuel production plant	115	129	12%
Rapeseed methyl esters	101	116	15%

Certificate of Business Credibility for high rating of the company's stability was awarded in 2011 to Rafineria Trzebinia by Dun & Bradstreet Poland.

Rafineria Nafty Jedlicze – refinery

In 2011 Rafinaria Nafty Jedlicze processed crude oil from domestic deposits (53 thousand tonnes, i.e. 9.8 thousand tonnes more than in 2010) and imported crude oil (2 thousand tonnes; increase by 1.5 thousand tonnes).

Production at the Rafineria Nafty Jedlicze is mainly based on the following three groups of products: heating oil, solvents and base oil. In the production structure, the largest group of products produced in Rafineria Nafty Jedlicze is light and heavy heating oils, which constitute 61% of total production. 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.

Solvents are the second largest group of products – 17% of total production. Rafineria Nafty Jedlicze is currently the only producer of low-sulphur and low-aromatic kerosene solvents in Poland. Solvents are produced at a modern unit with the use of modern catalytic hydrogen processes, allowing to eliminate from solvents undesirable substances, such as carcinogenic benzene and environmentally harmful sulphur compounds.

Another group in the production structure is base oil, constituting 15% of total production and derived from regenerated waste oil. The largest recipients of base oil are domestic and foreign producers of lubricating oil and lubricants.

Production volume of selected refinery products in 2010 – 2011 (Jedlicze; '000 tonnes)

	2010	2011	Dynamics 2011/2010
Crude oil processed	44	55	25%
Waste oil processed	32	40	25%
Ekoterm Plus heating oil	65	41	-37%
Solvents	15	21	40%

The Czech Republic

In 2011, the Czech refinery plants of ORLEN Group (Litvinov, Kralupy and Paramo) processed in total over 3.9 million tonnes of crude oil (REBCO and Brent). Reduced throughput resulted from conducting the scheduled overhaul downtime at Litvinov after four years of operations. Whereas downtimes in the refinery in Paramo during 2011 were caused by a difficult market situation.

Lithuania

In 2011, the refinery processed the total of over 9 million tonnes of Rebco crude oil, i.e. 0.2% more than in the previous year. Fuel output rose to 75%.

In 2011 the company implemented a range of projects aimed at improving product quality and operating efficiency.

Production volume of selected refinery products in 2010 – 2011 (Unipetrol; '000 tonnes)

	2010	2011	Dynamics 2011/2010
Crude oil processed	4,352	3,942	-9.4%
Total petrol	794	748	-5.8%
Total diesel fuel	1,809	1,732	-4.3%
Light heating oil	68	54	-20.6%
Aviation fuel	83	80	-3.6%
Liquefied gas	155	153	-1.3%
Total fuels	2,909	2,767	-4.9%
Fuel output (%)	75,1	77.9	2.8 p.p.

Production volume of selected refinery products in 2010 – 2011 (ORLEN Lietuva; '000 tonnes)

	2010	2011	Dynamics 2011/2010
Crude oil processed	8,985	9,007	0.2%
Other charge	302	468	55.0%
Total charge	9,287	9,475	2.0%
Total petrol	2,767	2,781	0.5%
Diesel fuel	3,531	3,682	4.3%
Light heating oil	9	9	0.0%
JET fuel	240	275	14.6%
LPG	274	248	-9.5%
Total fuels	6,821	6,995	2.6%
Fuel output (%)	73.8	74.8	1.0 p.p.

Implementation of projects designed to improve energy efficiency allowed to reduce fuel consumption in the refinery, which in turn also resulted in the reduction of the value of the Energy Intensity Index (EII) of the refinery by 4.5 points.

In order to more effectively prepare planned overhaul downtimes, the company implemented a maintenance support computer system CMMS-D7i, allowing e.g. to record and account for works. An automatic balance sheet register system was also launched, allowing to keep record of petroleum products in a quicker and more accurate manner, calculate output and minimise losses. Moreover, the pneumatic control system was replaced by modern distributed control systems (DCS) and Emergency Shutdown System (ESD).

The project for modernisation of recovery and sulphur granulation unit was initiated in December as part of environmental activities. Currently the refinery produces approximately 250 tonnes of sulphur per day. After modernisation, production will increase to 350 tonnes/day, with possible extension to 450 tonnes/day.

Bitumen

Poland

In 2011, ORLEN Asfalt provided over 800,000 tonnes of bitumen in the Polish market and foreign market, which constitutes an increase by 12% as compared to 2010. Continuation of the policy of priority supplies to the Polish market, while strengthening the position on foreign markets, has brought the expected results. ORLEN Asfalt maintained a dominant position on the Polish bitumen market and recorded a rise of 59% of sales on foreign markets. Export volume of ORLEN Asfalt in 2011 reached almost 150,000 tonnes. Romania was the most important export direction.

A significant element of activities undertaken by the company in 2011 was continuation of processes aimed at consolidation of the bitumen segment in the ORLEN Group.

High quality of products and services offered by ORLEN Asfalt is confirmed by numerous awards and distinctions awarded by prestigious institutions and trade media. Last year the company was awarded the title of a laureate and the QI Golden Emblem in the category: highest quality product for Orbiton modified bitumen.

ORLEN Asfalt production volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Road bitumen	694	790	14%
Industrial bitumen	17	8	-55%
Total (bitumen and other products)	711	798	12%

The Czech Republic

In 2011 the Czech bitumen market decreased by 20%. Paramo maintained the market share at the level of about 32%, while sales volume dropped by 17%.

In 2011, commercial activities were activated in ORLEN Group, which contributed to increased sales of ORLEN Asfalt products on the Czech market.

Road bitumen production volume at Litvinov and Paramo in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Road bitumen	222	199	-10%

Bitumen sales volume at Paramo in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Road bitumen	223	209	-6%
Modified bitumen	13	8	-38%
Industrial bitumen	41	30	-27%
Total (bitumen and other bitumen products)	**294**	**259**	**-12%**

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

Lithuania

In 2011 road bitumen production in Lithuania was by 8% higher than in 2010. This is the result of increased demand associated with transfer of a major part of road works from 2010. Share of sales to the Polish market by ORLEN Lietuva dropped by 7%, to the Lithuanian and Latvian market rose by 2% and 5%, respectively, whereas on the Estonian market it was maintained at the same level as last year. .

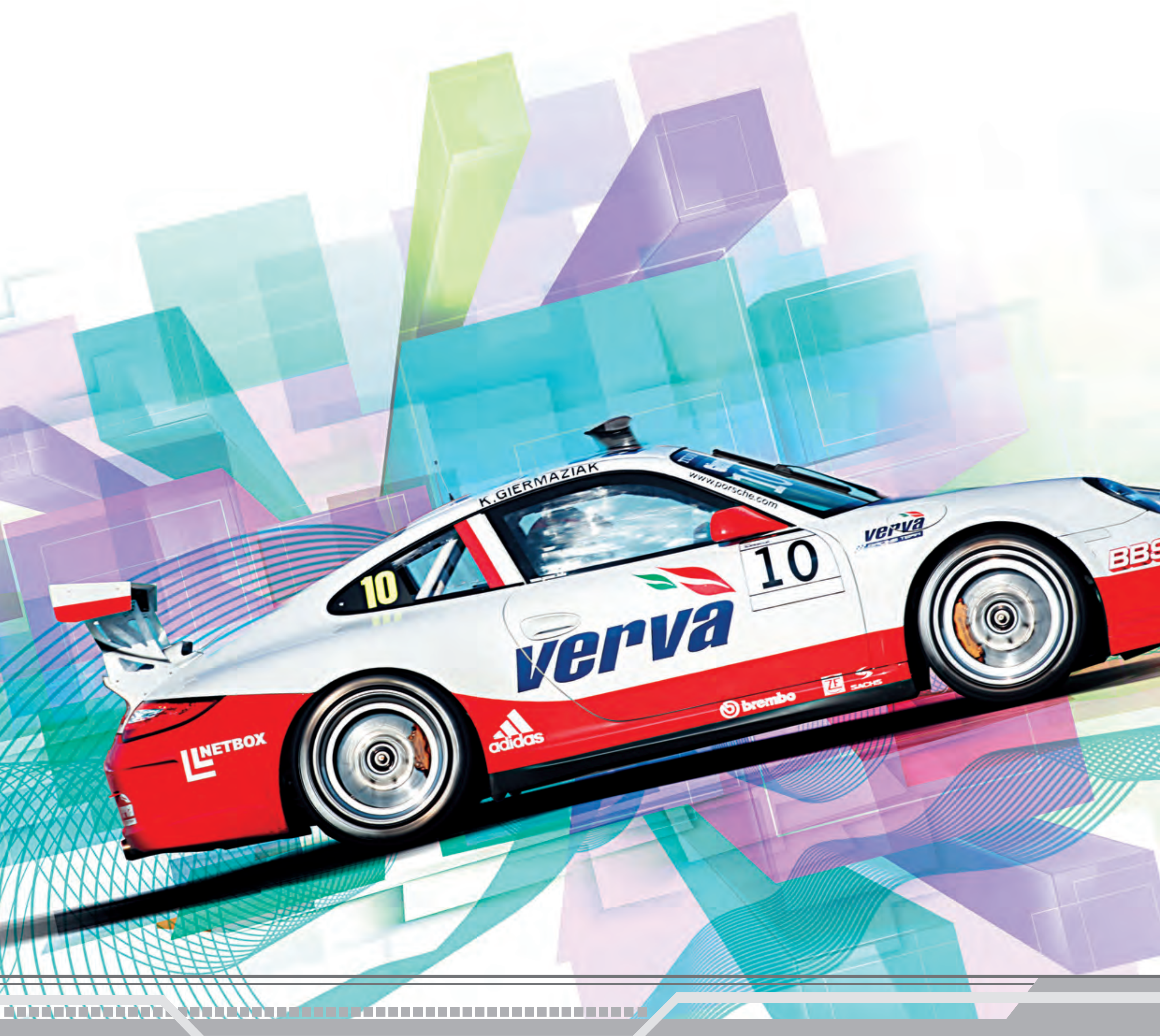
ORLEN Lietuva bitumen production volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Road bitumen	121	131	8%
Roof pitches	5	1	-80%
Total	126	132	5%

Bitumen sales structure at ORLEN Lietuva in 2010 – 2011

	2010	2011
Poland	10%	3%
Lithuania	51%	53%
Latvia	21%	26%
Estonia	18%	18%

Logistics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Turkish Grand Prix 2011, Istanbul

Asian debut

The VERVA Racing Team started the 2011 Porsche Supercup season with the Turkish Grand Prix race in May. The track located in the Asian part of the city proved to be extremely difficult due to different types of turns and fast bends. Moreover, conditions on the track, namely high air temperature made the task even more difficult for drivers. The race was a big challenge, especially for Kuba, who competed for the first time on this track.

Results of the VERVA Racing Team drivers in the Turkish Grand Prix:

- Kuba Giermaziak – 7^{th} place
- Stefan Rosina – 10^{th} place

Logistics

Efficient logistics infrastructure guarantees the country's energy safety and constitutes the basis of the Group's competitiveness on the fuel market. The key to effective logistics, supporting the implementation of the abovementioned tasks, is to maximise the efficiency and fluency of flow and storage of both products and raw materials. ORLEN Group achieves this objective, by using the network of complementary elements of infrastructure: fuel terminals, land and offshore transhipment facilities, transmission networks of 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 Petrotrans (Czech Republic).

In 2011 – in accordance with adopted assumptions – the Company completed the implementation of important system solutions in the area of logistics, which brought expected increase of cost efficiency. The most important events in the area of logistics in 2011 were:

- start-up of the 105 km-long fuel pipeline Ostrów Wielkopolski – Wrocław,
- implementation of the new IT system for planning of fuel supplies to fuel stations aimed at improving operational indicators of road logistics,
- completion of expansion of the capacity of the fuel terminal in Wrocław to over 50,000 m^3 associated with the functioning of the new pipeline from Ostrów Wielkopolski,
- completion of construction of the unit for dosing alcohol to petrol at the fuel terminal in Wrocław.

Mandatory Reserves

Poland

Legal regulations impose on businesses and traders operating on the Polish market the obligation to maintain mandatory reserves of crude oil and fuels (except LPG). In 2011, the established level was 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.

In 2011, PKN ORLEN crude oil reserves were stored in undergound caverns of IKS "Solino" and the Production Plant in Płock.

PKN ORLEN stored mandatory reserves of fuel in over twenty places across Poland, among others at fuel terminals owned by the Company, aboveground tanks leased from external companies, underground caverns of IKS "Solino" and tanks located on the premises of the Production Plant in Płock.

The agreement regarding collection and storage of mandatory reserves of crude oil concluded between PKN ORLEN and Lambourn expired at the end of the first quarter of 2011 in connection with changed rules for storing mandatory reserves of crude oil. Consequently and in accordance with legal provisions in force in Poland regarding maintenance of mandatory reserves, PKN ORLEN purchased crude oil from Lambourn. The ownership of the raw material was transferred to PKN ORLEN on 1 April 2011, after payment of the entire amount resulting from this transaction.

In 2011, PKN ORLEN remained a party to the agreement concluded on 23 December 2010 with Maury, which was the basis for sale of a part of crude oil reserves.

Pursuant to the Ordinance of the Minister of Economy of 7 July 2011, producers and traders operating on the Polish market were given an opportunity to temporarily reduce the level of reserves held. As a consequence, PKN ORLEN reduced the amount of mandatory reserves of petrol by 4% and diesel oil by 7% in relation to levels reached as at 30 June 2011.

In 2011 the Company also continued activities regarding development of comprehensive solutions at 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 government agency dedicated for these purposes.

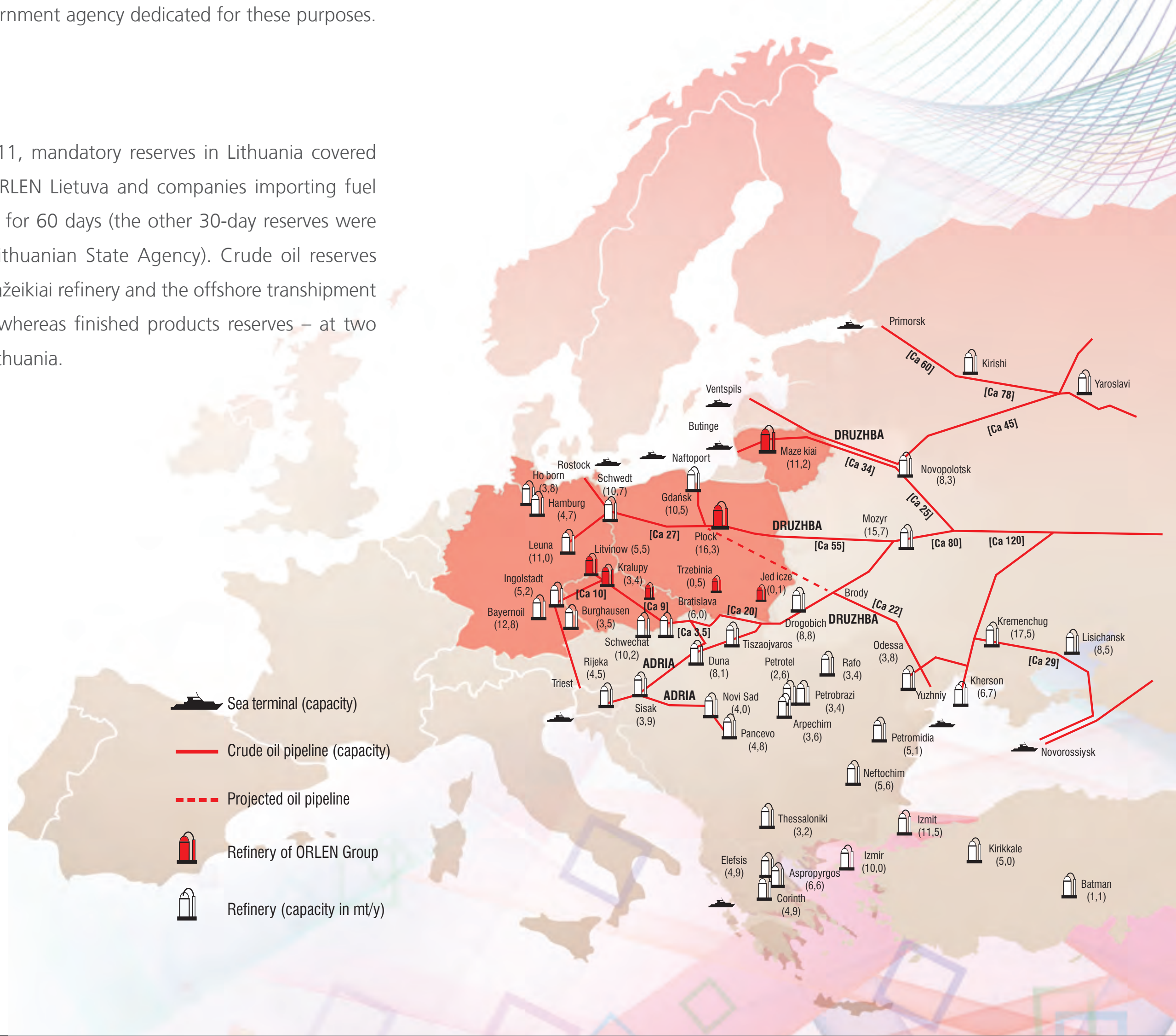
Lithuania

As at the end of 2011, 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 transhipment terminal in Būtingė, whereas finished products reserves – at two terminals leased in Lithuania.

Pipelines

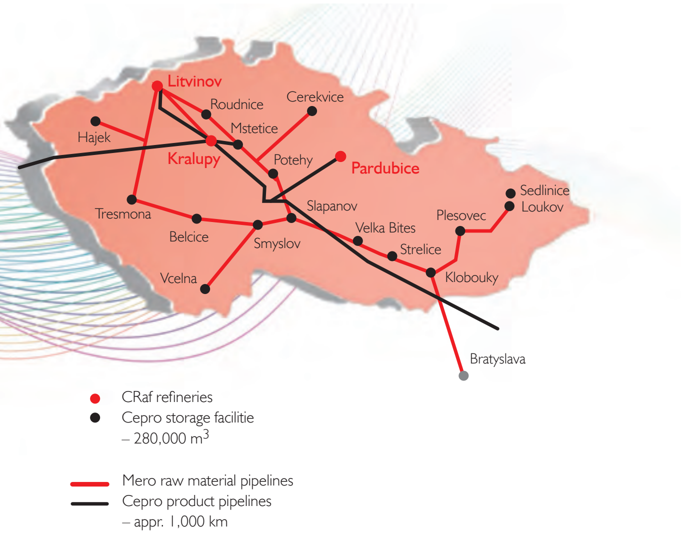
In 2011, ORLEN Group used own and leased pipelines of the total length of over 2,000 km to transport raw materials and products in Poland, the Czech Republic and Lithuania.

Main refinery assets



Logistics infrastructure used by ORLEN Group in Poland

Logistics infrastructure used by ORLEN Group in the Czech Republic



Poland

In logistics operations in 2011, the Company used 379 km of its own pipelines and 570 km of product pipelines belonging to a state-owned operator, PERN "Przyjaźń".

At the beginning of 2011 the Company opened a new section of the 105 km-long Ostrów Wielkopolski – Wrocław pipeline for transfer of fuel products.

In 2011, liquid fuel (petrol, diesel, Ekoterm, Jet A-1) was shipped from Płock in the following proportions:

- via pipelines – 70%,
- via rail – 22°,
- via road tankers – 8%.

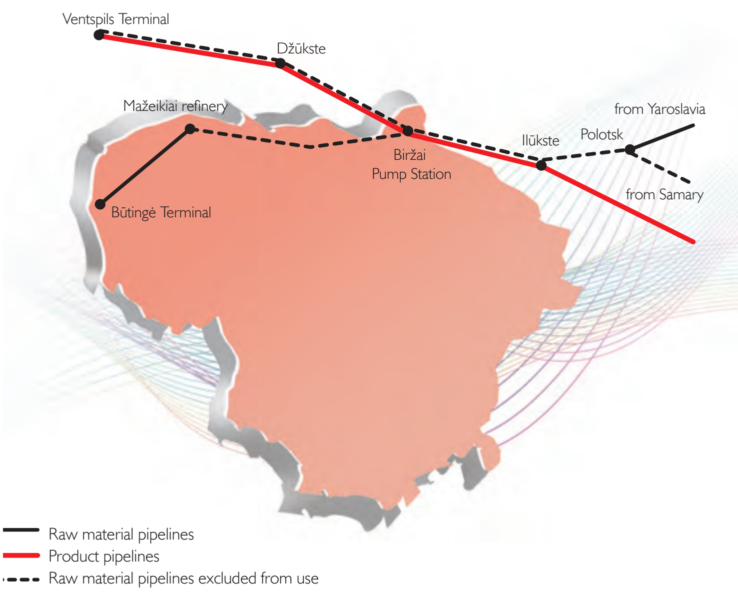
The Czech Republic

In 2011, like in previous years, Unipetrol Group used 1,100 km of pipelines belonging to the state-owned operator, CEPRO. Raw material was transported via Druzhba and IKL pipelines, operated in the Czech Republic by a state-owned enterprise – MERO. The length of Druzhba and IKL on the territory of the Czech Republic is 357 km and 169 km, respectively.

Lithuania

The "Friendship" ("Przyjaźń") pipeline, which used to deliver crude oil to the refinery in Mažeikiai until 2006, still remains closed. The Samara – Ventspils product pipeline section owned by ORLEN Lietuva goes through the territory of Lithuania. In 2011, about 5.7 mln tonnes of diesel oil from Russia was transported by transit to Ventspils in Latvia.

Logistics infrastructure used by ORLEN Group in Lithuania



Fuel Terminals

ORLEN Group used about 30 storage facilities in Poland and Lithuania, including 14 corporate Fuel Terminals, and storage space leased from external operators. In the Czech Republic, the Company used 12 warehouses of the state-owned operator – CEPRO and 2 storage facilities leased from external operators.

Poland

For the purposes of acceptance, storage, distribution and transhipment of fuel in 2011, ORLEN Group logistics used the total of 25 facilities across Poland (corporate Fuel Terminals and the facilities of third-party operators). At the end of 2011, total storage capacity at the disposal of PKN ORLEN (as corporate infrastructure or under concluded agreements) was approximately 6.7 mln m^3.

The Czech Republic

In 2011, the Czech Unipetrol Group used 12 storage facilities in the storage and distribution network of the state-owned operator CEPRO and 2 storage facilities leased from third-party operators. Its Slovakian daughter company (Unipetrol Slovakia) used one terminal.

Lithuania

Last year, on the territory of Lithuania ORLEN Lietuva used two terminals to carry out logistic operations and two terminals for storing mandatory reserves, one of them (Subacius) was additionally used for small-sale sales operations.

Rail Transport

Poland

Rail transport in ORLEN Capital Group was carried out by its own company ORLEN Koltrans and external carriers. PKN ORLEN transported by rail about 7 million tonnes of products, including 4.3 million tonnes of liquid fuel, i.e. petrol, diesel oil, heating diesel oil and Jet A-1.

The Czech Republic

In Unipetrol Group rail freight is carried out by Unipetrol Doprava, the biggest carrier in rail tank transport in the Czech Republic (the third biggest freight carrier). In 2011, it transported – using its own trains – about 2.44 mln tonnes of goods, including approximately 1.44 tonnes for the companies of Unipetrol Group. Apart from rail transport services, the company also provides siding services as well as rental and cleaning of tanks.

Lithuania

The total of rail transport was over 8.5 mln tonnes, of which over 5 mln tonnes were loaded on ships and exported via Klaipedos Nafta terminal and Kroviniu terminals to western Europe and the United States.

Road Transport

In 2011, 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 24.3%.

In Lithuania, we 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 Poland the docks in Świnoujście, Gdynia and Gdańsk were used for maritime cargo handling. In total over 1.23 million tonnes of products were transhipped in 2011.

The volume of ORLEN Lietuva products transhipped in marine docks amounted to over 5 mln tonnes in 2011.

Investment projects

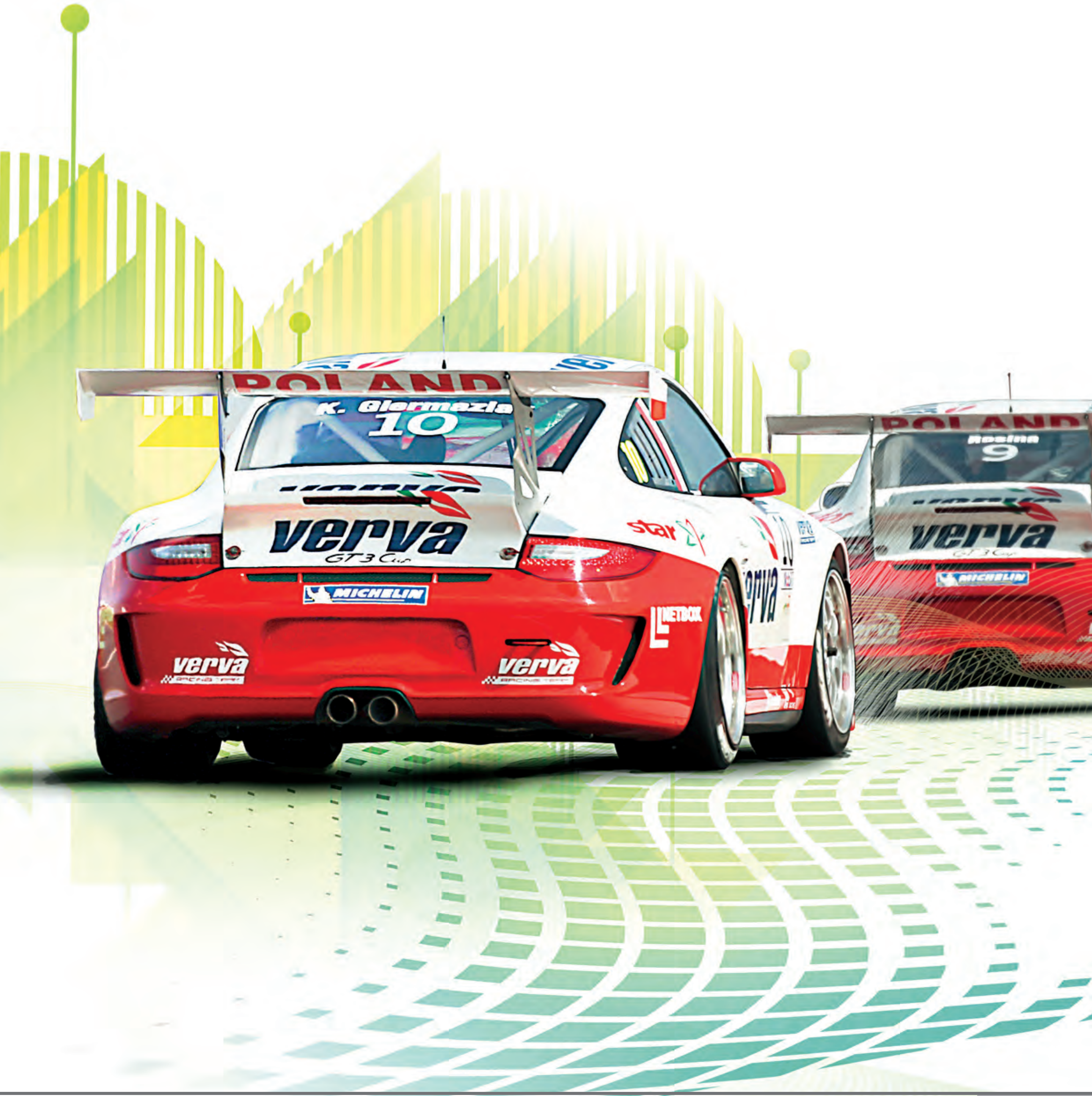
In order to adjust the area to changing external and internal conditions the Company determines activities improving the logistics management on an ongoing basis.

The Company intends to continue already initiated long-term investment processes, e.g. works implementing the developed cavern strategy, in particular as regards activities leading to permanent improvement of operability and safety of using the existing underground oil and fuel storages at IKS "Solino". The project is planned to be completed in 2015.

Investment plans for 2012 in the area of logistics in Poland:

- modernisation and adaptation of the C-3 heavy heating oil technological plant at the fuel terminal in Świnoujście in order to adapt it to legal requirements and increased export of products to ships,
- improving the efficiency of the Płock – Ostrów Wielkopolski pipeline section to maximally use transmission capacity of pipelines,
- construction of the facility for receipt, storage and distribution of Jet A-1 aviation fuel at the fuel terminal No. 111 in Wrocław,
- construction of a petrol tank and extension of the siding at the fuel terminal in Żurawica to improve its operability,
- increasing the handling capacity of petroleum products at the railway siding of the fuel terminal in Świnoujście,
- adjustment of ten fuel terminals to requirements stipulated in the Ordinance of the Minister of Transport on technical conditions of technical inspection to be met by equipment for filling and emptying transport tanks.

Wholesale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Gran Premio de España 2011, Catalunya

Kuba's Spanish corrida

The Spanish Circuit de Catalunya near Barcelona proved to be lucky for Kuba Giermaziak and the entire VERVA Racing Team. Kuba started the race from the third position, and then fought an exciting battle with the Briton Nick Tandy for the second place. Eventually, Kuba finished third and won the first ever podium place for the Polish VERVA Racing Team.

Results of the VERVA Racing Team drivers in the Gran Premio de España:

- Kuba Giermaziak – 3rd place
- Stefan Rosina – 6th place

>>>>>>>>> Wholesale

The global economic crisis did not spare fuel markets, where sales dropped mainly due to lower transport needs. Lower petrol consumption was also recorded in Poland: sales in the period from 2006 to 2011 decreased by approximately 8%. Drop in consumption of petrol in favour of diesel oil is a trend which has been observed for many years on the European market. This trend is expected to continue in subsequent years.

The Polish LPG market was the fastest growing market in the world. From the introduction to sales of LPG used as automotive fuel until 2005 there was an upward trend in sales of this fuel. From 2005 there has been a slowdown in the growth trend, reasons for which should be sought primarily in the excise tax increases in 2004 and 2005, and in saturation of the market at that time with vehicles equipped with LPG systems. The volume of consumption of LPG in Poland is falling year on year. Although a slight post-crisis rebound was observed in 2010, generally there was a drop in consumption of this fuel by 10% in 2006 – 2011. This trend is expected to continue in subsequent years. Increase of tax burdens in the case of this fuel is so realistic that it largely prevents vehicle owners from investing in new LPG systems. New proposals of the European Commission regarding taxation of fuel constitute another factor that may significantly restrict this market. By 2020 sales are projected to decrease by 22%.

Light heating oil is the type of fuel whose consumption is decreasing at the fastest pace. There was an over 38% drop in the years 2006 – 2011. Restrictive policy regarding the use of this fuel for traction purposes and the growing use of other energy sources for heating purposes at relatively lower prices contributed to this situation. According to forecasts, downward trend is expected to continue in subsequent years.

The aviation fuel market is developing very dynamically. This results mainly from increased demand for air transport, both passenger and freight, necessitated by globalisation, but also easier and cheaper access to multiple connections. According to data from the Civil Aviation Office passenger traffic at Polish airports increased from 8.8 million passengers handled in 2004 to 21.7 million in 2011. This represents an increase by 147%. Other European countries also show positive dynamics, and according to forecasts the global passenger traffic will increase on average by 5.1% per annum until 2030. Whereas air freight transport is expected to grow at the level of 5.6% on a yearly average. This signifies an increase of the air transport market by about 2% above the world GDP.

The European market is characterised by a continuous demand for heavy heating oil. On land, heating oil is being replaced by more environmentally friendly natural gas, however this decrease is partially offset by increased demand for bunker fuel. Maritime transport supports the largest share of international trade in goods. It is estimated that in terms of cargo volume about 75% of world trade in goods is carried out with its use. At the same time, a continuous increase of demand for this type of transport is observed. However, major changes in the structure of this fuel are expected to occur due to provisions regarding exhaust gas emission. The volume of sales of heavy heating oil with sulphur content up to 3.5% will be decreasing year on year in favour of fuel with sulphur content below 0.5%.

ORLEN Group – Fuels

In 2011, ORLEN Group conducted wholesale of refinery products mainly on the territory of Poland, the Czech Republic, Germany, Slovakia, Lithuania, Latvia, Estonia and Ukraine, and by sea mainly on the American market. In 2011, the refinery segment provided 65% of total sales of ORLEN Group, retail share was 20.7%, and petrochemical segment covered the remaining 14.3% of total sales.

ORLEN Group reported in 2011 sales in the fuel segment of about 15.6 million tonnes, which means an increase by almost 1% (approximately 110,000 tonnes) as compared to 2010. Sales increase was mainly influenced by increase of 4%, i.e. by over 345,000 tonnes of diesel oil sales. Petrol and light heating oil sales decrease by 4% and 17% results from decreasing consumption of these fuels.

ORLEN Group refinery products sales volume on local markets in 2010 – 2011 ('000 tonnes)

	2010				2011			
Fuels	Poland	Czech Republic	L thuania	Total	Poland	Czech Republic	Lithuania	Total
Petrol	1,551	632	2,783	4,966	1,323	659	2,770	4,752
Diesel	4,027	1,483	2,909	8,419	3,853	1,497	3,414	8,764
Light heating oil	792	54	1	847	648	46	9	703
Jet	431	86	246	763	441	79	311	831
LPG	297	86	109	492	349	79	117	545
Total – fuels	**7,098**	**2,341**	**6,048**	**15,487**	**6,614**	**2,360**	**6,621**	**15,595**
Other refinery products								
Bitumen	721	255	113	1,089	794	236	129	1,159
Oils	85	43	0	128	103	56	0	159
Heavy heating oil	1,166	144	1,559	2,869	1,442	114	1,613	3,169
Other	2,652	106	88	2,846	2,788	86	77	2,951
Total – other	**4,624**	**548**	**1,760**	**6,932**	**5,127**	**492**	**1,819**	**7,438**
Total	**11,722**	**2,889**	**7,808**	**22,419**	**11,741**	**2,852**	**8,440**	**23,033**

Poland

Wholesale volume on the Polish market amounted in 2011 to about 11,741 thousand tonnes and increased by 19 thousand tonnes as compared to the previous year. The most important fuel in terms of sales volume (3,853 thousand tonnes) and share in the sales structure (33%) was diesel oil. Decrease in petrol sales to 1,323 thousand tonnes resulted from trends observed in fuel consumption. Lower demand for light heating oil contributed to its reduced sales.

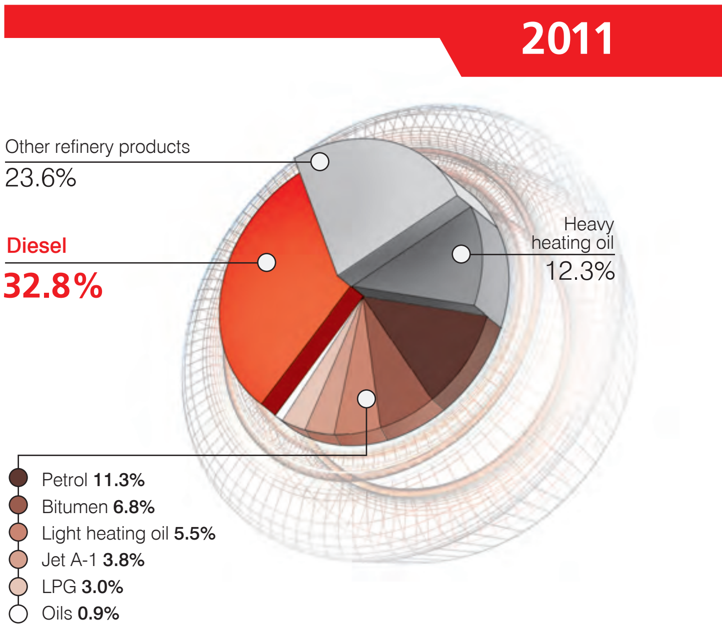
Strong competition on the wholesale market in Poland in 2011 necessitated adjustment of the market offer to the current demand and customers' needs. Numerous structural and organizational changes were introduced in the area of PKN ORLEN wholesale by redefining sales processes. The main goal was to improve the quality of customer service. Continuous development of IT systems was conducive to building competitive advantage of PKN ORLEN.

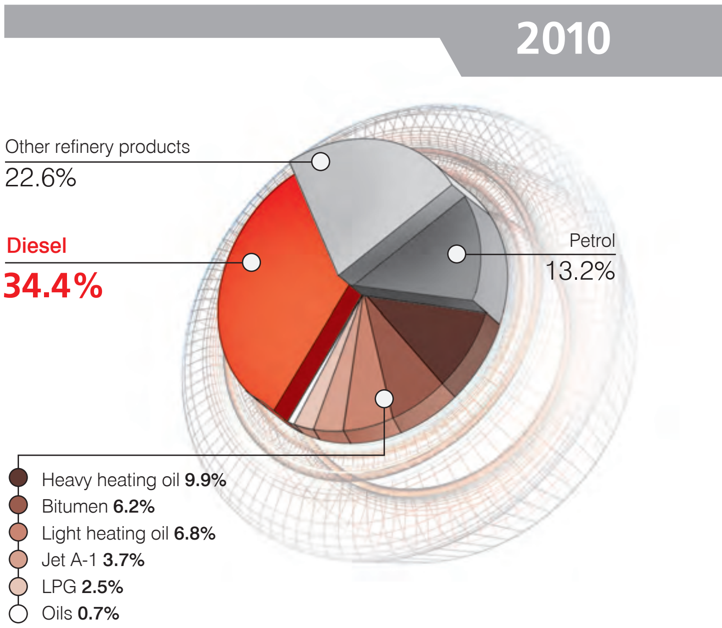
A growing number of users of these tools indicates their positive reception by the market.

Self-service

As the first operator on the liquid fuel market, PKN ORLEN implemented a full self-service system for customers of fuel terminals, allowing to enter ready loading plans. Customers have gained the possibility to fully plan the collection of fuel directly in terminal systems. Due to application of a central solution and identification of planned operations with magnetic cards, total driver service time was reduced from 90 to 40 – 60 minutes, and the processes of authorising drivers and vehicles to collect fuel are simpler and more customer-friendly. Currently the system covers all own PKN ORLEN bases where fuel wholesale is carried out. The number of agreements signed with the system users increased in 2011 by 49%, and the number of issued cards by 38%.

Sales structure of refinery products on the Polish market in 2010 and 2011





Source: Own study based on internal information.

E-faktura – electronic invoicing

The major advantage of electronic data exchange is the possibility to eliminate large amounts of paper, and thus to make significant savings and promote pro-environmental attitudes. The new system allows participants of invoicing process to save time, ensures them convenient storing and reviewing as well as unlimited, safe and quick access to invoices from every place and at any moment. Electronic invoicing contributed to increase of efficiency and safety of document circulation. Advantages of the new system were appreciated by 10% more users than in the previous year, and currently it is used by almost 70% of customers.

E-hurt – electronic wholesale

Wholesale platform, fully integrated with the Self-service system, is a tool for remote communication with a customer, ensuring the user a safe access to information stored in the PKN ORLEN systems. Via website customers may obtain data regarding fulfillment of signed agreements, and thus – the possibility of safe management of contracts, orders and commissions. The application enables access to promotional information and reports provided for customers. Popularity of this tool is best evidenced by the fact that at the end of 2011 already over 43% of all sales orders entered into the system were generated through the Hurt (Wholesale) portal, and the number of agreements signed with users more than tripled. In order to ensure further development and offer new functional solutions for customers, the Company decided to expand the system in 2012.

Contact-centre

Increasingly demanding customers expect nowadays fast and comprehensive service. Responding to their needs, PKN ORLEN provides an innovative contact-centre system. It allows to increase work efficiency, improve service quality and build contact history with respective customers. Gradual expansion of the knowledge base regarding customers (both current and potential) allows to reach them more effectively. Integration of elements with the SAP system allows to increase sales activities and to react to market changes more quickly.

Major advantages of contact-centre system include:

- ensuring easy access to the most important information both for customers and employees of the Company,
- allowing to increase the Company's profits by more efficient service of current customers and reaching new ones with the offer (promotional campaigns, information on services etc.),
- integration of the contact-centre with business systems,
- reduction of customer waiting time for connection and unification of the dialogue between the account manager and the customer.

Fuel exports

Volume of foreign sales of petrol in 2011 amounted to 518 thousand tonnes and was almost 12% higher than in 2010. The major recipient of petrol from the Polish market was Great Britain, where over 30% of this fuel was sold. Other important markets were Ukraine and Sweden, where 26.6% and 24.4%, respectively, of petrol sold abroad was shipped. The Netherlands has become an important target market; almost 119% more petrol than in the previous year was shipped there, and this country's share in purchases of this fuel was over 14%.

Poland sells abroad also small amounts of diesel oil. In 2011, foreign sales amounted to 112 thousand tonnes. The biggest amount was sold to Great Britain (42 thousand tonnes), France (33 thousand tonnes) and Spain (20 thousand tonnes).

Fuel imports

Apart from internal production, the domestic market was also supplied from imports. Purchases abroad were made by domestic fuel producers, foreign companies and groups of wholesalers. Due to the geographic location, and also because of the price of fuel offered, major suppliers of fuel from abroad were refineries located around our borders, i.e. German, Czech, Slovak and Belarusian. Purchases from the Nordic countries through the ports in the Gulf of Gdańsk were also important. Imported fuel is sent mainly to the markets of southern Poland (Upper and Lower Silesia), western Poland (area from Szczecin to Wrocław) as well as north-eastern and eastern Poland.

Total volume of foreign purchases to Poland in 2011 dropped by over 1% compared to last year and amounted to 2,442 thousand tonnes, of which diesel oil constituted 78% and petrol 22%.

In 2011 about 1,906 thousand tonnes of diesel oil were imported, which represents a decline by 7% compared to last year. The biggest amount of diesel oil (6.3% more than last year) was purchased on the German market. Share of Germany in the structure of Polish purchases of this fuel was about 50%, followed by diesel oil imported from Lithuania, Slovakia and Great Britain – which only in 2011 became a noticeable direction of diesel oil purchases.

In 2011, 530 thousand tonnes of petrol were imported to Poland, i.e. almost 28% more than a year before. Most of it (49%) was purchased in Slovakia. Petrol purchases from this country increased by over 35% (yoy). Germany came second with the share in purchases of this fuel of nearly 47%, and the volume of purchased petrol increased by over 22% as compared to 2010. Total volume

Fuel import to Poland in 2010 – 2011 ('000 tonnes) *

	2010	2011	Dynamics 2011/2010
Petrol	415	530	28%
Diesel oil	2,048	1,906	-7%
Light heating oil	12	6	-50%
Total	**2,475**	**2,442**	**-1%**

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

Sources of fuel import to Poland in 2011

	Diesel	Petrol	Light heating oil
Germany	50%	47%	100%
Lithuania	25%	0%	0%
Slovakia	15%	49%	0%
Great Britain	5.5%	0%	0%
Belarus	1.5%	0%	0%
Hungary	1.5%	3%	0%
Latvia	0.9%	0%	0%
Finland	0.5%	0%	0%
Czech Republic	0.1%	1%	0%
Total	**100%**	**100%**	**100%**

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

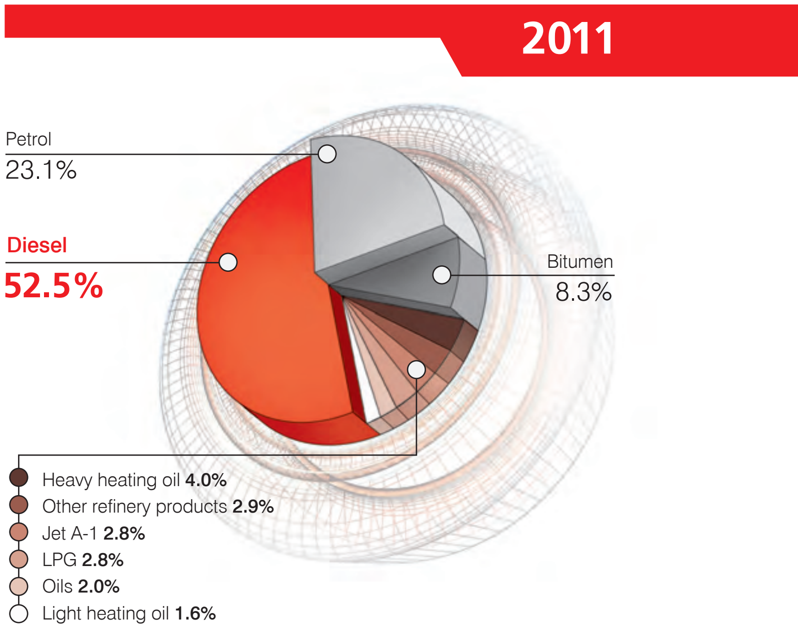
of petrol imported from these two countries constituted 96% of Polish purchases. Import, with surplus of this fuel at the internal market, results from economic calculations (lower costs of petrol supply logistics to regions distant from domestic refineries) and performance of swap transactions.

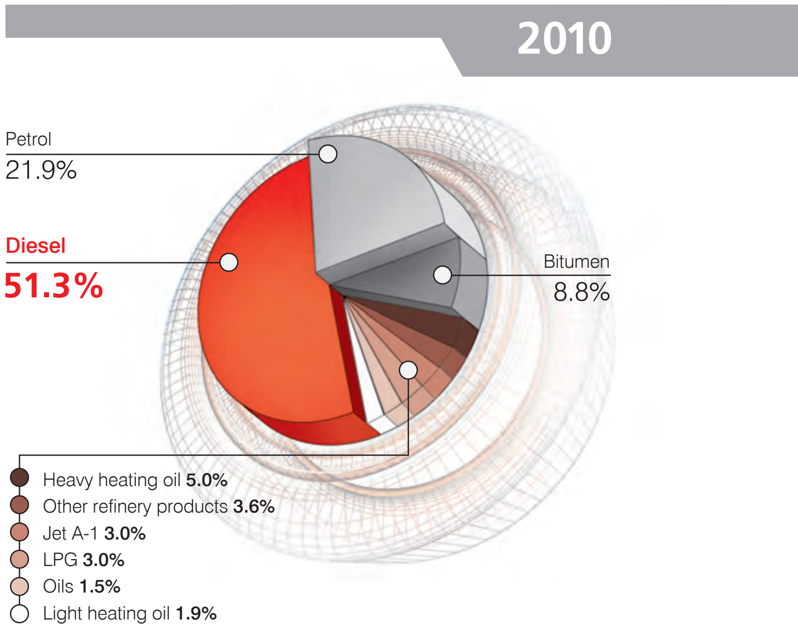
The Czech Republic

In 2011 the Company tightened cooperation with key fuel companies, hypermarket networks and independent wholesalers and retail networks. Export to markets of neighbouring states was also developed, particularly to Slovakia. ORLEN Group optimised supplies of fuel and biocomponents between refineries.

Sales volume generated in 2011 by Unipetrol Group amounted to 2,852 thousand tonnes and was 1% lower than a year before. Despite increased tax burdens and production downtimes in Litvinov and Paramo, the share in petrol and diesel oil sales was maintained on the Czech market. In 2011, the Company sold 1,497 thousand tonnes of diesel oil, whose share in the sales structure of Unipetrol Group exceeded 52%. Thanks to new contracts and centralised sales activities within Unipetrol Group, petrol sales increased by over 4% to the level of 659 thousand tonnes, with downward market trends in consumption of this fuel of about 4%.

Sales structure of refinery products on the Czech market in 2010 and 2011





Source: Own study based on internal information.

Lithuania

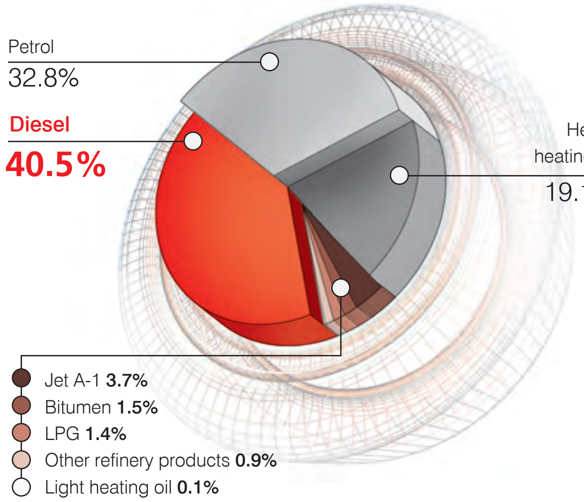
ORLEN Lietuva may boast of the highest sales growth in the refining segment among ORLEN Group companies. The success of the Company was increase of the share of main products on markets where it operates, particularly in Latvia and Estonia. In 2011, refinery products sales amounted to 8,440 thousand tonnes and were 8% higher than in the previous year. Diesel oil and petrol constituted the strongest group (73% of sales). Diesel oil sales amounted to 3,414 thousand tonnes and grew by 17% as compared to 2010. Petrol sales declined by 13 thousand tonnes and amounted to 2,770 thousand tonnes. Small decline in sales, much less than strongly negative dynamics of the total market, was possible due to increase of the company's market share in petrol trade. In 2011, a significant growth of Jet A-1 aviation fuel sales was observed, which increased by almost 26% and amounted to 311 thousand tonnes.

In 2011 the company continued long-term contracts concluded in a previous year 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 on these markets, fuel stations networks, transport companies, production plants. Also 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.

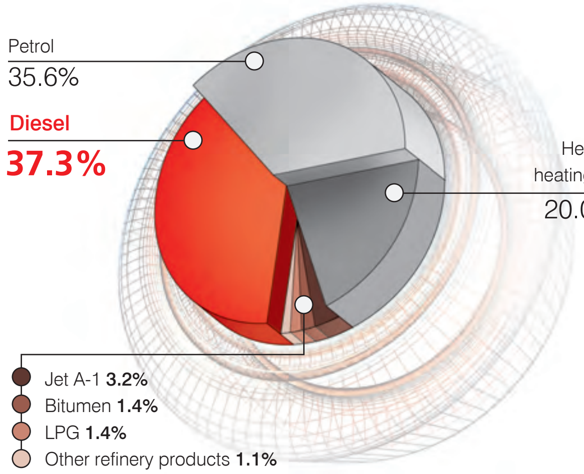
Due to high quality of offered petroleum products, efficient logistics system of deliveries and customer service, in 2011 most wholesale customers did not use the option of purchase or import from other refineries and decided to continue cooperation with ORLEN Lietuva.

Sales structure of refinery products of ORLEN Lietuva Group in 2010 and 2011

2011



2010



Source: Own study based on internal information.

ORLEN Group – other refinery products

In 2011, total wholesale of other refinery products in ORLEN Group amounted to almost 7.5 million tonnes. This result was by over 7% higher than the one achieved in 2010. The biggest increases were reported in the segment of oils, whose sales increased by over 24% and heavy heating oil – increase in sales by over 10% as compared to 2010. Whereas bitumen sales grew by over 6% in relation to 2010.

Poland

Wholesale of other refinery products on the Polish market increased by 11% as compared to 2010. The biggest increase was recorded in heavy heating oil and oil sales, by about 24% and 21%, respectively. In 2011 most other refinery products, except heavy heating oil, were sold inside ORLEN Group to ORLEN Asfalt and ORLEN Oil. Business entities operating on the Danish market were the main recipients of heavy heating oil in 2011.

The Czech Republic

Heating oil with low sulphur content was sold mainly to power units of the plant in Kralupy and 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. Decrease in bitumen sales resulted mainly from periodic downtimes of the refinery in Pardubice and a break in the bitumen supply in the period from August to September 2011 (overhaul downtime). This was additionally influenced by reduced demand on the Czech market estimated at 15-20% and lower demand in the neighbouring countries resulting from a difficult economic situation. Intensified competitive activities in this region and macroeconomic factors causing a relative increase of bitumen prices were also significant. Other refinery products were mainly sold within the Unipetrol Group, surpluses were bought by other companies operating in the Czech Republic.

Lithuania

Wholesale of other refinery products in Lithuania increased by over 3% (yoy) as compared to 2011. Bitumen sales increased by over 14%, and heavy heating oil sales by over 3%. In 2011 the main purchasers of heavy heating oil 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.

Oils

Grand Prix de Monaco 2011

Monte Carlo

Kuba Giermaziak took the fifth place in Monte Carlo, unfortunately Stefan Rosina did not reach the finish line after a collision with a rival. Although after qualifications appetites were greater, the fifth place was satisfactory and in line with expectations. The fight took place at the start and at the first turn. Kuba started very well and on a straight line attacked Nick Tandy, who pressed him to the wall by making an aggressive maneuver. Kuba dropped to the fifth place and kept it until the end of the race.

Results of the VERVA Racing Team drivers in the Grand Prix Monaco:

- Kuba Giermaziak – 5th place
- Stefan Rosina – did not finish the race

Oils

In 2011 oil sector in ORLEN Group, consisting of ORLEN Oil (Poland) and Paramo (Czech Republic), recorded sales on the level of 459 thousand tonnes. This result was by 3% better in comparison to the previous year. Base oil, process oil and lubricant sales increased in that period to over 252 thousand tonnes, which is 7% more than in 2010.

Poland

Consistent implementation of the strategy of PKN ORLEN oil segment, prepared by ORLEN Oil, as well as upturn on the market – both domestic and export – helped maintain sales volume of lubricants, base oils, slack waxes, extracts and other products of ORLEN Oil in 2011.

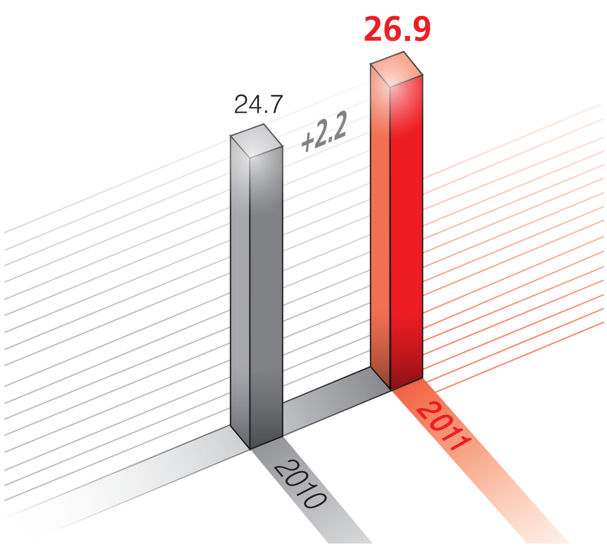
Last year the company completed implementation of the Base Oil Interchange programme which allows to develop production of high quality motor oils with the use of own base oils. At the same time over a dozen new technologies were implemented which covered products from the area of automotive and industrial oils.

These activities resulted in the introduction of a new line of synthetic oils MaxExpert and a few highly specialised products for industry (fire-resistant hydraulic fluids, gear oils and working oils).

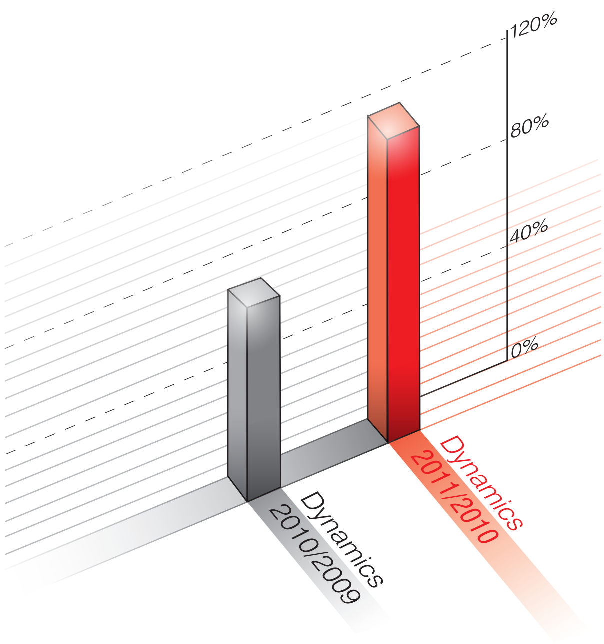
In 2011 the Company signed agreements with research and scientific institutes, which provided the basis for development of a few big product programmes in the area of lubricants, as well as base oils and derivatives.

ORLEN Oil actively participated in activities of international and domestic technical organisations (e.g. ATIEL, Polish Committee for Standardization), contributing to development of their policies and standards. The company also hosted one of the two most recognised ACI summits – European Base Oils & Lubricants.

Market share, 2010/2011 (%)



Platinum brand sales dynamics



Sales

With an over 26% share in the market, ORLEN Oil is one of the leaders of the Polish lubricants industry. In 2011 the company achieved a lot of considerable successes, both on the domestic and foreign markets. This was possible due to consistent implementation of elements of the Oils Segment Strategy and one of its part – "ORLEN Oil strategy for sales of lubricants on foreign markets for 2011 – 2013", presenting development strategy for ORLEN Oil exports to Central Europe markets. The strategy assumes the use of the company's strengths and its contribution so far to strengthening the position in Central Europe. This should be supported by development of Platinum brand, increase of sales in lubricants strategic segments and implementation of export strategy on selected markets.

In 2011, a line of oils from the Premium segment for passenger cars – MaxExpert was introduced to the market, Platinum Classic offer was expanded and a new line of Smarol lubricants was launched.

In 2011 the company continued reorganisation of the distribution network initiated in 2010. ORLEN Oil acquired shares in Małopolskie Centrum Dystrybucji (distribution centre) and disposed of shares in smaller centres, still cooperating with them as an authorised distributor.

At the end of 2011 ORLEN Oil had a model shelf with Platinum Classic products and other products in 4,500 automotive stores and eight commercial networks.

In 2011, base oils sales through the terminal opened in 2009 increased by 19%.

ORLEN Group oil segment sales volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Lubricants	126	135	7%
Base oils and process oils	109	117	7%
Other products	209	207	-1%
Total	444	459	3%

Production

In 2011 the Company continued activities aimed at optimising the costs of allocation of lubricant products production between ORLEN Oil production plants, on the basis of a special programme for modernisation of blending units in Trzebinia and Jedlicze. The programme will be continued in 2012, and it is planned to be completed in 2014.

On the extraction part of the unit for selective refining with furfural 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.

In 2011, activities were carried out with the purpose to launch a new line for lubricants packaging. It will be fully implemented in 2012.

ORLEN Oil sales volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Lubricants	84	91	8%
Base oils	79	76	-4%
Other products	200	193	-4%
Total	363	360	-1%

ORLEN Oil production volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Lubricants	89	92	3%
Base oils*	155	147	-5%
Other products	213	184	-14%
Total	457	423	-7%

** Base oils production volumes include own consumption.*

The Czech Republic

In 2011, lubricants produced by Paramo totalled over 49 thousand tonnes, 17% more than in 2010. The Company reported increase in production of process oil and base oils (by 23% and 27%, respectively) and increase of 56% in the by-products segment.

Due to the economic situation in 2011 the Czech oil market still experienced low demand. Despite unfavourable conditions the volume of sales of oils and lubricants on the Czech market in 2011 was 5% higher as compared to the previous year. This was possible thanks to market activities which involved initiation of cooperation with important customers, i.e. authorized automotive services.

Oil segment production volume in Paramo in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Lubricants	42	49	17%
Base oils*	55	70	27%
Process oils	13	16	23%
Other products	9	14	56%
Total	**119**	**149**	**25%**

**Base oils production volumes include own consumption.*

Paramo sales volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Lubricants	42	44	5%
Base oils	17	25	47%
Process oils	13	16	23%
Other products	9	14	56%
Total	**81**	**99**	**22%**

Retail

Porsche Carrera World Cup 24h

Nürburgring

Instead of a race on the street track in Valencia the organizers of Porsche Supercup decided to organize for the first time in history a common racing weekend for all Porsche series. The competition took place on the Nürburgring circuit Northern Loop – Nordschleife. This very difficult, and particularly dangerous race track nicknamed the Green Hell has more than 25 km. The challenge for the VERVA Racing Team drivers was not only a difficult track, but also heavy rain. An accident with Kuba Giermaziak and Patric Huisman made the race even more dramatic. Fortunately, the Pole managed to finish the race and win points for the team.

Results of the VERVA Racing Team drivers in the Porsche Carrera World Cup 24h:

- Stefan Rosina – 8th place
- Kuba Giermaziak – 13th place

>>>>>>>> Retail

In 2011, ORLEN Group carried out retail sales in Poland, the Czech Republic, Lithuania and Germany. The entities managing commercial activities on specific markets were, respectively: PKN ORLEN, Benzina, Ventus Nafta and ORLEN Deutschland.

ORLEN Group motor fuel sales in 2011 increased by 4.3% as compared to 2010 and reached a record level of over 8.9 billion litres. Again a significant increase of 9.5% of diesel oil sales in relation to the previous year was achieved and petrol sales grew by 2.0%.

Poland

Fuel sales at PKN ORLEN fuel stations in Poland reached a record level of 5.7 billion litres and were by 2.8% higher than in the previous year. The record result is due mainly to higher sales of diesel oil and development of fleet sales, distinguished many times as the best offer for business customers on the market.

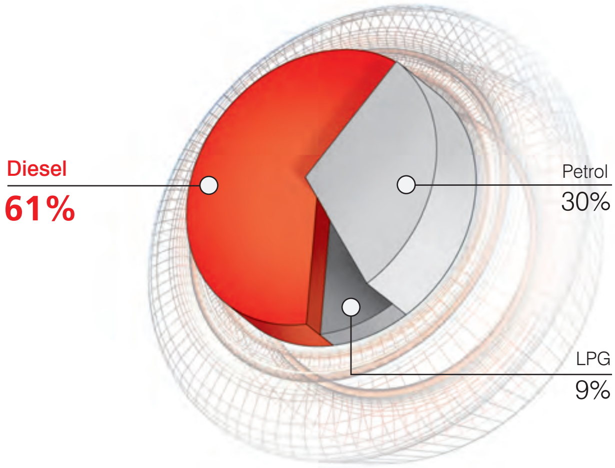
Consistent implementation of the retail network development strategy allowed to increase PKN ORLEN share in the Polish retail market to the level of above 32%.

Growth dynamics of revenue from sales of non-fuel products year on year amounted to about 6,0% in ORLEN Group.

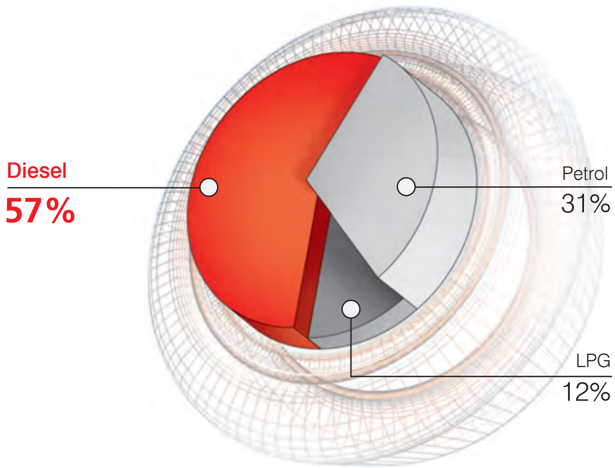
During the entire year 2011, PKN ORLEN retail network in Poland was expanded by 42 stations and on 31 December 2011 it covered 1,756 stations, including 1,254 operating under the ORLEN brand and 490 under the BLISKA brand (the remaining 12 stations operating under

PKN ORLEN – structure of fuel sales on the Polish market

2011



2010



the CPN or Petrochemia Płock brands will be modernised or closed before the end of 2012). At the end of 2011 the PKN ORLEN retail network comprised of 1,337 own stations (985 ORLEN brand and 340 BLISKA brand), and 419 franchised stations (269 ORLEN brand and 150 BLISKA brand).

The number of Stop Cafe foodservice facilities at ORLEN stations at the end of 2011 reached the level of 431, whereas Stop Cafe Bistro – 222.

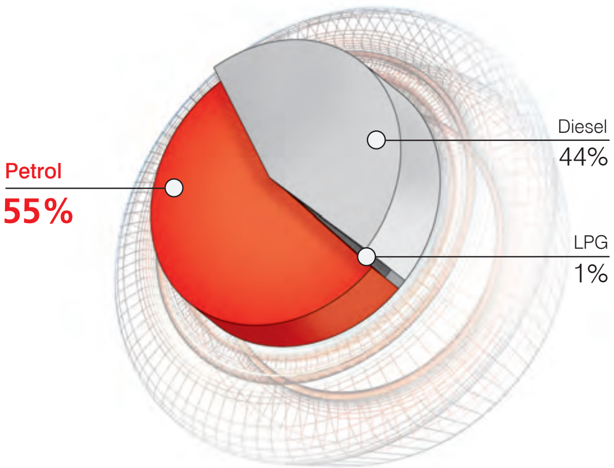
Germany

The year 2011 was a record year for ORLEN Deutschland in terms of motor fuel sales volumes. The result of over 2.6 billion tonnes – with consumption on the German market maintained on a similar level – represents an increase by 10% as compared to 2010. This allowed the Company to obtain over 5% share in the German retail market. Equally strong growth was recorded in the non-fuel sales segment. Turnover of shops located at fuel stations increased in comparison to 2010 almost by 9%.

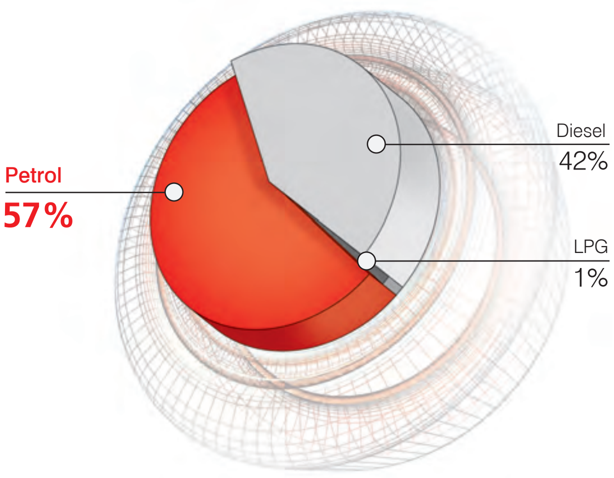
By the end of 2011, ORLEN Deutschland managed a network of 567 fuel stations, including 541 under the STAR brand in the economy segment, 25 stations located at hypermarkets and 1 station in the Premium segment. Efficient STAR brand positioning brought results in the form of strengthening of ORLEN Deutschland position as a strong player in the economy segment of the market. The process of integrating to the network 56 fuel stations acquired at the end of 2010 from OMV also proved to be successful.

ORLEN Deutschland – structure of fuel sales on the German market

2011



2010



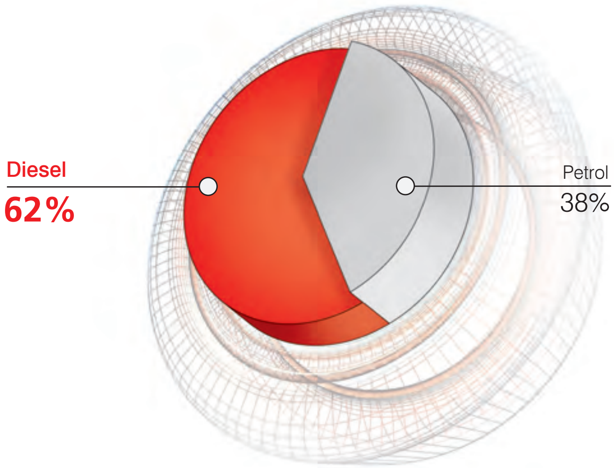
The Czech Republic

In 2011, a drop in fuel consumption by over 3% was observed on the Czech market, whereas the share of Benzina in the fuel retail sales market remained at the level of about 14%. Contraction of the market was caused by high fuel prices and negative signals from macroeconomic environment. The Czech government reacted to the crisis by implementing an austerity package, resulting, among others, in reduction of public sector salaries, which decreased the purchasing power of the society.

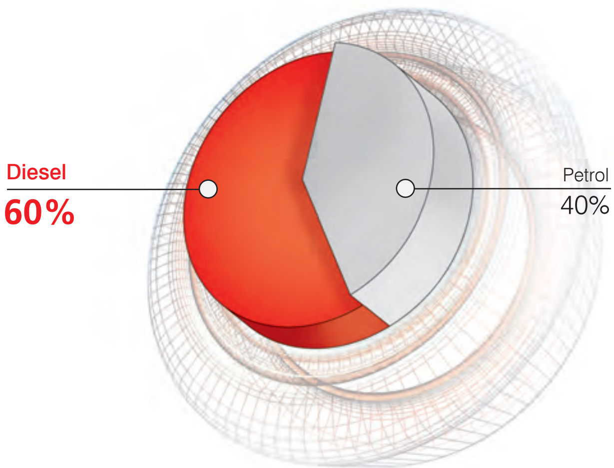
Major success of Benzina in 2011 was an increase in sales of premium diesel oil under Verva Diesel brand by over 60%, achieved due to its highest quality and availability at 208 Benzina and Benzina Plus stations. This allowed the company to achieve growth rate of diesel oil sales higher than the market. Consumption of Verva ON fuel and Verva100 offered only on the Czech market totalled over 51 million litres. Moreover, Benzina is successfully introducing Stop Cafe brand into its market. At the end of 2011, Benzina managed a network of 338 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 increased in 2011 from 113 to 115. In the economy segment there were 223 stations, whereas in the previous year their number was 224.

Benzina – structure of fuel sales on the Czech market

2011



2010



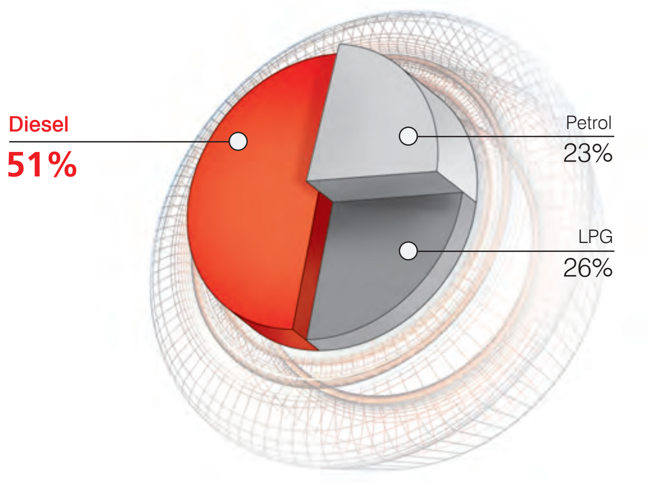
Lithuania

In 2011 AB Ventus Nafta recorded a decrease in sales by nearly 16% as compared to the previous year in the situation of declining retail consumption on the Lithuanian market.

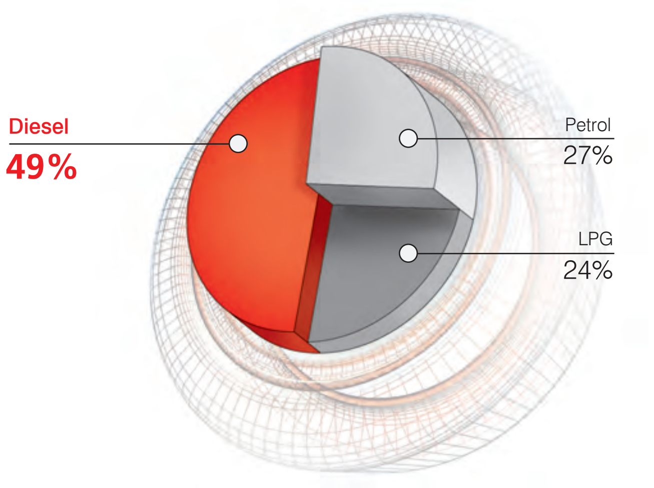
By the end of 2011, ORLEN group operated a network of 35 fuel stations in Lithuania managed by AB Ventus Nafta.

AB Ventus Nafta – structure of fuel sales on the Lithuanian market

2011



2010



Petrochemicals

British Grand Prix 2011

Silverstone

The VERVA Racing Team drivers finished the race on the Silverstone circuit in the 7th and 8th place. Stefan Rosina and Kuba Giermaziak were snapping at each other's wheels for most of the race. Kuba lost a lot of time right out of the gates. He launched well, but immediately after that the rear wheels of his Porsche began to spin. As a result, he dropped to the 8th position, which he kept until the end of the race.

Results of the VERVA Racing Team drivers in the British Grand Prix:

- Stefan Rosina – 7th place
- Kuba Giermaziak – 8th place

Petrochemicals

The high quality of products and efficient distribution network make the petrochemical segment of ORLEN Group one of the strongest entities of this type in Central and Eastern Europe. In 2011 it comprised units of the Petrochemical Plant in Płock, PTA Plant in Włocławek, Basell Orlen Polyolefins and business units from Unipetrol Group. The Company is the sole manufacturer of olefins, polyolefins, terephthalic acid (PTA) and most petrochemicals in Poland and the Czech Republic.

Petrochemicals

In 2011 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 imbalanced market – demand significantly exceeded 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 on the market and price reductions. Whereas the fourth quarter was characterised by decline in both demand and prices of petrochemicals, with rising raw materials prices.

ORLEN Group petrochemical products sales volumes in 2010 – 2011 ('000 tonnes)

	2010			2011		
	Poland	Czech Republic	Total	Poland	Czech Republic	Total
Polyethylene	181	288	469	179	261	440
Polypropylene	165	242	407	167	212	379
Ethylene	187	112	299	189	102	291
Propylene	170	43	213	169	39	208
PTA	0	0	0	336	0	336
Toluene	34	3	37	20	2	22
Benzene	71	211	282	159	202	361
Ortoxylene	6	0	6	12	0	12
Acetone	23	0	23	26	0	26
Butadiene	63	30	93	67	59	126
Glycol	64	1	65	79	1	80
Ethylene oxide	18	0	18	28	0	28
Phenol	35	0	35	41	0	41
Plastic Materials	324	12	336	385	11	396
Artificial fertilisers	1,170	0	1,170	1,115	0	1,115
Other	437	843	1,280	447	760	1,207
Total petrochemicals	2,948	1,785	4,733	3,419	1,649	5,068

The most important event in 2011 in the petrochemical segment was start-up of production at the Paraxylene and Terephthalic Acid units, which influenced increase in the sales of PKN ORLEN products in Poland in 2011, as compared to the previous year. Start-up of the Paraxylene unit caused simultaneous increase in the supply of benzene – and more than twofold increase in sales – as well as decline in the supply of other aromatics (toluene, xylenes) used as charge for the Paraxylene unit.

Polish and Czech plants of ORLEN Group produced over 967 thousand tonnes of ethylene, 1% more than in 2010. Propylene production in the reported period topped 623 thousand tonnes, i.e. it was approximately 3% higher than in the previous year.

Poland

In 2011, the level of petrochemical production was mostly influenced by start-up of two new facilities, i.e. Paraxylene unit at the Petrochemical Plant in Płock and Purified Terephthalic Acid production facility at the PTA Plant in Włocławek. The Olefin unit with associated units operated uninterruptedly without downtimes in 2011.

The factor negatively influencing the production of ethylene in 2011 was reduction of products collected by ANWIL. This was caused by ongoing reduction of production resulting from failure at the Electrolysis Department in 2010. Its effect was restriction – due to lack of chlorine supply – of PVC production.

Total production volume of selected petrochemicals in PKN ORLEN in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Ethylene*	502	555	10%
Propylene**	340	359	6%
Butadiene	63	67	7%
Benzene	108	201	87%
Toluene	111	193	73%
Phenol	35	41	18%
Acetone	22	26	19%
Glycols	65	87	34%
Cooling fluids	12	10	-20%
Sulphur	145	137	-5%
Ethylene oxide	18	27	53%

* *Total production for sale and own consumption.*
** *Total propylene production at the Production Plant in Płock.*

Petrochemicals

In the first half of 2011, commissioning of PX/PTA facility was completed (with production capacity of 400 thousand tonnes of paraxylene and 600 thousand tonnes of PTA). Production on these units was launched in March and April 2011. In May, performance tests were performed, which confirmed designed output capacity in the scope of paraxylene (PX) and terephthalic acid (PTA) production. The volume of production of terephthalic acid – a product not manufactured in Europe before, amounted in 2011 to over 350 thousand tonnes. This product is used mainly for manufacture of PET pellets for bottles in food industries and polyester fibres (textiles) as well as polyamide fibres (materials with high tensile strength). Main recipients of PTA from PKN ORLEN are Lithuania, Germany, Russia and China.

In 2011, an increase in production of ethylene (10%), propylene (6%) and butadiene (7%) was recorded, as compared to 2010. This resulted from uninterrupted operation of units (no downtimes) and increased demand for products. The Ethylene Oxide II unit, partially modernised in the previous year, was used in 2011. Ethylene consumption at this unit was 30% higher than in 2010. Very high increase in the production of benzene (87%) and toluene (73%) results from start-up of the paraxylene facility.

The biggest recipients of ethylene and propylene from plants in Płock were producers of plastics: Basell Orlen Polyolefins and ANWIL. Other products, apart from the local market, were sold mainly to Germany, Lithuania and Spain. Initiation of sales of a new product – PTA – enabled the Company to enter new markets: Spanish, Turkish, Russian and Chinese.

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 significant purchasers were producers of synthetic rubber, polyester fibres, ethoxylates (used in the production of surface active agents), polyols, caprolactam, phenolic resins, coolants, phthalic anhydride and artificial fertilisers.

The Czech Republic

Czech plants Unipetrol RPA produced over 412 thousand tonnes of ethylene. This represents a decline by almost 9% in comparison to 2010. Propylene production in the reported period topped 264 thousand tonnes and was 1% lower than in the previous year. Decline in production volume was caused by overhaul downtime, conducted in a four-year cycle, of key production facilities in the second half of 2011. Situation on the Czech petrochemical market did not differ from that on other European markets, where the price of crude oil and its derivatives was a major factor influencing actual prices of petrochemical products, as well as general cost efficiency of their production. The agrochemical market was characterised by fluctuations of demand and prices. As in the previous years, most of ammonia produced by Unipetrol RPA went to the local market due to a long-term agreement for ammonia supplies with the biggest fertiliser producer in the country. However, the sales structure of urea changed. The amount allocated to the domestic market increased in comparison to previous years and constituted 60% of total urea sales. Foreign customers portfolio remained practically unchanged, as urea, as in the past, was supplied almost exclusively to customers in Central Europe. As much as 90% of urea for export was sold to Germany, Austria and Poland..

Petrochemicals were used e.g. in textile and food industries for production of packaging, household goods and toys.

Production volume of selected petrochemicals in Unipetrol RPA in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Ethylene	455	412	-9%
Propylene	266	264	-1%
Benzene	213	199	-7%
Urea	186	170	-8%
Ammonia	249	223	-11%

Sales of the main petrochemical products in 2011 (%)

	Ethylene	Propylene	Benzene	Ammonia	Urea
Domestic sales	77	57	88	99	59
Export	23	43	12	1	41

Plastic Materials

In 2011, ORLEN Group produced 2% less polyolefins than in 2010.

The production of polypropylene in 2011 totalled 556 thousand tonnes and was by approximately 2% lower than that generated in 2010. In the reported period, polyethylene production in Poland and the Czech Republic was at the level of 633 thousand tonnes and was by 1% less than in 2010.

Poland

In total, Basell Orlen Polyolefins (BOP) units produced 17 thousand tonnes of products more than in 2010. In 2011, the 1,500,000th tonne of polyethylene was produced at the HDPE (high density polyethylene) unit and the 2,000,000th tonne of polypropylene at Spheripol unit.

Over 46% of 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 2011, the main foreign recipients of Płock products were customers from Germany, Italy, France, Belgium and Sweden, as well as from Russia and Spain.

Polyolefin production volumes at BOP in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
LDPE (Low Density Polyethylene)	96	98	2%
HDPE (High Density Polyethylene)	262	267	2%
PP (Polypropylene)	327	337	3%
Total	**685**	**702**	**2%**

Polyolefin sales volumes at BOP in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
HDPE	265	265	0%
LDPE	98	94	-4%
PP	331	334	1%
Total	**694**	**693**	**0%**

The Czech Republic

The share of export sales in total sales volume amounted to respectively, 75% for HDPE and 50% for PP. Relatively high export share resulted from consistent implementation of sales strategy aimed at maximum allocation of volume on markets generating the best sales margins. Unipetrol RPA managed to further reduce the share of brokers (traverse) in total sales of polymers, which additionally helped improve margin potential.

Sales volumes were also influenced by the overhaul downtime planned under the four-year cycle and conducted in the period from September to October and the necessity to collect stocks for strategic customers before, during and after production downtime. Due to downtime, sales were lower than in the previous year and than expected in plans for 2011.

In 2011, Unipetrol reported decline in HDPE production by 6%, and in polypropylene production – by 10%. Sales of HDPE and polypropylene were lower in 2011 as compared to the previous year by 9% and 12%, respectively. Compared to 2010, HDPE export dropped by 9% and polypropylene export by 12% in 2011.

Investment projects

The most important task carried out in 2011 was commissioning, and then start-up of the Paraxylene unit and the PTA plant in Włocławek, producing paraxylene and terephthalic acid (PTA). In March and April products were obtained from these plants, and start-up was carried out on 1 May 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 (with production capacity of 120 thousand tonnes annually) 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.

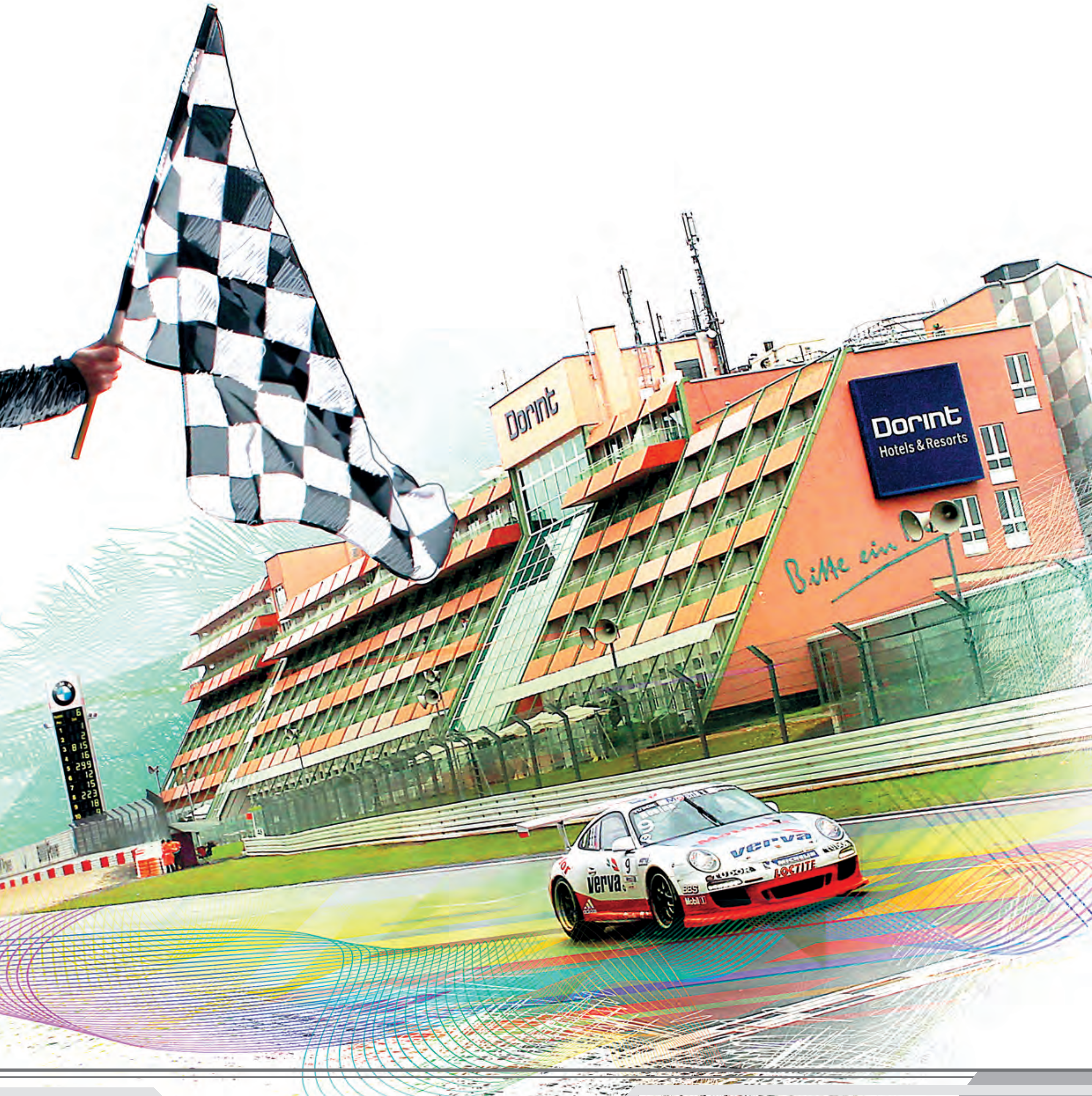
Polyolefin production volumes at Unipetrol in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
HDPE	284	268	-6%
PP	242	219	-10%
Total	526	487	-7%

Polyolefin sales volumes at Unipetrol in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
HDPE	288	261	-9%
PP	242	212	-12%
Total	530	473	-11%

Chemistry



Großer Preis von Deutschland 2011, Nürburgring

Disenchanting Nürburgring

– another podium for VERVA Racing Team

This time Kuba Giermaziak and Stefan Rosina were racing on a shorter version of the track, built in the 80s. Kuba Giermaziak again proved his great abilities, as he was the fastest in the qualifying session and won the pole position in qualifications. Kuba finished in the 2nd position. Stefan Rosina was the fifth to cross the finish line, so the VERVA Racing Team recorded its best ever result.

Results of the VERVA Racing Team drivers in the German Grand Prix:

- Kuba Giermaziak – 2nd place
- Stefan Rosina – 5th place

Chemistry

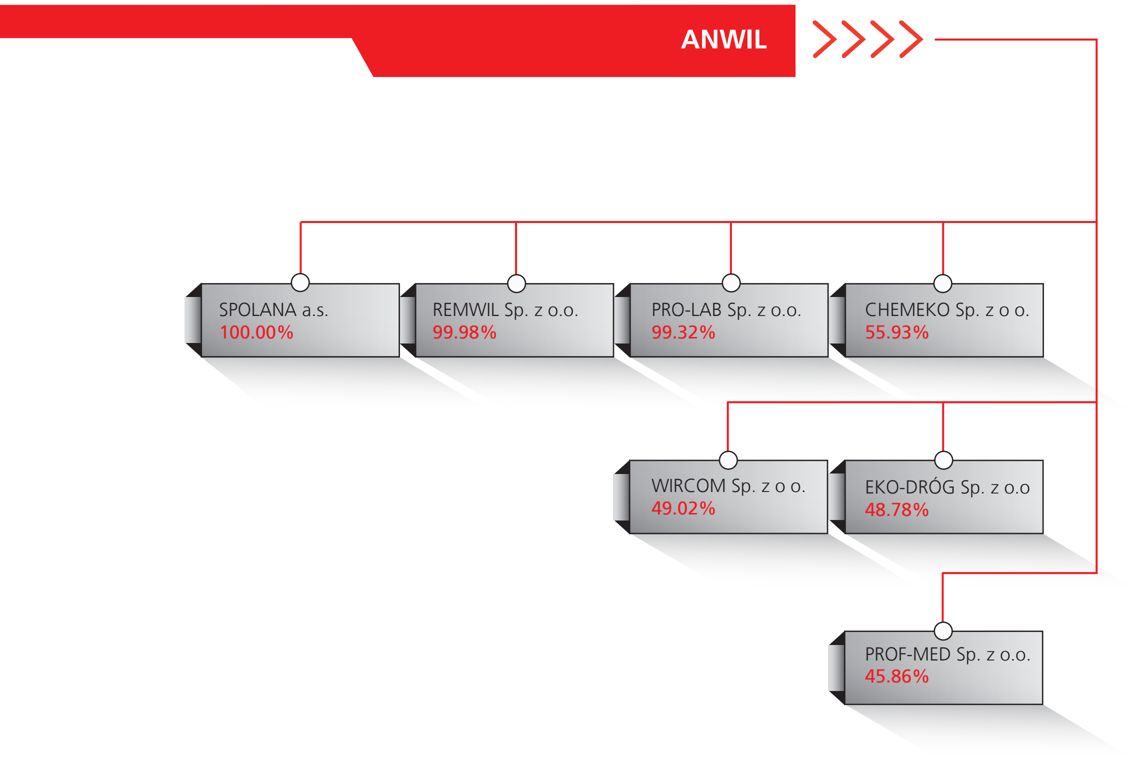
The most important entities of the chemical segment in 2011 were ANWIL (Poland) and Spolana (Czech Republic). In order to optimise core business in the third quarter of 2011 the Company started the process of divestment of shares in ZUP Eko-dróg held by ANWIL, which will be continued in 2012. Also in 2011 the Company initiated the process of sale of 100% shares of Spolana, which ultimately was not completed due to lack of satisfactory bids.

Production

Main products of the chemical segment are:

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

ANWIL – chemical area structure in 2011



ANWIL production volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Polyvinyl chloride	195	276	41%
PVC processing	52	50	-4%
Sodium hydroxide (as per 100% NaOH)	76	135	77%
Nitrogenous fertilisers (as per nitrogen)*	282	277	-2%
Total	605	738	22%

* *Includes nitrate and Canwil.*

Polyvinyl Chloride (PVC)

In 2011 the relations of prices of ethylene and PVC were unfavourable for producers of polyvinyl chloride. Increase of ethylene prices with stagnation, and even decline of PVC prices, negatively influenced margin obtained from PVC sales. This coincided with economic downturn on markets such as Italy and Spain, and financial troubles in Greece, which had an impact on plastics industry margins. Major challenge was downturn in the construction industry and in general – in the economy. At the beginning of the second quarter demand for PVC was higher than in the previous months, however still lower than expected. Around mid-June slowdown in demand for PVC was observed in Europe, even on previously stronger markets (Benelux countries, Scandinavia, France, Germany). After holidays, further anticipation was visible on the European PVC market. Uncertainty of the economic situation on the construction market discouraged buyers to rebuild stocks. They delayed return to full capacity after the holiday season and maintained low levels of performance in months which are traditionally good for PVC producers. As a result, low demand for PVC was still observed in Europe at the turn of the third and fourth quarter. At the end of the year, further weakening of the European economy and traditional seasonal slowdown in construction activities adversely affected key market segments for PVC, such as window profiles and PVC pipes. Decrease in ethylene contract prices did not improve margins earned by PVC producers – PVC manufacturers expected its further reductions. November was the last full working month in PVC processing, as a lot of smaller companies announce production breaks in late December and early January. There was further decline in sales and increase in stocks held by PVC producers.

Summing up the situation in Europe, it should be noted that according to preliminary estimates demand in Western Europe fell by about 3% in 2011 as compared to 2010, when it increased by almost 4%. The PVC market suffered in the past two years and decreased to 4.3 million tonnes in the previous year, as compared to about 4.5 million a year earlier (for comparison: in 2007 demand was about 6 million tonnes).

In Poland, as in Europe, the main PVC recipient is still the construction market, with key share of producers of window profiles, pipes and fittings. In contrast to the situation on the European market, situation on the domestic market was better than in 2010 (according to preliminary estimates demand for PVC in Poland increased by about 4%).

In 2011, the share of companies in the ORLEN Group chemical segment on the Polish market of unprocessed PVC was about 42%, i.e. about 2% more than in the previous year. In the reporting period the share of ANWIL and Spolana on the Czech PVC market was about 11%, thus reporting a drop by 19%.

PVC production capacities of ANWIL Group in 2011 were 475 thousand tonnes, including 340 thousand tonnes in Włocławek (ANWIL) and 135 thousand tonnes in Neratovice (Spolana). Sales and distribution of respective types of polyvinyl chloride produced at both units are managed by ANWIL. 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 most important investment in the segment in question was completion by ANWIL of construction of the new oxygen generating unit. Its start-up was carried out in late April, whereas its performance test was conducted on liquid oxygen and argon production in early May. Following its positive completion, the new Cryogenic Air Separation unit replaced more than three decades old oxygen generating unit.

The Company also initiated implementation of an obligatory project aimed at improvement of chlorine production process safety by replacement of the chlorine liquefaction technology with the technology ensuring elimination of explosive substance – nitrogen trichloride NCl3 – from the stream of chlorine, as well as replacement of freon R-22 used in refrigeration with other ecological refrigerant.

Spolana production volumes in 2010 – 2011 ('000 tonnes)

	2010	2011	Dynamics 2011/2010
Polyvinyl chloride	110	99	-10%
Sodium hydroxide (as per 100% NaOH)	85	72	-16%
Caprolactam	43	46	7%
Ammonium sulphate (as per nitrogen)	41	44	7%
Total	**279**	**261**	**-7%**

Nitrogenous Fertilisers

In contrast to the previous year, 2011 was a good period for nitrogenous fertilisers, especially in the domestic market. Surge in prices of agricultural products, which started in the second half of 2010, continued in the first half of 2011. Growing cereal prices on global stock markets, which resulted, among others, from concerns related to adverse weather conditions in Europe, positively influenced the situation on the market of nitrogenous fertilisers. Demand for and prices of fertilisers were growing gradually.

In the second half of 2011 the favourable trend from the first half of the year was observed to continue. High prices of agricultural products (cereal, oilseed rape, sugar beet) were maintained after harvest. Direct subsidies to farmers started to be paid at the end of the year, which were higher than a year before due to, among others, favourable EURO to PLN exchange rate. Moreover, information occurred about planned increase of gas prices, which may directly affect the increase in prices of nitrogenous fertilisers.

In 2011 ANWIL produced over 885 thousand tonnes of nitrogenous fertilisers, i.e. by about 22 thousand tonnes less than in the previous year. The total volume of nitrogenous fertilisers produced by the entire chemical segment (including ammonium sulphate) amounted to 1.1 million tonnes (by weight), i.e. about 1% less than in the previous year. According to the Central Statistical Office (GUS) in 2011 the total production of nitrogenous fertilisers of all Polish producers increased by 8% as compared to 2010.

ORLEN Group


01
02
MICHELIN
verva
Mobil 1
verva
RACING TEAM
Giermaziak B Rh+
1

Magyar Nagydíj 2011, Budapest

Polish anthem in Hungary

During the race in Budapest, the VERVA Racing Team driver – Kuba Giermaziak stood on top of the podium! Giermaziak, starting for the Hungarian Grand Prix from the fifth position, fought an exciting struggle for victory and won the race at the Hungaroring track with almost 20-second lead over Bleekemolen who was second. Stefan Rosina finished the Hungarian Grand Prix in the 7th place.

Results of the VERVA Racing Team drivers in the Hungarian Grand Prix:

- **Kuba Giermaziak – 1st place**
- **Stefan Rosina – 7th place**

ORLEN Group

Companies in ORLEN Group are assigned in the PKN ORLEN organisational structure to divisions, business units and support functions.

As at the end of 2011, PKN ORLEN had direct shareholdings in 56 companies, including:

- in 35 subsidiaries (over 50% of shares);
- in 2 co-subsidiaries (50% of shares),
- in 19 minority companies (less than 20% of shares).

ORLEN Group strengthens position in core-business companies, coordinates their activities through segment management and conducts restructuring and consolidation of strategic assets held. ORLEN Group also carries out divestment processes aimed at further reduction of the number of companies and increase of management efficiency.

Changes in ownership in 2011

In 2011 the following changes in ownership were introduced in ORLEN Group:

- acquisition on 20 April 2011 by PKN ORLEN from the State Treasury of the block of 781,000 shares of Rafineria Nafty Jedlicze, representing 10.01% of the company's share capital. PKN ORLEN share in the company's share capital after the transaction increased to 85.01%;
- acquisition on 21 April 2011 by ORLEN Automatyka Sp. z o.o. of 2,284 own shares from minority shareholders for the purpose of their voluntary redemption resulted in PKN ORLEN becoming the only shareholder of the company with 100% of shares (previously 52.42%);
- acquisition by PKN ORLEN of 801 shares of ORLEN Wir from 65 minority shareholders of the company. Ownership of shares was transferred on 13 May 2011. PKN ORLEN share in the company's share capital increased from 51% to 76.03%;
- merger of ORLEN Eko Sp. z o.o. and ORLEN Prewencja by incorporation on 31 May 2011;

- acquisition by PKN ORLEN from Polimex-Mostostal of 18 shares of ORLEN Wir on 1 July 2011. PKN ORLEN share in the company's share capital after the transaction increased to 76.59%;
- acquisition on 5 July 2011 by PKN ORLEN from the State Treasury the block of 482,527 shares of IKS "Solino", representing 25.20% of the company's share capital. PKN ORLEN share in the company's share capital after the transaction amounted to 95.74%;
- execution on 29 July 2011 by CDM Pekao of the order for acquisition of the block of 559,569 shares of ANWIL, as a result of which PKN ORLEN acquired 4.15% shares of the company, increasing the capital commitment to 94.5%;
- establishment on 18 October 2011 of companies: Baltic Power and Baltic Spark. The object of their activities is generation, transmission, distribution and trading of electricity;
- transfer on 9 November 2011 by PKN ORLEN of the ownership of 5,000,266 ordinary registered shares of Polkomtel, representing 24.39% of share capital to Spartan Capital Holdings, special purpose vehicle controlled by Mr. Zygmunt Solorz-Żak. The shares were transferred on the basis of the Polkomtel shares purchase agreement signed on 9 November 2011, under preliminary purchase agreement concluded on 30 June 2011 between PKN ORLEN, PGE Polska Grupa Energetyczna, KGHM Polska Miedź, Vodafone Americas Inc, Vodafone International Holdings B.V. and Węglokoks as sellers, and Spartan Capital Holdings. After the transaction PKN ORLEN does not own any shares of Polkomtel;
- settlement on 22 December 2011 by a brokerage house of a transaction regarding purchase by PKN ORLEN of shares from minority shareholders. As a result of this transaction PKN ORLEN acquired:
  - 86,906 shares of ANWIL, increasing the share from 94.5% to 95.14%,
  - 46,400 shares of IKS "Solino", increasing the share from 95.75% to 98.17%,
  - 384,811 shares of Rafinaeria Nafty Jedlicze, increasing the share from 85.02% to 89.95%;
- increase on 23 September 2011 and on 28 November 2011 of capital in ORLEN Insurance Limited. All new shares were acquired by ORLEN Holding Malta Limited.

Perspectives for the coming years

The aim of PKN ORLEN is to manage a strong Capital Group, supporting the Company's core business. Therefore, also in 2011 the Company undertook activities to increase market value of ORLEN Group, strengthen its position on home markets as well as product and geographic expansion. Effective measures to strengthen efficiency, focused on ensuring operational efficiency, asset integration and sound segment management provide a solid basis for further development of ORLEN Group in the area of core business, extension of the value chain, as well as the use of new business areas to leverage the dynamic growth.

The principal purpose of ORLEN Group strategy is development of an integrated, multi-segment fuel and energy entity with diversified asset structure – a multi-utility company. Major development investments are focused on new segments, such as hydrocarbon exploration and production (upstream) and electricity production. These activities are carried out both independently, as well as in cooperation with Polish and foreign industry partners.

Hydrocarbon upstream segment is consistently constructed, while maintaining an acceptable level of risk. A dedicated exploration and production company – ORLEN Upstream conducts assessments of E&P projects, both in terms of their technological potential and the purposefulness of planned acquisitions. The global upstream projects market is monitored on an ongoing basis, which allows to comprehensively evaluate any new acquisition possibilities.

To sum up, activities undertaken in 2011 were aimed at:

- strengthening the segment management mechanisms in ORLEN Group,
- increasing efficiency of companies in the scope of core business,
- withdrawal from companies not directly related to core business of PKN ORLEN.

2012 will be another year of optimising the structure of ORLEN Group.

ORLEN Group management policy

In 2011, implementation of the project regarding the Constitution of ORLEN Capital Group was initiated in the first 17 Polish Group companies. The purpose of this project is, in particular:

- to unify the principles of operation of companies within ORLEN Group,
- to strengthen and integrate the current model of segment management in ORLEN Group,
- inclusion of the Capital Group interest in activities of companies.

Group interest is understood as unity of objectives of companies within the capital group. Objectives will be determined by PKN ORLEN as a dominant company for ORLEN Group companies. From the perspective of a company belonging to ORLEN Group, the objective of the company is to conduct business activities in the scope provided for in its articles of association, aimed at fulfilment of the mission and strategy of Capital Group. The Capital Group within this meaning comprises PKN ORLEN and commercial companies, towards which PKN ORLEN is either directly or indirectly a dominant company pursuant to provisions regarding commercial companies.

Expected advantages resulting from implementation of the Constitution:

- improvement of the segment management of Polish companies within ORLEN Group,
- unification of procedures for transmission of information by Group companies to PKN ORLEN,
- ensuring implementation of unified organisational standards in ORLEN Group companies,
- ensuring effective monitoring of key business decisions taken by ORLEN Group companies within a given segment/support function of PKN ORLEN, which will reduce mutual competition for revenue and internal competition between Group companies,
- harmonisation of the Group interest with the interest of a given company,
- establishment of legal bases for common strategy for the entire capital group, which allows to support the strategy of a given company with the ORLEN Group strategy, and imposes obligation to maintain consistency.

Implementation of the Constitution is continued in 2012 in other companies within ORLEN Group.

Companies assigned to divisions within the organisational structure:

as at 31 December 2011

CEO DIVISION	CFO DIVISION	PETROCHEMICAL DIVISION	REFINERY DIVISION	SALES DIVISION
ORLEN Upstream 100.0%	ORLEN Księgowość 100.0%	Basell Orlen Polyolefins 50.0%	AB ORLEN Lietuva 100.0%	ORLEN GAZ 100.0%
ORLEN Intern. Exploration & Prod. Co 100.0%	ORLEN Holding Malta Ltd 95.5%	ANWIL 95.1%	ORLEN Asfa t 82.5%	ORLEN PetroCentrum 100.0%
ORLEN Ochrona 100.0%	ORLEN Insurance Ltd 0.0000077%	ORLEN Laboratorium 94.9%	Rafineria Nafty Jedlicze 90.0%	ORLEN PetroTank 100.0%
17 other companies <20.0%	ORLEN Finance AB 100.0%	ORLEN Projekt 51.0%	Rafineria Trzebinia 86.3%	Ship Service 60.9%
	ORLEN Capital AB 100.0%	Unipetrol a.s. 63.0%	ORLEN Oil 51.7%	ORLEN Deutschland 100.0%
	ORLEN Administracja 100.0%	PPPT 50.0%	ORLEN Automatyka 100.0%	ORLEN Centrum Serwisowe 99.0%
		ORLEN Medica 100.0%	ORLEN Wir 76.6%	IKS "Solino" 98.2%
		ORLEN Eko 100.0%		Naftoport 18.0%
		ORLEN Budonaft 100.0%		ORLEN KolTrans 99.9%
		Ba tic Power 100.0%		ORLEN Transport 100.0%
		Ba tic Spark 100.0%		ORLEN Transport Kraków 98.41% *under bankruptcy*
				Petrolot 51.0%

Employees

Belgien Grand Prix 2011, Spa-Francorchamps

First place in Belgium

In Belgium the drivers had to compete on the longest track on the F1 calendar – Spa-Francorchamps. Kuba Giermaziak once again reaffirmed his excellent form. Kuba had no equals in the race, so Polish fans again heard their national anthem. With his second win in the season Giermaziak confirmed that the VERVA Racing Team belongs to the top teams of Porsche Supercup, and that the victory at the Hungarian Grand Prix was not merely a question of luck.

Results of the VERVA Racing Team drivers in the Belgian Grand Prix:

- **Kuba Giermaziak – 1st place**
- Stefan Rosina – 10th place

Employees

In 2011 PKN ORLEN was one of three laureates of the third edition of the "Trustworthy Employer" competition. The award committee assessed social programmes, personnel policy and employee rights protection system implemented by the biggest Polish companies.

As at the end of 2011 ORLEN Group employed 22,380 persons, of which:

- 4,445 in PKN ORLEN,
- 4,275 in Unipetrol Group,
- 2,552 in ORLEN Lietuva Group,
- 138 in ORLEN Deutschland.

Consistently conducted employment policy concentrated on two key aspects. The first one concerned restructuring processes implemented mainly in ORLEN Lietuva Capital Group, Unipetrol Capital Group and Rafineria Trzebinia Capital Group. They resulted in reduction of employment by over 400 persons, i.e. in total by about 2% as compared to total employment in 2010. The second aspect concerned development activities, regarding in particular ORLEN Ochrona and ORLEN Oil Capital Group. On the basis of new contracts from Unipetrol Capital Group and ANWIL 173 persons were employed in ORLEN Ochrona. ORLEN Oil took over Małopolskie Centrum Dystrybucji (distribution centre), which increased the number of employees in the Group by 77 persons.

Development of new areas and services rendered as well as consolidation based on full method of companies from Unipetrol Group, Rafineria Nafty Jedlicze, Rafineria Trzebinia, ORLEN Oil, ORLEN Medica and PPPT (Płock Industrial & Technological Park) resulted in increase of employment as compared to the previous year by 1.5%.

Employment structure

At the end of 2011, the largest group of all employees of PKN ORLEN and ORLEN Lietuva Capital Group were university graduates, whereas in Unipetrol Capital Group – people with secondary education.

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

Among employees men predominated, accounting for about 69% of personnel of ORLEN Lietuva Capital Group, about 74% of personnel of Unipetrol Capital Group and about 81% – PKN ORLEN.

Employment structure by education

	PKN ORLEN	Unipetrol	ORLEN Lietuva
Higher	52.01%	16.65%	33.54%
Secondary	40.09%	43.90%	21.63%
Vocational	6.89%	33.64%	24.02%
Primary	1.01%	5.81%	20.81%

Employment structure by age

	PKN ORLEN	Unipetrol	ORLEN Lietuva
<30	13.59%	6.76%	8.93%
31–40	29.83%	25.15%	29.47%
41–50	25.58%	34.13%	35.54%
51–60	27.40%	29.29%	23.98%
>60	3.60%	4.67%	2.08%

Employment structure by gender

	PKN ORLEN	Unipetrol	ORLEN Lietuva
Women	19.28%	26.37%	30.88%
Men	80.72%	73.63%	69.12%

PKN ORLEN recruitment policy

The main objective of recruitment policy in 2011, as in the previous years, was to recruit highly qualified specialists, whose knowledge and expertise – combined with experience of existing staff – will allow to ensure continuity and the highest level of business processes conducted by the Company. Group companies focused on reaching people who can adapt the acquired knowledge to the surrounding reality, who speak foreign languages and are target-oriented. 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 2011, the Adaptation Programme for newly hired employees was continued. Moreover, the adaptation programme designed for managerial staff was individualised, thanks to which introduction to new responsibilities and new working environment has become even more effective. Adaptation programmes include participation in the introductory meeting and a special e-learning training, introducing employees to issues regarding the Company (e.g. its history, organisational and HR issues).

Human resources policy

An important pillar of the HR policy of PKN ORLEN, apart from effective recruitment, is maintenance of high level of motivation and involvement on the part of existing staff members. Achievement of this goal is fostered by transparency and standardisation of the HR policy, including remuneration and bonus policy. Like in the previous years, one of priorities of the Company in the scope of HR in 2011 was futher harmonisation of norms and standards in the scope of personnel management.

In order to enhance HR cooperation within the Company, agreements on support function in HR area between PKN ORLEN and Group companies were prepared and implemented.

Main advantages of implementation of the agreement on support function in HR area include:

- harmonisation of the principles of cooperation with companies within ORLEN Capital Group,
- establishment of legal framework of HR processes segment management within the Group and implementation of HR projects,
- creation of legal basis for support of companies on the part of PKN ORLEN.

One of the first projects carried out under the agreements on support function in HR area is the payroll review in the entire Company conducted with application of the Hay Group methodology. The main aim of the project is to establish a unified and consistent model for categories of positions in PKN ORLEN, assignment of all current positions to this model, comparison of applied systems and rules for granting remuneration, bonuses and additional benefits to general and best practices in the market and creation of an effective tool to support motivational policy.

The project was initiated in 2011 and will be continued in subsequent years.

PKN ORLEN supported Group companies in implementation of key HR projects, such as: development of the CLA, remuneration regulations, work regulations and other documents regarding collective labour law or implementation of optimisation programmes and protective programmes.

As part of the project for centralisation of the HR and remuneration processes the Company initiated construction of the Transaction Centre at ORLEN Księgowość. The project assumes taking over servicing of 23 Polish companies from ORLEN Group in the scope of the following processes: HR, remuneration, social, bonus, reporting and keeping personal files. Implementation of the Transaction Centre will allow to standardise and optimise organisation of processes, to improve the quality employee service and to concentrate the work of HR areas of the companies on strategic activities. The construction of the Transaction Centre is planned to be completed by mid 2013.

All companies serviced by the Transaction Centre will ultimately use one HR and remuneration system SAP HR, which will ensure quick access and consistency of reported data at the Capital Group level.

Student training

In 2011, as in the previous years, PKN ORLEN conducted three types of student trainings:

- 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 2011, the student training programme was participated by 336 students (27 in individual training, and 309 in group training). 239 students were from the local market, and 16 participants – from non-local universities.

On-the-Job Training

PKN ORLEN, taking care for future personnel, is committed to development of not only its own employees but also graduates from universities and secondary vocational schools. To meet their expectations, the Company provides an opportunity to gain the first professional experience by participating in the On-the-Job Training programme. Trainings have been organised since 2002 in collaboration with Employment Offices across Poland. Participation in the programme allows to confront theoretical knowledge with practical work, verify skills and learn from the best experts in the industry. In 2011 the trainings concentrated on the production area; after their completion selected trainees became employees of the Company.

In 2011 PKN ORLEN for the first time participated in the Polish nationwide competition "Grasz o staż" ("Win training") and funded two-month summer trainings at the Company for 5 winners. One of the participants was employed by the Company after completing the training.

Professional development and training

In 2011, activities within the scope of professional development of employees concentrated mainly on strengthening their competence in order to safeguard business objectives and shape the desired organisational culture.

Like in the past years, employees had access to a rich training and development offer. In 2011, over 9,000 employees improved their competence (some of them participated in more than one training). To meet expectations of our employees, we expanded the e-learning trainings offer.

Among development trainings, trainings for managers were of major importance, which were implemented as part of the system of programmes developed for respective managerial levels, in accordance with business needs and identified development needs. The largest group of employees participated in trainings in the scope of soft skills, such as communication, cooperation and negotiation skills. Employees also took part in obligatory courses and specialist certified trainings.

Implemented training and development programmes were conducted with the use of various development tools, such as coaching, business games, simulations, workshops.

One of key development initiatives in 2011 was preparation of the programme labelled ORLEN EkstraKlasa. Designed for employees with high potential, its aim is to identify those individuals who stand out not only because of high level of competence, but also good business orientation, self-development willingness, outstanding motivation to work and to gain additional business experience.

The Company also continued training and development programmes, such as Champions League and Energetic Leadership for development of managerial competence from line management to strategic management level. Moreover, the Company launched other programmes focusing on development of competencies of respective groups of employees, e.g.: development programme for production process operators and development programme for specialists. The first one was designed to develop skills necessary at this work position, i.e. cooperation, communication, involvement as well as ability to work rationally and effectively under stress. The second programme, carried out under the slogan "With passion towards success", serves to develop three areas of competencies important for performing business functions: cooperation based on efficient communication, analysis of information in business context and fulfilment of tasks in difficult situations.

All programmes have a common methodological basis and concentrate around competencies specified in the PKN ORLEN Competence Model. One of major projects, implemented in 2011, was development of career pathway matrix as part of internal recruitment, presenting possible movements between positions. The matrix also describes requirements regarding, e.g. education profile, qualifications and experience required at respective positions.

In 2011 the Company also developed IT tools supporting employee training and development processes.

Day of Knowledge with ORLEN

In 2011, PKN ORLEN initiated an educational project "Day of Knowledge with ORLEN", implemented in collaboration with the Warsaw University of Technology and the Secondary Schools Complex in Płock. The project, addressed to pupils and students of these schools, provides for organisation of the cycle of meetings, where PKN ORLEN experts discuss the topics associated with production of refinery and petrochemical products as well as complexity and specific character of the Company. These activities, addressed to local community, were qualified to the "Responsible business in Poland 2011. Good practices" report.

Thanks to activities undertaken for young people entering the labour market PKN ORLEN took the seventh position in the ranking of ideal employee according to professionals in the category: engineering, a part of the prestigious Universum Professional Survey. Polish edition of the survey was carried out on the group of nearly 15.5 thousand people with at least one year of experience in various industries. Questions asked in the survey concerned preferences regarding professional life and the image of companies active on the Polish labour market. The survey provided the basis for the ranking "Ideal Employer according to professionals", indicating the level of attractiveness of companies for potential employees. The ranking was divided into the following categories: business, engineering, IT, sciences and humanities.

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 to minimise potential disputes.

Observance of the principles of social dialogue is crucial by implementation of restructuring processes and undertaking 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 in the scope of restructuring issues", which is adjusted to capabilities of the Company and market solutions practiced in this scope.

Open social dialogue and its basic institutional forms are also important in the context of complex HR processes carried out in ORLEN Group companies, allowing to build constructive and fixed solutions in cooperation with representatives of employees.

Social Benefits

As a responsible employer PKN ORLEN provides social support to its employees in the form of various benefits. This is mainly co-financing of: employee holidays, sanatorium treatment, child care (new form of co-financing), holidays for children and youths, recreation and sports activities (e.g. Multisport and Pure programmes, sports tournaments and contests), rehabilitation treatment and cultural and educational activities, non-repayable financial or in-kind aid, repayable housing loans and Christmas presents or vouchers for children. In total about 38,000 various benefits were provided.

This scope of social benefits also applies to employees of companies within the framework of common social activities.

Similar scope of social benefits, among others in the scope of financial support for employees, holidays and recreation and sports activities, operates in all ORLEN Group companies.

Environmental protection

Gran Premio d´Italia 2011, Monza

Advancement at Monza

The penultimate round of the 2011 Porsche Supercup season was held at the famous Italian track – Monza. With the 6th position and 12 points Kuba Giermaziak became the vice-leader in the general classification. Stefan Rosina finished the race in the 9th place, and points won by both drivers allowed the VERVA Racing Team to keep its 3rd position in the team classification.

Results of the VERVA Racing Team drivers in the Italian Grand Prix:

- Kuba Giermaziak – 6th place
- Stefan Rosina – 9th place

>>>>>>>>> Environmental protection

The year 2011 was marked by continuation of integrated activities of PKN ORLEN to protect the environment. Concern about the quality of the environment is manifested not only in continuous monitoring and efforts to minimise the impact of production as well as warehousing and distribution processes on natural environment. Environmental awareness of employees at every position plays a major role in such activities. The scale of the impact of the Company's activities on individual components of environment is largely dependent on their everyday behaviour.

Pro-environmental actions are evidence of responsibility of the PKN ORLEN team for protection of the surrounding natural environment for the sake of present and future generations. This responsibility is reflected in various educational, investment and organisational activities to protect environment, which involve a wide circle of employees. Developed and published information in this scope has always attracted a great interest on their part.

A lot of environmental and production investments, carried out earlier, were completed in 2011, therefore funds spent for these purposes at the Production Plant in Płock were by 67% lower than in 2010. Expenditures on environmental investment projects at fuel stations and fuel terminals increased by over 72% as compared to 2010. Implementation of further important environmental investments in the scope of reduction of sulphur dioxide, carbon monoxide and dust will be initiated already in 2012.

A difficult challenge that the Company had to face in 2011 was to obtain new permits for greenhouse gas emissions for the facilities for production of organic chemicals in bulk (later referred to as chemical facilities), covered by the Community CO_2 emission allowances trading scheme from 2013. Moreover, decisions for operating production facilities were obtained.

The most important of them include:

- new water permit for discharge of sewage from the Production Plant in Płock,
- decisions determining the manner of land and groundwater reclamation,
- change of the integrated permit.

Change of the decision granting to PKN ORLEN an integrated permit, issued by the Marshal of the Masovian Voivodship, in the scope of increase of the amount of gas burnt at the CHP plant, allowed to reduce emission from the Production Plant in Płock by almost 2%, including carbon dioxide emission by 124,934 Mg, with increase of crude oil processed by 0.6% as compared to 2010.

Increase of about 3% was recorded in the volume of taken water, whereas of over 5% in the scope of wastewater discharged.

All parameters concerning the impact of the facilities remained within the limits specified in the integrated permits, which was confirmed by results of the inspection of the Regional Environmental Protection Inspectorate.

An important environmental project implemented last year was inclusion of all office and administration facilities at the Production Plant in Płock in the municipal waste sorting system. This contributed to increase of the volume of properly sorted municipal waste and to reduction of the volume of waste dumped at landfills. Implementation of the project in 2011 allowed to separate and obtain 11 tonnes of wastepaper, almost 5 tonnes of glass, 1.4 tonnes of plastic and nearly 1 tonne of used batteries.

Implementation of the IT tool for monitoring CO_2 emissions from sources covered by the ETS was particularly important. The programme will allow to quickly provide reliable data regarding the volume of carbon dioxide emissions and to reduce the risk associated with decisions concerning trade in permits and active participation in the Community CO_2 emissions trading scheme. The application being developed will ensure reliability and safety of data and will allow to connect the next units (facilities) participating in the scheme, both Polish and foreign ones.

In 2011 PKN ORLEN received the Certificate of implementation of the Framework Responsible Care Management System. The system is a European initiative, a new direction of the Responsible Care Programme, increasing its reliability. Based on the Deming cycle: Plan, Do, Check, Act, it supports the pursuit of continuous improvement. The certificate, in accordance with the guidelines of the European Chemical Industry Council (CEFIC), confirms that the Company operates in accordance with the highest international management standards in the scope of the so called HSE triad (Health, Safety and Environment). Among other ORLEN Group Companies implementing the Responsible Care Programme, the certificate is also held by Basell Orlen Polyolefins.

In 2011 PKN ORLEN undertook to fulfil 54 tasks within the framework of the Responsible Care Programme. Traditionally, the photo competition "Catch the Hare", promoting the beauty of the surrounding environment, enjoyed great popularity. In the jubilee, fifth edition of the competition the works were awarded in three categories: life of plants, animal life and landscape and its elements. The competition comprises two stages. The local stage is organised by companies participating in the Responsible Care Programme. In 2011, it was organised, apart from PKN ORLEN, by the following Capital Group companies: ANWIL, Basell Orlen Polyolefins and Inowrocławskie Kopalnie Soli "Solino". At the national stage of the competition the photos taken by employees of the Capital Group companies: ANWIL and Basell Orlen Polyolefins were awarded. Whereas distinctions were awarded to six employees of PKN ORLEN, two employees of ANWIL and one employee of Basell Orlen Polyolefins. All award-winning and distinguished photos were presented in the 2012 calendar published by the Responsible Care Programme Secretariat.

Environmental protection has long ceased to be the domain of natural scientists. Therefore, synergistic cooperation of all business areas to develop an integrated model to reduce the impact of the Company on natural environment is of such importance. This awareness resulted in 2011 in numerous meetings, where environmental problems were discussed in a wide group, taking into account the scale and diversity of the impact of the Company. The meetings concerned: the Production Plant in Płock, regional structures and ORLEN Group companies.

PKN ORLEN operates in accordance with the principles of sustainable development, in compliance with specific environmental laws and principles of corporate social responsibility. In 2011, fulfilment of these assumptions was verified by the jury of the most important environmental competitions. PKN ORLEN received the title of the Polish Ecology Partner for contribution and ongoing work to improve the environment. The National Ecological Council in the 12th edition of the Environmentally Friendly competition, organised under the patronage of the President of Poland, awarded the same title also to the President of the Company's Management Board. The award is one of the most coveted and prestigious awards related to environmental protection. It emphasizes activities for protection of environment and its laureates create a group of leaders promoting new environmental solutions, compliant with applicable European norms.

Initiatives undertaken by PKN ORLEN, aimed at minimising the impact of its activities and manufactured products on environment brought to the Company the title "Environmentally Responsible Business". The award committee of the competition distinguished PKN ORLEN in the group of companies from the industry sector, conducting broad activities (investment, educational and informational) related to environmental protection.

Europejskie Forum Odpowiedzialności Ekologicznej (European Forum for Environmental Responsibility) "CERT" Sp. z o.o., after PKN ORLEN was twice awarded the title of the "Environmentally Friendly Company" (in 2009 and 2010) and obtained positive audit results, awarded the title "Ekostrateg" (Ecostrategist). Thus it appreciated the implemented environmental strategy, environmental efficiency management and fulfilment of legal requirements in the scope of environmental protection.

Apart from these titles, PKN ORLEN was awarded other distinctions: Eco-laurels of the Polish Chamber of Ecology (in the category: protection against noise for "Sound insulation of fans of boilers K4, K5, K6, K7 at the CHP Plant") and European Responsible Care Awards 2011, awarded by the European Chemical Industry Council (CEFIC) for social activities within the framework of the International Year of Chemistry (for the "Poczuj Chemię" ("Feel Chemistry") project).

Numerous awards and prestigious titles not only solidify the environmental image and prove that PKN ORLEN is a responsible, professionally managed company, but at the same time they oblige the Company to undertake further efforts to improve environmental impact at present and in future.

Air Protection

Total emission of substances to air from PKN ORLEN in 2011 comprised emission of substances from the unit of the Production Plant in Płock and the unit for production of terephthalic acid of the PTA Plant in Włocławek (launched on 21 March 2011).

The emission to air in 2011 remained within the limits specified in the integrated permit.

Summary of total, for the Production Plant in Płock and the PTA Plant in Włocławek, emission of selected substances in 2011

Pollutant type	Emission amount [Mg] 2011
Sulphur dioxide	20,972.27
Nitrogen monoxide (as per nitrogen dioxide)	8,066.17
Carbon monoxide	1,582.00
Total hydrocarbons	1,204.68
Total dust[1]	590.90
Carbon dioxide	6,288,163.72
Other pollutants	185.78
Total pollutant emission excluding carbon dioxide	32,601.79
Total emission of all pollutants of PKN ORLEN	**6,320,765.52**

[1)] Total dust, i.e. combustion dust, silica dust and metals in dust.

In 2011, a slight drop in pollutant emission as compared to 2010 was reported at the Production Plant in Płock. This was largely due to activities of the CHP plant, where a significant increase of gas share in combusted fuel was observed. In 2011, the CHP plant used up more than twice the amount of gas as compared to the previous year, while decreasing tar consumption by 25%.

Main objectives fulfilled and challenges faced

in 2011 in the area of environmental impact of PKN ORLEN

In 2011, all major objectives were fulfilled, including:

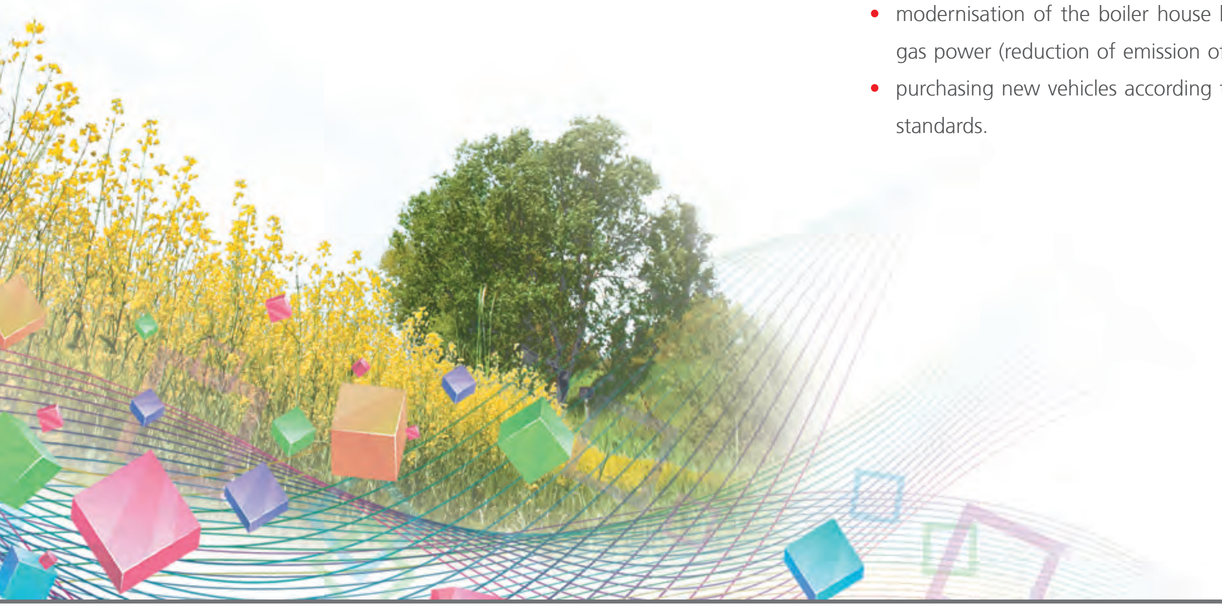
- certification of the Framework Responsible Care Management System,
- extension of waste sorting to all office and administration facilities at the premises of the Production Plant in Płock,
- preparation of chemical facilities of the Production Plant in Płock and the PTA Plant in Włocławek for participation in the Community CO_2 emission trading scheme,
- ensuring the monitoring of environmental impact of fuel stations and fuel terminals,
- development of the system for collection and reporting of information regarding fuel stations and fuel terminals,
- initiation of the process of development of the environmental protection instruction for fuel stations.

Objectives and challenges in 2012

PKN ORLEN intends to continue strategic activities for the protection of natural environment. Key projects planned for 2012 include:

- preparation of applications for change of the integrated permits for the units of the Production Plant in Płock and the PTA Plant in Włocławek, taking into account technological changes and optimisation of operating conditions of the units,
- ensuring optimisation of costs of activities in the scope of land and groundwater reclamation,
- improvement of the IT tool "CO_2 emission monitoring system" (inclusion of new units from chemical facilities),
- preparation of chemical facilities for monitoring of CO_2 emissions in accordance with legal regulations,
- obtaining eco agreements for implementation of investments adjusting the CHP Plant in Płock to the IED Directive requirements,
- fulfilment of tasks under the "Responsible Care" Programme.

In 2011, PKN ORLEN Capital Group companies undertook various projects to reduce their environmental impact.



ANWIL

- implementation of the "Responsible Care" Programme,
- construction of the 1.6 MPa medium-pressure steam boiler unit on line A of ammonia unit, which contributed to improvement of energy-efficiency of the ammonia production process and allowed to reduce CO_2, NO_2 and CO emissions,
- construction of the airtight sealing system for storage tanks blowouts, connecting and directing them to hydrochloric recovery unit (eliminating dichloroethane emission to atmosphere from non-pressure storage tanks T 601, T 603, T 606),
- optimisation of the number of wells at the brine transmission pipeline from IKS "Solino" to ANWIL (reducing the risk of brine discharge from the pipeline to environment).

Basell Orlen Polyolefins

- regeneration and recycle of condensate to the system (reduction of the amount of produced wastewater),
- measuring the amount of industrial and domestic wastewater at the Polyolefins III unit,
- promotion of environmental attitudes and environmental education ("Clean the World" campaign, "Catch the Hare" photo competition and participation in organisation of the "Earth Day").

ORLEN Centrum Serwisowe – servicing centre

- sorting of waste other than municipal waste,
- modernisation of the boiler house by replacing oil power with gas power (reduction of emission of substances to air),
- purchasing new vehicles according to the EURO 4 and EURO 5 standards.

ORLEN Eko

- receiving the "Environmentally Friendly Company" certificate for environmental activities,
- construction of the unit for shredding solid waste and its incineration at the Hazardous Waste Thermal Treatment Unit.

ORLEN Lietuva

- installation of K-1 boiler in the CHP plant (possibility to use gaseous fuel and reduce emissions to air from fuel combustion),
- assembly of new efficient D-2 burners (reduction of fuel consumption).

ORLEN Transport

- replacement of the fleet, purchasing tractor units with EURO 5 class (reduced CO_2 emissions),
- withdrawal from use of EURO 2 class tractor units.

Rafineria Nafty Jedlicze – refinery

- modernisation of storage tanks stock (installing leak-proof platforms, double steel bottoms and installation of the leakage monitoring system) allowing to secure the soil against penetration of crude oil products,
- modernisation of rail infrastructure, installing, among others, leak-proof concrete platforms (securing rail unloading and loading stations against penetration of raw materials and petroleum products to soil and groundwater),
- construction of steam boiler water treatment unit (lower water and electricity consumption, reduction of generated waste).

Unipetrol RPA

- successful re-certification of IMS systems and purchasing the right to use the Responsible Care logo,
- construction of wastewater recycling station (reduction of water consumption),
- reconstruction of drainage at the Steam Cracking unit (soil and groundwater protection against pollution),
- rebuilding of industrial sewer system (securing against penetration of pollutants to soil).

ORLEN Automatyka

- purchase of an electric transport vehicle (reduction of exhaust gas emission),
- overhaul of a section of storm water drain (improved wastewater management).

ORLEN Deutschland

- water treatment in car wash facilities (lower water consumption),
- replacement of R-22 refrigerant in air conditioners (prevention of depletion of ozone layer),
- fitting fuel stations with sewer system collecting effluents (reduced risk of discharge of crude oil derivatives to soil).

ORLEN GAZ

- conducting informational campaign on waste management ("Environmentally friendly ORLEN GAZ Sp. z o.o.").

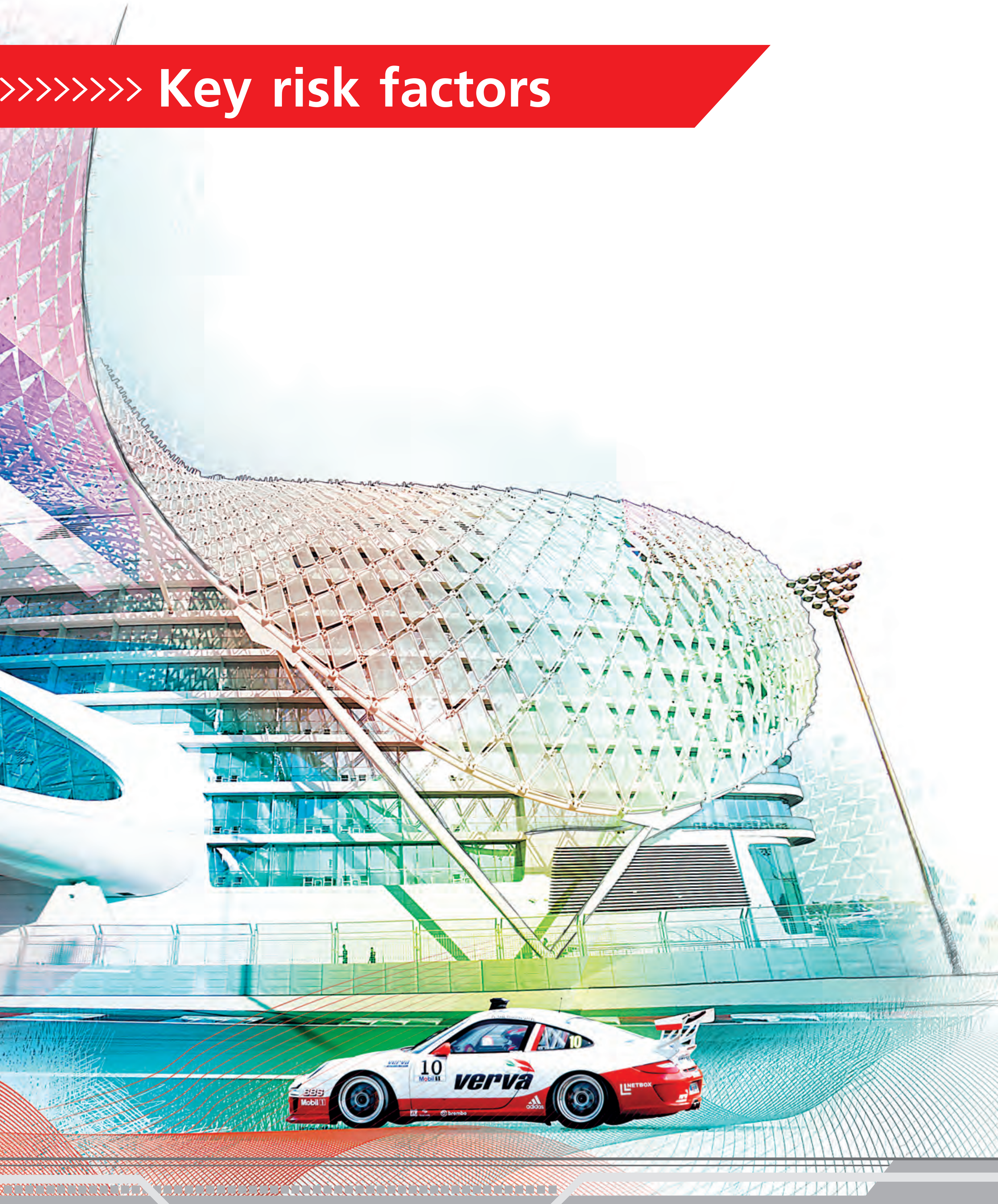
ORLEN Laboratorium

- replacement of R-22 refrigerant in air conditioners in the Energy Water laboratory with ecological agent (prevention of depletion of ozone layer).

Ship-Service

- purchasing a special vehicle for cleaning sewage system, separators and collection of waste oil from ships (improved waste management).

Key risk factors



Abu Zabi 2011, Yas Marina (2 rounds)

Great Final

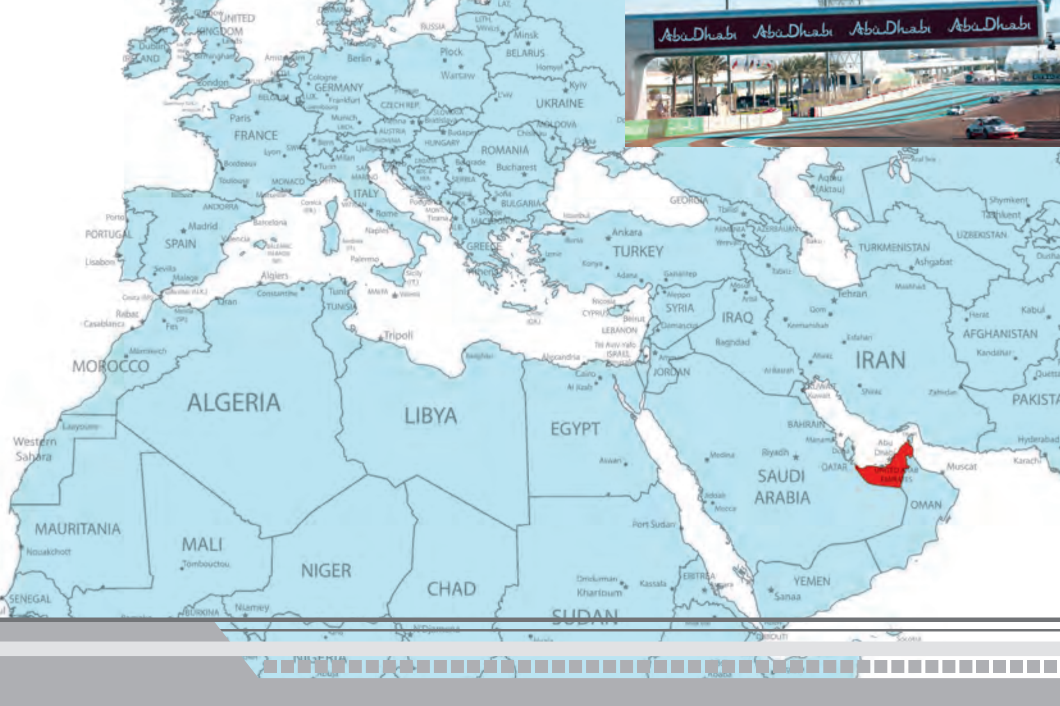
In the first race Kuba Giermaziak debuting in the United Arab Emirates was 10th and dropped in the general classification to the 3rd position. In the second start, Kuba's final position was hanging in the balance almost every minute of the race. Fortunately, after an exciting race Kuba won a place on the podium in the final classification of the series!

Results of the VERVA Racing Team drivers in the Grand Prix Abu Zabi race number 1:

- Stefan Rosina – 8th place
- Kuba Giermaziak – 10th place

Results of VERVA Racing Team drivers in the Grand Prix Abu Zabi race number 2:

- Kuba Giermaziak – 6th place
- Stefan Rosina – 13th place



>>>>>>>>> Key risk factors

Business risks

Credit risk

The ORLEN Group, when conducting commercial activity sells products and services to business entities with deferred payment dates. Consequently, a credit risk may arise to the ORLEN Group that its business partners will fail to pay for the products and services delivered.

To mitigate the credit risk and keep the working capital as low as possible, the ORLEN Group has a procedure to grant a trade credit limit to its business partners who acquire products and services with a deferred payment date. The procedure involves an individual assessment of the business partner in terms of the credit risk and determines how to secure the trade credit limit.

The level of trade receivables of business partners of the ORLEN Group is regularly monitored and if any overdue accounts receivable are identified in accordance with the applicable procedures, the sale is suspended and debt collection procedures are launched. Additionally, some accounts receivable are insured under 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 banks with a high credit rating. One of the major bank selection criteria is rating of no less than A.

Detailed information regarding credit risk is presented in note 33.7 of the Consolidated Financial Statements for 2011.

Liquidity risk

The ORLEN Group is exposed to a liquidity risk related to the ability to timely pay the amounts due.

In order to monitor its liquidity, the ORLEN Group applies the current liquidity ratio, calculated as a current assets to short-term liabilities ratio. As at 31 December 2011 the current liquidity ratio amounted to 1.5 as compared to 1.3 as at 31 December 2010.

In order to minimise the liquidity ratio, the ORLEN Group uses external sources of finance in the form of available credit lines. As at 31 December 2011 the maximum debt limit under executed loan facility agreements was PLN 20,899,193 thousand and PLN 7,562,831 thousand were still to be used.

An additional source of funds needed to secure the ORLEN Group's financial liquidity is the Bond Issue Programme launched in 2007 which enables the Group to go beyond the traditional bank market and obtain funds from other financial institutions, corporate or natural persons. Bond Issue Programme is used to manage liquidity within the ORLEN Group entities on domestic and foreign market.

In order to support the liquidity management processes, the ORLEN Group set up cash pooling systems: a PLN cash pool system with 22 ORLEN Group companies (as at 31 December 2011) and an international EUR, USD and PLN cash pool system operated by a foreign bank for PKN ORLEN and foreign ORLEN Group companies (ORLEN Finance AB, AB ORLEN Lietuva, ORLEN Deutschland GmbH, Unipetrol Deutschland GmbH).

Detailed information regarding liquidity risk is presented in note 33.7 of the Consolidated Financial Statements for 2011.

Market risks

The ORLEN Group, when running its business activity, is exposed to a number of market risks related to its macroeconomic environment.

The ORLEN Group manages the market risks under its adopted market risk management policy, which determines the rules for measuring individual exposures, parameters and time for securing the given risk and the hedging instruments. The implementation of procedures required under the market risk management policy set is the responsibility of designated organisational units supervised by the Financial Risk Committee, Management Board and Supervisory Board of PKN ORLEN.

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

The ORLEN Group implements the risk management objectives under derivative hedging strategies. The derivatives are solely used to limit the risk of changes in fair value and the risk of changes in cash flows. The ORLEN Group uses only these instruments that can be internally valued under standard valuation models set for specific instruments. When obtaining the market valuation of instruments, the ORLEN Group relies on information obtained from banks and brokerage companies or information services leading on a specific market. Transactions are concluded with reliable partners only, who are qualified for transactions under special procedures and upon signing the relevant documents.

The major market risks arising for the ORLEN Group are as follows:

Risk of changes in the prices of raw materials and oil derivative products

The operating activity of the ORLEN Group includes the following risks:

- changes of prices of crude oil processed
- the obligation to maintain reserves of crude oil and fuels
- Ural/Brent differential fluctuations,
- changes of prices of refining and petrochemical products, which depend from the quotations of crude oil and products on international markets

As at 31 December 2011 there were instruments hedging changes of raw materials and product prices resulting from cash flow hedges in connection with the sale/purchase of crude oil, gasoline and diesel fuel.

Detailed information regarding risk of changes in the prices of raw materials and oil derivative products is presented in note 33.7 of the Consolidated Financial Statements for 2011.

Currency risk

The ORLEN Group is exposed to the currency risk arising out of the current accounts receivable and current accounts payable, cash and cash equivalents, capital expenditures, foreign currency loans and borrowings denominated in foreign currencies, 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.

The USD/PLN exchange rate is partially hedged naturally to a certain extent, since the revenues from the sales of products whose value depends 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, some investment purchases).

Detailed information regarding currency risk is presented in note 33.7 of the Consolidated Financial Statements for 2011.

Interest rate risk

The risk of cash flow fluctuations due to changes of interest rates results from extended loans, bank deposits held and fluctuating interest rate loans and borrowings. PKN ORLEN holds derivative transactions (interest rate swaps) which partially hedge the cash flow risk due to the interest rate payments for which the cash flow hedge accounting is applied. The ANWIL Group does not, however, apply the hedging accounting for the cross-currency interest rate swap (CCIRS).

The interest rate is hedged by identifying financial flows exposed to fluctuating interest rates as shown on the ORLEN Group's current exposure map.

Detailed information regarding interest rate risk is presented in note 33.7 of the Consolidated Financial Statements for 2011.

Risk related to the procurement of raw materials

Raw materials are mostly supplied within the ORLEN Group via a pipeline system, by land and sea transport. The risk related to the procurement of raw materials arises due to the necessity to timely provide raw materials for production purposes.

Factors which significantly affect the procurement of raw materials for the ORLEN Group companies are mostly related to current political situation in the states exporting crude oil, efficiency of piping system and railways as well as weather conditions.

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. Additionally, the ORLEN Group implements investment projects to acquire its own gas and crude oil sources.

Risk of changes in legislation

The risk arising out of changes in legislation concerns mainly the implementation of the National Index Target (NIT) and the quantity limits relating to the rights to CO_2 emission and regulations on building up and storing mandatory reserves.

In accordance with Ordinance of the Council of Ministers 2007, as part of the adjustment to the community law regulation as regards the share of energy from renewable sources, improvement of power efficiency and reduction in greenhouse gas emission – the so called 3x20 package, since 2008 the obligation to satisfy the National Index Target (NIT) has been imposed on fuel producers. NIT determines the minimum share of bio-components 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.

From 1 May 2011 tax reliefs relating to the use of bio-components and biofuels were lifted, which resulted in an increase in the costs of implementation of the target NIT set.

NIT value 2008 – 2011 (%)

	2008	2009	2010	2011
NIT value	3.45	4.60	5.75	**6.20**

A significant risk of changes in legislation is also related to the limits on the number of the CO_2 emission rights granted. 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, business entities are allocated rights which determine the maximum CO_2 emission volume resulting from the type of business run. Once the limits set have been exceeded, a fine is imposed on the business entity.

Consequently, the ORLEN 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 every year. In 2011, the ORLEN Group sold its surpluses of CO_2 emission rights and entered into forward transactions for the purchase of such rights. A major risk also arises in the context of the business operations in connection with the mandatory reserve system implemented in Poland. The mandatory reserves are regulated in the Act dated 16 February 2007 on mandatory reserves of crude oil, petroleum products and natural gas and how to proceed in case of national fuel emergency and disruptions on the oil market. It sets an obligation for all the companies operating on the fuel market to build up oil reserves of the ORLEN Group in proportion to their turnover. At the end of 2011, the value of mandatory reserves exceeded the level of PLN 8.2 billion, and may vary depending on changes in crude oil prices or sales volume.

Risk of changes in trends in fuel consumption and import

A change in the trends in the fuel consumption and import can materially affect the volume of sales and the level of prices of products of the ORLEN Group companies that are possible to be achieved and, consequently, on the ORLEN Group's financial standing.
The changes in diesel oil and gasoline consumption on the main markets of the ORLEN Group are presented below.

Based on the data of ARE, the total fuel consumption in Poland in 2011 decreased by (-) 35 thousand tonnes (i.e. (-) 1.4%) to the level of 2,442 thousand tonnes. Gasoline import increased by almost 28% and achieved the level of 530 thousand tonnes, that is 22% of total fuel import. The greatest observed gasoline import in 2011 was from Slovakia (app. 49%) and Germany (app. 47%). It is estimated that in 2011 about 1,905 thousand tons of diesel oil was imported to Poland, i.e. nearly by (-) 7% less than in 2010. The import of that fuel constituted app. 78% of the total volume of fuels imported to Poland. The greatest amount of diesel oil came from Germany (50%), Lithuania (26%) and Slovakia (15%).

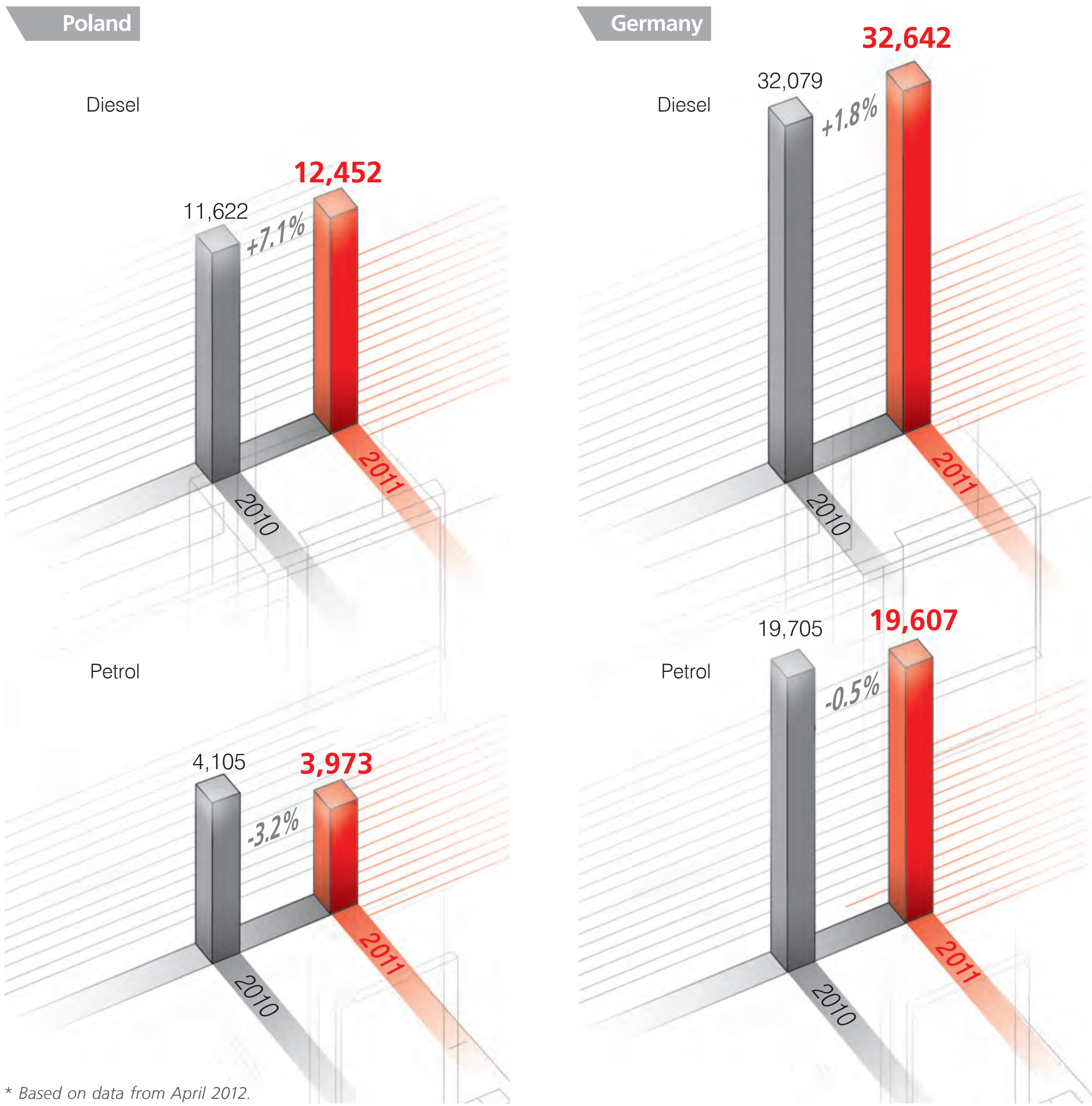
Risk related to the global economic crisis, change in the economic growth and unemployment rates

In 2011 the ORLEN Group was operating under difficult market conditions as a result of the second wave of financial crisis. The negative impact of the crisis was mainly visible through the weak position of the Polish zloty against foreign currencies, decrease in the demand for fuels and margins for refinery and petrochemical products. This was directly reflected in the financial position of the ORLEN Group through the influence on revenue generated, profit from operations and net profit, as well as the balance of settlements and debt denominated in foreign currencies. The Gross Domnestic Product ratio (GDP) plays an important role as a tool for determining the level of economic growth, current trends and the business cycle of the economy. Unfavorable changes in the level of this index are a sign of an economic downturn and result in the decrease of consumption of goods including goods and services offered by the ORLEN Group.

An economic index that is important for the business operations of the ORLEN Group is also the unemployment rate. Its increase may be tantamount to the demand for the products and services offered by the ORLEN Group being reduced due to a decreasing purchasing power of clients on the market.

Petrol and diesel oil consumption in the countries served by ORLEN Group

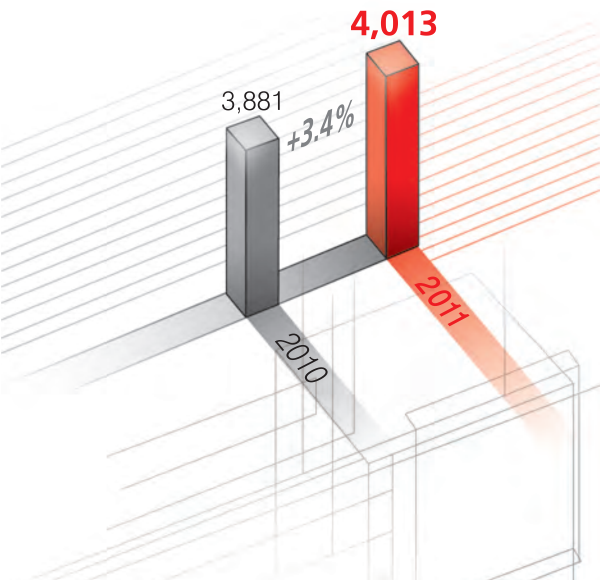
2010–2011* ('000 tonnes)



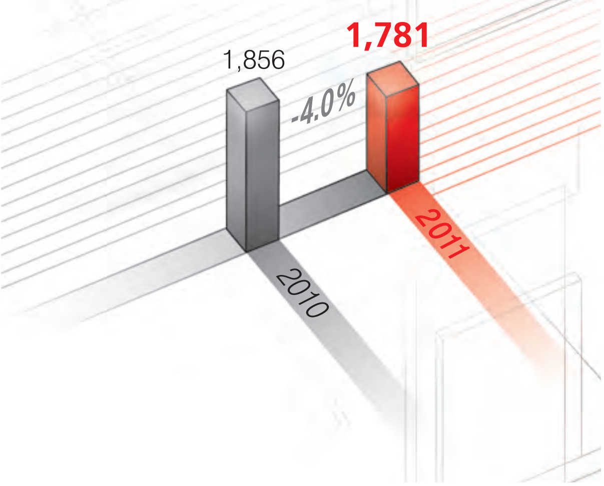
** Based on data from April 2012.*

Czech Republic

Diesel

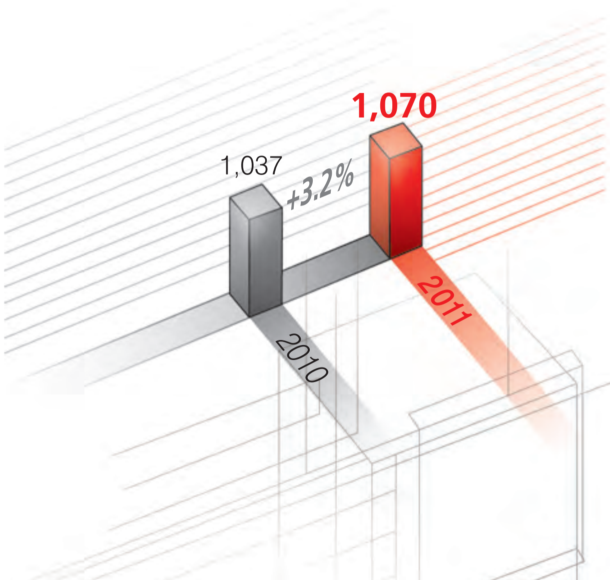


Petrol

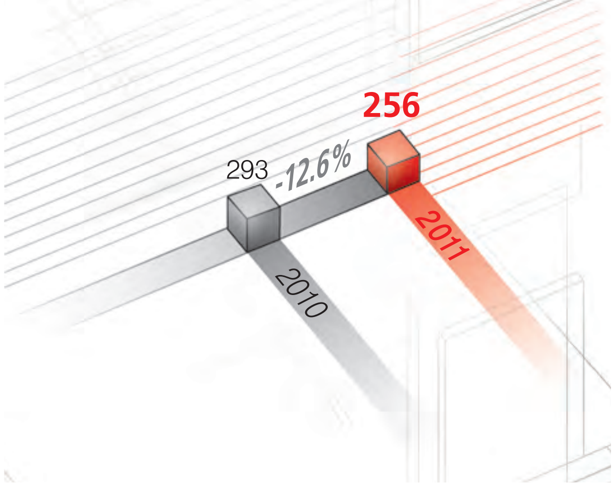


Lithuania

Diesel



Petrol



Corporate governance

Summary of the VRT starts in the 2011 season

VERVA Racing Team among the top racing teams

The 2011 season was full of excitement for fans of the Polish team. The fight for positions in the final classification was fought to the last line. The VERVA Racing Team joined the world top teams finishing its second season in the Porsche Cup at the 3rd place in the general classification of drivers and on the 4th place in the team ranking. Fans twice heard the Polish anthem thanks to fantastic results of Kuba Giermaziak at the Hungarian and Belgian Grand Prix. The team owes its success to professional preparation, steady and thoughtful driving throughout the season and racing finesse of the drivers.

»»»»»»»» Corporacte governance

A set of Corporate governance rules followed by PKN ORLEN in 2011

In 2011, 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 2011 PKN ORLEN applied all the corporate governance rules set out in Code of Best Practice for WSE Listed Companies.

Communication with the capital market

The Company follows not only mandatory 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.

Corporate website www.orlen.pl

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. Additionally, for shareholders, investors and stock market analysts, the Company's webpage provides investor relations section (http://www.orlen.pl/EN/InvestorRelations/Pages/default.aspx). 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 investor relations section is maintained both in Polish and in English.

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 significant events in the Company with audio and video recording of such events.

The investor relations section contains a lot of modern tools and information on the Company, in line with the latest market standards. In 2011, for the purpose of the continuous improvement of communication with the representatives of the capital market, the company has implemented a few new solutions.

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 shares quotations with a calculator of the return on investment in the Company's stock. In 2011 these diagrams were enriched with a tool that enables comparison of stock quotations with the main stock indexes which include the Company's stock. To a diagram showing PKN ORLEN share quotations a diagram showing the quotation of one of the indexes: WIG, WIG 20 or WIG-PALIWA (WIG-FUELS) can be attached,
- financial statements, gathered in one place together with the presentations that describe them and that were prepared for the capital market representatives, the records of teleconferences with the stock market investors on the occasion of publication of the financial results and the worksheet with the data from the presentations that simplifies the data analysis,
- special form for contacts with the Company in respect of PKN ORLEN's General Meetings, in accordance with the most recent amendments to the Commercial Code,

- possibility to subscribe for various types of PKN ORLEN's newsletters, including the most recent investor relations news,
- an option to sign up for reminders concerning the events from the event's Calendar – a newness introduced at the turn of the 2011 and 2012. One can enter the selected dates to calendars in their mail programs as well as sign up for the events' reminders sent by e-mail or SMS. One can decide before which events they want to receive reminder – it can be one or several of them as well as all events entered to the PKN ORLEN investor relations' calendar, both in the current and in the next years.

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". There is also brief information on best practice applied by the Company, the rules for selecting an entity authorized to audit the financial statements as well as information about the participation of women and men in the Company's Management Board and the Supervisory Board in the last two years.

The General Meeting tab in the investor relations section contains the set of corporate documents and a guide for shareholders "How to participate in General Meeting of PKN ORLEN SA", updated according to changes that occur in the commonly applicable provisions of law. The investor relation section provides also the information on the dates of general meetings, draft resolutions and the whole set of documents presented to the shareholders at general meetings. The Company ensures also communication with its shareholders via a special Internet contact form related to general meetings.

Moreover, at the turn of 2011 and 2012 PKN ORLEN launched the corporate website in the mobile version, adapted to browse the website on the mobile phones and other mobile devices. By entering the corporate website at www.orlen.pl via mobile or smartphone one is automatically redirected to the service m.orlen.pl dedicated to these devices. Users of the mobile devices can in an easy and fast way access the key information concerning PKN ORLEN known from the original version of www.orlen.pl, i.e. stock market reports, stock quotations, financial results or press information. The mobile version m.orlen.pl enables also establishing in a fast way phone connection with the Company via function "click to call".

On the site m.orlen.pl Internet users have also an opportunity to check the wholesale fuel prices, review the list of current bids and search for the brand petrol stations in the selected locations. Via the mobile devices one can also listen to the business audiobook about the history of Polish oil or reach for electronic publications. In the Press centre tab the audio files with the records from the press conferences are available, which do not overload the links and enable fast access to contents presented by PLN ORLEN.

Platform m.orlen.pl is available in Polish and English version.

Direct contacts with capital market representatives

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 also the so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant, which allow them to better acquaint with the Company specifics.

During the meetings with the capital market representatives, the representatives of PKN ORLEN provide information about the 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 investors base. Thus, it undertakes activities aimed at active promotion of 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 is an appropriate and timely communication with the market on the key topics for the investors.

The care for communication with the capital market players was appreciated also in 2011 and reflected through the awards granted to the Company in the area of investor relations:

- "Best investor relations by a Polish Company 2011" – *IR Magazine,*
- first rank in WarsawScan 2011 – best information policy and corporate governance,
- first rank in WarsawScan 2011 – best website devoted to investor relations,
- listed Company of the Year in the Investor Relations category – ranking by Puls Biznesu.

The Company's reaction to appearing public opinions and information injuring its reputation

In PKN ORLEN, there is an internal regulation in force, concerning the rules of taking actions which create the image of the Company and contacts with the media representatives as well as passing information relevant for the PKN ORLEN's image to the Corporate Communication Department's Director. This regulation obliges to multistage verification of information concerning the Company and its representatives before it's made public.

The above instruction regulates also the rules of reaction in a situation, when opinions and information expressed in public by third parties may harm the Company's reputation. The person responsible for the coordination of this process is the Director of the Corporate Communication Department. As such opinions and information appear, the Company verifies their reliability, evaluates the importance and the potential impact and decides about issuing a dementia or closing the case because of the PKN ORLEN's interest or low impact of the misstatements occurred. In case when information/ opinion presented by a third party has serious influence the Company prepares a dementi in order to clarify false information or opinion. Depending on the nature of the matter, the prepared dementi is sent to an institution which delivered information harmful for PKN ORLEN and/or is posted on the corporate website www.orlen.pl in the Press Centre tab or is distributed in the form of press release.

Reporting on PKN ORLEN's activity in the responsible business area

Social reporting is the permanent element of widespread system of communicating the Company's actions to its stakeholders. The Company publishes annual responsible business' reports. In 2011 the seventh such report was issued, also the third report in accordance with the GRI G3.1 Level B Guidelines.

Annual reports presenting the Company's performance in Corporate Social Responsibility are available on the corporate website www.orlen.pl in CSR tab (http://www.orlen.pl/PL/OdpowiedzialnyBiznes/Strony/default.aspx). This tab provides also range of information concerning the Company's activities for the natural environment, society, safety and care for ORLEN Capital Group employees.

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 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,
- following uniform separate and consolidated financial reporting standards and periodic verification whether these standards are properly applied in the ORLEN Group companies,
- verification of the ORLEN Group companies' separate financial statements with the ORLEN Group's consolidated financial statement,
- a review, by an independent auditor, of the published financial statements 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 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.

Records of economic events in PKN ORLRN are kept in an integrated system of financial – accounting, whose the configuration is compatible with the Company's accounting policy.

This system is the leading system in the ORLEN Group. Thanks to a uniform IT platform used, the Parent Company has control over the recording of financial and accounting events within the ORLEN Group.

The system has an option enabling the control of access rights of different users in a way that ensures the control over their access to specific objects and transactions.

All actions performed in the system are recorded for individual transactions and users. In order to protect against unauthorized access, the entire system, along with the user data, is stored in a special directory structure of the operating system, which is secured with the appropriate access rights.

Security and availability of information contained in the financial-accounting system are controlled at all levels of the database, applications and presentations as well as at the level of operating system. System integration is ensured by the data entry control systems (validation, authorization, a list of values), and logs of changes. In case of system failure not completed transactions are withdrawn. Logs of changes give the possibility of review.

Users do not have direct access to the operating system and database. Integrated menu of the system includes access paths to all transactions available in the system. Securing the access to individual transactions is based on the authorizations assigned to the user. Security systems are used at the level of hardware and at the level of system.

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 Ministry of Finance Regulation 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 entered into the integrated IT system. The system is designed for financial management and reporting purposes. The system enables the unification of financial information. Results, budgeted and forecasted data, as well as statistics are gathered in one place, which ensures direct control and validity of the entered data.

The data is reviewed in terms of their cohesion, completeness and continuity, which is achieved thanks to controls implemented in the system, verifying the compliance of data entered by the companies.

Designated users of the system supervise the safety management of the system and established stages of consolidation process management. Granting access rights to individual users is strictly dependent on the security roles defined (assigned) for them. Appropriate security classes have been set up for individual users in order to maintain the control. Access to financial resources is limited by a system of permissions that are granted only to authorized personnel only within the performance of their duties. These authorizations are subject to regular audits and verification. Controlling of the access to applications is carried out at each stage of preparation of financial statements, starting from data entry ending with the generating of the final information.

Financial information is stored in an IT system, so that they can be used to create transparent reports and forecasts, both for internal needs and external recipients, such as public bodies, financial analysts, shareholders and business partners.

The preparation of consolidated financial statements in a single integrated tool enables to shorten the processes of consolidation and reporting of financial information as well as to obtain high-quality substantive and usable financial information.

In order to reduce the risks relating to the process of drawing up financial statements on a current basis, they are quarterly verified by an auditor, i.e. more often than required under the applicable law. The financial statements for the I 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 or audit, 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, verification 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.

PKN ORLEN's shareholders with a significant stake

PKN ORLEN shares are listed on the main market of the Warsaw Stock Exchange in the continuous listing system and are comprised by WIG, WIG20 and WIG-paliwa (WIG-fuels) – the industry index. Since 19 November 2009 the PKN ORLEN's shares have been included in the index composition of the companies engaged in the social business responsibility – Respect Index.

The shares of PKN ORLEN are also listed on the London Stock Exchange in form of Global Deposit Receipts (GDRs).
GDRs are also traded in the United States on the OTC (Over The Counter).

The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares of the nominal 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.

A list of PKN ORLEN's shareholders holding a significant stake is presented below, 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.

In 2011 and until the date of authorization of this report there were no changes in the structure of shareholders with more than 5% in the Company's share capital.

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.

Shareholding structure in PKN ORLEN as at 31 December 2011

Shareholders	Number of shares	Number of votes at a General Meeting of PKN ORLEN	Share in total number of votes at a General Meeting of PKN ORLEN	Share in share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva OFE*	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%**

** According to the information received from by the Company on 9 February 2010.*

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:
  - competition and Consumer Protection Act of 16 February 2007.
  - accounting Act of 29 September 1994.
  - act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs.
  - act of 29 July 2005 on Public Offering and Terms for Introducing Financial Instruments to the Organised Trading System and Public Companies.

The restriction, referred to in the previous sentence, does not apply to 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 abovementioned Acts. 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.

- Shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The accumulation 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,
  - 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 a person is the parent company or the subsidiary of PKN ORLEN.

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.

- For the purpose of the regulations indicated above, the parent company and the subsidiary shall accordingly mean 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 Terms for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.

- 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.

On 2 August 2011 the Supervisory Board of PKN ORLEN appointed a Proxy for critical infrastructure protection.

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.

Proceedings of PKN ORLEN 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.

Convening and calling off PKN ORLEN General Meetings

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.

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.

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 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 Companies 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.

Voting at PKN ORLEN's General Meetings

Unless stated otherwise in the Commercial Companies 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 "abstaining".

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 8.4 of the Management Board Report on the Operations of PKN ORLEN for 2011.

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

Participation in PKN ORLEN's General Meetings

In accordance with Article 406(1) § 1 of the Polish Commercial Companies 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.

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, Krajowy Depozyt Papierów Wartościowych, 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. PKN ORLEN's Management Board issues the list of shareholders eligible to participate in the General Meeting. This list is prepared on the basis of a specification provided for the company's review by KDPW three days 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 authorization of this report, the Minister in charge of State Treasury affairs has not appointed any Observer for PKN ORLEN and, as stated in chapter 8.4 of the Management Board Report on the Operations of PKN ORLEN for 2011, 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.

A special section dedicated to the Company's General Meetings is included on the corporate PKN ORLEN website where the guidelines "How to participate in General Meeting" are posted and updated in accordance to changes that occur in the commonly applicable provisions of law. This section provides also information about the planned shareholders' meetings 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.

General Meeting in 2011

The General Meeting of the Company was held on 29 June 2011. 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 2010. They also resolved on confirming the performance of duties by all the Supervisory and Management Boards members.

The General Meeting resolved also to allocate the Company's entire profit generated in 2010 to the Company's reserve capital. Moreover, due to the end of the liquidation process of Nafta Polska, the General Meeting of PKN ORLEN decided to adjust the current provisions of § 7.11 points 1 and 6 of the Company's Articles of Association by removing the provisions that concern Nafta Polska.

The debates concerned also amendments to the PKN ORLEN's Articles of Association in order to implement the provisions that enable the shareholders to participate in the General Meeting with the use of electronic communication means, which includes:

- broadcast of the General Meetings,
- real time two-way communication within which shareholders may speak during the session of the General Meeting being in a place other than the place of General Meeting,
- exercise voting rights in person or by proxy.

These abovementioned proposals prepared by the Management Board and positively accepted by the Supervisory Board were not approved by the General Meeting. Decisions permitting to hold the so-called e-meeting were not introduced into the Articles of Association. Thus, at the request of the Management Board, changes of the Rules of the General Meeting were removed from the agenda of the General Meeting.

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

Composition of PKN ORLEN's Management Board in 2011

As at 1 January 2011 the composition of PKN ORLEN Management Board was as follows:

Composition of the PKN ORLEN Management Board as at 1 January 2011

Name and surname	Position held in PKN ORLEN Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
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

At its meeting held on 24 March 2011, the Supervisory Board of PKN ORLEN has appointed the Management Board of PKN ORLEN for a joint three-year term. The new term of office of the Management Board started after the holding of the Annual General Meeting, which approved the financial statements for the year 2010.

Composition of the Management Board of the new term, which began its run on 30 June 2011, is presented in the following table:

Composition of the Management Board of PKN ORLEN as at 30 June 2011

Name and surname	Position held in PKN ORLEN Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
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

Ms Grażyna Piotrowska-Oliwa was appointed on a motion of the Ministry of State Treasury based on § 9.1 item 3 of PKN ORLEN's Articles of Association. Mr Dariusz Jacek Krawiec, Sławomir Jędrzejczyk, Krystian Pater and Marek Serafin were acting as Members of the Management Board in the previous term in office.

On 7 December 2011, the Supervisory Board of PKN ORLEN resolved to suspend indefinitely Mr Marek Serafin from his office of a Member of the Management Board of PKN ORLEN as a consequence of him being arrested by the Internal Security Agency.

At the meeting held on 8 December 2011, the Supervisory Board of PKN ORLEN resolved to recall Mr Marek Serafin from his office of a Member of the Management Board.

At the same meeting, the Supervisory Board of PKN ORLEN delegated Mr Piotr Wielowieyski, Member of the Supervisory Board, as of 9 December 2011 to temporarily act as a Member of the Management Board in charge of Petrochemistry. The delegation was for the period not longer than 3 months, e.g. not longer then until 9 March 2012.

In March 2012 there were changes in the composition of the Management Board. PKN ORLEN's Supervisory Board at its meeting on 6 March 2012 appointed Mr Peter Chełmiński as a Member of the Management Board of PKN ORLEN Board in charge of Petrochemistry. The appointment is effective starting from 10 March 2012. On 7 March 2012 Ms Grażyna Piotrowska-Oliwa, the Member of the PKN ORLEN Management Board in charge of Sales made a statement of resignation effective from 18 March 2012 from her position in connection with her appointment by the Supervisory Board of the Polskie Górnictwo Naftowe i Gazownictwo ("PGNiG") as the President of PGNiG. Then, on 14 March 2012 the Supervisory Board of PKN ORLEN appointed Mr Marek Podstawa, effective from 19 March 2012, as the Member of the Management Board of PKN ORLEN in charge of Sales.

Taking into account the above listed changes, the composition of the Management Board as at 9 December 2011 was as follows:

Composition of the Management Board of PKN ORLEN as at 9 December 2011 and 31 December 2011

Name and surname	Position held in PKN ORLEN Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
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
Piotr Wielowieyski	Memeber of the Supervisory Board delegated to act temporarily as the Member of the Management Board in charge of Petrochemistry

Composition of the Management Board of PKN ORLEN as at 19 March 2012

Name and surname	Position held in PKN ORLEN Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer
Sławomir Jędrzejczyk	Vice-President of the Management Board, Chief Financial Officer
Piotr Chełmiński	Member of the Management Board, Petrochemistry
Krystian Pater	Member of the Management Board, Refinery
Marek Podstawa	Member of the Management Board, Sales

Number of women and men acting as Management Board Members in the last two years:

Number of men and women acting as Management Board Members of PKN ORLEN.

As at	Number of women	Number of men
1 January 2010	0	5
1 January 2011	0	5
30 June 2011	1	4
9 December 2011	1	4
1 January 2012	1	4
19 March 2012	0	5

Competence of the Company's Management Board

Mr Dariusz Jacek Krawiec, President of the Management Board of PKN ORLEN concurrently fulfilling the function of the Chief Executive Officer supervises the following areas: human resources, strategy and project management, procurement, Counsel to PKN ORLEN, corporate communication, audit, crude trading, upstream, representative responsible for confidential information protection as well as representative responsible for critical infrastructure and defense.

Mr Sławomir Jędrzejczyk, Vice-President of the Management Board, Chief Financial Officer is responsible for the following areas: planning and reporting, business controlling, supply chain management, finance management, taxes, investor relations, capital investments and divestments, IT.

Mr Piotr Chełmiński, Member of the Management Board in charge of Petrochemistry is responsible for the following areas: petrochemical production, sale of petrochemical products, chemistry, health and safety, environmental protection, development and efficiency of petrochemical production, implementation of property investments, energy.

Mr Krystian Pater, Member of the Management Board in charge of Refinery supervises the following areas: refinery production, oil production, energy production, investments and efficiency of refinery production.

Mr Marek Podstawa, Member of the Management Board in charge of Sales supervises the following areas: wholesale in refinery products, sale of oils, retail sale, and logistics.

Composition of PKN ORLEN Supervisory Board in 2011

As at 1 January 2011 the Company's business was monitored by the Supervisory Board in the following composition:

Composition of the PKN ORLEN Supervisory Board as at 1 January 2011

Name and surname	Position held in PKN ORLEN Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Marek Karabuła	Vice-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
Krzysztof Kołach	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board
Piotr Wielowieyski	Member of the Supervisory Board
Janusz Zieliński	Member of the Supervisory Board

Until 31 December 2011, the above presented composition of the Supervisory Board has not changed.

At the beginning of 2012 changes in the composition of the Supervisory Board were made. On 12 January 2012 the Extraordinary General Meeting of PKN ORLEN revoked Mr Krzysztof Kołach from the Supervisory Board. At the same time the Extraordinary General Meeting appointed Mr Michał Gołębiowski to the Supervisory Board.

Additionally, the Minister of State Treasury based on § 8.2 item 1 of Articles of Association, acting on behalf of the State Treasury – the shareholder recalled Mr Janusz Zieliński from his office of the Supervisory Board of PKN ORLEN. Concurrently the Minister of State Treasury, as of 12 January 2012 appointed Mr Cezary Banasiński to the Supervisory Board.

Taking into account above listed changes, the composition of the Supervisory Board at as 12 January 2012 was as follows:

Composition of the PKN ORLEN Supervisory Board as at 12 January 2012

Name and surname	Position held in PKN ORLEN Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Marek Karabuła	Vice-Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Cezary Banasiński	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board
Piotr Wielowieyski	Member of the Supervisory Board

Further changes in the composition of the Supervisory Board took place in March 2012. Mr Marek Karabuła and Mr Piotr Wielowieyski submitted a statement on resignation from the position of PKN ORLEN Supervisory Board Member, effective from 28 March 2012.

Composition of the PKN ORLEN Supervisory Board as at 28 March 2012

Name and surname	Position held in PKN ORLEN Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board
Angelina Sarota	Secretary of the Supervisory Board
Cezary Banasiński	Member of the Supervisory Board
Grzegorz Borowiec	Member of the Supervisory Board
Artur Gabor	Member of the Supervisory Board
Michał Gołębiowski	Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Member of the Supervisory Board

The Supervisory Board was acting in the current composition until the date of authorization of this report by the Management Board.

In 2011, the attendance of members of the Supervisory Board of PKN ORLEN on Board's meetings amounted on average to 92%.

In 2011, the Supervisory Board held 11 minuted meetings and has adopted 90 resolutions.

Number of men and women acting as Supervisory Board Members of PKN ORLEN

As at	Number of women	Number of men
1 January 2010	1	8
1 January 2011	1	8
1 January 2012	1	8
12 January 2012	1	8
28 March 2012	1	6

Composition of Supervisory Board Committees of PKN ORLEN in 2011

In 2011 Supervisory Board Committees were acting in the following compositions:

Composition of Supervisory Board Committees of PKN ORLEN from 1 January 2011 to 31 December 2011

Name and surname	Position held in PKN ORLEN Supervisory Board Committee
Audit Commitee	
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
Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Strategy and Development Committee	
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
Nomination and Remuneration Committee	
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

Due to changes in the composition of the Supervisory Board introduced in January 2012, the Supervisory Board on the meeting held on 19 January 2012 established the following Committee composition:

Composition of Supervisory Board Committees in PKN ORLEN after changes on 19 January.

Composition of Supervisory Board Committees in PKN ORLEN on 19 January 2012

Name and surname	Position held in PKN ORLEN Supervisory Board Committee
Audit Commitee	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member
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
Corporate Governance Commitee	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
Strategy and Development Committee	
Marek Karabuła	Committee Chairman
Michał Gołębiowski	Committee Member
Cezary Banasiński	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
Nomination and Remuneration Committee	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Michał Gołębiowski	Committee Member

Since further changes in the composition of the Supervisory Board took place on 28 March 2012, i.e. the date of authorization of the foregoing report, the composition of Supervisory Board Committees will be modified.

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 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.

The rules of conduct of PKN ORLEN Supervisory Board

Appointing and recalling members of PKN ORLEN Supervisory Board

Members of PKN ORLEN Supervisory Board are appointed for a common term of office, ending on the day when the Ordinary General Meeting is 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 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 § 8.9 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 Supervisory Board 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 Companies 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 "abstaining." 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 Companies 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 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 Companies 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 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 abovementioned 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 Companies Code, posing a direct threat to the Company,
- appoint the acting President of the Management Board, referred to in § 9.3 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 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 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 § 8.11 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 § 8.11 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 exceeds 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 Companies 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 abovementioned 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 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.

Moreover, the Supervisory Board prepares an annual report on its work, in which it takes into account both the number of meetings held and the most important issues dealt with in the year.

Committees of PKN ORLEN 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,
- Corporate Governance Committee.

The said Committees report annually to the Supervisory Board on its activities. The Committee competences are regulated by Terms of the Supervisory Board, which is available for shareholders on the Company's website www.orlen.pl.

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 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 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.

The rules of PKN ORLEN Management Board operations

The principal objective of PKN ORLEN Management Board 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 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 is 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. At its meeting on 24 March 2011 the Supervisory Board appointed the Management Board of PKN ORLEN for a three-year term. The new term of the Management Board started on 30 June 2011, i.e. after the holding of the Ordinary General Meeting approving the financial statements for 2010.

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 § 9.5 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 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 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 Companies 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.

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

Remuneration for Members of the Board is determing by the Supervisory Board taking into account the recommendations of the Nomination and Remuneration Committee, acting with its framework. A detailed description of the competences of the Nomination and Remuneration Committee is presented in section 8.7.8 of the Management Board Report on the Activities of PKN ORLEN for 2011.

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.

Rules for awarding bonuses to the key executive

In 2011 the ORLEN Group's key executive personnel was subject to the annual MBO bonus system (management by objectives). 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 abovementioned 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 2011 new MBO bonus standards were developed and approved for the senior managerial personnel in the ORLEN Group to be in force as of 2012. 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 and adjusting bonus system to the best market practices.

Additional information regarding remuneration policy can be found in the item 3.5 of the Management Board Report on the Operations of PKN ORLEN for 2011.

Consolidated Financial Statement

Summary of the VRT starts in the 2011 season

VERVA Racing Team among the top racing teams

In the history of the Polish motor sport, yet no Polish team achieved such big successes in a comparable category of car racing. The VERVA Racing Team, which took the 4th place in the team category in Porsche Supercup is an answer to expectations of Polish fans, who want to experience great sport emotions at the world level.

This unique PKN ORLEN project perfectly meets these assumptions, combining them with marketing objectives. The VERVA Racing Team project had a significant influence on the increase of the VERVA brand recognition. Surveys show that 1/3 of respondents indicate the Company's premium fuel as the best known brand of enriched fuel.

Opinion of the Independent Auditor

To the General Meeting Polski Koncern Naftowy ORLEN Spółka Akcyjna

We have audited the accompanying consolidated financial statements of Polski Koncern Naftowy ORLEN Spółka Akcyjna Group, whose parent entity is seated in Płock, 7 Chemików Street ("PKN ORLEN SA Group", "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, 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, notes and other explanatory information.

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

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by European Union and with other applicable regulations and preparation of the Report on the Group's operations. Management of the Parent Entity 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 Entity and members of the Supervisory Board or are required to ensure that the consolidated financial statements and the Report on the Group's operations are in compliance with the requirements 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 the 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 audit evidence about the amounts and disclosures in the consolidated 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

In our opinion, the accompanying consolidated financial statements of PKN ORLEN Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2011 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.

Emphasis of Matter

Without qualify our opinion, we draw your attention to the fact that in 2011 the Group has recognised impairment losses on non-current assets of PLN 1.855.850 thousand. The Group's projected future financial performance, which was the basis for impairment testing of non-current assets, is based on number of assumptions, that are, in respect of macroeconomic factors, beyond the Group's control. As described in note 14 to the accompanying consolidated financial statements, a change in these assumptions may influence the Group's financial position, including the results of the tests for impairment of non-current assets, and consequently may lead to changes in the financial position and performance of the Group.

Other Matters

As required under the Accounting Act, we also report that the Management Board Report on the Operations of ORLEN Capital Group 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 with amendments) and the information is consistent with the consolidated financial statements.

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

Certified Auditor No. 10427
Marta Zemka

Certified Auditor No. 10268
Director
Monika Bartoszewicz

28 March 2012, Warsaw

CONSOLIDATED FINANCIAL STATEMENTS OF ORLEN Capital Group for the year ended 31 December 2011

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

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2011 (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 2011, that is for the period from 1 January 2011 to 31 December 2011 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish currency (PLN).

on 29 March 2012
(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 31.12.2011	for the year ended 31.12.2010	for the year ended 31.12.2011	for the year ended 31.12.2010
I.	Sales revenues	106,973,074	83,547,432	25,838,283	20,180,052
II.	Profit from operations	2,066,472	3,122,649	499,136	754,245
III.	Profit before tax	2,791,741	3,070,167	674,317	741,568
IV.	Net profit attributable to equity holders of the parent	2,363,397	2,371,358	570,855	572,778
V.	Net profit	2,015,003	2,455,467	486,704	593,094
VI.	Total comprehensive income attributable to equity holders of the parent	2,845,641	2,537,678	687,336	612,951
VII.	Total comprehensive income	2,689,065	2,658,224	649,517	642,068
VIII.	Net cash provided by operating activities	761,106	6,110,199	183,837	1,475,858
IX.	Net cash provided by/(used in) investing activities	1,497,021	(2,920,060)	361,591	(705,312)
X.	Net cash provided by/(used in) financing activities	332,376	(3,297,740)	80,282	(796,536)
XI.	Net increase/(decrease) in cash and cash equivalents	2,590,503	(107,601)	625,710	(25,990)
XII.	Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN/EUR per share)	5.53	5.54	1.33	1.34
		as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
XIII.	Non-current assets	28,599,141	30,430,874	6,475,082	6,889,801
XIV.	Current assets	30,132,337	20,718,918	6,822,210	4,690,934
XV.	Total assets	58,731,478	51,149,792	13,297,292	11,580,735
XVI.	Long-term liabilites	12,120,002	10,684,821	2,744,069	2,419,132
XVII.	Short-term liabilities	19,812,793	16,225,018	4,485,780	3,673,478
XVIII.	Equity	26,798,683	24,239,953	6,067,443	5,488,126
XIX.	Equity attributable to equity holders of the parent	24,533,773	21,627,938	5,554,649	4,896,744
XX.	Share capital	1,057,635	1,057,635	239,457	239,457
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)	57.36	50.57	12.99	11.45

The above data for 2011 and 2010 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 2011 – 4,4168 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 2011 – 4,1401 PLN/EUR.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2011

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

Consolidated statement of financial position

	Note	as at 31.12.2011	as at 31.12.2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	26,578,651	27,403,013
Investment property	8	117,645	71,976
Intangible assets	9	1,323,044	1,102,709
Perpetual usufruct of land	10	95,664	96,354
Investments accounted for under equity method	11	13,125	1,501,016
Financial assets available for sale	12	40,520	42,783
Deferred tax assets	31.2	399,526	163,893
Other non-current assets	13	30,966	49,130
Total non-current assets		28,599,141	30,430,874
Current assets			
Inventories	15	16,296,517	11,294,851
Trade and other receivables	16	8,071,011	6,288,802
Other short-term financial assets	17	293,434	224,601
Income tax receivable		33,684	48,273
Cash and cash equivalents	18	5,409,166	2,820,742
Non-current assets held for sale	19	28,525	41,649
Total current assets		30,132,337	20,718,918
Total assets		58,731,478	51,149,792
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity			
Share capital	20.1	1,057,635	1,057,635
Share premium	20.3	1,227,253	1,227,253
Hedging reserve	20.5	(24,305)	63,872
Revaluation reserve	20.6	5,301	—
Foreign exchange differences on subsidiaries from consolidation	20.7	415,628	(149,492)
Retained earnings	20.4	21,852,261	19,428,670
Total equity attributable to equity holders of the parent		24,533,773	21,627,938
Non-controlling interest	20.8	2,264,910	2,612,015
Total equity		26,798,683	24,239,953
LIABILITIES			
Long-term liabilities			
Interest-bearing loans and borrowings	21	10,537,792	9,123,987
Provisions	22	621,379	635,618

	Note	as at 31.12.2011	as at 31.12.2010
Deferred tax liabilities	31.2	740,910	818,581
Deferred income	25	16,239	16,960
Other long-term liabilities	23	203,682	89,675
Total long-term liabilities		12,120,002	10,684,821
Short-term liabilities			
Trade and other liabilities	24	15,092,524	13,435,998
Interest-bearing loans and borrowings	21	2,459,799	1,543,740
Income tax liability		673,643	23,370
Provisions	22	1,008,140	1,002,428
Deferred income	25	136,379	74,959
Other financial liabilities	26	442,308	144,523
Total short-term liabilities		19,812,793	16,225,018
Total liabilities		31,932,795	26,909,839
Total equity and liabilities		58,731,478	51,149,792

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

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

Consolidated statement of comprehensive income

	Note	for the year ended 31.12.2011	for the year ended 31.12.2010
Income statement			
Sales revenues	27	106,973,074	83,547,432
Cost of sales	28	(98,397,811)	(75,566,961)
Gross profit on sales		8,575,263	7,980,471
Distribution expenses		(3,660,256)	(3,394,612)
General and administrative expenses		(1,468,298)	(1,365,195)
Other operating revenues	29.1	1,006,655	771,321
Other operating expenses	29.2	(2,386,892)	(869,336)
Profit from operations		2,066,472	3,122,649
Financial revenues	30.1	2,780,145	446,754
Financial expenses	30.2	(2,243,175)	(751,248)
Financial revenues and expenses		536,970	(304,494)
Share in profit from investments accounted for under equity method		188,299	252,012
Profit before tax		2,791,741	3,070,167
Income tax expense	31	(776,738)	(614,700)
Net profit		**2,015,003**	**2,455,467**
Items of other comprehensive income			
Hedging instruments valuation		42,798	25,502
Hedging instruments settlement		(159,052)	35,020
Fair value measurement of investment property as at the date of reclassification		10,389	—
Foreign exchange differences on consolidation		759,813	153,734
Deferred tax on other comprehensive income items		20,114	(11,499)
		674,062	202,757
Total net comprehensive income		2,689,065	2,658,224
Net profit/(loss) attributable to:		2,015,003	2,455,467
equity holders of the parent		2,363,397	2,371,358
non-controlling interest		(348,394)	84,109
Total comprehensive income attributable to:		2,689,065	2,658,224
equity holders of the parent		2,845,641	2,537,678
non-controlling interest		(156,576)	120,546
Net profit and diluted net profit per share attributable to equity holders of the parent (in PLN per share)		5.53	5.54

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

Consolidated statement of cash flow

	Note	for the year ended 31.12.2011	for the year ended 31.12.2010
Cash flows – operating activities			
Net profit		**2,015,003**	**2,455,467**
Adjustments for:			
Share in profit from investments accounted for under equity method		(188,299)	(252,012)
Depreciation and amortisation	28	2,379,948	2,422,747
Foreign exchange loss/(gain)		729,342	(36,860)
Interest, net		381,683	393,130
Dividend received		(1,287)	(3,152)
(Profit)/Loss on investing activities		(68,924)	206,817
Change in receivables	32	(1,319,184)	(799,146)
Change in inventories	32	(4,565,020)	(608,981)
Change in liabilities	32	1,080,799	2,282,677
Change in provisions	32	594,175	715,077
Income tax expense	31	776,738	614,700
Income tax (paid)		(333,469)	(517,882)
Other adjustments	32	(720,399)	(762,383)
Net cash provided by operating activities		**761,106**	**6,110,199**
Cash flows – investing activities			
Acquisition of property, plant and equipment and intangible assets		(2,542,445)	(3,724,370)
Disposal of property, plant and equipment and intangible assets		324,705	686,025
Disposal of shares		3,675,922	53,339
Acquisition of shares		(121,348)	(115,927)
Disposal of securities and deposits		115,700	198,711
Acquisition of securities and deposits		(111,280)	(174,955)
Interest received		8,333	8,857
Dividends received		251,300	149,880
Other		(103,866)	(1,620)
Net cash provided by/(used in) investing activities		**1,497,021**	**(2,920,060)**
Cash flows – financing activities			
Proceeds from loans and borrowings received		18,892,646	14,688,673
Repayments of loans and borrowings		(18,021,857)	(17,408,772)
Interest paid		(496,462)	(545,378)
Payments of liabilities under finance lease agreements		(27,553)	(24,060)
Dividends paid to non-controlling interest		(13,986)	(10,468)
Other		(412)	2,265
Net cash provided by/(used in) financing activities		**332,376**	**(3,297,740)**

Consolidated statement of cash flow – continued:

	Note	for the year ended 31.12.2011	for the year ended 31.12.2010
Net increase/(decrease) in cash and cash equivalents		2,590,503	(107,601)
Effect of exchange rate changes		(2,079)	(12,696)
Cash and cash equivalents, beginning of the period	18	2,820,742	2,941,039
Cash and cash equivalents, end of the period	18	5,409,166	2,820,742

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(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							
	Note	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
1 January 2011		2,284,888	63,872	(149,492)	—	19,428,670	21,627,938	2,612,015	24,239,953
Net profit		—	—	—	—	2,363,397	2,363,397	(348,394)	2,015,003
Items of other comprehensive income		—	(88,177)	565,120	5,301	—	482,244	191,818	674,062
Total comprehensive income		—	(88,177)	565,120	5,301	2,363,397	2,845,641	(156,576)	2,689,065
Change in the structure of non-controlling interest		—	—	—	—	60,194	60,194	(177,625)	(117,431)
Dividends			—	—	—	—	—	(12,904)	(12,904)
31 December 2011	20	2,284,888	(24,305)	415,628	5,301	21,852,261	24,533,773	2,264,910	26,798,683
1 January 2010		2,284,888	14,849	(266,789)	—	17,004,955	19,037,903	2,669,308	21,707,211
Net profit		—	—	—	—	2,371,358	2,371,358	84,109	2,455,467
Items of other comprehensive income		—	49,023	117,297	—	—	166,320	36,437	202,757
Total comprehensiveincome		—	49,023	117,297	—	2,371,358	2,537,678	120,546	2,658,224
Change in the structure of non-controlling interest		—	—	—	—	52,357	52,357	(168,284)	(115,927)
Dividends		—	—	—	—	—	—	(9,555)	(9,555)
31 December 2010	20	2,284,888	63,872	(149,492)	—	19,428,670	21,627,938	2,612,015	24,239,953

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 („ORLEN Capital Group", „Capital Group",) includes:
- Processing of crude oil and manufacturing of oil derivative products and semi finished products (refinery and petrochemical);
- Manufacture of basic chemicals, fertilizers and nitrogen compounds, plastics and synthetic rubber;
- 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

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

Name of concession as at 31/12/2011	remaining concession periods (in years)
Electrical energy: manufacturing, transmission, distribution and trade	6–14
Heating energy: manufacturing, transmission, distribution and trade	9–19
Liquid and gaseous fuels: manufacturing, transmission, distribution, trade, storage and transportation	2–42
International profit-making road transportation services	2
Non-reservuar storage of crude oil and liquid fuels	18
Rock salt: exploitation and recognition	2–22
Exploration and recognition of crude oil and natural gas	5
Personal and property security services	indefinetely

The process of granting concessions in the Group is periodical and is administrative in nature. The Management Board believes that the probability of failure in obtaining concessions is remote.

The Group as the owner of the particular concession is paying annual fees that are recognized in the profit for the period.

As at 31 December 2011 and 31 December 2010 the Group had no liabilities related to concession services in scope of IFRIC 12.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 161

Shareholders' structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting as at 31 December 2011.

	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%
Other	288,254,829	288,254,829	360,318,536	67.40%
Total	**427,709,061**	**427,709,061**	**534,636,326**	**100.00%**

*according to the information obtained by the Parent Entity as at 9 February 2010.

Composition of the Management Board of the Parent

as at 31.12.2011

- 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 (since 30 June 2011)
- Piotr Wielowieyski – Member of the Supervisory Board (from 9 December 2011 till 9 March 2012 delegated to act temporarily as a Member of the Management Board, Petrochemistry)

as at the date of authorization of consolidated annual report

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

Composition of the Supervisory Board of the Parent

as at 31.12.2011

- 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
- Krzysztof Kołach – Member of the Supervisory Board
- Leszek Jerzy Pawłowicz – Member of the Supervisory Board
- Piotr Wielowieyski – Member of the Supervisory Board (from 9 December 2011 till 9 March 2012 delegated to act temporarily as a Member of the Management Board, Petrochemistry)
- Janusz Zieliński – Member of the Supervisory Board

as at the date of authorization of consolidated annual report

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

Detailed information on changes in the composition of the Management Board and Supervisory Board of PKN ORLEN are disclosed in point VIII.8.7 of the Management Board Report on the Operations of ORLEN Group.

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 accounting principles applicable to the Group in force (disclosed in point 2) 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.

162 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

1.2.2. In respect of the entity authorized to conduct audit of consolidated 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 separate financial statements of PKN ORLEN and consolidated financial statements of ORLEN Capital Group for the year 2011.

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 2011. 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 2011 and the comparative period from 1 January to 31 December 2010.

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 2011 and comparative data as at 31 December 2010, results of its operations and cash flows for the year ended 31 December 2011 and comparative data for the year ended 31 December 2010.

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

Duration of the Parent Company and the entities comprising the ORLEN Capital Group is unlimited.

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

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

2.2.1. Binding amendments and interpretations to IFRSs

The amendments adopted from 1 January 2011, until the date of publication of these consolidated financial statements, 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 by the International Accounting Standards Board (IASB) but not effective as at the date of publication of these consolidated financial statements, 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 IFRS.

IFRSs and interpretations to IFRSs adopted by EU

From 1 January 2011 until approved for publication of the foregoing consolidated financial statements, there has been no amendments, that were adopted by the EU and has not been effective yet.

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, as IFRS 1 will not be applicable to the Company.

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

The Amendments contain new disclosure requirements for financial assets and liabilities that are:
- offset in the statement of financial position; or
- subject to master netting arrangements or similar agreements.

Effective for periods beginning on or after 1 January 2013.

The Group does not expect the amendments to have any impact on the consolidated financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

New standard and amendments to IFRS 9 Financial Instruments

New standard replaces guidance in IAS 39 *Financial Instruments: Recognition and Measurement* about classification and measurement of financial assets.

The standard eliminates existing IAS 39 categories: held to maturity, available for sale and loans and receivables.

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

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

New standard eliminates the requirement of separation the embedded derivatives from host contract. It requires the hybrid (combined) contract measured at amortised cost or fair value.

Moreover, the amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments.

Effective for periods on or after 1 January 2015.

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

New Standard – IFRS 10 Consolidated Financial Statements

IFRS 10 replaces IAS 27 Consolidated and Separate financial statements, in scope of consolidation and SIC 12 Interpretation Special Purpose Entities.

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

Effective for periods beginning on or after 1 January 2013.

The Group does not expect the new standard to have any impact on the financial statements of the Group, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

New Standard – IFRS 11 Joint Arrangements

IFRS 11 "Joint Arrangements", supersedes and replaces IAS 31 "Interest in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers".

IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31, those cases in which although there is a separate vehicle for the joint arrangement, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations, (recognizing particular items of assets and liabilities), under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, must be accounted for using the equity method. Proportionate consolidation is no longer possible.

Effective for periods beginning as on or after 1 January 2013.

If the new Standard had been applied from 31 December 2011, the impact would be that joint venture for Basell Orlen Polyolefines Sp. z o.o. Group (BOP) and Płocki Park Przemysłowo-Technologiczny S.A. (PPPT) should be accounted for using the equity method instead of proportionate consolidation. The financial data as at 31 December 2011 and 31 December 2010 were disclosed in note 11.2. The adoption of the new standard will have no effect on consolidated net profit of the Group.

New Standard – IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

Effective for periods beginning on or after 1 January 2013.

It is expected that the new standard, when initially applied, will increase the number of disclosures of interest in other entities in the financial statements.

New Standard – IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

Effective for periods beginning on or after 1 January 2013.

The Group does not expect IFRS 13 to have material impact on the consolidated financial statements, as the Management assesses the methods and assumptions used when measuring assets at fair values as being in line with IFRS 13.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects then the aggregated tax amount should be allocated between these sections.

Effective for periods beginning on or after 1 July 2012.

The Group does not expect the new standard to have significant impact on the consolidated financial statements, but the number of recognized disclosures will increase.

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

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

Amendments to IAS 19 Employee Benefits

The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income.

Effective for periods beginning as the or after 1 January 2013.

The Group does not expect the amendments to have a significant impact on future consolidated financial statements, since the Group does not use the corridor method.

Amendments to IAS 27 Separate Financial Statements

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

Effective for periods on or after 1 January 2013.

The above amendment will have no impact on the consolidated financial statements, since it does not result in a change of the Group's accounting policy.

Amendments to IAS 28 Investments in Associates and Joint Ventures

Amendments comprise:

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

Effective for periods beginning on or after 1 January 2013.

It is expected that the standard, when initially applied, will have a no impact on the consolidated financial statements, as they do not result in changes of accounting principles of the Capital Group.

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

The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

Effective for periods beginning on or after 1 January 2014.

It is expected that the amendment, when initially applied, will have no significant impact on consolidated financial statements, since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

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

Production stripping costs, that will cause the flow of future economic benefits to the entity, may be capitalized by an entity if a certain criteria are met. Capitalization and depreciation period will be dependent on identified inventory, to which the stripping costs refer to.

Effective for periods beginning as the or after 1 January 2013.

It is expected the interpretation, when initially applied, will have no significant impact on the future consolidated financial statements, since the Group does not have any stripping activities.

2.2.3. Presentation changes

In the year 2011 and comparable periods, no changes in the presentation of financial data occurred.

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

The functional currency of the Parent Entity and presentation currency of the foregoing consolidated financial statements is Polish Złoty (PLN). The data is presented in PLN thousand in the consolidated financial statements.

Financial statements of foreign entities, for consolidation purposes, are translated into PLN using the following methods:
- particular assets 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	for the year ended 31.12.2011	for the year ended 31.12.2010	as at 31.12.2011	as at 31.12.2010
PLN/EUR	4.1186	3.9950	4.4168	3.9603
PLN/USD	2.9638	3.0174	3.4174	2.9641
PLN/CZK	0.1675	0.1580	0.1711	0.1580

Accounting policies for foreign currency transactions are disclosed in note 2.3.2.

2.3. Applied accounting policies

2.3.1. Change in accounting policies and estimates

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

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

Items of 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. The effects of changes in estimates are accounted prospectively in the statement of comprehensive income.

The correction of a material prior period error is made to the equity. When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred.

2.3.2. Transactions in foreign currency

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

At the end of each reporting period:
- foreign currency monetary items, including units of currency held by the 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 separate financial statements of the Parent Company and using uniform accounting principles in relation to similar transactions and other events in similar circumstances.

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 consolidation 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. Contractual arrangement establishes joint control over a joint venture. The requirement ensures that no single venturer is in a position to control the activity unilaterally.

Interests in joint ventures are investments, when the venturer has joint control. 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 separate 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 full consolidation 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 full consolidation 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:

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

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

Depreciation of an item of property, plant and equipment begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, over the period reflecting its estimated 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 major inspections and overhaul and replacement of components 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 at cost 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.

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the Group can demonstrate all of the following:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale,

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

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

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

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

Intangible assets with finite useful life are amortised using straight-line method. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The asset shall be amortised over the period reflecting its estimated useful life. The 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
Internally generated development costs	3–16 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 amortised 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 registration 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.

2.3.8.3. Perpetual usufruct of land

Perpetual usufruct of land is recognised at the acquisition cost and presented in a separate line of the statement of financial position.

As at the end of the reporting period perpetual usufruct of land is valued at the net carrying amount, i.e. at the acquisition cost less any accumulated depreciation and impairment losses.

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

2.3.9. 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.

2.3.10. 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.

2.3.11. 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.

Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula.

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.

2.3.12. Receivables

Receivables, including trade receivables, are recognised initially at amortized cost using the effective interest method less impairment allowances.

2.3.13. 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. Cash equivalents are rather part of the cash management process implemented by the entity, nor investment or other. The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the cash management.

Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (first-in first-out) method.

2.3.14. 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 recognized.

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.

2.3.15. Equity

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

2.3.15.1. Share capital

The share capital is an 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.

2.3.15.2. 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.

2.3.15.3. Hedging reserve

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

2.3.15.4. 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.

2.3.15.5. 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.

2.3.15.6. 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.

2.3.16. Liabilities

Liabilities, including trade liabilities, are stated at amortized cost using the effective interest method.

2.3.16.1. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

2.3.17. 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 recognized.

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

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.

2.3.17.1. 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.

2.3.17.2. Jubilee bonuses and post employment benefits

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

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

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

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

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

2.3.17.3. 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 Group 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.

2.3.17.4. 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.

2.3.17.5. CO_2 emissions

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

2.3.18. Goverment 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.

2.3.19. 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. In particular, these are revenues that are fully controlled by the Group.

2.3.19.1. 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.

2.3.19.2. 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.

2.3.19.3. 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.

2.3.20. 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.

2.3.20.1. Cost of sales

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

2.3.20.2. Distribution expenses

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

2.3.20.3. General and administrative expenses

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

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

2.3.22. Financial revenues and expenses

Financial revenues include, in particular, profit from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and foreign exchange gains.

Revenues from dividends are recognised when the shareholders' right to receive payments is established.

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

2.3.23. Income tax expenses

Income tax expense comprises current tax and deferred tax.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences.

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

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

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

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 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.

2.3.24. 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 diluted earnings per share, an entity shall adjust profit or loss, 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.

2.3.25. 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, short-term securities are presented in cash flows from investing activities. Other interest received are presented in cash flows from operating activities.

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

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

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

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

Cash flows from corporate income tax are presented in cash flows from operating activities, unless it may be related to investing or financing activities.

2.3.26. 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.

2.3.26.1. Recognition and derecognition in the consolidated statement of financial position

The Group recognises a financial asset or a financial liability in its 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 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 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.

2.3.26.2. Measurement of financial assets and liabilities

When a financial asset or liability 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 making, 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 hedging items are measured in accordance with the principles of hedge accounting.

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

A gain or loss on an available-for-sale financial asset 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. Effective interest is the rate which precisely discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and in grounded situations in shorter period – up to net book value of asset of financial liability.

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. Amortized cost measurement of financial liabilities

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

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.

2.3.26.3. 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.

2.3.26.4. 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 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.

2.3.26.5. 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 combined instrument is not measured at fair value with changes in fair value recognised in the 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.

2.3.26.6. 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, for external reporting purposes, only if the actual results of the hedge are within a range of 80%–125%. 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 comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

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

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the 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 comprehensive income remain separately recognised in equity until the forecast transaction occurs,
- the hedge no longer meets the criteria for hedge accounting – in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs,
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognised in other comprehensive income are recognised in profit or loss.

If the Group revokes the designation, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in 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 comprehensive income; and
- the ineffective portion shall be recognised in profit or loss.

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

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

2.3.27. Lease

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

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

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

2.3.28. 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 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 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 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 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 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 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 profit or loss when incurred.

Cost directly attributed to hydrocarbons/salt resource extraction is included in the 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.

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 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.

2.3.29. 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 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 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 statement of financial position however the information on contingent liabilities is disclosed in the financial statements unless the probability of outflow of resources embodying to economic benefits is remote.

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

2.3.30. Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable, that occur between end of the reporting period and date of when the financial statements are authorized for issue. Two types of subsequent events can be identified:
- those, that provide evidence of conditions that existed as the end of the reporting period (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 financial statements to reflect adjusting events after the reporting date.

The Group does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

3. 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, methods of fair value measurement concerning financial instruments, nature and extent of risks related to financial instruments (note 33). The Management Board classifies the financial instruments depending on the purpose of the purchase and nature of the instrument. 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 34). 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: 7 and 9). 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 7 and 9). 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 7 and 9.
- Provisions (note 22). 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 22.

- Contingent liabilities (note 36). 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. Differences between data disclosed in the financial statements and previously prepared and issued financial statements

Changes introduced to financial data in condensed financial statements for the IV quarter of 2011 published on 9 February 2012 with an effect on total assets and net result.

	Information disclosed in the interim condensed consolidated financial statements for the 3 and 12 months ended as at 31 December 2011	Adjustment	Information disclosed in the consolidated financial statements for 2011
Assets, including:	59,864,901	(1,133,423)	58,731,478
Property, plant and equipment	27,675,514	(1,096,863)	26,578,651
Intangible assets	1,356,265	(33,221)	1,323,044
Perpetual usufruct of land	95,710	(46)	95,664
Deferred tax asset	402,819	(3,293)	399,526
Liabilities and shareholders' equity, including:	59,864,901	(1,133,423)	58,731,478
Foreign exchange differences on subsidiaries from consolidation	398,803	16,825	415,628
Retained earings	22,679,368	(827,107)	21,852,261
Equity attributable to non-controling interest	2,519,335	(254,425)	2,264,910
Deferred tax liabilities	876,108	(135,198)	740,910
Trade and other liabilities	15,088,674	3,850	15,092,524
Income tax liability	674,374	(731)	673,643
Provisions	944,777	63,363	1,008,140
Income statement, including:			
General and administrative expenses	(1,464,448)	(3,850)	(1,468,298)
Other operating expenses	(1,202,862)	(1,184,030)	(2,386,892)
Financial expenses	(2,208,189)	(34,986)	(2,243,175)
Profit before tax	4,014,607	(1,222,866)	2,791,741
Income tax expense	(912,080)	135,342	(776,738)
Net profit	**3,102,527**	**(1,087,524)**	**2,015,003**

The most significant changes introduced to the financial statements of the Capital Group are creation of impairment allowance concerning property, plant and equipment and perpetual usufruct of land of PLN (1,187,880) thousand. (Detailed information is disclosed in note 14).

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 183

5. Entities consolidated using full and proportionate method

These consolidated financial statements for the years 2011 and 2010 include the following Group entities located mainly in Poland, Germany, Czech Republic and Lithuania.

PKN ORLEN is a multisegment, appropiately allocated to all operating segments and corporate functions.

Name of the entity	Share in total voting rights				
	parent company	31.12.2011	31.12.2010	consolidation method	website
Refining Segment					
Production and trading Companies					
PARAMO A.S.	UNIPETROL A.S.	100%	100%	full	
CESKA RAFINERSKA A.S.	UNIPETROL A.S.	51%	51%	proportionate	
PARAMO OIL s.r.o.	PARAMO A.S.	100%	—	full	
MOGUL SLOVAKIA s.r.o.	PARAMO A.S.	100%	100%	full	
PARAMO ASFALT s.r.o.	PARAMO A.S.	100%	—	full	
ORLEN Oil Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenoil.pl
AB ORLEN Lietuva (ORLEN Lietuva)	PKN ORLEN S.A.	100%	100%	full	www.orlenlietuva.lt
ORLEN Asfalt Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlen-asfalt.pl
Rafineria Nafty Jedlicze S.A.	PKN ORLEN S.A.	90%	75%	full	www.rnjsa.com.pl
Rafineria Trzebinia S.A.	PKN ORLEN S.A.	86%	86%	full	www.rafineria--trzebinia.pl
Inowrocławskie Kopalnie Soli „Solino" S.A.	PKN ORLEN S.A.	98%	71%	full	www.solino.pl
ORLEN PetroCentrum Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenpetro-centrum.pl
ORLEN Petrotank Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenpetro-tank.pl
Petrolot Sp. z o.o.	PKN ORLEN S.A.	51%	51%	full	www.petrolot.pl
ORLEN Gaz Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlengaz.pl
Ship-Service S.A.[1)]	PKN ORLEN S.A.	56%	56%	full	www.ship-service.pl
Fabryka Parafin Naftowax Sp. z o.o.	RAFINERIA TRZEBINIA S.A.	100%	100%	full	
Platinum Oil Sp. z o.o.	ORLEN OIL Sp. z o.o.	100%	100%	full	
Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o.	ORLEN OIL Sp. z o.o.	100%	24%	full	
Orlen Oil Cesko s.r.o.	ORLEN OIL Sp. z o.o.	100%	100%	full	
UNIPETROL SLOVENSKO s.r.o.	UNIPETROL RPA s.r.o.	100%	100%	full	
UAB Mažeikių naftos prekybos namai	AB ORLEN Lietuva	100%	100%	full	
SIA ORLEN Latvija (formerly SIA Mažeikių Nafta Tirdzniecibas nams)	UAB Mažeikių naftos prekybos namai	100%	100%	full	
OU ORLEN Eesti (formerly OU Mažeikių Nafta Trading House)	UAB Mažeikių naftos prekybos namai	100%	100%	full	
Mažeikių Nafta Trading House Sp. z o.o.	UAB Mažeikių naftos prekybos namai	—	100%	full	
Service Companies					
RAF-KOLTRANS Sp. z o.o.	RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	
Konsorcjum Olejów Przepracowanych – Organizacja Odzysku S.A.	RAFINERIA NAFTY JEDLICZE S.A.	81%	81%	full	
RAF – Służba Ratownicza Sp. z o.o.	RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Name of the entity	Share in total voting rights				
	parent company	31.12.2011	31.12.2010	consolidation method	website
RAF-BIT Sp. z o.o.	RAFINERIA NAFTY JEDLICZE S.A.	100%	100%	full	
Energomedia Sp. z o.o.	RAFINERIA TRZEBINIA S.A.	100%	100%	full	
Euronaft Trzebinia Sp. z o.o.	RAFINERIA TRZEBINIA S.A.	100%	100%	full	
EkoNaft Sp. z o.o.	RAFINERIA TRZEBINIA S.A.	100%	99%	full	
Zakładowa Straż Pożarna Sp. z o.o.	RAFINERIA TRZEBINIA S.A.	100%	100%	full	
UNIPETROL DOPRAVA s.r.o.	UNIPETROL RPA s.r.o.	100%	100%	full	
ORLEN Koltrans Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlen-koltrans.pl
ORLEN Transport S.A.	PKN ORLEN S.A.	100%	100%	full	www.orlen-transport.pl
ORLEN Automatyka Sp. z o.o.	PKN ORLEN S.A.	100%	52%	full	www.orlen-automatyka.pl
ORLEN Wir Sp. z o.o.	PKN ORLEN S.A.	77%	51%	full	www.orlenwir.pl
ORLEN Eko Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orleneko.pl
UAB PASLAUGOS TAU	AB ORLEN Lietuva	100%	100%	full	
UAB EMAS	AB ORLEN Lietuva	100%	100%	full	
Retail Segment					
Trading Companies					
BENZINA s.r.o.	UNIPETROL A.S.	100%	100%	full	
AB Ventus-Nafta	AB ORLEN Lietuva	100%	100%	full	
ORLEN Deutschland GmbH	PKN ORLEN S.A.	100%	100%	full	www.orlen--deutschland.de
Service Companies					
PETROTRANS s.r.o.	BENZINA s.r.o.	100%	100%	full	
ORLEN Centrum Serwisowe Sp. z o.o.	PKN ORLEN S.A.	99%	99%	full	www.orlencs.pl
ORLEN Budonaft Sp .z o.o.	PKN ORLEN S.A.	100%	100%	full	www.budonaft.com.pl
Petrochemical Segment					
Production and trading Companies					
BUTADIEN KRALUPY A.S.	UNIPETROL A.S.	51%	51%	proportionate	
UNIPETROL DEUTSCHLAND GmbH	UNIPETROL A.S.	100%	100%	full	
UNIPETROL RPA s.r.o.	UNIPETROL A.S.	100%	100%	full	
ANWIL S.A.	PKN ORLEN S.A.	95%	90%	full	www.anwil.pl
Basell Orlen Polyolefins Sp. z o.o.	PKN ORLEN S.A.	50%	50%	proportionate	www.basellorlen.pl
Spolana A.S.	ANWIL S.A.	100%	100%	full	
Basell Orlen Polyolefins Sprzedaż Sp. z o.o.	Basell Orlen Polyolefins Sp. z.o.o.	100%	100%	full	
Service Companies					
Przedsiebiorstwo Inwestycyjno--Remontowe Remwil Sp. z o.o.	ANWIL S.A.	100%	100%	full	
Przedsiebiorstwo Produkcyjno-Handlowo--Usługowe Pro-Lab Sp. z o.o.	ANWIL S.A.	99%	99%	full	
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	ANWIL S.A.	56%	56%	full	

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 185

Name of the entity	Share in total voting rights				
	parent company	31.12.2011	31.12.2010	consolidation method	website
POLYMER INSTITUTE BRNO s.r.o.	UNIPETROL RPA s.r.o.	100%	100%	full	
Vyzkumny ustav anorganicke chemie A.S.	UNIPETROL A.S.	100%	100%	full	
Corporate Functions					
Service Companies					
Unipetrol A.S.	PKN ORLEN S.A.	63%	63%	full	www.unipetrol.cz
ORLEN Administracja Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenadministracja.pl
ORLEN Ochrona Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenochrona.pl
Medica Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenmedica.pl
Płocki Park Przemysłowo--Technologiczny S.A.	PKN ORLEN S.A.	50%	50%	proportionate	www.pppt.pl
ORLEN Laboratorium Sp. z o.o.	PKN ORLEN S.A.	95%	95%	full	www.orlen-laboratorium.pl
ORLEN Księgowość Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenksiegowosc.pl
ORLEN Projekt S.A.	PKN ORLEN S.A.	51%	51%	full	www.orlenprojekt.pl
ORLEN Prewencja Sp. z o.o.	PKN ORLEN S.A.	—	100%	full	
Sanatorium Uzdrowiskowe Krystynka Sp. z o.o.	ORLEN MEDICA Sp. z o.o.	99%	99%	full	
Centrum Edukacji Sp. z o.o.	PPPT S.A.	69%	69%	full	
Other Companies					
UNIPETROL SERVICES s.r.o.	UNIPETROL A.S.	100%	100%	full	
HC VERVA Litvinov A.S. (formerly HC Benzina Litvinov A.S.)	UNIPETROL RPA s.r.o.	71%	71%	full	
ORLEN Upstream Sp. z o.o.	PKN ORLEN S.A.	100%	100%	full	www.orlenupstream.pl
Baltic Spark Sp. z o.o.	PKN ORLEN S.A.	100%	—	full	
Baltic Power Sp. z o.o.	PKN ORLEN S.A.	100%	—	full	
ORLEN International Exploration & Production Company BV	PKN ORLEN S.A.	100%	100%	full	www.orlen-international.com
ORLEN Finance AB	PKN ORLEN S.A.	100%	100%	full	
ORLEN Capital AB	PKN ORLEN S.A.	100%	100%	full	
ORLEN Holding Malta Ltd.	PKN ORLEN S.A.	100%	100%	full	
Orlen Insurance Ltd.	ORLEN HOLDING MALTA Ltd.	100%	100%	full	
SIA Balin Energy	OIEP Co BV	50%	50%	proportionate	
UAB Mažeikių naftos sveikatos priežiūros centras	AB ORLEN Lietuva	100%	100%	full	

[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 acounts for 61%

Detailed information about presentation of the Capital Group and its operations is disclosed in Management Board Report on Capital Group Operations, point III.

More information about changes in the structure of the Capital Group is disclosed in point VIII to Management Board Report on Capital Group Operations.

186 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

6. Operating Segments

Accounting principles used in reportable segments are in line with the accounting principles of the Group, 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. The Management Board of PKN ORLEN and Management Boards of Capital Group companies assess the segment financial results and decide about allocation of resources.

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.

6.1. Revenues and financial results by operating segments

for the year ended 31 December 2011

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	58,475,608	34,037,500	14,313,184	146,782	—	106,973,074
Transactions with other segments	25,011,572	115,966	3,343,901	217,775	(28,689,214)	—
Total sales revenues	83,487,180	34,153,466	17,657,085	364,557	(28,689,214)	106,973,074
Total operating expenses	(81,137,448)	(33,645,953)	(16,398,891)	(1,033,296)	28,689,223	(103,526,365)
Other operating revenues	331,169	116,333	202,450	356,881	(178)	1,006,655
Other operating expenses	(575,007)	(198,112)	(1,447,156)	(166,795)	178	(2,386,892)
Segment operating profit/(loss)	2,105,894	425,734	13,488	(478,653)	9	2,066,472
Financial revenues						2,780,145
Financial expenses						(2,243,175)
Share in profit from investments accounted for under equity method	625	—	179	187,495	—	188,299
Profit before tax						2,791,741
Income tax expense						(776,738)
Net profit						2,015,003
Depreciation and amortisation	1,113,911	333,801	821,409	110,827		2,379,948
Additions to non-current assets	899,882	425,064	641,796	166,712		2,133,454

for the year ended 31 December 2010

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
Sales to external customers	45,478,727	27,037,040	10,952,844	78,821	0	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

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 187

	Refining Segment	Retail Segment	Petrochemical Segment	Corporate Functions	Adjustments	Total
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

Additions to non-current assets include capital expenditures and borrowing costs, which are described in details in notes 7, 8, 9 and 10.

6.2. Other segment data

6.2.1. Assets by operating segments

	as at 31.12.2011	as at 31.12.2010
Refining Segment	32,821,176	26,965,016
Retail Segment	6,067,744	5,530,917
Petrochemical Segment	13,030,826	13,264,657
Total segment assets	51,919,746	45,760,590
Corporate Functions	7,077,508	5,718,371
Adjustments	(265,776)	(329,169)
Total	58,731,478	51,149,792

including:

	Non-current assets classified as held for sale		Investments in shares accounted for under equity method	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
Refining Segment	20,960	31,276	7,758	4,918
Retail Segment	—	275	—	—
Petrochemical Segment	1,046	3,304	5,367	24,878
Total segment assets	22,006	34,855	13,125	29,796
Corporate Functions	6,519	6,794	—	1,471,220
Total	28,525	41,649	13,125	1,501,016

Operating segments include all assets except for financial assets (disclosed in notes 11,12,17,18, 31.2) and tax assets. Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

Decrease in Corporate Functions in the position of investments accounted for under equity method is connected with sale of Polkomtel S.A. shares (detailed information is disclosed in note 11.1).

6.2.2. Recognition and reversal of impairment allowances

	Recognition		Reversal	
	for the year ended 31.12.2011	for the year ended 31.12.2010	for the year ended 31.12.2011	for the year ended 31.12.2010
Refining Segment	(624,596)	(392,284)	66,190	42,787
Retail Segment	(119,597)	(61,523)	37,683	73,275
Petrochemical Segment	(1,447,992)	(183,884)	42,720	56,161
Impairment allowances by segment	(2,192,185)	(637,691)	146,593	172,223
Corporate Functions	(79,773)	(53,114)	83,296	50,871
Impairment allowances in operating activities	(2,271,958)	(690,805)	229,889	223,094
Impairment allowances in financing activities	(15,012)	(16,483)	8,861	15,995
Total	(2,286,970)	(707,288)	238,750	239,089

188 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Impairment allowances of assets by segment include items recognised in the consolidated statement of comprehensive income include:
- 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, intangible assets and financial assets available for sale.

In 2011 allowances recognised in the refining segment concerned primarily impairment of property, plant and equipment of Orlen Lietuva and Paramo. Allowances recognised in the retail segment concerned mainly petrol stations. Allowances in the petrochemical segment resulted primarily from impairment of property, plant and equipment in Spolana and Anwil S.A. Allowances for idle assets and obsolete raw materials were recognised in corporate functions.

Detailed information concerning impairment allowances of property, plant and equipment are disclosed in note 14.

6.2.3. Geographical information

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

	for the year ended 31.12.2011	for the year ended 31.12.2010
Poland	46,326,625	39,011,668
Germany	18,460,641	13,693,847
Czech Republic	11,576,378	9,494,295
Lithuania, Latvia, Estonia	8,832,521	5,430,452
Other countries	21,776,909	15,917,170
Total	106,973,074	83,547,432

„Other countries" entry comprises sales to customers from Switzerland, Denmark, Great Britain, Austria and Ukraine.

The above non-current assets consist of property, plant and equipment (note 7), investment properties (note 8), intangible assets (note 9) and perpetual usufruct of land (note 10).

	as at 31.12.2011	as at 31.12.2010
Poland	15,962,029	16,876,331
Germany	927,668	763,891
Czech Republic	5,382,672	5,629,991
Lithuania, Latvia, Estonia	5,806,542	5,370,587
Other countries	36,093	33,251
Total	28,115,005	28,674,052

6.3. Revenues from sale

	for the year ended 31.12.2011	for the year ended 31.12.2010
Refining Segment		
Gasoline	14,327,239	11,592,025
Diesel fuel	26,796,382	19,456,694
Light heating oil	2,153,135	1,888,467
Jet A-1 fuel	2,649,446	1,831,153
LPG	1,292,938	894,484
Engine oils	602,023	363,668
Bitumens	2,200,845	1,599,712
Heavy heating oil	5,551,787	3,787,558
Other	2,901,813	4,064,966
Total	58,475,608	45,478,727

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 189

	for the year ended 31.12.2011	for the year ended 31.12.2010
Retail Segment		
Gasoline	12,698,682	10,579,008
Diesel fuel	16,163,880	11,936,468
LPG	1,224,193	1,022,864
Other	3,950,745	3,498,700
Total	34,037,500	27,037,040
Petrochemical Segment		
Polymers	3,991,723	3,643,645
Monomers	2,033,615	1,713,847
Terephthalic acid	1,238,788	—
PVC	1,329,757	1,095,676
Fertilizers	1,035,732	782,303
Benzene	1,154,859	790,846
Butadiene	634,951	342,459
Acetone	85,628	61,439
Ethylene oxide	125,450	68,313
Phenol	175,254	128,689
Glycol	298,117	193,223
Toluene	62,282	89,258
Ortoxylene	42,664	15,317
Caprolactam	380,430	319,137
Ammonia	175,056	125,916
Soda lye	231,416	118,872
Other	1,317,462	1,463,904
Total	14,313,184	10,952,844
Corporate Functions	146,782	78,821
Revenues	106,973,074	83,547,432

6.4. Information about major customers

In 2011 and 2010 no leading external customers were identified in the Capital Group, for which turnover would exceeded 10% of total revenues from sale of the ORLEN Capital Group.

7. Property, plant and equipment

	as at 31.12.2011	as at 31.12.2010
Land	938,968	895,828
Buildings and constructions	10,867,658	9,211,310
Machinery and equipment	12,701,312	10,843,336
Vehicles and other	902,736	755,271
Construction in progress	1,167,977	5,697,268
	26,578,651	27,403,013

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Changes in property, plant and equipment by class

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2011	927,646	15,610,355	26,742,192	2,037,383	5,777,300	51,094,876
Investment expenditures	503	18,845	133,431	63,708	1,792,417	2,008,904
Other increases	—	16,071	14,992	6,419	34,589	72,071
Borrowing costs	—	111,590	125,307	9,322	(192,739)	53,480
Reclassifications	19,873	2,463,316	3,110,459	282,605	(6,107,631)	(231,378)
Sale	(5,137)	(7,417)	(5,075)	(52,144)	—	(69,773)
Liquidation	(829)	(73,574)	(317,018)	(110,767)	—	(502,188)
Other decreases	(184)	(8,201)	(30,199)	(6,936)	(42,808)	(88,328)
Foreign exchange differences	62,780	483,718	1,983,794	95,722	59,863	2,685,877
31 December 2011	**1,004,652**	**18,614,703**	**31,757,883**	**2,325,312**	**1,320,991**	**55,023,541**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2011	31,818	6,369,268	15,868,927	1,281,771	80,032	23,631,816
Depreciation	865	643,083	1,428,894	205,153	—	2,277,995
Other increases	—	8,647	3,771	2,761	—	15,179
Impairment allowances, net	31,315	578,769	972,620	25,073	67,839	1,675,616
recognition	37,083	611,889	981,367	26,559	74,996	1,731,894
reversal	(5,768)	(33,120)	(8,747)	(1,486)	(7,157)	(56,278)
Reclassifications	—	(21,185)	(360)	(213)	—	(21,758)
Sale	(145)	(4,902)	(18,002)	(49,804)	—	(72,853)
Liquidation	—	(55,920)	(287,343)	(103,532)	—	(446,795)
Other decreases	—	(3,157)	(12,389)	(6,565)	—	(22,111)
Government grants – settlement	—	2,544	2,496	61	—	5,101
Foreign exchange differences	1,831	201,132	1,069,418	64,281	5,143	1,341,805
31 December 2011	**65,684**	**7,718,279**	**19,028,032**	**1,418,986**	**153,014**	**28,383,995**
Gross book value						
1 January 2010	924,950	15,027,606	25,816,266	2,005,978	4,561,426	48,336,226
Investment expenditures	45	30,237	40,274	26,955	2,645,986	2,743,497
Other increases	238	1,375	2,108	1,427	—	5,148
Borrowing costs	—	5,770	641	293	150,023	156,727
Reclassifications	6,703	569,575	808,399	122,281	(1,592,838)	(85,880)
Sale	(1,212)	(12,843)	(26,442)	(34,806)	—	(75,303)
Liquidation	(442)	(39,220)	(240,704)	(83,831)	—	(364,197)
Other decreases	(597)	(35,078)	(70,442)	(19,710)	(5,099)	(130,926)
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, impairment allowances and settled government grants						
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

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 191

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
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)
Sale	—	(7,659)	(17,802)	(24,625)	—	(50,086)
Liquidation	(250)	(26,879)	(223,578)	(52,690)	—	(303,397)
Other decreases	—	(25,015)	(34,798)	(17,449)	—	(77,262)
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
Government grants						
1 January 2011	—	29,777	29,929	341	—	60,047
31 December 2011	—	28,766	28,539	3,590	—	60,895
1 January 2010	—	55,230	17,075	—	—	72,305
31 December 2010	—	29,777	29,929	341	—	60,047
Net book value						
1 January 2011	895,828	9,211,310	10,843,336	755,271	5,697,268	27,403,013
31 December 2011	938,968	10,867,658	12,701,312	902,736	1,167,977	26,578,651
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

Impairment allowances of property, plant and equipment as at 31 December 2011 and 31 December 2010 amounted to PLN 5,166,270 thousand and PLN 3,132,778 thousand, respectively, and referred mainly to impairment of property, plant and equipment in Orlen Lietuva Group, Paramo and Anwil Group (detailed information is disclosed in note 14).

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 2010 be applied, depreciation expense for 2011 would be higher by PLN (226,360) thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2011 and 31 December 2010 amounted to PLN 4,064,004 thousand and PLN 4,283,859 thousand.

As at 31 December 2011 and 31 December 2010 items of property, plant and equipment of PLN 586,065 thousand and PLN 626,054 thousand, respectively, were used as a pledge for the Group's liabilities.

Additionally as at 31 December 2011 in the Capital Group according to the bank agreements property, plant and equipment of net book value of PLN 65,355 thousand was pledged as collateral for bank overdrafts, which balance amounts to nil as at 31 December 2011.

The net book value of temporarily idle property, plant and equipment as at 31 December 2011 and 31 December 2010 amounted to PLN 31,364 thousand and PLN 81,634 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 2011 and 31 December 2010 amounted to PLN 53,435 thousand and PLN 47,074 thousand respectively.

As at 31 December 2011 and 31 December 2010 the Group recognised impairment allowance for property, plant and equipment retired from active use of PLN 47,106 thousand and PLN 39,117 thousand, respectively.

As at 31 December 2011 and 31 December 2010 the Group received grants from European Regional Development Fund (ERDF) and National Fund for Environmental Protection and Water Management of PLN 60,047 thousand and PLN 60,895 thousand, respectively for the financing investment projects related to changing technology of chlorine production, purchase of fluid furnances, and creating new facilities cubature within Płocki Park Przemysłowo Technologiczny.

Additionally the Group used the funds from Corporate Fund for Rehabilitation and Disabled Persons for the purchase of car sets for fuel transportation.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

As at 31 December 2011 and 31 December 2010 the net book value of leased non-current assets amounted to PLN 168,464 thousand and PLN 168,780 thousand, respectively. A detailed division of leased non-current assets is disclosed in note 34.1.

As at 31 December 2011 and 31 December 2010 property, plant and equipment related to exploration and extraction of hydrocarbons amounted to PLN 72,567 thousand and PLN 35,722 thousand, respectively.

8. Investment property

	for the year ended 31.12.2011	for the year ended 31.12.2010
Beginning of the period	71,976	71,487
Reclassification from property, plant and equipment	32,220	15
Sale	(319)	(303)
Fair value adjustment	10,390	(122)
increase	10,390	—
decrease	—	(122)
Foreign exchange differences	3,378	899
	117,645	**71,976**

Investment property includes social charges and office space, as well as land.

In 2011 and 2010 the Capital Group gained rental income from investment property of PLN 18,046 thousand and PLN 10,711 thousand, respectively.

Direct operating expenses arising from investment property in 2011 and 2010, that in the given period generated rental income, amounted to PLN (6,615) thousand and PLN (2,649) thousand, respectively. Direct operating expenses arising from investment property, that in a given period did not generate rental income in 2011 and 2010 amounted to PLN (544) thousand and PLN (380) thousand, respectively.

In 2011 UNIPETROL Group reclassified construction in progress of PLN 32,220 thousand to investment property, concerning buildings and land held to earn rentals.

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. 10-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 assets consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar assets, in the like location, technical conditions, standard and designed for similar purposes.

9. Intangible assets

	as at 31.12.2011	as at 31.12.2010
Internally generated intangible assets	55,401	58,243
Intangible assets under development	35,284	26,622
Development expenditures	20,117	31,621
Other intangible assets	1,267,643	1,044,466
Software	60,808	64,019
Patents, trade marks and licenses	544,854	482,316
Goodwill	98,832	88,247
Rights	507,785	384,307
Other	55,364	25,577
Total	**1,323,044**	**1,102,709**

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 193

The changes in internally generated intangible assets were as follows

	Internally generated intangible assets		
	Intangible assets under development	Development expenditures	Total
Gross book value			
1 January 2011	26,622	83,388	110,010
Investment expenditures	15,006	390	15,396
Other increases	—	3,837	3,837
Reclassifications	7,151	1,890	9,041
Liquidation	—	(267)	(267)
Other decreases	(12,108)	(7,094)	(19,202)
Foreign exchange differences	979	6,146	7,125
31 December 2011	37,650	88,290	125,940
Accumulated amortisation, impairment allowances and settled government grants			
1 January 2011	—	51,767	51,767
Amortisation	—	10,189	10,189
Impairment allowances, net	2,428	2,328	4,756
recognition	2,428	2,388	4,816
reversal	—	(60)	(60)
Liquidation	—	(207)	(207)
Other decreases	—	(2)	(2)
Foreign exchange differences	(62)	4,098	4,036
31 December 2011	2,366	68,173	70,539
Gross book value			
1 January 2010	32,322	67,301	99,623
Investment expenditures	36,326	1,203	37,529
Other increases	2,999	17,971	20,970
Reclassifications	1,767	(56)	1,711
Sale	—	(59)	(59)
Other decreases	(47,744)	(3,804)	(51,548)
Foreign exchange differences	952	832	1,784
31 December 2010	26,622	83,388	110,010
Accumulated amortisation, impairment allowances and settled government grants			
1 January 2010	—	42,304	42,304
Amortisation	—	8,930	8,930
Impairment allowances, net	—	(13)	(13)
recognition	—	59	59
reversal	—	(72)	(72)
Sale	—	(59)	(59)
Foreign exchange differences	—	605	605
31 December 2010	—	51,767	51,767
Net book value			
1 January 2011	26,622	31,621	58,243

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

		Internally generated intangible assets	
	Intangible assets under development	Development expenditures	Total
31 December 2011	35,284	20,117	55,401
1 January 2010	32,322	24,997	57,319
31 December 2010	26,622	31,621	58,243

As at 31 December 2011 and 31 December 2010 impairment allowances of internally generated intangible assets amounted to PLN 5,415 thousand and PLN 729 thousand, respectively (detailed information was disclosed in note 14).

The changes in other intangible assets were as follows

					Other intangible assets	
	Software	Patents, trade marks and licenses	Goodwill	Rights	Other	Total
Gross book value						
1 January 2011	241,346	1,014,543	419,390	403,028	40,784	2,119,091
Investment expenditures	4,555	4,013	6,608	—	28,601	43,777
Other increases	5,174	16,125	3,922	1,063,821	5,543	1,094,585
Reclassifications	3,980	139,296	—	34,589	1	177,866
Sale	(1)	—	—	(242,595)	—	(242,596)
Liquidation	(2,234)	(16,497)	—	(17,122)	—	(35,853)
Other decreases	(21)	(646)	—	(669,022)	(4,643)	(674,332)
Foreign exchange differences	21,990	27,780	3,712	24,650	2,309	80,441
31 December 2011	274,789	1,184,614	433,632	597,349	72,595	2,562,979
Accumulated amortisation, impairment allowances and settled government grants						
1 January 2011	177,306	532,122	331,143	18,721	15,207	1,074,499
Amortisation	17,557	70,138	—	—	1,859	89,554
Other increases	217	8,771	1,844	14,580	4,310	29,722
Impairment allowances, net	4,708	25,383	(159)	71,854	350	102,136
recognition	4,731	34,526	—	75,038	350	114,645
reversal	(23)	(9,143)	(159)	(3,184)	—	(12,509)
Sale	(1)	—	—	—	—	(1)
Liquidation	(2,174)	(7,206)	—	(15,045)	(4,291)	(28,716)
Other decreases	(2)	(342)	—	—	(659)	(1,003)
Government grants – settlement	3	32	—	—	—	35
Foreign exchange differences	16,343	10,789	1,972	(546)	455	29,013
31 December 2011	213,957	639,687	334,800	89,564	17,231	1,295,239
Gross book value						
1 January 2010	210,673	966,733	421,071	—	23,552	1,622,029
Investment expenditures	8,216	9,805	—	29,069	26,333	73,423
Other increases	24,705	16,924	—	1,593,253	(4,484)	1,630,398
Reclassifications	11,709	43,929	—	—	1,116	56,754
Sale	(40)	(695)	—	(612,548)	—	(613,283)
Liquidation	(16,061)	(27,873)	—	(5,428)	—	(49,362)
Other decreases	292	(312)	(937)	(592,876)	(6,064)	(599,897)

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 195

					Other intangible assets	
	Software	Patents, trade marks and licenses	Goodwill	Rights	Other	Total
Foreign exchange differences	1,852	6,032	(744)	(8,442)	331	(971)
31 December 2010	**241,346**	**1,014,543**	**419,390**	**403,028**	**40,784**	**2,119,091**
Accumulated amortisation, impairment allowances and settled government grants						
1 January 2010	169,723	472,350	331,235	—	15,639	988,947
Amortisation	17,546	72,612	—	—	2,828	92,986
Other increases	4,383	104	1,746	28,410	—	34,643
Impairment allowances, net	26	12,424	(369)	3,184	(1)	15,264
recognition	23	12,471	—	3,184	—	15,678
reversal	3	(47)	(369)	—	(1)	(414)
Sale	(40)	(122)	—	—	—	(162)
Liquidation	(16,061)	(27,605)	(886)	(12,871)	—	(57,423)
Other decreases	(27)	(335)	—	(2)	(3,473)	(3,837)
Foreign exchange differences	1,756	2,694	(583)	—	214	4,081
31 December 2010	**177,306**	**532,122**	**331,143**	**18,721**	**15,207**	**1,074,499**
Government grants						
1 January 2011	**21**	**105**	**—**	**—**	**—**	**126**
31 December 2011	**24**	**73**	**—**	**—**	**—**	**97**
1 January 2010	**—**	**—**	**—**	**—**	**—**	**—**
31 December 2010	**21**	**105**	**—**	**—**	**—**	**126**
Net book value						
1 January 2011	**64,019**	**482,316**	**88,247**	**384,307**	**25,577**	**1,044,466**
31 December 2011	**60,808**	**544,854**	**98,832**	**507,785**	**55,364**	**1,267,643**
1 January 2010	**40,950**	**494,383**	**89,836**	**—**	**7,913**	**633,082**
31 December 2010	**64,019**	**482,316**	**88,247**	**384,307**	**25,577**	**1,044,466**

As at 31 December 2011 and 31 December 2010 impairment allowances of other intangible assets amounted to PLN 132,480 thousand and PLN 31,856 thousand, respectively (detailed information was disclosed in note 14).

As at 31 December 2011 and 31 December 2010 impairment allowances of goodwill amounted to PLN 309,650 thousand and PLN 309,773 thousand, respectively.

Recognition and reversal of impairment allowances of intangible assets are recognized 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 2010 be applied, amortisation expense for 2011 would be higher by PLN (9,434) thousand.

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2011 and 31 December 2010 amounted to PLN 510,749 thousand and PLN 458,289 thousand.

The net book value of intangible assets with indefinite useful life as at 31 December 2011 and as at 31 December 2010 amounted to PLN 11,498 thousand and PLN 8,502 thousand, respectively.

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.

The Capital Group classifies goodwill as intangible assets with indefinite useful life. The net book value of goodwill amounts to PLN 98,831 thousand and PLN 88,247 thousand as at 31 December 2011 and 31 December 2010, respectively.

196 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

As at 31 December 2011 and 31 December 2010 the net book value of leases non-current assets amounted to PLN 863 thousand and PLN 998 thousand. Detailed description of leased non-current assets is disclosed in note 34.1.

As at 31 December 2011 and 31 December 2010 intangible assets related to exploration and extraction of hydrocarbons amounted to PLN 52,750 thousand and PLN 27,628 thousand, respectively.

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 in 2011:

	Quantity (in tonnes)	Value
As at 1 January 2011	5,607,337	307,958
Granted free of charge	13,502,574	801,471
Settled for 2010	(11,879,766)	(665,312)
Purchase/(Sale), net	52,973	1,335
Impairment allowances	—	(74,524)
Foreign exchange differences	—	25,196
As at 31 December 2011	7,283,118	396,124
CO_2 emission in 2011	11,356,633	546,736
Shortage	(4,073,515)	(150,612)
Planned coverage of shortage by usage of the rights granted for the following year	4,073,515	150,612

As at 31 December 2011 the market value of one EUA allowance (European Union Emission Allowance) allocated to installations according to National Allocation Program (NAP) amounted to PLN 30.48 (EUR 6.90). (source: http://www.bluenext.eu)

In 2011 the Group concluded sale transaction of CO_2 emission rights and forward purchase transactions.

As at 31 December 2011 the Group possessed other rights of PLN 111,661 thousand that concerned accomplished investment in Nitric Acid Plant reducing emission of nitrous suboxide, which in accordance to regulations in force enabled recognition of ERU 2,418,000 (Emission Reduction Unit) amounting to PLN 93,597 thousand.

10. Perpetual usufruct of land

	as at 31.12.2011	as at 31.12.2010
Beginning of the period	96,354	96,043
Acquisitions	1,420	16
Reclassifications	200	1,882
Depreciation	(1,526)	(1,499)
Impairment allowances	(384)	—
recognition	(472)	—
reversal	87	—
Sale and liquidation	(430)	(77)
Foreign exchange differences	30	(11)
	95,664	96,354

The Group possesses perpetual usufruct of land received free of charge under administrative decisions as according to binding regulations. The land, in the most cases is located nearby buildings associated with the Group's core business. In particular, on this land are production facilities, fuel terminals, petrol stations and other facilities supporting Group operations.

As at 31 December 2011 and 31 December 2010 the Group recognised perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 1,017,741 thousand and PLN 993,948 thousand, respectively. These rights were valued based on the fair value determined in previous years.

The total amount of perpetual usufruct charges, recognised as expenses in profit or loss in 2011 and 2010 amounted to PLN (47,435) thousand and PLN (41,862) thousand, respectively.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 197

11. Investments in shares accounted for under equity method

	Carrying amount as at		Group's share in capital/voting rights as at		
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	Principal activity
Polkomtel S.A.	—	1,451,334	0.00%	24.39%	rendering mobile telecommunication services
Other	13,125	49,682	—	—	
	13,125	1,501,016			

Until 30 June 2011 Polkomtel S.A. was accounted for under equity method. As a result share in Polkomtel's profit has been presented in consolidated statement of comprehensive income in line share in profit from investments accounted for under equity method.

Condensed financial data of Polkomtel S.A. as at and for the year ended 31 December 2010, are disclosed below.

	as at 31.12.2010
Non-current assets	6,596,916
Current assets	1,369,002
Long-term liabilities	1,892,622
Short-term liabilities	2,321,642

	for the year ended 31.12.2010
Revenues from sale	7,672,409
Profit from operations	1,534,825
Profit before tax	1,429,302
Income tax expense	(279,143)
Net profit	1,150,159

11.1. The settlement of the sale transaction of Polkomtel S.A. shares

On 9 November 2011 PKN ORLEN S.A. sold its total share held in Polkomtel S.A. of 24.39% for the total price of PLN 3,672,147 thousand. The transfer of shares was made based on a signed sales agreement of Polkomtel S.A. shares, performed based on the preliminary sale agreement of 100% of Polkomtel S.A. shares signed on 30 June 2011.

The settlement of the transaction in the consolidated financial statements of the ORLEN Capital Group:

	for the year ended 31.12.2011
Sales revenue from sale of shares less transaction costs	3,665,801
Value of shares accounted for under equity method at the time of reclassification to assets held for sale	(1,388,349)
Profit from sale od shares in Polkomtel S.A.	2,277,452

11.2. 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 polymers 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 account.

As at 31 December 2011 and for the year ended 31 December 2011 and as at 31 December 2010 and for the year ended 31 December 2010, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	as at 31.12.2011	as at 31.12.2010
Non-current assets	597,518	650,761
Current assets	696,774	568,362
Long-term liabilities	238,700	280,290
Short-term liabilities	515,398	420,304

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

	for the year ended 31.12.2011	for the year ended 31.12.2010
Revenues	1,747,653	1,513,023
Cost of finished goods, merchandise and raw materials sold	(1,596,446)	(1,356,508)
Gross profit on sales	151,206	156,515
Distribution expenses	(65,432)	(66,367)
General and administrative expenses	(12,956)	(11,531)
Other operating revenues and expenses, net	926	(819)
Profit from operations	73,745	77,799
Financial revenues and expenses, net	(47,056)	(12,417)
Profit/(Loss) before tax	26,689	65,381
Income tax expense	(5,023)	(12,795)
Net profit/(loss)	21,666	52,587
Cash flows from operating activities	154,815	127,045
Cash flows from investing activities	(27,130)	(14,245)
Cash flows from financing activities	(88,839)	(66,050)

As at 31 December 2011 and for the year ended 31 December 2011 and as at 31 December 2010 and for the year ended 31 December 2010 the Group's share in assets and liabilities, revenues and expenses (PPPT) was as follows:

	as at 31.12.2011	as at 31.12.2010
Non-current assets	9,584	9,736
Current assets	24,527	22,802
Short-term liabilities	1,300	336

	for the year ended 31.12.2011	for the year ended 31.12.2010
Revenues	2,921	892
Cost of finished goods, merchandise and raw materials sold	(1,480)	(686)
Gross profit on sales	1,441	206
General and administrative expenses	(2,686)	(1,394)
Other operating revenues and expenses, net	470	245
(Loss) from operations	(775)	(943)
Financial revenues and expenses, net	1,084	951
Share in profit from investments accounted for under equity method	—	65
Profit before tax	309	73
Income tax expense	(58)	(5)
Net profit	251	68
Cash flows from operating activities	26	50
Cash flows from investing activities	1,228	21

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 199

12. Financial assets available for sale

	as at 31.12.2011	as at 31.12.2010
Quoted shares	690	1,190
Wodkan S.A.	674	1,151
Centrozap Katowice S.A.	16	39
Unquoted shares	39,830	41,593
Naftoport sp. z o.o.	39,502	39,502
Other	328	2,091
	40,520	42,783

As at 31 December 2011 and 31 December 2010 impairment allowances of financial assets available for sale amounted to PLN 74,469 thousand and PLN 73,748 thousand, respectively.

13. Other long-term assets

	as at 31.12.2011	as at 31.12.2010
Cash flow hedge instruments	81	—
Loans granted	13,115	35,356
Other	5,141	4,983
Financial assets	18,337	40,339
Advances for construction in progress	2,520	2,760
Other	10,109	6,031
Non-financial assets	12,629	8,791
	30,966	49,130

Change in impairment allowance of other long-term assets

	for the year ended 31.12.2011	for the year ended 31.12.2010
Beginning of the period	5	5
Recognition	408	—
Foreign exchange differences	(10)	—
	403	5

14. Impairment of non-current assets

Among the major indicators for impairment, resulting in recognition impairment allowance in ORLEN Group were: worsening macroeconomic situation in 2011, sustaining high crude oil price accompanied by depreciation of local currencies as well as pressure on refinery and petrochemical margins, decrease of PKN ORLEN shares quotations on Warsaw Stock Exchange below its book value and technological changes.

As at 31 December 2011 an impairment test was carried out for all identified cash generating units (CGUs), for which indicators for impairment occurred.

The analysis were performed based on financial projections for years 2012–2016 adjusted by level and effects of capital expenditures and effectiveness activities.

The period of analysis for particular CGU for the purposes of impairment analysis of property, plant and equipment and intangible assets was based on expected useful life of assets. After 5-year prognosis period the Group used a fixed rate of increase for the individual geographical market.

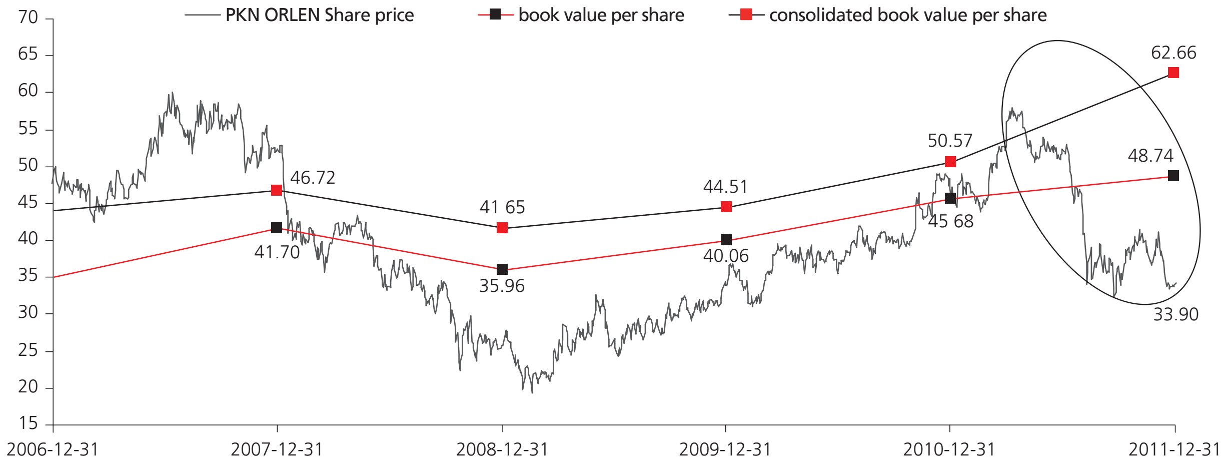
For the purpose of impairment analysis of shares value, on the Parent Company level, after 5 year prognosis period the Parent Company defined terminal value. In the calculations changes in net working capital and net debt were considered for particular Group companies.

200 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

The Group's future financial performance is based on number of assumptions, that are in respect of macroeconomic factors, such as foreign exchange rates, commodity prices, interest rates, partially out of the Group's control. The change of these 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.

In the calculation of value in use, future cash flows are discounted to its present value using pre-tax discount rate, that reflects current market assessment of the time value of money and the risk specific to the asset. For the purpose of calculation of discount rate the Group used available as at 31 December 2011 publications of Aswath Damodaran regarding macroeconomic indicators. (source: http://pages.stern.nyu.edu)

Book value / 1 share as at the end of 2007–2011 after impairment allowances



The discount rate structure by geographical segment in ORLEN Capital Group:

	CZECH REPUBLIC (CZK)	GERMANY (EUR)	POLAND (PLN)	LITHUANIA (USD)
Cost of capital	12.18%	8.45%	14.76%	11.89%
Cost of debt after tax	4.13%	3.09%	5.72%	6.33%
D/E	0.40	0.40	0.40	0.40
Discount rate	9.88%	6.92%	12.18%	10.31%
Fixed rate of increase after 2016	2.28%	1.82%	3.02%	2.18%

Cost of capital = risk free rate + (Leveraged Beta * Market risk premium)
Cost of debt after tax = (Money market rate + Bank margin) * (1–tax rate)
Fixed rate of increase after 2016 = Average long-term inflation rate forecast for the years 2012–2016 according to Reuters

Additionally for CGUs: Spolana – PVC division and Anwil – PVC division the discount rate amounted to 7.88% and 10.20%.

Changes in discount rates applied in the impairment analysis for the past 4 years

		Discount rates			
		2008	2009	2010	2011
Czech Republic		9.41%	8.67%	8.15%	9.88%
	change y/y p.p.		–0.74	–0.52	1.73
Germany		6.49%	6.33%	5.78%	6.92%
	change y/y p.p.		–0.16	–0.55	1.14
Poland		10.86%	10.60%	10.24%	12.18%
	change y/y p.p.		–0.26	–0.36	1.94
Lithuania		9.46%	9.48%	9.20%	10.31%
	change y/y p.p.		0.02	–0.28	1.11

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 201

Impact of impairment allowances on consolidated statement of comprehensive income for 2011

	Recognition	Reversal	Impairment allowances, net
Land	(37,083)	5,765	(31,318)
Buildings and constructions	(611,889)	31,062	(580,827)
Machinery and equipment	(981,367)	6,145	(975,222)
Vehicles and other	(28,947)	566	(28,381)
Construction in progress	(74,996)	7,157	(67,839)
Software	(4,731)	23	(4,708)
Patents, trade marks and licenses	(34,526)	9,143	(25,383)
Rights	(75,038)	0	(75,038)
Intangible assets under development	(2,428)	—	(2,428)
Perpetual usufruct of land	(472)	87	(385)
Non-cuurent assets held for sale	(4,023)	—	(4,023)
Other	(350)	708	358
31 December 2011	(1,855,850)	60,656	(1,795,194)

Impact on consolidated statement of comprehensive income for 2011

	Recognition	Reversal	Impairment allowances, net
Refining Segment	(360,072)	19,729	(340,343)
Retail Segment	(106,050)	31,271	(74,779)
Petrochemical Segment	(1,382,313)	8,919	(1,373,394)
Corporate Functions	(7,416)	737	(6,679)
31 December 2011	(1,855,850)	60,656	(1,795,194)

Net impairment allowance in 2011 in refining segment included mainly:
- in Unipetrol Group: Paramo a.s. of PLN (209,358) thousand
- in Orlen Lietuva Group: AB Orlen Lietuva (104,821) thousand

Net impairment allowance in 2011 in retail segment included mainly:
- PKN ORLEN S.A. of PLN (70,696) thousand
- Orlen Lietuva Group: AB Ventus Nafta of PLN (13,401) thousand.

Net impairment allowance in 2011 in petrochemical segment included mainly:
- in Unipetrol Group: RPA s.r.o. of PLN (601,435) thousand
- in Anwil Group: Anwil S.A. of PLN (455,712) thousand, Spolana a.s. of PLN (276,971) thousand.

Change in impairment allowances of property, plant and equipment, intangible assets and perpetual usufruct of land

	1 January 2011	Recognition	Reversal	Other	31 December 2011
PKN ORLEN	165,661	100,315	(24,308)	137	241,805
Unipetrol Group	363,062	845,924	(13,220)	8,551	1,204,317
Orlen Lietuva Group	2,327,964	157,153	(14,803)	335,753	2,806,067
Anwil Group	151,914	748,233	(4,582)	(3,297)	892,268
Rafineria Trzebinia Group	92,192	—	(1,225)	—	90,968
Rafineria Nafty Jedlicze Group	46,212	—	(52)	—	46,160
Other companies	17,629	4,225	(2,466)	(2,607)	16,780
	3,164,634	1,855,850	(60,656)	338,537	5,298,365

Caption other comprises mainly of foreign exchange differences on subsidiaries from consolidation.

As at 31 December 2011 the Group performed impairment analysis for intangible assets of indefinite useful life and goodwill. Based on these analysis no indicators for impairment allowances were identified.

202 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

In 2010 the Group recognized impairment allowances of PLN (376,510) thousand and reversal of impairment allowances of PLN106,291 thousand. The impairment allowances regarded mainly refining segment (Orlen Lietuva, Rafineria Trzebinia) and petrochemical segment (Unipetrol Group, Anwil Group).

Information about recognitions and reversals of allowances by category of non-current non-financial assets was disclosed in note 7, 9, 10 and 19.

15. Inventories

	as at 31.12.2011	as at 31.12.2010
Raw materials	8,333,449	4,854,391
Work in progress	1,439,798	1,148,723
Finished goods	4,673,760	4,038,525
Merchandise	1,296,945	716,079
Spare parts	552,565	537,133
Inventory, net	16,296,517	11,294,851
Inventory impairment allowances	238,726	137,179
Inventory, gross	16,535,243	11,432,030

On 31 March 2011 the agreement regarding gathering and keeping of mandatory reserves of crude oil signed by PKN ORLEN with LAMBOURN Sp. z o.o. as a part of changing the formula of maintaining mandatory reserves of crude oil has expired. Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by LAMBOURN Sp. z o.o. for PLN 1,190,298 thousand (USD 421, 278 thousand). The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 346,976 thousand (USD 121,939 thousand). The transfer of ownership of the raw material to PKN ORLEN has been made on 1 April 2011, after settlement of full amount of the transaction.

Change in impairment allowances of inventories

	for the year ended 31.12.2011	for the year ended 31.12.2010
Beginning of the period	137,179	142,097
Recognition	300,879	201,888
Reversal	(39,416)	(39,461)
Usage	(179,613)	(170,383)
Foreign exchange differences	19,697	3,038
	238,726	137,179

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

As at 31 December 2011 and as at 31 December 2010 inventories of PLN 195,008 thousand and PLN 123,642 thousand respectively, were used as a pledge for the Group’s liabilities.

16. Trade and other receivables

	as at 31.12.2011	as at 31.12.2010
Trade receivables	7,055,689	5,296,717
Receivables due to sale of non-financial non-current assets	853	13,673
Finance lease	—	421
Other	110,103	132,114
Financial assets	7,166,645	5,442,925
Excise tax and fuel charge receivables	170,997	211,205
Other taxation, duty and social security receivables	448,184	387,095
Advances for construction in progress	14,695	36,971

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 203

Prepayments for deliveries	10,929	9,374
Prepayments	246,966	180,019
Other	12,595	21,213
Non-financial assets	904,366	845,877
Receivables, net	**8,071,011**	**6,288,802**
Receivables impairment allowance	542,971	576,800
Receivables, gross	**8,613,982**	**6,865,602**

As at 31 December 2011 and as at 31 December 2010 trade and other receivables denominated in foreign currencies amounted to PLN 3,798,910 thousand and PLN 3,012,189 thousand, respectively. Detailed information about receivables from related parties is disclosed in note 38.4.

Detailed information about currency structure of financial assets was disclosed in note 33.7.

Change in impairment allowances of trade and other receivables

	for the year ended 31.12.2011	for the year ended 31.12.2010
Beginning of the period	576,800	572,387
Recognition	127,526	112,956
Reversal	(138,358)	(91,967)
Usage	(43,138)	(17,854)
Inclusion the entity to consolidation	595	—
Foreign exchange differences	19,546	1,278
	542,971	576,800

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

17. Other short-term financial assets

	as at 31.12.2011	as at 31.12.2010
Cash flow hedge instruments	225,910	175,498
foreign currency forwards	25,898	35,042
commodity swaps	200,012	140,456
Derivatives not designated as hedge accounting	48,003	3,002
foreign currency forwards	30,395	1,662
foreign currency swaps	3,410	415
commodity swaps	14,198	—
other	—	925
Embedded derivatives	180	1,026
foreign currency swaps	180	1,026
Bonds/other debt securities	15,197	34,876
Loans granted	4,041	5,710
Other	103	4,489
	293,434	224,601

204 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

18. Cash and cash equivalents

	as at 31.12.2011	as at 31.12.2010
Cash on hand and in bank	4,361,978	2,757,599
Other cash (incl. cash in transit)	94,351	63,143
Other monetary assets	952,837	—
	5,409,166	**2,820,742**
incl. restricted cash	108,517	68,289

Other monetary assets with a maturity date of less than 3 months from the acquisition date include treasury bonds of PLN 952,819 thousand.

Restricted cash refers mainly to blocked funds on bank accounts due to guarantees granted.

19. Non-current assets classified as held for sale

	as at 31.12.2011	as at 31.12.2010
Shares	1,430	3,388
Items of non-current assets	27,095	29,019
Other	—	9,242
	28,525	**41,649**

As at 31 December 2011 and 31 December 2010 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 2011 and as at 31 December 2010 the impairment allowances of non-current assets classified as held for sale amounted to PLN 9,261 thousand and PLN 9,753 thousand, respectively. (Detailed information is disclosed in note 14).

20. Shareholders' equity

20.1. Share capital

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

The share capital as at 31 December 2011 and 31 December 2010 consisted of the following series of shares:

	Number of shares issued		Number of shares authorized	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
A Series	336,000,000	336,000,000	336,000,000	336,000,000
B Series	6,971,496	6,971,496	6,971,496	6,971,496
C Series	77,205,641	77,205,641	77,205,641	77,205,641
D Series	7,531,924	7,531,924	7,531,924	7,531,924
	427,709,061	**427,709,061**	**427,709,061**	**427,709,061**

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

	as at 31.12.2011	as at 31.12.2010
Share capital	534,636	534,636
Share capital revaluation adjustment	522,999	522,999
	1,057,635	**1,057,635**

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 205

20.2. Share premium

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

	as at 31.12.2011	as at 31.12.2010
Nominal share premium	1,058,450	1,058,450
Share premium revaluation adjustment	168,803	168,803
	1,227,253	**1,227,253**

As at 31 December 1996, 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.

20.3. Retained earnings

	as at 31.12.2011	as at 31.12.2010
Reserve capital	18,605,124	16,173,572
Other capital	883,740	883,740
Net profit for the period	2,363,397	2,371,358
	21,852,261	**19,428,670**

Other capital includes privatisation fund, dedicated to the privatisation of Petrochemia Płock S.A. and the revaluation reserve resulting from valuation of property, plant and equipment in 1995.

20.4. Hedging reserve

The amount of the hedging reserve results from valuation and settlement of derivatives meeting the requirements of cash flows hedge accounting.

20.5. 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.

As at 31 December 2011 revaluation relates to property, plant and equipment that has been reclassified to investment property.

20.6. 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 33.6.

20.7. Equity attributable to non-controlling interest

	as at 31.12.2011	as at 31.12.2010
Capital Group of Unipetrol	1,953,228	2,118,726
Capital Group of Anwil	117,532	233,353
Capital Group of Rafineria Trzebinia	51,423	55,272
Capital Group of Rafineria Nafty Jedlicze	14,100	34,625
Inowrocławskie Kopalnie Soli “Solino” S.A.	2,928	41,833
Petrolot Sp. z o.o.	31,471	34,240
Other companies	94,228	93,966
	2,264,910	**2,612,015**

In 2011 and 2010 equity attributable to non-controlling interest was adjusted by results attributable to non-controlling interests and by attributable paid and declared dividends. Hedging reserve and revaluation reserve attributable to non-controlling interest was also considered. Additionally the adjustments concerning the buy-out of non-controlling interest (changes in total voting rights of the Parent Company) were introduced.

206 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

20.8. Suggested distribution of the Parent Company's profit for 2011

The Dividend Policy of PKN ORLEN assumes setting recommended dividend in relation to free cash flows after investment expenditures 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).

Considering current debt level, working capital initiatives and planned development investments, the FCFE ratio is negative. Additionally taking into consideration the negative macroeconomic situation, the Management Board proposes to distribute the net profit for the year 2011 of PLN 1,386,165,827.51 to reserve capital of the Company.

20.9. Distribution of the Parent Company's profit for 2010

Pursuant to article 395 § 2 point 2 of the Commercial Act and § 7 art. 7 point 3 of Company's Articles of Association, on 29 June 2011 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, has decided to distribute the total net profit for 2010 of PLN 2,357,127,065.35 to the Company's reserve capital.

20.10. 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:
- net debt to equity ratio (net financial leverage) for the Group. As at 31 December 2011 and 31 December 2010 Group financial leverage amounted to 30.2% and 39.4%, respectively;
- net debt to earnings before interest, taxes, depreciation and amortisation plus dividends from Polkomtel S.A ratio. As at 31 December 2011 and as at 31 December 2010 this ratio for the Group amounted to 1.62 and 1.38, respectively;
- dividend per ordinary shares – dividend amount depends on current finance condition of the Group. Detailed description of dividends policy is disclosed in note 20.8.

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

21. Interest-bearing loans and borrowings

	Long-term		Short-term		Total	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
Bank loans	10,179,994	7,662,239	1,644,324	1,289,840	11,824,318	8,952,079
Borrowings	—	345,134	10,055	215,225	10,055	560,359
Debt securities	357,798	1,116,614	805,420	38,675	1,163,218	1,155,289
	10,537,792	9,123,987	2,459,799	1,543,740	12,997,591	10,667,727

The ORLEN 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 in case of long-term contracts depends on net debt to EBITDA (result from operations increased by depreciation and amortisation and dividend from Polkomtel S.A.).

21.1. Bank loans

- by currency (translated into PLN)

	as at 31.12.2011	as at 31.12.2010
PLN	224,707	201,491
EUR	4,205,198	3,777,860
USD	7,061,057	4,925,289
CZK	332,323	46,196
LTL	1,033	1,243
	11,824,318	8,952,079

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 207

- by interest rate

	as at 31.12.2011	as at 31.12.2010
WIBOR	224,707	201,491
EURIBOR	4,205,198	3,777,860
LIBOR	7,061,057	4,925,289
PRIBOR	332,323	46,196
VILIBOR	1,033	1,243
	11,824,318	**8,952,079**

At the end of the reporting period unused credit lines increased by current receivables and cash and cash equivalents exceeded short term liabilities less by PLN 5,707,285 thousand.

As at 31 December 2011 and 31 December 2010 bank loans of PLN 402,153 thousand and PLN 404,090 thousand, respectively, were pledged on the Group's assets.

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

21.2. Borrowings

- by currency (translated into PLN)

	as at 31.12.2011	as at 31.12.2010
PLN	10,055	20,773
USD	—	539,586
	10,055	**560,359**

- by interest rate

	as at 31.12.2011	as at 31.12.2010
WIBOR	10,055	20,773
fixed interest rate	—	539,586
	10,055	**560,359**

As at 31 December 2011 borrowings were not pledged on the Group's assets. As at 31 December 2010 borrowings of PLN 43,237 thousand were pledged on the Group's assets.

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

21.3. Debt securities

- by currency (translated into PLN)

	as at 31.12.2011	as at 31.12.2010
PLN	763,428	761,064
CZK	399,790	394,225
	1,163,218	**1,155,289**

- by interest rate

	Fixed rate bonds		Floating rate bonds	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
Nominal value	342,200	316,000	750,000	750,000
Carrying amount	399,790	394,225	763,428	761,064
Expiration date	2013-12-28	2013-12-28	2012-02-27	2012-02-27

208 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

22. Provisions

	Long-term		Short-term		Total	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
Environmental provision	292,413	329,033	42,416	36,101	334,829	365,134
Jubilee and post-employment benefits provision	254,568	242,475	36,604	33,315	291,172	275,790
Business risk provision	26,903	40,402	67,488	80,006	94,391	120,408
Shield programs provision	2,365	—	64,704	41,426	67,069	41,426
Provision for CO_2 emission	—	—	542,054	644,703	542,054	644,703
Other	45,130	23,708	254,874	166,877	300,004	190,585
	621,379	635,618	1,008,140	1,002,428	1,629,519	1,638,046

Change in provisions in 2011

	Environmental provision	Jubilee and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emission	Other provisions	Total
1 January 2011	365,134	275,790	120,408	41,426	644,703	190,585	1,638,046
Recognition	5,978	39,922	26,175	40,637	558,475	165,679	836,866
Reclassification	—	178	(3,076)	—	—	2,929	31
Usage	(28,224)	(23,247)	(11,515)	(15,144)	(669,023)	(45,224)	(792,377)
Reversal	(15,017)	(4,803)	(44,115)	—	(18,450)	(36,820)	(119,205)
Discounting	—	—	—	—	—	(2,860)	(2,860)
Foreign exchange differences	6,958	3,332	6,514	150	26,349	25,715	69,018
31 December 2011	334,829	291,172	94,391	67,069	542,054	300,004	1,629,519

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

22.1. Environmental provision

The Group has legal obligation to clean contaminated land – water environment in the area of production plants, petrol stations, fuel terminals and fuel warehouses.

The amount of the land reclamation provision was assessed by the Management Board on the basis of analysis of independent experts. The amount of the provision is the best estimate based on the average level of costs necessary to remove contamination by facilities.

As the Czech Republic is concerned, 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 Group is responsible for those liabilities.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 209

The potential future changes in regulation and common practice regarding environmental protection may influence the value of this provision in the future periods.

The assumptions used in calculation of environmental provision did not change in 2011 in comparison to the prior year.

22.2. Provision for jubilee bonuses and post-employment benefits

The Group realize the program of paying out the jubilee bonuses and post – employment benefits, which include retirement and pension 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 Corporate Collective Labour Agreement. 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 provision equals 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 2011

	Jubilee bonuses provision	Post-employment benefits	Total
1 January 2011	155,177	120,613	275,790
Current service cost	9,310	4,230	13,540
Interest expense	8,336	6,966	15,302
Actuarial gains and losses net	5,037	3,353	8,390
Benefits paid	(18,148)	(8,181)	(26,329)
Change in share structure	18	—	18
Foreign exchange differences	1,579	1,761	3,340
Past service cost	—	1,121	1,121
31 December 2011	**161,309**	**129,863**	**291,172**

Change in employee benefits obligations in 2010

	Jubilee bonuses provision	Post-employment benefits	Total
1 January 2010	147,045	114,486	261,531
Current service cost	8,855	4,646	13,501
Interest expense	7,700	6,803	14,503
Actuarial gains and losses net	11,200	1,869	13,069
Benefits paid	(18,720)	(7,566)	(26,286)
Foreign exchange differences	(903)	375	(528)
31 December 2010	**155,177**	**120,613**	**275,790**

The carrying amount of employment benefits liabilities is identical to their present value as at 31 December 2011 and 31 December 2010.

As at	Present value of the above mentioned employee benefits obligation
31.12.2011	291,172
31.12.2010	275,790
31.12.2009	261,531
31.12.2008	283,988
31.12.2007	260,271

210 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Total expense recognized in profit or loss

	for the year ended 31.12.2011	for the year ended 31.12.2010
Current service cost	(13,540)	(13,501)
Interest expense	(15,302)	(14,503)
Actuarial gains and losses net	(8,390)	(13,069)
Past service cost	(1,121)	—
	(38,353)	**(41,073)**

In 2011 the amount of provision for employee benefits changed as the result of update of assumptions. The changes relate mainly to discount rate, projected inflation and expected remuneration increase ratio. Should the prior year assumptions be used, the provision for the employee benefits would be lower by PLN (1,826) thousand.

For updating the provision at as at 31 December 2011 the Group adopted the following actuarial assumptions:
- discount rate: 5.75%;
- expected inflation rate: 3.10% in 2012, 2.80% in 2013 and 2.50% in the following years;
- remuneration increase rates: from 4,16% in 2012 up to 3.17% in 2014 and 2.50% in following years.

Costs of benefits are presented in the following lines of the statement of comprehensive income

	for the year ended 31.12.2011	for the year ended 31.12.2010
Cost of sales	(5,284)	(3,097)
General and administrative expenses	(28,718)	(29,210)
Distribution expenses	(4,351)	(6,719)
Other	—	(2,047)
	(38,353)	**(41,073)**

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.

22.3. Business risk provision

A increase crease of business risk provision in 2011 results mainly from revision of status of administrative and court proceedings concerning land.

22.4. Shield programs provision

Employee shield programs were launched to support the restructuring processes conducted in the Group. The programs provide depending on particular company i.a. additional money considerations or trainings for employees with whom the employment agreement was or would be dissolved and for the employees, who agreed to change the workplace, relocation package comprising relocation bonus and refund of relocation costs.

The assumptions used in calculation of shield programs provision did not change in 2011 in comparison to 2010.

22.5. Provision for CO_2 emission

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 33.7.

22.6. Other provisions

The increase of other provisions in 2011 is mainly a result of an update of court and administrative proceedings.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 211

23. Other long-term liabilities

	as at 31.12.2011	as at 31.12.2010
Cash flow hedge instruments, including	113,602	—
Interest rate swaps	113,602	—
Derivatives not designated as hedge accounting	—	3,414
Interest rate swaps	—	3,414
Investment liabilities	1,310	1,474
Financial lease	69,336	65,811
Other	15,955	14,408
Financial liabilities	200,203	85,107
Non-financial liabilities	3,479	4,568
	203,682	89,675

24. Trade and other liabilities

	as at 31.12.2011	as at 31.12.2010
Trade liabilities	10,984,529	9,130,835
Investment liabilities	586,144	880,499
Dividend liabilities	6,761	5,441
Financial lease liabilities	28,579	26,095
Uninvoiced services	80,840	62,813
Other	76,368	82,195
Financial liabilities	11,763,221	10,187,878
Prepayments for deliveries	61,876	49,373
Payroll liabilities	223,353	200,023
Environmental liabilities	10,588	11,892
Special funds	12,725	19,652
Excise tax and fuel charge	1,720,017	1,574,267
Value added tax	899,070	1,018,359
Other taxation, duties, social security and other benefits	98,538	87,320
Accruals	295,547	287,234
Holiday pay accrual	50,351	48,378
Customers' discounts and rebates	100,986	78,637
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	144,210	160,219
Other liabilities	7,589	—
Non-financial liabilities	3,329,303	3,248,120
	15,092,524	13,435,998

Trade and other liabilities denominated in foreign currencies as at 31 December 2011 and 31 December 2010 amounted to PLN 10,549,206 thousand and PLN 9,614,535 thousand, respectively.

Detailed information about currency structure of financial liabilities was disclosed in note 33.7.

Trade and other liabilities related to exploration and extraction of mineral materials as at 31 December 2011 and 31 December 2010 amounted to PLN 32,050 thousand and PLN 47,043 thousand, respectively.

As at 31 December 2011 and as at 31 December 2010 trade and other liabilities of PLN 207,845 thousand and PLN 86,135 thousand, respectively, were pledged on the Group's assets.

212 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

25. Deferred income

	as at 31.12.2011	as at 31.12.2010
Long-term accruals	16,239	16,960
Government grant	15,781	16,691
Other	458	269
Short-term accruals	136,379	74,959
Government grants	41,864	1,842
Unsettled points in loyalty program VITAY	72,632	61,537
Other	21,883	11,580
	152,618	91,919

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. Fuel prize is also 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 revenues from retail sale. 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. (source: http://www.vitay.pl)

25.1. Government grants

As at 31 December 2011 the Group possesses CO_2 emission rights allowances of PLN 39,938 thousand. As at 31 December 2010 unsettled government grants related to CO_2 emission rights amounted to zero. Other amounts disclosed as at 31 December 2011 and as at 31 December 2010 concern government grants received from National Environmental Protection Fund and European Regional Development Fund of PLN 17,707 thousand and PLN 18,533 thousand, respectively.

26. Other financial liabilities

	as at 31.12.2011	as at 31.12.2010
Cash flow hedge instruments	150,258	98,263
foreign currency forwards (operating exposure)	147,718	3,095
interest rate swaps	1,506	95,168
commodity swap	1,034	—
Derivatives not designated as hedge accounting	284,810	29,060
foreign currency forwards	264,420	12,551
interest rate swaps	—	4,554
other	20,390	11,955
foreign currency-interest rate swap	14,453	11,955
commodity swap	5,937	—
Embedded derivatives	7,240	1,314
foreign currency swap	7,240	1,314
Other	—	15,886
	442,308	144,523

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 213

27. Sales revenues

	for the year ended 31.12.2011	for the year ended 31.12.2010
Sales of finished goods	82,983,039	62,975,218
Sales of services	1,660,422	1,538,707
Revenues from sales of finished goods and services, net	84,643,461	64,513,925
Sales of merchandise	21,862,019	17,085,722
Sales of raw materials	467,594	1,947,785
Revenues from sales of merchandise and raw materials, net	22,329,613	19,033,507
	106,973,074	83,547,432

28. Operating expenses

Cost of sales

	for the year ended 31.12.2011	for the year ended 31.12.2010
Costs of finished goods and services sold	(77,296,657)	(57,665,333)
Cost of merchandise and raw materials sold	(21,101,154)	(17,901,628)
	(98,397,811)	(75,566,961)

Cost by kind

	for the year ended 31.12.2011	for the year ended 31.12.2010
Materials and energy	(73,601,514)	(54,438,067)
Cost of merchandise and raw materials sold	(21,101,154)	(17,901,628)
External services	(4,110,251)	(3,712,213)
Payroll, social security and other employee benefits	(2,078,987)	(1,991,488)
Depreciation and amortisation	(2,379,948)	(2,422,747)
Taxes and charges	(440,619)	(414,461)
Other	(2,797,574)	(1,239,838)
	(106,510,047)	(82,120,442)
Change in inventories	372,712	738,373
Cost of products and services for own use	224,078	185,965
Operating expenses	(105,913,257)	(81,196,104)
Distribution expenses	3,660,256	3,394,612
General and administrative expenses	1,468,298	1,365,195
Other operating expenses	2,386,892	869,336
Cost of sales	(98,397,811)	(75,566,961)

In 2011 and 2010 external services included research and development expenditures of PLN (14,927) thousand and PLN (15,985) thousand, respectively.

214 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Employee benefits costs

	for the year ended 31.12.2011	for the year ended 31.12.2010
Payroll expenses	(1,617,323)	(1,565,314)
Future benefits expenses	(6,684)	(5,086)
Social security expenses	(344,757)	(319,043)
Other employee benefits expenses	(110,223)	(102,045)
	(2,078,987)	**(1,991,488)**

29. Other operating revenues and expenses

29.1. Other operating revenues

	for the year ended 31.12.2011	for the year ended 31.12.2010
Profit on sale of non-current non-financial assets	56,446	114,798
Reversal of provisions	85,832	66,941
Reversal of receivables impairment allowances	129,817	77,342
Reversal of impairment allowances of property, plant and equipment and intangible assets	60,656	106,291
Penalties and compensations earned	301,054	127,233
Grants	20,628	110,634
Other	352,222	168,082
	1,006,655	**771,321**

In 2011 penalties and compensation include mainly return of amount of PLN 75,879 thousand from ENERGA-OPERATOR S.A. (detailed information in note 42.1.III) and received by the ORLEN Lietuva Group settlement of damages associated with refinery fire in 2006 of PLN 97,514 thousand, return of the fine paid by Unipetrol of PLN 39,060 thousand (detailed information in note 42.1.IV) and compensation of PLN 39,031 thousand received by Anwil S.A. due to the fire in the electrolytic installation at chlorine and soda lye plant in 2010.

In 2011 the line "other" mainly includes the effect of the settlement of CO_2 emission rights received free of charge in relation to actual emissions and recalculation of provision for CO_2 emissions as a result of changes in rights' prices of PLN 259,612 thousand.

29.2. Other operating expenses

	for the year ended 31.12.2011	for the year ended 31.12.2010
Loss on sale of non-current non-financial assets	(67,269)	(30,585)
Recognition of provisions	(136,892)	(189,167)
Recognition of receivables impairment allowances	(114,992)	(97,693)
Recognition of other impairment allowances	(237)	(14,714)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(1,855,850)	(376,510)
Costs of losses, breakdowns and compensations	(42,806)	(53,025)
Other	(168,846)	(107,642)
	(2,386,892)	**(869,336)**

Detailed description of impairment allowances is disclosed in notes 7, 9, 10, 14 and 15.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 215

30. Financial revenues and expenses

30.1. Financial revenues

	for the year ended 31.12.2011	for the year ended 31.12.2010
Interest	82,870	62,014
Foreign exchange gain	320,287	237,904
Profit from sale of shares	2,278,528	13,185
Decrease in receivables impairment allowances	8,541	14,625
Settlement and valuation of financial instruments	68,110	96,008
Reversal of investment impairment allowances	320	1,370
Other	21,489	21,648
	2,780,145	**446,754**

In 2011 profit on sale of shares and other securities includes mainly profit from sale of Polkomtel S.A. shares of PLN 2,277,452 thousand (detailed information is disclosed in note 11.1).

30.2. Financial expenses

	for the year ended 31.12.2011	for the year ended 31.12.2010
Interest	(369,219)	(386,697)
Foreign exchange loss	(1,391,515)	(254,421)
Increase in receivables impairment allowances	(12,942)	(15,263)
Settlement and valuation of financial instruments	(405,696)	(57,650)
Investment impairment allowances	(2,070)	(1,220)
Other	(61,733)	(35,997)
	(2,243,175)	**(751,248)**

According to IAS 23 Borrowing cost, 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 2011 and 2010 amounted to PLN (53,480) thousand and PLN (156,727) thousand, respectively. In 2011 and in 2010 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.04% per annum and 3.14% per annum, respectively.

31. Income tax expense

Consolidated income statement	for the year ended 31.12.2011	for the year ended 31.12.2010
Current income tax	(1,000,215)	(503,823)
Deferred income tax	223,477	(110,877)
Income tax expense in the income statement	**(776,738)**	**(614,700)**

Consolidated statement of comprehensive income	for the year ended 31.12.2011	for the year ended 31.12.2010
Net profit/(loss) from the cash flows hedge accounting instruments	22,088	(11,499)
Investment property valuation	(1,974)	—
Income tax expense in other comprehensive income	**20,114**	**(11,499)**

216 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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

	for the year ended 31.12.2011	for the year ended 31.12.2010
Profit before tax	2,791,741	3,070,167
Corporate income tax for 2011 and 2010 by the valid tax rate (19% in Poland)	(530,431)	(583,332)
Differences between tax rates	(23,098)	(22,286)
Lithuania (15%)	(12,743)	(14,278)
Germany (29%)	(10,355)	(8,008)
Valuation of entities accounted for under equity method	35,632	47,515
Tax losses	(183,676)	94
Profit on sale of Polkomtel S.A. shares adjustment	(44,246)	—
Other	(30,918)	(56,691)
Income tax	**(776,738)**	**(614,700)**
Effective tax rate	28%	20%

The line other in 2011 and 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 (30,185) thousand and PLN (45,436) thousand, respectively.

31.2. Deferred tax

Change in deferred tax liability, net

	as at 31.12.2010	Deferred tax recognized in profit or loss	Deferred tax recognized in other comprehensive income	Foreign exchange differences recognized in other comprehensive income	as at 31.12.2011
Deferred tax assets					
Impairment allowances	69,830	217,969	—	2,607	290,406
Provisions and accruals	304,777	(37,585)	—	8,973	276,165
Unrealized foreing exchange differences	208,993	(59,645)	—	126,091	275,439
Difference between carrying amount nad tax base of property plant and equipment	61,786	(20,309)	—	6,295	47,772
Tax loss	157,056	48,153	—	18,998	224,207
Valuation of financial instruments	—	39,501	22,088	—	61,589
Other	52,293	(3,223)	(1,974)	2,092	49,188
	854,735	**184,861**	**20,114**	**165,056**	**1,224,766**
Deferred tax liabilities					
Investment relief	74,260	(5,103)	—	—	69,157
Difference between carrying amount nad tax base of property plant and equipment	1,329,877	(13,704)	—	90,483	1,406,656
Difference in contribution in kind	42,870	(1)	—	—	42,869
Finance lease treated as operating for tax purposes	9,544	(7,709)	—	4,937	6,772
Valuation of financial instruments	10,075	(10,075)	—	—	—
Other	42,797	(2,025)	—	(76)	40,696
	1,509,423	(38,616)	—	95,343	1,566,150
Deferred tax liability, net	654,688	(223,477)	(20,114)	(69,713)	341,384

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 217

The above positions of deferred tax assets and liabilities are subject to compensation on the level of particular Group companies and are presented in the consolidated statement of ORLEN Capital Group.

As at 31 December 2011 and 31 December 2010 the Group recognized unsettled tax loss of PLN 1,281,098 thousand and PLN 11,261 thousand, for which no deferred tax asset was recognized. Unsettled tax losses in 2011 are a result of recognized impairment allowance of assets and include companies from Unipetrol Group and Anwil Group.

32. Explanatory notes to the statement of cash flows

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

	for the year ended 31.12.2011	for the year ended 31.12.2010
Change in other non-current assets and trade receivables and other receivables presented in the statement of financial position	(1,764,045)	(666,052)
Change in long term loans granted	(22,250)	—
Change in investment receivables from	(35,336)	(109,834)
advances for construction in progress	(22,516)	(119,677)
sale of non-current non-financial assets	(12,820)	9,843
Change in prepayments regarding bank commisions	34,762	(22,373)
Foreign exchange differences	473,863	10,006
Other	(6,177)	(10,893)
Change in receivables in the statement of cash flows	**(1,319,184)**	**(799,146)**
Change in inventories presented in the statement of financial position	(5,001,666)	(674,992)
Reclassification of inventories from/to property, plant and equipment and non-current assets held for sale	24,929	6,979
Foreign exchange differences	411,717	59,032
Change in inventories in the statement of cash flows	**(4,565,020)**	**(608,981)**
Change in other long-term liabilities, trade liabilities and other liabilities presented in the statement of financial position	1,770,533	1,933,426
Change in investment liabilities from acquisition of non-current non-financial assets	294,519	331,095
Change in financial liabilities	(7,329)	7,848
Change in cash flow hedge instruments	(110,196)	—
Foreign exchange differences	(850,730)	884
Other	(15,998)	9,423
Change in liabilities in the statement of cash flows	**1,080,799**	**2,282,677**
Change in provisions presented in the statement of financial position	(8,527)	129,008
Usage of prior year provision for CO_2 emission rights	669,590	588,869
Change in the composition of Capital Group	—	1,837
Foreign exchange differences	(66,888)	(4,396)
Other	—	(241)
Change in provisions in the statement of cash flows	**594,175**	**715,077**

218 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

Other adjustments in cash flows from operating activities

	change in 2011	change in 2010
CO_2 emission rights granted free of charge	(749,667)	(798,702)
Change in deferred income	67,531	(2,309)
Other	(38,263)	38,628
	(720,399)	**(762,383)**

In the consolidated statement of cash flows, net cash used in investing activities in 2011 and 2010 includes the effects of exploration and evaluation of mineral resources of PLN (106,707) thousand and PLN (86,892) thousand.

33. Financial instruments

33.1. Financial instruments by category and class

Financial assets

as at 31 December 2011

Financial instruments by class		Financial instruments by category					
	Note	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
Quoted shares	12	—	—	—	690	—	690
Unquoted shares	12	—	—	—	39,830	—	39,830
Bonds/other debt securities	17	—	15,197	—	—	—	15,197
Trade receivables	16	—	7,055,689	—	—	—	7,055,689
Receivables from sale of non-current non-financial assets	16	—	853	—	—	—	853
Loans granted	13, 17	—	17,156	—	—	—	17,156
Embedded derivatives and hedging instruments	13, 17	48,183	—	—	—	225,991	274,174
Cash and cash equivalents	18	—	5,409,166	—	—	—	5,409,166
Other	13, 16, 17	—	115,347	—	—	—	115,347
		48,183	**12,613,408**	**—**	**40,520**	**225,991**	**12,928,102**

as at 31 December 2010

Financial instruments by class		Financial instruments by category					
	Note	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
Quoted shares	12	—	—	—	1,190	—	1,190
Unquoted shares	12	—	—	—	41,593	—	41,593
Bonds/other debt securities	17	—	—	34,876	—	—	34,876
Trade receivables	16	—	5,296,717	—	—	—	5,296,717
Receivables from sale of non-current non-financial assets	16	—	13,673	—	—	—	13,673
Loans granted	13, 17	—	41,066	—	—	—	41,066
Embedded derivatives and hedging instruments	13, 17	4,064	—	—	—	175,462	179,526

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 219

Financial instruments by class	Note	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
Cash and cash equivalents	18	—	2,820,742	—	—	—	2,820,742
Other	13, 16, 17	—	142,007	—	—	—	142,007
		4,064	8,314,205	34,876	42,783	175,462	8,571,390

Financial liabilities

as at 31 December 2011

Financial instruments by class	Note	Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Debt securities	21	—	1,163,218	—	—	1,163,218
Loans	21	—	11,824,318	—	—	11,824,318
Borrowings	21	—	10,055	—	—	10,055
Leasing finansowy	23, 24	—	—	—	97,915	97,915
Finance lease	24	—	10,984,529	—	—	10,984,529
Trade liabilities	23, 24	—	587,454	—	—	587,454
Embedded derivatives and hedging instruments	23, 26	292,050	—	263,860	—	555,910
Other	23, 24, 26	—	179,924	—	—	179,924
		292,050	24,749,498	263,860	97,915	25,403,323

as at 31 December 2010

Financial instruments by class	Note	Financial instruments by category				
		Financial liabilities at fair value through profit or loss	Financial liabilities valued at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Debt securities	21	—	1,155,289	—	—	1,155,289
Loans	21	—	8,952,079	—	—	8,952,079
Borrowings	21	—	560,359	—	—	560,359
Leasing finansowy	23, 24	—	—	—	91,906	91,906
Finance lease	24	—	9,130,835	—	—	9,130,835
Trade liabilities	23, 24	—	881,973	—	—	881,973
Embedded derivatives and hedging instruments	23, 26	33,788	—	98,263	—	132,051
Other	23, 24, 26	—	180,743	—	—	180,743
		33,788	20,861,278	98,263	91,906	21,085,235

220 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

33.2. Income and expense, gains and losses in the consolidated statement of comprehensive income

	for the year ended 31.12.2011	for the year ended 31.12.2010
by category		
Financial assets and liabilties at fair value through profit or loss	(336,777)	74,265
Loans and receivables	618,775	(75,717)
Financial assets held to maturity	—	2,993
Financial assets available for sale	(463)	150
Financial liabilities measured at amortised cost	(2,042,455)	(300,056)
Hedging financial instruments	26,088	(13,546)
Liabilities excluded from the scope of IAS 39	(6,726)	(5,768)
other, excluded from IFRS 7	(1,741,558)	(317,679)
Gain on disposals of shares and other securities	2,278,528	13,185
Financial revenues/expenses, net	**536,970**	**(304,494)**

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

	for the year ended 31.12.2011	for the year ended 31.12.2010
Quoted shares	(1,816)	(254)
Unquoted shares	(254)	(966)
Trade receivables	(12,942)	(15,263)
	(15,012)	**(16,483)**

Impairment allowances of financial assets were disclosed in the note 12 and 16.

33.4. Fair value of financial instruments

	as at 31.12.2011		as at 31.12.2010	
	fair value	carrying amount	fair value	carrying amount
Financial assets				
Quoted shares	690	690	1,190	1,190
Unquoted shares	not applicable	39,830	not applicable	41,593
Deposits and other debt securities	15,197	15,197	34,665	34,876
Trade receivables	7,055,689	7,055,689	5,296,717	5,296,717
Receivables from sale of non-current non-financial assets	853	853	13,673	13,673
Loans granted	18,600	17,156	43,403	41,066
Embedded derivatives and hedging instruments	274,174	274,174	179,526	179,526
Cash and cash equivalents	5,409,166	5,409,166	2,820,742	2,820,742
Other	114,051	115,347	137,520	142,007
	12,888,420	**12,928,102**	**8,527,436**	**8,571,390**
Financial liabilities				
Debt securities	1,163,231	1,163,218	1,197,053	1,155,289
Loans	11,825,916	11,824,318	8,945,948	8,952,079
Borrowing	10,055	10,055	573,885	560,359
Finance lease	90,558	97,915	79,419	91,906

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 221

	as at 31.12.2011		as at 31.12.2010	
	fair value	carrying amount	fair value	carrying amount
Trade liabilities	10,984,529	10,984,529	9,130,835	9,130,835
Investment liabilities	587,454	587,454	881,973	881,973
Embedded derivatives and hedging instruments	555,910	555,910	132,051	132,051
Other	179,924	179,924	180,743	180,743
	25,397,577	25,403,323	21,121,907	21,085,235

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2011 and 31 December 2010 the Group held unquoted shares in, 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. The above mentioned shares were recognized in the consolidated statement of financial position of PLN 39,830 thousand and PLN 41,593 thousand 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.

Fair value of derivatives is based on discounted future flows related to contracted transactions as a difference between term price and transaction price. Forward rates of exchange are not modeled as a separate risk factor, but they are as a result of spot rate and forward interest rate for foreign currency in relation to PLN.

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

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

Fair value hierarchy

		as at 31.12.2011		as at 31.12.2010	
	Note	Level 1	Level 1	Level 1	Level 1
Financial assets					
Quoted shares	12	690	—	1,190	—
Embedded derivatives and hedging instruments	13, 17	—	274,174	—	179,526
		690	274,174	1,190	179,526
Financial liabilities					
Embedded derivatives and hedging instruments	23, 26	—	555,910	—	132,051
		—	555,910	—	132,051

During the reporting period and comparative period there were no reclassifications of financial instruments in the Capital Group 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 2011 and 31 December 2010 according to quotations of 1-month and 3-months and 6-months interest rates, respectively, increased by proper margins for particular financial instruments.

222 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

For the majority of financial instruments recognized as at 31 December 2011 and 31 December 2010 1-month interest rate quotations were applied.

	as at 31.12.2011	as at 31.12.2010
WIBOR	4.7700%	3.6600%
EURIBOR	1.0240%	0.7820%
LIBOR	0.2953%	0.2606%
PRIBOR	0.9400%	0.9900%
VILIBOR	1.0600%	1.0500%

33.5. Financial assets pledged as collateral for liabilities or contingent liabilities

	as at 31.12.2011	as at 31.12.2010
Cession of receivables	427,409	359,489
Cash in bank pledged as collateral	130,985	92,538

Additionally according to the bank agreement as at 31 December 2011 the Capital Group had pledged cash of net book value of PLN 10,247 thousand as collateral for bank overdrafts, which balance amounts to nil as at 31 December 2011.

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.

33.6. 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 cash flows relating to sales/purchases of crude oil, gasoline, diesel, 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).

Hedging transactions, settlement and fair value measurement which influence the foregoing financial statements were concluded in the years 2007–2011.

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 31.12.2011	as at 31.12.2010
Planned realization of hedged cash flows		
Currency operating exposure		
2011	—	31,216
2012	(122,399)	—
Interest rate exposure		
until 1Q 2012	(1,507)	(7,132)
until 1Q 2014	(113,602)	(88,036)
Commodity risk exposure		
2011	—	126,092
2012	198,979	14,364
	(38,529)	**76,504**

As at 31 December 2011 foreign exchange differences on cash flow hedge accounting amounted to PLN (242) thousand and were presented in line foreign exchange differences on consolidation.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 223

Fair value of PLN 5,909 thousand will be recognized in profit and loss attributable to non-controlling interest as at the date of realization.

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 31.12.2011	as at 31.12.2010
Planned realization date of hedged cash flows		
2011 (currency investment exposure)	—	728
2012 (currency investment exposure)	580	—
2013 (currency investment exposure)	79	—
	659	728

Settlement of hedge instruments

	for the year ended 31.12.2011	for the year ended 31.12.2010
Sales of products	(34,420)	26,369
Foreign exchange differences	96,524	(4,300)
Interest expense	(53,009)	(61,212)
Construction in progress	(1,185)	52,019
Inventories	337,790	—
	345,700	12,876

In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2011 and 2010 amounting to PLN (810) thousand and PLN (1,622) thousand, respectively.

Net investment hedge in a foreign operation

Starting from the 2008 the Group uses net investment hedge in a foreign operation. 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 (8,260) thousand (net of deferred tax) were recognised in other comprehensive income in the line "Foreign exchange differences on subsidiaries from consolidation".

33.7. 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).
- other, disclosed in details in point VII 7.2. in the Management Board Report on the Operations of ORLEN Capital Group.

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.

224 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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

	as at 31.12.2011	as at 31.12.2010
Group I	5,182,595	3,631,698
Group II	920,950	1,030,722
	6,103,545	**4,662,420**

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

Current receivables	as at 31.12.2011	as at 31.12.2010
Up to 1 month	940,447	702,517
1–3 months	39,688	21,083
3–6 months	8,803	8,484
6–12 months	9,724	9,356
Above 1 year	64,438	39,065
	1,063,100	**780,505**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

Credit risk associated with cash and deposits is assessed by the Group as low.

All entities in which the Group's free cash is deposited, are operating in financial sector. They include domestic and foreign banks and branches of foreign banks which have the highest short-term credit credibility (81% of deposited cash) or good credibility (19% of deposited cash).

Rating A-1 in Standard & Poor's, F1 in Fitch and Prime-1 in Moodys are treated as the highest credibility, while A-2 in Standard & Poor's, F2 in Fitch and Prime-2 in Moodys are considered to be good credibility. The source of information about ratings are publications on web sites of each of the bank, in which the Group invest its free cash flows.

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 2011 and 31 December 2010 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 4,837 thousand and PLN 528 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.

In order to reduce the risk of recoverability of trade receivables, the Group receives from its customers securities such as: bank and issuance guarantees, blockade of cash on bank accounts, mortgage and bills of exchange.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of assets is disclosed in the note 30.2 and 33.3.

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between current assets and short-term liabilities.
As at 31 December 2011 and as at 31 December 2010 current assets to short-term liabilities ratio (current ratio) amounted to 1.5 and 1.3, respectively.

Detailed information regarding loans is disclosed in the note 21.1.

In 2007 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. 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 2011 the domestic cash pool facility (in PLN) comprised 21 entities belonging to the Group, while cross border cash pool facility denominated in EUR, USD and PLN held in foreign bank comprised PKN ORLEN and 4 foreign entities belonging to the Capital Group (Orlen Finance, ORLEN Lietuva, ORLEN Deutschland, Unipetrol Deutschland).

As at 31 December 2011 and 31 December 2010 the maximum possible indebtedness due to loans amounted to PLN 20,899,193 thousand and PLN 17,989,434 thousand, respectively, of which as at 31 December 2011 and 31 December 2010 PLN 7,562,831 thousand and PLN 7,685,036 thousand respectively remained unused.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 225

Maturity analysis for financial liabilities

	As at 31.12.2011					
	up to 1 year	1–3 years	3–5 years	above 5 years	Total	Carrying amount
Debt securities	805,584	357,797	—	—	1,163,381	1,163,218
Floating rate bonds – undiscounted value	763,592	—	—	—	763,592	763,428
Fixed rate bonds – undiscounted value	41,992	357,797	—	—	399,789	399,790
Loans – undiscounted value	1,629,224	460,932	8,992,623	744,651	11,827,430	11,824,318
Borrowings – undiscounted value	11,539	—	—	—	11,539	10,055
Finance lease	28,579	44,105	9,212	16,236	98,132	97,915
Trade liabilities	10,984,529	—	—	—	10,984,529	10,984,529
Investment liabilities	586,144	905	271	134	587,454	587,454
Embedded derivatives and hedging	442,308	113,602	—	—	555,910	555,910
Gross settled amounts	433,830	—	—	—	433,830	433,830
Net settled amounts	8,478	113,602	—	—	122,080	122,080
Other	163,969	15,955	—	—	179,924	179,924
	14,651,876	993,296	9,002,106	761,021	25,408,299	25,403,323

	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	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

Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

Market risks management in ORLEN Capital Group is performed by entities exposed to the highest risks, i.e. PKN ORLEN, Basell Orlen Polyolefins, ORLEN Asfalt, Anwil, Unipetrol Group, ORLEN Lietuva, Rafineria Trzebinia, Rafineria Nafty Jedlicze, ORLEN GAZ, ORLEN OIL, ORLEN Projekt, Petrolot and Ship Service.

The ORLEN Capital 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.

226 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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. ORLEN Capital 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 and purchases of refinery and petrochemical products and merchandise. Currency risk exposure is hedged by forward or 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).

Currency structure of financial instruments as at 31 December 2011

Financial instruments by class	EUR	USD	CZK	LTL	JPY	Other currencies after translation to PLN	Total after translation to PLN
Financial assets							
Deposits/other debt securities	1,420	—	—	6,977	—	—	15,197
Trade receivables	370,962	191,498	6,433,206	173,136	—	14,799	3,629,885
Loans granted	790	33	79,209	—	—	—	17,156
Embedded derivatives and hedging instruments	1,629	62,276	297,330	—	—	—	270,891
Cash and cash equivalents	48,627	78,724	2,260,585	46,081	4,846	13,958	943,712
Other	624	11,986	376,411	—	—	—	108,120
	424,052	**344,517**	**9,446,741**	**226,194**	**4,846**	**28,757**	**4,984,961**
Financial liabilities							
Debt securities	—	—	2,336,579	—	—	—	399,790
Loans	952,092	2,066,207	1,942,271	809	—	—	11,599,612
Finance lease	—	—	14,169	—	—	—	2,424
Trade liabilities	350,301	2,064,999	3,744,484	118,272	29,473	3,247	9,400,660
Investment liabilities	48	8,517	430,010	—	—	—	102,893
Embedded derivatives and hedging instruments	79,476	33,644	247,497	13,742	35,750	—	527,507
Other	6,733	9,794	419,328	—	—	—	134,953
	1,388,651	**4,183,161**	**9,134,339**	**132,822**	**65,223**	**3,247**	**22,167,839**

Sensitivity analysis for currency risk

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

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(667,162)	–15%	667,162
USD/PLN	+15%	(790,641)	–15%	790,641
JPY/PLN	+15%	(1,177)	–15%	1,177
		(1,458,979)		**1,458,979**

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 227

	Influence on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(185,575)	–15%	185,575
USD/PLN	+15%	(41,749)	–15%	41,749
		(227,324)		**227,324**

	Influence on foreign exchange differences on subsidiaries from consolidation including net investment hedge in foreign operations			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	7,050	–15%	(7,050)
USD/PLN	+15%	(1,216,633)	–15%	1,216,633
CZK/PLN	+15%	(11,671)	–15%	11,671
LTL/PLN	+15%	29,638	–15%	(29,638)
		(1,191,616)		**1,191,616**

	Total			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(845,687)	–15%	845,687
USD/PLN	+15%	(2,049,023)	–15%	2,049,023
CZK/PLN	+15%	(11,671)	–15%	11,671
JPY/PLN	+15%	(1,177)	–15%	1,177
LTL/PLN	+15%	29,638	–15%	(29,638)
		(2,877,919)		**2,877,919**

The influence of changes in relevant currencies in relation to presentation currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2011

	Sensivity 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%	101,618	–15%	(101,618)
USD/PLN	+15%	14,416	–15%	(14,416)
CZK/PLN	+15%	863,379	–15%	(863,379)
		979,413		**(979,413)**

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 2011.

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 2011

	Total influence on other comprehensive income			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/PLN	+15%	(751,119)	–15%	751,119
USD/PLN	+15%	(817,972)	–15%	817,972
CZK/PLN	+15%	863,379	–15%	(863,379)
JPY/PLN	+15%	(1,177)	–15%	1,177
		(706,890)		**706,890**

228 Notes to consolidated financial statements for the year ended 31 December 2011 (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 currencies after translation to PLN	Total after translation to PLN
Financial assets							
Quoted shares	—	—	—	—	—	—	—
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
Finance lease	—	—	—	—	—	—	—
Embedded derivatives and hedging	3,801	54,503	—	—	19,987	—	177,332
Cash and cash equivalents	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	—	—	—	394,225
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**	**17,489,013**

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 presentation currency (PLN) on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation.

	Influence 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 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**

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 229

	Influence on foreign exchange differences on subsidiaries from consolidation including net investment hedge in foreign operations			
	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**

	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 presentation currency (PLN) on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2010

	Sensivity 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 presentation currency (PLN) on equity including foreign exchange differences on translation of a net investment in a 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**

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 and embedded derivatives, the influence of currency rate variations on fair value was examined at constant level of interest rates. Fair value of forwards is calculated based on discounted future cash flows calculated based on difference between forward price and transaction price.

For other currencies the sensitivity of financial instruments is irrelevant to the Group.

230 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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.

Structure of financial instruments subject to interest rate risk

	As at 31.12.2011					
Financial instruments by class	EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	Total
Selected financial assets						
Deposits/other debt securities	6,272	—	—	8,925	—	15,197
Loans granted	3,489	113	13,554	—	—	17,156
	9,761	113	13,554	8,925	—	32,353
Selected financial liabilities						
Debt securities	—	—	—	—	763,428	763,428
Loans	4,205,198	7,061,057	332,323	1,033	224,707	11,824,318
Borrowings	—	—	—	—	10,055	10,055
Embedded derivatives and hedging instruments	64,745	48,857	—	—	1,507	115,109
	4,269,943	7,109,914	332,323	1,033	999,697	12,712,910

	As at 31.12.2010					
Financial instruments by class	EURIBOR	LIBOR	PRIBOR	VILIBOR	WIBOR	Total
Selected financial assets						
Bonds / other debt securities	—	34,876	—	—	—	34,876
Loans granted	21,552	311	15,739	—	3,464	41,066
	21,552	35,187	15,739	—	3,464	75,942
Selected 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	52,967	35,070	—	—	7,131	95,168
	3,830,827	4,960,359	46,196	1,243	990,459	9,829,084

Sensitivity analysis for interest rate risk

The influence of financial instruments measured at amortised cost on profit before tax and hedging reserve due to changes in significant interest rates

	Assumed variation		Influence on profit before tax		Influence on hedging reserve		Total	
Interest rate	as at 31.12.2011	as at 31.12.2010	2011	2010	2011	2010	2011	2010
WIBOR	+50	+50	(4,991)	(4,899)	930	2,062	(4,061)	(2,837)
EURIBOR	+50	+50	(20,977)	(19,008)	15,932	21,062	(5,045)	2,054
LIBOR	+50	+50	(35,305)	(24,451)	17,981	19,635	(17,324)	(4,816)
PRIBOR	+50	+50	(1,594)	(212)	—	—	(1,594)	(212)
			(62,867)	(48,570)	34,843	42,759	(28,024)	(5,811)
WIBOR	–50	–50	4,991	4,899	(932)	(2,084)	4,059	2,815
EURIBOR	–50	—	20,977	—	(16,271)	—	4,706	—
PRIBOR	–50	–50	1,594	212	—	—	1,594	212
			27,562	5,111	(17,203)	(2,084)	10,359	3,027

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 231

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

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

The Group does not consider sensitivity analysis for VILIBOR due to insignificant impact on the Group's financial statements.

The Group recognizes derivatives at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011 and 31 December 2010. 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.

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

Risk of changes in commodity prices, raw materials and refining products prices

The Group is exposed to changes in commodity prices due to:

- 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;
- sales of refinery and petrochemical products, which depend on the volume of sales, the inventory level and the level of product prices on the global market.

As at 31 December 2011 there were financial instruments hedging the risk of changes in commodity prices relating to the hedge of cash flows resulting from crude oil, gasoline and diesel oil sale/purchase settlements.

The volume of hedged crude oil, gasoline and diesel oil as at 31 December 2010 and 31 December 2011

Hedged raw material/finished good	Unit of measure	as at 31.12.2011	as at 31.12.2010
Crude oil	BBL	7,294,035	3,589,591
Diesel oil	MT	85,190	—
Gasoline	MT	12,737	—
Bitumen	MT	11,140	—
JET A-1	MT	253	—

Sensitivity analysis for risk of changes in crude oil, diesel oil, gasoline, bitumen and JET A-1 prices

The influence of derivatives on profit before tax and hedging reserve due to changes in crude oil, diesel oil and gasoline prices as at 31 December 2011

	Influence on profit before tax			
	Increase of prices	Total influence	Decrease of prices	Total influence
Brent crude oil USD/BBL	+27.5%	(191,818)	–27.5%	191,818
Diesel oil USD/MT	+23%	(10,430)	–23%	10,430
Bitumen EUR/MT	+25%	5,699	–25%	(5,699)
JET A-1 USD/MT	+22%	186	–22%	(186)
		(196,363)		**196,363**

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

232 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

	Total influence on other comprehensive income			
	Increase of prices	Total influence	Decrease of prices	Total influence
Brent crude oil USD/BBL	+27.5%	348,191	–27.5%	(348,191)
Diesel oil USD/MT	+23%	26,099	–23%	(26,099)
Gasoline USD/MT	+28%	11,221	–28%	(11,221)
Bitumen EUR/MT	+25%	5,699	–25%	(5,699)
JET A-1 USD/MT	+22%	186	–22%	(186)
		391,396		**(391,396)**

The influence of derivatives on hedging reserve due to changes in crude oil prices as at 31 December 2010

	Increase of prices	Total influence	Decrease of prices	Total influence
Brent crude oil USD/BBL	+27%	559,591	–27%	(559,591)
		559,591		**(559,591)**

The above variations of crude oil, diesel oil and gasoline prices described above were calculated based on historical volatility for 2011 and 2010 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011 and 31 December 2010. The influence of changes in crude oil, diesel oil and gasoline prices were presented on annual basis. Fair value of commodity swaps is calculated based on discounted cash flows method, calculated as a difference between term and transaction price.

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

The carrying amount of hedging instruments for crude oil, diesel oil and gasoline deliveries as at 31 December 2011 amounted to PLN 207,239 thousand.

The carrying amount of hedging instruments for crude oil as at 31 December 2010 amounted to PLN 140,456 thousand.

Risk of changes in CO_2 emission rights prices

The Capital Group entities were 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 2011 the Group concluded sale agreements of CO_2 emission rights and simultaneously concluded forward purchase transactions.

As at 31 December 2011 financial liabilities due to negative valuation of CO_2 emission rights forwards amounted to PLN 222,449 thousand.

Change in CO_2 emission rights quotations by 45% (in plus or in minus) would potentially impact the fair valuation of financial liabilities on concluded forward contracts by PLN 95,794 thousand and PLN (95,794) thousand.

Variations in CO_2 emission rights allowances were calculated based on historical volatility in 2011.

Detailed information regarding CO_2 emission rights allowances is disclosed in note 9.

34. Leases

34.1. Capital Group as a lessee

Operating lease

As at 31 December 2011 and as at 31 December 2010, 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 contain 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 2011 and 2010 amounted to PLN (124,507) thousand and PLN (115,753) thousand, respectively.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 233

Future minimum lease payments under non – cancellable operating lease agreements as at 31 December 2011 and as at 31 December 2010 were as follows

	as at 31.12.2011	as at 31.12.2010
Up to 1 year	91,473	81,777
Between 1 and 5 years	330,403	282,877
Above 5 years	634,778	542,834
	1,056,654	**907,488**

Finance lease

The Capital Group as at 31 December 2011 and as at 31 December 2010 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 and give the possibility to purchased the leased equipment.

Future minimum lease payments under finance lease agreements as at 31 December 2011 and as at 31 December 2010 were as follows

	as at 31.12.2011	as at 31.12.2010
Up to 1 year	28,820	25,160
Between 1 and 5 years	57,684	48,029
Above 5 years	20,603	23,087
	107,107	**96,276**

Present value of future minimum lease payments under finance lease agreements as at 31 December 2011 and as at 31 December 2010 were as follows

	as at 31.12.2011	as at 31.12.2010
Up to 1 year	24,808	22,285
Between 1 and 5 years	49,424	37,361
Above 5 years	16,236	19,888
	90,468	**79,534**

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 2011 and as at 31 December 2010 the net carrying amount of for each class of assets was as follows

	as at 31.12.2011	as at 31.12.2010 (restated data)
Intangible assets	863	998
Property, plant and equipment	168,464	168,780
buildings and constructions	20,873	22,454
machinery and equipment	54,278	59,165
vehicles	91,818	87,161
other	1,495	—

Disclosures resulting from IFRS 7 relating to finance lease are captured in note 33 and are presented jointly with other financial instruments.

34.2. Capital Group as a lessor

Operating lease

As at 31 December 2011 and as 31 December 2010 the Capital Group did not posses non – cancellable operating lease agreements as a lessor.

Financial lease

As at 31 December 2011 and as 31 December 2010 the Capital Group did not posses financial lease agreements as a lessor.

234 Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

35. Investment expenditures incurred and future commitments resulting from signed investment contracts

Investment expenditures together with borrowing costs incurred in 2011 and in 2010 accounted for PLN 2,133,454 thousand and PLN 3,011,192 thousand respectively, including PLN 102,565 thousand and PLN 192,187 thousand of environmental protection related investments. Investment expenditures related to exploration and extraction of hydorcarbons in 2011 and 2010 amounted to PLN 62,985 thousand and PLN 42,094 thousand, respectively

As at 31 December 2011 and as at 31 December 2010 the value of future liabilities resulting from contracts signed until this date amounted to PLN 449,293 thousand and PLN 502,491 thousand.

36. Contingent liabilities

	as at 31.12.2010	increase/ (decrease)	as at 31.12.2011
Antitrust proceedings of the OCCP	18,500	(4,500)	14,000
Legal cases	19,950	(3,105)	16,845
	38,450	**(7,605)**	**30,845**

Anti-trust proceeding of the OCCP is described in details in note III 42.1.2.

Court proceedings as at 31 December 2011 relate mainly to claims arising from trade contracts with contractors and employees' claims.

The Company from the Anwil Group – Spolana a.s. recognized the provision for the reclamation of land where ash landfill is located.

Spolana was covered by guarantees from the Ministry of the Environment of PLN 1,396 million (approximately CZK 8,159 million) to cover the costs necessary to remove contamination incurred in the years before the privatization of the Company (till 1992). The guarantees regard environmental projects in Spolana, definied in scope and amount. Expenditures related to the reclamation of land owned by Spolana a.s. incurred by the government of the Czech Republic, which were covered by the above mentioned guarantees, amounted as at 31 December 2011 to CZK 4,427 million.

Spolana a.s. from Anwil Group produces chlorine using the mercury electrolysis according to integrated pollution prevention and control (IPPC), that is in force until 2014. Spolana a.s is required to present a reclamation program after it stops to use the fixes assets on the above described installation. The Board of Directors of Spolana a.s. takes steps to extend the period of IPPC without the necessity to convert the technology and simultaneously considers the continuation of production based on purchased raw materials. This will require the adjustment of the electrolysis building to its new function, what might change the purpose of the building and help to avoid potential reclamation costs.

37. Guarantees and sureties

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2011 and as at 31 December 2010 amounted to PLN 1,336,701 thousand and PLN 1,663,831 thousand, respectively.

Guarantees granted as at 31 December 2011 and as at 31 December 2010 amounted to PLN 156,346 thousand and PLN 107,191 thousand, respectively. Guarantees and sureties relate to third-parties liabilities arising from current business activities and concern: performance guarantees, customs and deposits guarantees and guarantees of payment.

38. Related party transactions

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

In 2011 and 2010 there were no material related party transactions in the Group concluded on other than market terms.

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

In 2011 and 2010 the Group companies did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or other agreements obliging to render services to the Company and its related parties.

As at 31 December 2011 and 31 December 2010 there were no loans granted by the Group companies to the managing and supervising persons or their relatives.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 235

38.3. Transactions with related parties concluded through the key management personnel of the Parent Company and the Group companies

In 2011 and 2010 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 Company and the Group companies			
	Sales (in PLN thousand)		Purchases (in PLN thousand)	
	for the year ended 31.12.2011	for the year ended 31.12.2010	for the year ended 31.12.2011	for the year ended 31.12.2010
Supervising persons	30	—	—	—
Managing persons	48	70	13	12
Other key executive personnel	94	139	—	—
	172	209	13	12

38.4. Transactions and balances of settlements of the Group companies with related parties

for the year ended 31 December 2011

	Jointly-controlled entities	Associates	Total
Sales	1,857,217	133,983	1,991,200
Purchases	539,943	124,886	664,829
Financial revenues	1,769	2,507,092	2,508,861
Dividends	60,057	250,013	310,070
Financial expenses	32	61	93

as at 31 December 2011

	Jointly-controlled entities	Associates	Total
Trade and other receivables	345,136	17,557	362,693
Trade and other liabilities	243,599	8,108	251,707

for the year ended 31 December 2010

	Jointly-controlled entities	Associates	Total
Sales	1,447,935	144,396	1,592,331
Purchases	476,782	174,342	651,124
Financial revenues	1,746	1,120	2,866
Dividends	32,371	146,658	179,029
Financial expenses	44	59	103

as at 31 December 2010

	Jointly-controlled entities	Associates	Total
Trade and other receivables	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

The above transactions with related parties include mainly sale and purchase of petrochemicals and refinery products and sale and purchase of repair, transportation and other services. Related party sale and purchase transactions were concluded on market terms. Settlements with related parties include trade and financial receivables and liabilities.

Guarantees and sureties granted in the Group on behalf of related parties as at 31 December 2011 and as at 31 December 2010 amounted to PLN 2,177,823 thousand and PLN 1,218,886 thousand, respectively.

39. 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.

	for the year ended 31.12.2011	for the year ended 31.12.2010
Remuneration of the Management Board Members of the Company	11,952	12,140
– remuneration and other benefits	6,498	6,040
– bonus paid for previous year	5,454	5,454
– remuneration paid to the Management Board Members performing the function in the previous years	—	646[1]
Bonus potentially due to the Management Board Members, to be paid in next year[2]	5,460	5,454
Remuneration due to Management Board Member, to be paid in the next year[3]	1,140	—
Remuneration and other benefits of the key executive personnel	179,015	172,985
– other key executive personnel of the Company	32,762	31,522
– key executive personnel of the subsidiaries belonging to the Capital Group	146,253	141,463
Remuneration of the Supervisory Board Members	1,322	1,213

1) payment in respect of court settlement regarding the remuneration for 2005
2) bonus estimated assuming full realization of the Management Board Members objectives
3) remuneration due relating to severance and non-competition clause of the Management Board

Further details on remuneration of key management personnel are disclosed in point III 3.6. to Management Board Report on ORLEN Capital Group Operations.

39.1. Bonus system for key executive personnel of the ORLEN Capital Group

In 2011 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. 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 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 2011 amended standards of MBO for key executive personnel in the ORLEN Group (Management Board of ORLEN Group companies and key personnel reporting directly to the PKN ORLEN Management Board) were developed. 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 Group.

39.2. 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 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.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand) 237

40. 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 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of separate and consolidated financial statements for periods 2005–2012.

	for the year ended 31.12.2011	for the year ended 31.12.2010
Remuneration of KPMG Audyt Sp. z o.o. in respect of the Parent Company	1,645	1,892
audit of the annual financial statements	647	647
reviews of financial statements	572	572
related services, including:	425	673
tax advisory services	80	—
Remuneration of KPMG in respect of subsidiaries belonging to the Capital Group	4,714	4,569
audit of the annual financial statements	2,585	2,723
reviews of financial statements	1,750	1,784
related services, including:	379	61
tax advisory services	—	6
	6,359	6,461

Remuneration of the auditor according to the agreement for services relating to 2011 and 2010.

41. Employment structure

Average employment in persons

	for the year ended 31.12.2011	for the year ended 31.12.2010
Blue collar workers	12,733	12,548
White collar workers	9,728	9,713
	22,461	22,261

Employment in persons

	as at 31.12.2011	as at 31.12.2010
Blue collar workers	12,618	12,380
White collar workers	9,762	9,660
	22,380	22,040

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

Due to restructuring activities held in ORLEN Lietuva Group, Unipetrol Group and Trzebinia Group, the employment in ORLEN Group decreased by 449 persons. The development of new areas and services and the inclusion of companies belonging to Unipetrol, Jedlicze, Trzebinia, ORLEN Oil, ORLEN Media and PPPT Group under full consolidation method increased employment by 789 persons.

Further details on employment structure are disclosed in point III 3.4. to Management Board Report on ORLEN Capital Group Operations.

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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

As at 31 December 2011 ORLEN 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:

42.1. Proceedings in which the ORLEN Capital Group entities act as a defendant

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

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

On 21 October 2010 the Court of Arbitration in Prague overruled the entire claim of Agrofert Holding a.s. against PKN ORLEN regarding the payment of PLN 3,330,371 thousand (CZK 19,464,473 thousand translated using exchange rate as at 31 December 2011) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The claim regarded the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s.

The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s. related to purchase of UNIPETROL a.s. shares by PKN ORLEN S.A.

On 3 October 2011 PKN ORLEN received from the court in Prague (Czech Republic) claim which overruled the sentence of arbitration court of the above mentioned case.

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

On 16 January 2012 PKN ORLEN submitted a response to Agrofert's claim. In its response PKN ORLEN appealed to dismiss all Agrofert's claim and adjudge it with proceeding costs refund.

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

42.1.2.1. Tax proceedings

At the end of reporting period 31 December 2011 there are ongoing tax proceedings in Rafineria Trzebinia S.A. concerning excise tax settlements 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 approximately PLN 100,000 thousand. 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. Rafineria Trzebinia appealed against above listed decisions. 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 in regards of excise tax liability for September 2004. The annulment was overruled by SAC on 25 August 2009. The proceeding returned to the Customs Chamber stage.

On 25 September 2009 the Head of the Customs Office in Kraków (first instance authority) issued decisions for the period May–August 2004 increasing the tax liability of approximately PLN 80,000 thousand. 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.

As a result of the decision to reexamine this case, Rafineria Trzebinia S.A. appealed against the above mentioned sentence to the Voivodship Administrative Court (VAC). On 30 May 2011 Rafineria Trzebinia S.A. received the sentence of the VAC in Kraków overruling Rafineria Trzebinia's appeal against the decision of the Director of the Customs Chamber in Kraków. On 29 June 2011 Rafineria Trzebinia S.A. filed an annulment of the above sentence to the Supreme Administrative Court.

On 24 November 2010 Head of the Customs Office in Kraków issued once again a decision increasing the amount of excise tax liability for September 2004 by approximately PLN 38,000 thousand. 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.

On 18 February 2011 Rafineria Trzebinia S.A. obtained a notification from District Court in Chrzanów the Real-estate

Register Department about registration of compulsory security deposit mortgage due to excise tax liability for September 2004 of PLN 36,334 thousand.

On 9 May 2011 the Director of the Customs Chamber in Kraków issued a decision regarding the excise tax liability for September 2004 keeping the first instance authority's decisions in force. On 19 May 2011 Rafineria Trzebinia S.A. appealed against the above mentioned decision to the VAC in Kraków and filed a supplement to the appeal on 13 June 2011.

On 25 January 2012 the VAC in Kraków rejected the appeal of Rafineria Trzebinia S.A. and issued a sentence sustaining the decision of the Head of the Customs Office in Kraków regarding the excise tax liability for September 2004.

On 27 February 2012 Rafineria Trzebinia S.A. received a legal justification of the verdict and is currently preparing an annulment claim to SAC. Rafineria Trzebinia S.A. created a provision recognized in profit or loss of 2011 to cover the potential negative financial impact regarding the realization of excise tax liabilities.

42.1.2.2. The proceedings of the Energy Regulatory Office („ERO") in Rafineria Trzebinia S.A.

The proceeding concerns imposing a fine in connection with violating of concession terms regarding production of liquid fuels. In its verdict dated 7 June 2010 the District Court in Warsaw – Court of Competition and Consumer Protection discharged the proceedings. In October 2010 the Chairman of ERO appealed against this verdict. In its verdict dated 27 January 2011, the Court rejected the decision of the Chairment of ERO imposing a fine in connection with violating of concession terms and rejected the appeal with respect to other matters.

The Chairman of ERO filed an annulment to the sentence of the Supreme Court.

On 18 October 2011 the Supreme Court refused to accept the appeal of the Chairman of ERO and adjudged Rafineria Trzebinia S.A. reimbursement for legal representation costs in the appeal proceeding.

42.1.2.3. Anti-trust proceedings:

Anti-trust proceedings concern an allegation that in the years 1996–2007, PKN ORLEN S.A., Petrol Station Kogut Sp.j. and MAGPOL B. Kułakowski i Wspólnicy Sp.j. were using practice limiting competition on the domestic market of wholesale of petrol and diesel oil by setting retail selling prices of petrol and diesel oil. On 16 July 2010 the President of the Office of Competition and Consumer Protection issued a decision, in which PKN ORLEN and Petrol Station Kogut Sp.j. were found guilty of participating till 16 July 2007 in anti-competition actions. The President of OCCP has imposed a fine on PKN ORLEN S.A. of PLN 52,700 thousand. 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 the appeal proceeding has not been set yet.

Moreover, there have been finished proceedings concerning allegations that:

- PKN ORLEN concluded an agreement with Grupa Lotos S.A. which limited competition on the domestic market of trading in universal petrol U95. The proceeding was initiated in March 2005. In December 2007, the Chairman of OCCP penalized PKN ORLEN and Grupa Lotos S.A. for the participation in the above-described agreement. The fine imposed on PKN ORLEN amounted to PLN 4,500 thousand. PKN ORLEN appealed to the Court of Competition and Consumer Protection. On 6 May 2010 the Court of Competition and Consumer Protection issued a verdict, revoking the appeals of PKN ORLEN and Grupa Lotos S.A. On 12 July 2010 PKN ORLEN has issued an appeal against this verdict. On 11 February 2011 the Court of Appeals in Warsaw issued a verdict, revoking the appeals of PKN ORLEN and Grupa Lotos S.A. The company filed an annulment to the sentence of the Court of Appeal in Warsaw from 11 February 2011 on 20 May 2011 to the Supreme Court. The Supreme Court Court refused to accept the annulment.
- allegedly in the years 2000–2004 PKN ORLEN was using practice limiting competition on the domestic market of trading in glycol. On 6 October 2010 the Court of Competition and Consumer Protection repealed the decision of the Chairman of OCCP regarding the alleged misuse of PKN ORLEN's leading position on the glycol market and repealed the penalty imposed to PKN ORLEN of PLN 14,000 thousand. The President of the OCCP has issued an appeal against this verdict. On 15 September 2011 Court of Appeals in Warsaw revoked the appeal of the President of the OCCP. As a result, the verdict of the Court of Competition and Consumer Protection repealing the penalty imposed to PKN ORLEN of PLN 14,000 thousand. The President of OCCP did not file an annulment to the sentence of the Supreme Court from 15 September 2011. As a result, in the first half of March 2012 an appellate proceeding was definitely and successfully finished.

42.1.2.4. 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 after the examination of ENERGA-OPERATOR S.A. appeal, the Court of Appeals in Warsaw announced a change in the sentence of the District Court in Warsaw dated 25 June 2008. Payment of PLN 46,232 thousand increased by interest and refund of proceedings' costs was adjudged to the benefit of ENERGA-OPERATOR S.A. On 30 September 2009 PKN ORLEN made the payment. On 4 February 2010 the Company submitted an annulment. The annulment was accepted for recognition by the Supreme Court. On 28 January 2011 the Supreme Court after conducting annulment proceeding overruled the previous verdict and decided to revoke the claim to reexamination by the Court of Appeal. In March 2011 ENERGA-OPERATOR S.A. repaid part of the claimed amount of PLN 30,163 thousand.

On 4 August 2011, the Court of Appeals in Warsaw revoked the first instance authority sentence and submitted the case to reexamination by the District Court in Warsaw. On 28 November 2011 Energa-Operator S.A. paid to PKN ORLEN the amount of PLN 45,716 thousand, as a partial return of the original amount paid by PKN ORLEN S.A due to the sentence of Court of Appeals in Warsaw dated 10 September 2009. The District Court set the date of hearing on 30 April 2012.

Court proceedings in which PKN ORLEN acts as an outside intervener

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

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

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

On 21 September 2011 the Court of Appeals pronounced its verdict, according to which claims of PSE – Operator S.A. were overruled, the plantiff was requested to refund proceedings costs to the defendant and return PLN 122,000 thousand to ENERGA-OPERATOR S.A. Court ruling does not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

42.1.2.5. 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 a.s. and Kaucuk a.s. for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s. (now Synthos Kralupy a.s.), its subsidiary at that time, were jointly imposed a fine of PLN 77,294 thousand (EUR 17,500 thousand at exchange rate as at 31 December 2011). 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.

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.

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 claims were rejected.

On 13 July 2011 the Court repealed the decision of the European Commission from November 2006. The Court stated, that the European Commission did not prove, that Unipetrol a.s. and Kaucuk a.s. were using cartel practices. As a result both companies were entitled to return of penalty paid of PLN 77,294 thousand (EUR 17,500 thousand at exchange rate as at 31 December 2011). Unipetrol a.s. received together with interest the amount of PLN 43,285 thousand at exchange rate as at 31 December 2011 (EUR 9,800 thousand).

42.1.2.6. Compensation due to compulsory buy-out of non-controlling interest in PARAMO a.s.

The Company UNIPETROL a.s. is a party in a proceeding initiated in 2009 by former non-controlling interest shareholders of PARAMO a.s. and concerns change in compensation received due to losses incurred on compulsory shares buy-out performed by UNIPETROL a.s. in 2009. The claim concerns the difference between officially approved price of PARAMO a.s. shares as at the date of buy-out amounting to CZK 977 per share, and the requested by shareholders price ranging from CZK 1800 to CZK 3200 per share. The total amount of the claim is approximately no more than PLN 52,014 thousand at average exchange rate as at 31 December 2011 (CZK 304,000 thousand). UNIPETROL a.s. considers the above described claims of former shareholders of PARAMO a.s. as ungrounded.

42.2. Court proceedings in which Companies of the Capital Group act as plaintiff

42.2.1. 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 Mazeikiu Nafta) shares. Claims of PKN ORLEN S.A. concern inconsistency of Yukos International's statements with the actual state of AB ORLEN Lietuva at the closing date of the purchase of AB ORLEN Lietuva shares by PKN ORLEN Demands of PKN ORLEN S.A. concern reimbursement of the amount of PLN 854,350 thousand at exchange rate as at 31 December 2011 (USD 250,000 thousand), deposited in the escrow account as a part of the payment for AB ORLEN Lietuva shares in order to secure the potential claims of PKN ORLEN towards Yukos International.

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

On the first seating of the arbitration court in London, PKN ORLEN and Yukos International agreed i.a. proceedings schedule and extent of competence of the Arbitration Court. On 3 May 2010, according to the schedule.

PKN ORLEN issued a law suit in which it demands from Yukos International a reimbursement of PLN 854,350 thousand at exchange rate as at 31 December 2011 (USD 250,000 thousand) with interest and costs of proceedings. On 31 December 2010 Yukos International submitted a response to the law suit, in which PKN ORLEN's claim was considered as unjustified and appealed for dismissal of all claims and for refund of proceeding costs. On 11 July 2011 PKN ORLEN pleaded the surrebutter in which replied to Yukos International arguments.

Between 28 November and 8 December 2011 an evidentiary seating in front of the Court of Arbitration was held in London, during which representatives of PKN ORLEN and Yukos International summed up the opinions of the parties, witnesses have been heared and experts have been appointed by the parties. At the closing of the seating the Court of Arbitration obliged the parties to submit final leadings and proceeding costs refund in March and April 2012. After the submission of pleadings PKN ORLEN will be expecting for the final decision of the Court of Arbitration.

42.2.2. Compensations due to property damages

- Rafineria Trzebinia S.A. acts as a plaintiff in the proceedings held by District Court in Kraków concerning abuses associated with the realization of investment in installation for the estherification of biodiesel oil, on which Rafineria Trzebinia S.A. claims to incur a loss of approximately PLN 79,000 thousand. The indictment in this case was raised in December 2010. The Company issued a motion to the court requesting to oblige the defendant to repair the incurred damages.
- AB Orlen Lietuva was a party in the compensation proceeding against RESORT MARITIME SA, The London Steamship Owners' Mutual Insurance Association Limited, Sigma Tankers Inc., Cardiff Maritime Inc., Heidenreich Marine, Heidenreich Maritime Inc. and Heidmar

Inc. due to losses incurred during the accident in Butinge Terminal (the tanker ship hit a terminal buoy) on 29 December 2005. The total compensation claim amounts to approximately PLN 76,752 thousand (LTL 60,000 thousand at exchange rate as at 31 December 2011). The proceedings is held in I instance in front of district court in Klajpeda.

42.2.3. Tax proceedings

UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s., was a party in a tax proceeding related to validity of investment tax relief for 2005. UNIPETROL RPA s.r.o. claims the return of income tax paid for 2006 and 2005 by CHEMOPETROL a.s. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The total value of claim amounts to approximately PLN 55,608 thousand translated using exchange rate as at 31 December 2011 (CZK 325,000 thousand).

43. Significant events after the end of the reporting period

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

Therefore, and in accordance with applicable regulations regarding the maintenance of mandatory reserves in Poland, PKN ORLEN acquired crude oil owned by Maury Sp. z o.o. for PLN 1,213,157 thousand (representing USD 374,050 thousand). The acquisition price of crude oil has been hedged with a forward contact. The settlement of the hedging transaction decreased the value of the acquired raw material by PLN 202,707 thousand (USD 63,283 thousand). The transfer of ownership of the raw material to PKN ORLEN has been made on 31 January 2012, after settlement of full amount of the transaction. As a result PKN ORLEN will recognize the purchase of crude oil of PLN 1,010,450 thousand (USD 310,767 thousand) in the I quarter of 2012.

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

Based on the sale agreement PKN ORLEN has sold crude oil to Ashby sp. z o.o. The value of crude oil sold was approximately PLN 1,250,000 thousand translated with exchange rate as at 28 March 2012 (approximately USD 403,000 thousand).

The price of raw material was determined based on market quotations.

Based on the agreement regarding gathering and keeping of crude oil reserves Ashby sp. z o.o. will render service of maintaining mandatory reserves of crude oil on behalf of PKN ORLEN, while PKN ORLEN will guarantee storing of inventories at the current location. The agreement regarding gathering and keeping of crude oil reserves has been concluded for a period of 1 year, whereby the Company takes into account the possibility of its renewal for another period.

On 27 February 2012, according to agreement dated 2006, the Parent Company redeemed the debt securities amounted to PLN 750,000 thousand. At the same day, according to mentioned agreement, there was a new securities issue amounted to PLN 1,000,000 thousand.

The above described events have no impact on current financial result of the Parent Company.

44. Factors and events that may influence future results

In the reporting period the were no factors or events, that may influence future results.

45. Signatures of the Management Board Members

The foregoing consolidated financial statements were authorized by the Management Board of the Parent Company in Warsaw on 28 March 2012.

Dariusz Krawiec President of the Board	Sławomir Jędrzejczyk Vice-President of the Board	
Piotr Chełmiński Member of the Board	Krystian Pater Member of the Board	Marek Podstawa Member of the Board

Rafał Warpechowski
Executive Director Planning and Reporting

Notes to consolidated financial statements for the year ended 31 December 2011 (all amounts in PLN thousand)

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