PKN ORLEN consolidated financial results for FY 2011

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Impairment of assets - IAS 36

Dividend

Obligatory inventories

Macroeconomic environment

IAS 36 „Impairment of assets”

IAS 36

Impairment of 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.

The assesement is based on following indicators:

- **external** – based on market trends.
- **internal –** based on strategy and operational plans.

If the indicators are recognized to be present, the **recoverable amount** of the assets is assessed, which is the higher of:

- **Fair value less sales costs** which is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less sales costs.
- **Value in use** is the present value of the future cash flows expected to arise from the continuing use of an asset.

Indicators of impairment of assets in 2011

Macro

Worsening of current macroeconomy and growth prospects due to global turmoil

- slowdown in economy growth ratio
- higher competition and lower fuels consumption dynamics

Margins

Growing pressure on refining and petrochemical margins

- demand barrier due to high crude oil prices and, following, refined products (including fules)
- excess of global production capacity resulting in increasing products supply

Discount rates

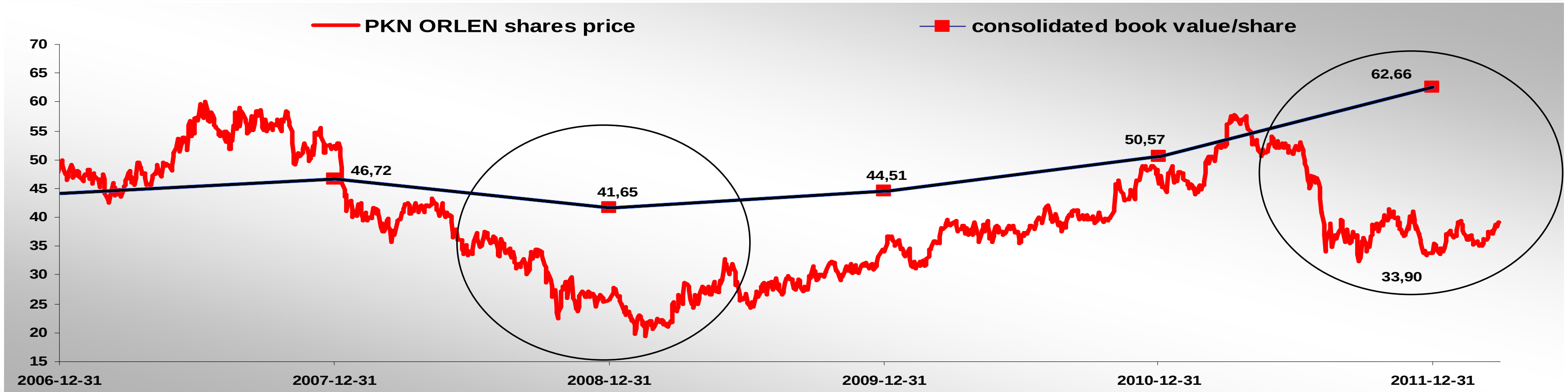
Increase in discount rates due to higher general operating risk

- increase in risk premium on geographical markets where ORLEN Group operates on
- higher oil&gas sector risk ratio vs. general market risk

Share prices

Decrease in PKN ORLEN share prices below book value

- P/BV based on 4q2011 published results amounted to 0,52
- Similar decrease of share price occurred in 2008 and resulted in impairments in the amount of PLN 2.4 bn (consolidated statements) and PLN 1.7 bn (unconsolidated statements)



ORLEN Capital Group – impairments of fixed assets in 2011 Consolidated financial statements

PLN m	2011 (non-audited)	Paramo (Unipetrol)	RPA (Unipetrol)	Anwil	Ventus (Orlen Lietuva)	others	2011 (audited)
Revenues	**106 973**						**106 973**
EBIT, of which:	**3 254**	**-76**	**-602**	**-456**	**-14**	**-41**	**2 066**
Refining	*2 219*	*-76*				*-41*	*2 102*
Retail	*439*				*-14*		*425*
Petrochemicals	*1 071*		*-602*	*-456*			*13*
Corporate functions	*-475*						*-475*
Financial activity	**572**					**-35**	**537**
Net result	**3 103**	**-76**	**-556**	**-369**	**-14**	**-73**	**2 015**
Property, plant & equipment and intangible assets	**29 127**	**-75**	**-586**	**-456**	**-13**		**27 998**

Net impairments on fixed assets in 2011FY amounted to PLN 1,8 bn, which accounts for 6% of total net assets.

Impairments carried out after 4q11 publication amounted to PLN 1,1 bn and applied to:

- refining: **Paramo** – low processing capacities and fuel yield, periodical limitation of crude oil processing.
- petrochemicals: **RPA** – pressure on margins, higher costs of CO2, **Anwil S.A.** – pressure on margins in PVC segment.
- retail: **Ventus** – pressure on margins at the high fuel prices.
- **others**: mainly recognition of provisions for tax liabilities in Trzebinia refinery concerning excise tax settlements for September 2004.

PKN ORLEN S.A. – impairments on fixed assets in 2011
Unconsolidated financial statements

PLN m	2011 (non-audited)	impairments carried out after 4q11 publication	2011 (audited)
Revenues	**79 037**		**79 037**
EBIT	**3 178**	**-4**	**3 174**
Financial activity	**775**	**-1 553**	**-777**
Net profit	**3 271**	**-1881***	**1 386**
Shares	**10 605**	**-1 553**	**9 052**

Impairments in unconsolidated financial statement of PKN ORLEN S.A. concern ORLEN Lietuva's shares and results from worsening of macroeconomic conditions, increase of sector risk (discount rate) at further improvement of operational efficiency and cost cutting.

- Net value of ORLEN Lietuva's shares in unconsolidated statement of PKN ORLEN S.A. for 4q2011 amounted to PLN 6,5 bn.
- Equity value of ORLEN Lietuva in annual consolidated statement of ORLEN Group as of 31.12.2011 amounted to PLN 4,7 bn.
- After impairment in 2011 the net value of ORLEN Lietuva shares in annual unconsolidated statement of PKN ORLEN S.A. amounted to PLN 5,0 bn which is closer to the value of ORLEN Lietuva Group in consolidated statement of ORLEN Group.
- Impairment on value of shares in unconsolidated statement is reversible under consolidation procedures and does not impact statements of ORLEN Group.

* In accordance with MSR12 deferred tax asset was not recognized on impairment of shares in 2011. At the same time deferred tax asset created on impairment in 2008 was written off.

Impairments of assets - summary

Macro

Impairments of assets carried out in 2011 reflects worsening of current macroeconomic situation and weaker growth prospects caused by another global economic turmoil.

Assets

Impairments of assets concerned refining part of Paramo, business lines PVC in Spolana and Anwil, petrochemical part in Unipetrol and shares of ORLEN Lietuva.

Cash Flow

Impairments are non-cash items and do not impact Group's liquidity.

Depreciation

Due to carried out impairments in 2011 depreciation in the next years will be lower by ca. PLN 100 m annually.

Financial ratios

Financial ratios remain on the safe level.

ratios as of 31.12.2011	4q2011	2011 (audited)
Net gearing	29,6%	30,2%
Net debt / (EBITDA + dividend from Polkomtel)	1,29	1,62

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Recommendation concerning the distribution of PKN ORLEN's profit to reserve capital

Considerations

Dividend policy

- Free Cash Flow to Equity (FCFE) as a basis for calculation of dividend level. The dividend payout ratio agreed at the minimum level of 50% FCFE.
- Calculation of Free Cash Flow to Equity (FCFE) in accordance with the rule agreed in strategy presents negative values.
- Number of Oil&gas companies decide about dividend payout and its level depending not only on financial situation but also on investment plans, macroeconomic conditions, strategy of the company and its peers.

Tough macroeconomic situation

- Margins and U/B differential under pressure. Additionaly, crude oil price correction may result in negative LIFO effect, decreasing EBITDA and increasing net debt/EBITDA ratio.
- High volatility in macro influencing forecasts for EBITDA and cash flows from operations.

Recommendation

As a result the Management Board recommends distribution of the whole net profit for 2011 in the amount of PLN 1,386 bn to increase reserve capital.

Priorities

Priorities in current macroeconomic situation

- Safe financial situation and regaining investment grade.
- Further growth through transforming PKN ORLEN into multi-utility company profile.
- Defining targeted dividend policy within strategy update.

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Working capital release due to sales of crude oil inventories

First tranche 1q2010

- Sales of crude inventories to Lambourn Sp. z o.o. (Deutsche Bank)
- 0,5 mt of crude oil for ca. USD 280 m (ca. PLN 800 m). The crude oil price was established according to market quotations.
- Repurchase in 2q2011.

Second tranche 4q2010

- Sales of crude inventories to Maury Sp. z o.o. (RBS)
- Close to 0,5 mt of crude oil for ca. USD 300 m (ca. PLN 910 m). The crude oil price was established according to market quotations.
- Repurchase in 1q2012.

Third tranche 1q2012

- **Sales of crude inventories to Ashby Sp. z o.o. (RBS).**
- **Financing institutions: The Royal Bank Of Scotland N.V., HSBC Bank Plc., Bank Of Tokyo-Mitsubishi Ufj (Holland) N.V., Bank Polska Kasa Opieki Spółka Akcyjna.**
- **The agreement of keeping inventories on behalf of PKN ORLEN signed for 1 year.**
- **The crude oil price was established according to market quotations.**
- **Repurchase price of crude oil secured by futures.**
- **0,5 mt of crude oil for ca. USD 390 m net (PLN 1,2 bn).**
- **Cash inflow with VAT to the end of March 2012 amounts to PLN 1,5 bn, while VAT payment will cause outflow of PLN 0,3 bn in April 2012.**

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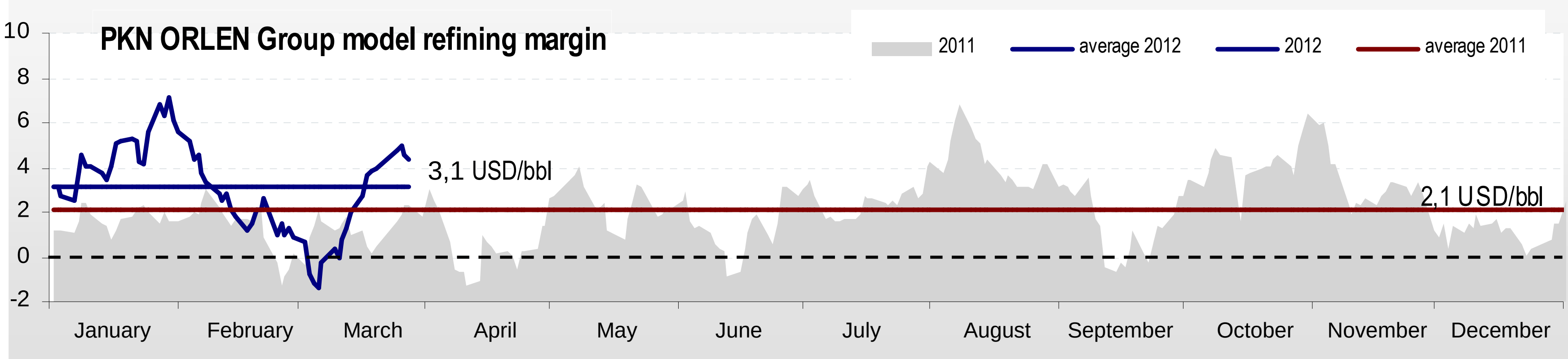
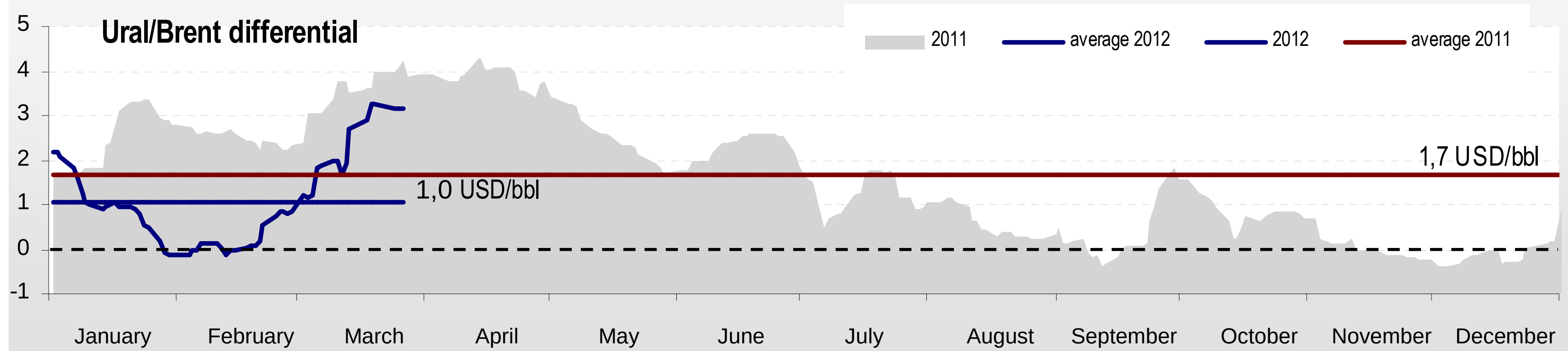
Macro environment in 2012



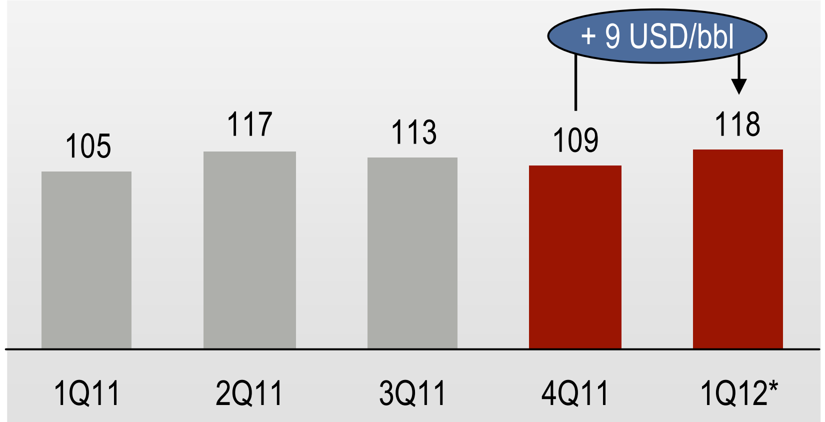


- **Crude oil price** – in the range 108-128 USD/bbl. Average 118 USD/bbl in 2012.
- **Ural/Brent differential** – yearly average decreased by 0,7 USD/bbl to 1,0 USD/bbl in 2012.
- **Model refining margin** – yearly average increased by 1,0 USD/bbl to 3,1 USD/bbl in 2012.

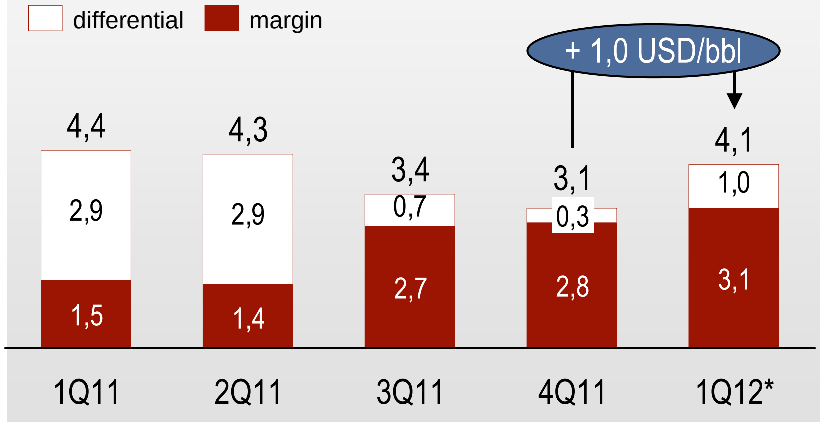
* Data QTD as of 23.03.2012

Macro environment in 1Q 2012

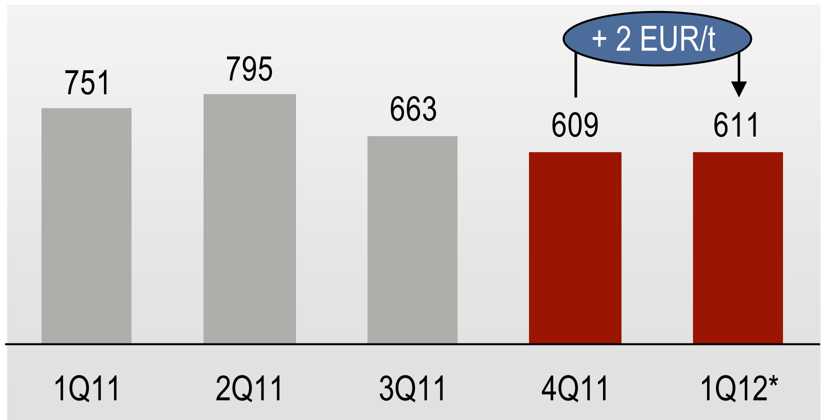
Crude oil price increase
Average Brent Crude Oil price, USD/bbl



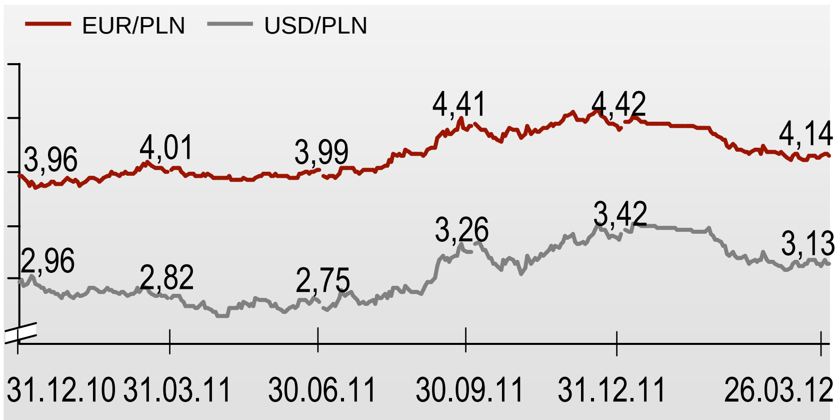
Increase in total of refining margin and U/B diff
Model refining margin and Ural/Brent differential, USD/bbl



Petrochemical margin increase
Model petrochemical margin, EUR/t



PLN appreciation against USD and EUR
EUR/PLN and USD/PLN exchange rate



* Data QTD as of 23.03.2012

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Dictionary

PKN ORLEN model refining margin = revenues (93,5% Products = 36% Gasoline + 43% Diesel + 14,5% HHO) - costs (100% input: crude oil and other raw materials). Total input calculated acc. to Brent Crude quotations. Spot market quotations.

Spread Ural Rdam vs fwd Brent Dtd = Med Strip - Ural Rdam (Ural CIF Rotterdam).

PKN ORLEN model petrochemical margin = revenues (98% Products = 44% HDPE + 7% LDPE + 35% PP Homo + 12% PP Copo) - costs (100% input = 75% Naphtha + 25% LS VGO). Contract market quotations.

Fuel yield = middle distillates yield + gasoline yield (yields calculated in relation to crude oil).

Working capital (in balance sheet) = inventories + trading receivables and other receivables – trading liabilities and other liabilities.

Working capital change (in cash flow) = changes in receivables + changes in inventories + changes in liabilities

Gearing = net debt / equity calculated acc. to average balance sheet amount in the period

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