Polski Koncern Naftowy ORLEN
Spółka Akcyjna

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

2013

SEPARATE ANNUAL REPORT

SEPARATE ANNUAL REPORT FOR THE YEAR 2013

1. **LETTER OF THE PRESIDENT OF THE BOARD**
2. **OPINION AND REPORT OF THE INDEPENDENT AUDITOR ON THE SEPARATE FINANCIAL STATEMENTS**
3. **SELECTED FINANCIAL DATA**
4. **SEPARATE FINANCIAL STATEMENT OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2013**
5. **MANAGEMENT BOARD REPORT ON THE OPERATIONS OF POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2013**

SELECTED FINANCIAL DATA PKN ORLEN S.A.

	PLN million		EUR million	
	2013 *	2012 *	2013 *	2012 *
Sales revenues	84 040	88 349	19 957	20 981
Profit from operations	457	1 810	109	430
Profit before tax	632	2 664	150	633
Net profit	618	2 128	147	505
Total net comprehensive income	857	2 073	204	492
Net cash provided by operating activities	4 370	2 065	1 038	490
Net cash (used) in investing activities	(1 578)	(2 459)	(375)	(584)
Net cash (used) in financing activities	(1 691)	(2 928)	(402)	(695)
Net increase/(decrease) in cash and cash equivalents	1 101	(3 322)	261	(789)
Net profit and diluted net profit per share (in PLN/EUR per share)	1.44	4.97	0.34	1.18

	31/12/2013 *	31/12/2012 *	31/12/2013 *	31/12/2012 *
Non-current assets	23 355	22 474	5 632	5 419
Current assets	18 708	18 933	4 511	4 565
Total assets	42 063	41 407	10 143	9 984
Non-current liabilities	6 923	7 702	1 669	1 857
Current liabilities	12 005	10 785	2 895	2 601
Total equity	23 135	22 920	5 578	5 527
Share capital	1 058	1 058	255	255
Number of shares	427 709 061	427 709 061	427 709 061	427 709 061
Carrying amount and diluted carrying amount per share (in PLN/EUR per share)	54.09	53.59	13.04	12.92

The above data for 2013 and 2012 was translated into EUR using the following exchange rates:

- items of assets, equity and liabilities – by the average exchange rate published by the National Bank of Poland as at 31 December 2013 – 4.1472 EUR/PLN;
- items of statement of profit or loss and other 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 the month during the period: 1 January - 31 December 2013 – 4.2110 EUR/PLN.

*2013/2012 – data for the year ended
*31/12/2013 / 31/12/2012 – data as at the day

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA

SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013
PREPARED IN ACCORDANCE WITH INTERNATIONAL REPORTING STANDARDS
AS ADOPTED BY EUROPEAN UNION

2013

Table of content:

PKN ORLEN S.A. (in PLN million)

Separate statement of financial position

AS AT	NOTE	31/12/2013	31/12/2012
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	12 097	12 088
Intangible assets	*7*	439	603
Perpetual usufruct of land	*8*	98	91
Shares in related parties	*9*	9 646	9 003
Financial assets available for sale	*10*	40	41
Other non-current assets	*11*	1 035	648
		23 355	**22 474**
Current assets			
Inventories	*13*	9 383	10 375
Trade and other receivables	*14*	6 248	6 396
Other financial assets	*15*	974	1 082
Current tax assets		31	56
Cash	*16*	2 072	972
Non-current assets classified as held for sale		-	52
		18 708	**18 933**
Total assets		**42 063**	**41 407**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	*17.1*	1 058	1 058
Share premium	*17.2*	1 227	1 227
Hedging reserve	*17.3*	168	(69)
Retained earnings	*17.4*	20 682	20 704
Total equity		**23 135**	**22 920**
LIABILITIES			
Non-current liabilities			
Loans and debt securities	*18*	6 096	6 969
Provisions	*19*	324	360
Deferred tax liabilities	*28.2*	404	240
Other non-current liabilities	*20*	99	133
		6 923	**7 702**
Current liabilities			
Trade and other liabilities	*21*	9 836	8 586
Loans,borrowings and debt securities	*18*	1 314	1 303
Provisions	*19*	348	401
Deferred income	*22*	94	137
Other financial liabilities	*23*	413	358
		12 005	**10 785**
Total liabilities		**18 928**	**18 487**
Total equity and liabilities		**42 063**	**41 407**

PKN ORLEN S.A. (in PLN million)

Separate statement of profit or loss and other comprehensive income

FOR THE YEAR ENDED	NOTE	2013	2012
Statement of profit or loss			
Sales revenues	*24*	84 040	88 349
Cost of sales	*25.1,25.2*	(80 813)	(83 754)
Gross profit on sales		**3 227**	**4 595**
Distribution expenses		(2 090)	(2 066)
Administrative expenses		(737)	(755)
Other operating income	*26.1*	324	373
Other operating expenses	*26.2*	(267)	(337)
Profit from operations		**457**	**1 810**
Finance income	*27.1*	589	1 640
Finance costs	*27.2*	(414)	(786)
Net finance income and costs		**175**	**854**
Profit before tax		**632**	**2 664**
Tax expense	*28*	(14)	(536)
Net profit		**618**	**2 128**
Items of other comprehensive income			
which will not be reclassified into profit or loss		**2**	**-**
Actuarial gains and losses		*2*	*-*
which will be reclassified into profit or loss under certain conditions		**237**	**(55)**
Hedging instruments	*17.3*	*293*	*(68)*
Deferred tax	*17.3*	*(56)*	*13*
		239	**(55)**
Total net comprehensive income		**857**	**2 073**
Net profit and diluted net profit per share (in PLN per share)		1.44	4.97

ORLEN PKN ORLEN S.A. (in PLN million)

Separate statement of cash flows

FOR THE YEAR ENDED	NOTE	2013	2012
Cash flows - operating activities			
Net profit		**618**	**2 128**
Adjustments for:			
Depreciation and amortisation	*25.2*	1 022	1 056
Foreign exchange (gain)/loss	*29.3*	9	(821)
Interest, net	*29.4*	255	302
Dividends	*27.1*	(220)	(173)
Loss on investing activities	*29.5*	99	452
Tax expense		14	536
Change in provisions	*29.1*	102	226
Change in working capital		2 462	(319)
inventories	*29.1*	*1 019*	*1 184*
receivables	*29.1*	*411*	*920*
liabilities	*29.1*	*1 032*	*(2 423)*
Other adjustments	*29.2*	(110)	(381)
Income tax received/(paid)	*29.6*	119	(941)
Net cash provided by operating activities		**4 370**	**2 065**
Cash flows - investing activities			
Acquisition of property, plant and equipment, intangible assets and perpetual usufruct of land		(1 136)	(1 399)
Disposal of property, plant and equipment, intangible assets and perpetual usufruct of land		173	20
Acquisition of shares		(2)	(170)
Interest received	*29.4*	34	36
Dividends received		220	172
Outflows from additional repayable payments to subsidiaries' equity		(770)	(196)
Proceeds from additional repayable payments to subsidiaries' equity		9	8
Outflows from non-current loans granted		(303)	-
Proceeds/(Outflows) from current loans granted		345	(918)
Outflows from cash pool facility		(133)	(10)
Other		(15)	(2)
Net cash (used) in investing activities		**(1 578)**	**(2 459)**
Cash flows - financing activities			
Proceeds from loans and borrowings received		3 319	3 907
Debt securities issued		11 766	10 141
Repayments of loans and borrowings		(4 966)	(6 994)
Redemption of debt securities		(10 963)	(9 574)
Interest paid	*29.4*	(300)	(330)
Dividends paid		(642)	-
Payments of liabilities under finance lease agreements		(14)	(10)
Proceeds/(Outflows) from cash pool facility		114	(68)
Other		(5)	-
Net cash (used) in financing activities		**(1 691)**	**(2 928)**
Net increase/(decrease) in cash and cash equivalents		**1 101**	**(3 322)**
Effect of exchange rate changes		(1)	3
Cash and cash equivalents, beginning of the period		972	4 291
Cash, end of the period	*16*	**2 072**	**972**

PKN ORLEN S.A. (in PLN million)

Separate statement of changes in equity

	Share capital and share premium	Hedging reserve	Retained earnings	Total equity
1 January 2013	2 285	(69)	20 704	22 920
Net profit	-	-	618	618
Items of other comprehensive income	-	237	2	239
Total net comprehensive income	**-**	**237**	**620**	**857**
Dividends	-	-	(642)	(642)
31 December 2013	**2 285**	**168**	**20 682**	**23 135**
1 January 2012	2 285	(14)	18 576	20 847
Net profit	-	-	2 128	2 128
Items of other comprehensive income	-	(55)	-	(55)
Total net comprehensive income	**-**	**(55)**	**2 128**	**2 073**
31 December 2012	**2 285**	**(69)**	**20 704**	**22 920**

PKN ORLEN S.A. (in PLN million)

ACCOUNTING PRINCIPLES AND OTHER SUPPLEMENTARY INFORMATION

1. General information

1.1. Principal activity of the Company

Polski Koncern Naftowy ORLEN Spółka Akcyjna 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 Spółka Akcyjna ("CPN") 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.

Principal activity of the Company 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;
- Production of pig iron, ferro-alloys, iron and steel, steel products, noble metals and other non-iron metals;
- Purchase, processing and trade of used lubricant oils and other chemical waste;
- Manufacturing, transfer and trade in heating energy and electricity;
- Manufacturing and supply of air conditioning systems with water vapour, hot water and air;
- 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, fuel stations and means of transportation;
- Activity connected to reclamation of land and other services related to waste management;
- Operation of fuel 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;
- Accounting and bookkeeping services, tax advisory.

1.2. Concessions held

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

31/12/2013	Remaining concession periods (in years)
Electrical energy: manufacturing, distribution, trade	12
Heating energy: manufacturing, transmission, trade	12 - 17
Liquid and gaseous fuels: manufacturing, trade, storage	12 - 17
Rock salt: recognition	2

The process of granting concessions in the Company is periodical and administrative in nature. The Management Board believes that the probability of failure in obtaining required concessions is remote.
The Company as the owner of the particular concession is paying annual fees that are recognized as the cost of the period.
As at 31 December 2013 and as at 31 December 2012 the Company had no liabilities related to concession services in scope of IFRIC 12.

ORLEN PKN ORLEN S.A. (in PLN million)

1.3. Shareholders' structure

Shareholders holding directly or indirectly via related parties, at least 5% of total votes at the General Shareholders' Meeting of PKN ORLEN as at 31 December 2013

	Number of shares / voting rights	Nominal value of shares (in PLN)	Share in share capital
State Treasury	117 710 196	147 137 745	27.52%
ING OFE*	40 000 000	50 000 000	9.35%
Aviva OFE*	30 000 000	37 500 000	7.01%
Other	239 998 865	299 998 581	56.12%
	427 709 061	**534 636 326**	**100.00%**

* according to information from the Ordinary Shareholders' Meeting of PKN ORLEN S.A. held on 27 June 2013

1.4. Composition of the Management Board and the Supervisory Board

As at 31 December 2013 and the date of preparation of the financial statements, the composition of the management and supervisory boards of the Company is as follows:

Management Board

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

On 6 March 2014 the Supervisory Board of PKN ORLEN appointed existing Management Board for the common three year term of office.
The new term starts the day after present common term of office of the Management Board of the Company expires, that is after the day of the General Shareholders Meeting of the Company approving the financial statements of PKN and ORLEN Group for 2013.

Supervisory Board

Angelina Sarota – Chairman of the Supervisory Board
Leszek Jerzy Pawłowicz – Deputy Chairman of the Supervisory Board
Michał Gołębiowski – 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
Cezary Możeński – Member of the Supervisory Board

2. Statement of the Management Board

2.1. In respect of the reliability of preparation of separate financial statements

The Management Board of PKN ORLEN hereby declares that to the best of their knowledge the foregoing separate financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Company in force (disclosed in note 3) and that they reflect true and fair view on financial position and financial result of the Company and that the Management Board Report on the Company's Operations presents true overview of business situation, achievements and development of the Company, including basic risks and exposures.

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

The Management Board of PKN ORLEN declares that the entity authorized to conduct audit and conducting the audit of the separate 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 S.A. for the year 2013.

ORLEN PKN ORLEN S.A. (in PLN million)

3. Accounting principles

3.1. Principles of preparation of financial statements

The separate financial statements have been prepared in accordance with accounting principles contained in the International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) as well as Interpretation of Standing Interpretation Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRIC), which were adopted by the European Union (EU) and were in force as at 31 December 2013. The scope of separate 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) and covers the annual period from 1 January to 31 December 2013 and the comparative period from 1 January to 31 December 2012.

Presented separate financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2013, results of its operations and cash flows for the year ended 31 December 2013.

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

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

3.2. Impact of IFRS amendments and interpretations on separate financial statements of the Company

3.2.1. Binding amendments and interpretations to IFRSs

The amendments to standards and IFRS interpretations, in force from 1 January 2013 until the date of publication of these separate financial statements, had no impact on the foregoing separate financial statements.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective

The Company intends to adopt listed below new standards and amendments to the standards and interpretations to IFRSs that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

Standards and Interpretations adopted by EU	Possible impact on financial statements
new IFRS 10 Standard - Consolidated Financial Statements	does not apply to separate financial statements
new IFRS 11 Standard - Joint arrangements	does not apply to separate financial statements
new IFRS 12 Standard - Disclosure of interests in other entities	does not apply to separate financial statements
amendments to IFRS 10, IFRS 11 and IFRS 12: Transition guidance	does not apply to separate financial statements
amendments to IFRS 10, IFRS 12 and IFRS 27: Investment entities	does not apply to separate financial statements

Standards and Interpretations adopted by EU	Possible impact on financial statements	Effective date
amendments to IAS 27 - Separate financial statements	no impact	1 January 2014
amendments to IAS 28 - Investments in associates and joint ventures	no impact	1 January 2014
amendments to IAS 32 - Financial instruments: Presentation - offsetting financial assets and financial liabilities	no impact	1 January 2014
amendments to IAS 36 - Impairment of assets: Disclosures of recoverable amount of non-financial assets	no impact	1 January 2014
amendments to IAS 39 - Financial Instruments: Recognition and Measurement: Novation of derivatives and continuation of hedge accounting	no impact	1 January 2014

3.2.3. Standards and Interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU

Standards and Interpretations waiting for approval by EU	Possible impact on financial statements
New Standard and amendments to IFRS 9 - Financial instruments	expected no impact
Amendments to IFRS 9 - Financial instruments and IFRS 7 Financial instruments: Disclosures	expected no impact
IFRS 14 - Regulatory Deferral Accounts	expected no impact
IFRIC Interpretation 21 - Levies	expected no impact
Amendent to IAS 19 - Employee benefits - Defined benefit plans: Employee contributions	expected no impact
Amendments to International Financial Reporting Standards 2010-2012; 2011-2013	expected no impact

3.2.4. Presentation changes

Starting from the I quarter of 2013 the Company separated the Upstream operating segment, which activity has been presented in Corporate Functions, so far. Comparative data for the year ended 31 December 2012 was restated.
As at 31 December 2013 the Company applied the amendments to IAS 19 - Employee benefits. Disclosures introduced by IAS 19 are presented in note 19.2.

As at 31 December 2013 the Company applied the new standard IFRS 13 - Fair value measurement related to determining of fair value, which resulted in an increase of disclosures with no impact on comparative data and was presented in note 31.

Starting from the IV quarter of 2013 the Company change the presentation of financial data from PLN thousand to PLN million.

3.2.5. Functional currency and presentation currency of financial statements

The functional currency and presentation currency of the foregoing separate financial statements is Polish Złoty ("PLN"). The data in the separate financial statements is rounded to PLN million.

Accounting policies for foreign currency transactions are disclosed in note 3.3.2.

3.3. Applied accounting policies

3.3.1. Change in accounting policies, estimates and prior period errors

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 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 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.

3.3.2. 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 Company 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.

The Company recognises 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 in profit or loss of 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.

3.3.3. 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.

The fair value of assets, liabilities and contingent liabilities for the purpose of allocating the acquisition cost is determined in fair value at the date of acquisition, with the following exceptions:
- deferred tax assets and liabilities from the assets and liabilities acquired through business combination is determined in accordance with the general principles for deferred tax calculation.
- assets and liabilities related to employment benefits of the acquired entity are determined under the general principles of IAS 19 Employee benefits
- non-current assets (or disposal group) that are recognised at the acquisition date as held for sale are determined under the general principles for non-current assets held for sale.

3.3.4. Operating segments

An operating segment is a component of the Company:
- 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),
- which operating results are regularly reviewed by the Company'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.

3.3.4. Operating segments continued

The operations of the Company 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 fuel stations,
- the petrochemical segment, which includes the production and wholesale of petrochemicals and production and sale of chemicals, supporting production
- upstream segment, which includes the activity rebated to exploration and extraction of mineral resources,

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 from sales to external customers or revenues from transactions with other segments that are directly attributable to a segment.
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 Company'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,
- administrative expenses and other expenses arising at the level of the Company 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.
Sales prices used in transactions between segments are market prices.

3.3.5. 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 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 impairment losses.
Depreciation of an item of property, plant and equipment begins when it 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, over the period reflecting its estimated useful life, considering the residual value. Fixed assets are depreciated with straightline method and in justified cases units of production method of depreciation.
The depreciable amount of an asset is determined after deducting its residual value from the initial value.
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 useful life.
The following standard 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

The depreciation method, the residual value and the useful life of property, plant and equipment are verified at least at the end of each year. When necessary, the adjustments to depreciation expense are accounted for in next periods (prospectively).
The cost of major inspections and overhaul and replacement components programs is recognised as property, plant and equipment and depreciated in accordance with their useful lives. The cost of current maintenance of property, plant and equipment is recognised as an expense when it is incurred.
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.

3.3.6. Intangible assets

An intangible asset is and identifiable non-monetary asset without physical substance. An asset is identifiable, if either:
- is separable, i.e. capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, other identifiable asset or liability, regardless of whether the Company intends to do so, or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company or from other rights and obligations.

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 Company, 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

3.3.6. Intangible assets continued

if, the Company 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 Company 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 is recognised in profit or loss when incurred. If an asset was acquired in a business combination it is part of 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 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 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 useful lives are used for intangible assets:

Concessions, licenses, patents and similar	2–15 years
Software	2–10 years

The amortisation method and useful life of intangible asset item are verified at least at the end of each year. When necessary, the adjustments to amortisation expense are accounted for in the future periods (prospectively).
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.

3.3.6.1. Rights

Carbon dioxide emission rights (CO_2)

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.a. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. All mentioned entities are allowed to emit CO_2 in specified amount and are obliged to amortise those rights in the amount of the emissions of the given year.
CO_2 emission rights are initially recognized 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.
If the allowances in a given year were not registered on the account under the date resulting from regulations, they should be presented as receivables at the reporting date in correspondence with deferred income (as separate items) at fair value of allowances due at the reporting date.
The receivable is settled at the moment of allowances registration in the subsequent period by disclosure of intangible assets at fair value (granted free of charge). Deferred income should also be recalculated.
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 settled 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 statement of profit or loss and other 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 estimated annual emission.
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) based on a particular type type of rights (EUA, ERU, CER).

Energy rights

The implementation of technologies which use renewable energy sources and the projects in the field of energy conservation are important activities allowing effectively reduce greenhouse gas emissions.
Energy rights are certificates of origin for electric energy, which are confirmation of electric energy production within licensed renewable energy sources (RES) or in sources working in combination (in high-efficiency cogeneration), including:
- produced in RES (green energy),
- produced in cogeneration heated with gas fuel or of total installed capacity up to 1 MW (yellow energy),
- produced in cogeneration heated with methane or gas obtained from biomass processing (violet energy),
- produced in other highly effective cogeneration units (red energy).

All energy companies that manufacture or trade electricity and sell the electricity to end-users (as defined in the Energy Law act), as well as to industrial users, are obliged to obtain certificate of origin and submit them for amortisation or pay replacement fee. Granted free of charge rights should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant according to IAS 20). Purchased energy rights should be presented as intangible assets at purchase price.
For the estimated amount of rights which are need to amortisation during the reporting period, a provision should be created and recognized in the statement of profit or loss as a reduction of energy sales revenues and is accrued in profit or loss.
Grants should be recognised on a systematic basis to ensure proportionality with the related amount of produced energy, thanks to which the rights were obtained. The settlement of the grant is recognized as other operating income.

3.3.7. Perpetual usufruct of land

Acquired 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.
Perpetual usufruct of land is treated as operating lease.

3.3.8. Borrowing cost

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds.
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 recognised as an expense.
A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs are capitalized based on so called net investment expenditures which means 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 Company.
The commencement date for capitalization is the date when all of the following 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 is not the basis for the capitalization. After putting an 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.

3.3.9. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or not as a part of a disposal group classified as held for sale in accordance with IFRS 5), are recognized at cost less impairment allowances.

3.3.10. Impairment of assets

At the end of the reporting period, the Company assesses whether there is any indication that an asset or cash-generating unit (CGU) may be impaired. If any such indication exists, the Company estimates the recoverable amount of such asset or CGU.
The recoverable amount is the higher of its fair value less costs of disposal of an asset and its value in use.
The fair value less costs of disposal is the price that would be received to sell an asset or would be paid to transfer the liability in an ordinary transaction between market participants at the measurement date, less costs of disposal.
Value in use is the present value of the future cash flows expected to be derived from an asset or CGU.
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 (CGU). Following assets are allocated to the cash generating unit:
- 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.

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 in the statement of profit or loss.
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.

Reversal of an impairment loss for an asset, other than goodwill is recognized as income immediately, unless the asset is carried at a revalued amount in accordance with another standard.

3.3.11. 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.

3.3.11. Inventories continued

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 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 are determined based on the weighted average acquisition cost or production cost of the similar items of inventories.
Impairment tests for specific items of inventories are carried out on a current basis during an annual reporting period.
Write-down to net realizable value concerns inventories 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.

3.3.12. Receivables

Receivables, including trade receivables, are initially valued at fair value plus transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.

3.3.13. 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.
The cash equivalents are rather part of the cash management process implemented by the entity nor investment or other.
Valuation and outflows of cash and cash equivalents in foreign currencies are based on FIFO (First In First Out) method.

3.3.14. 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.

The classification of asset into this category is made 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 financial assets) shall be measured at a lower of: book value or fair value less costs to sell.
A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

3.3.15. Equity

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

3.3.15.1. Share capital

The share capital is an equity paid by shareholders and is stated at nominal value in accordance with the 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 Company's own shares and outstanding contributions to shares capital decrease the equity.

3.3.15.2. 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 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.

3.3.15.3. Hedging reserve

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

3.3.15.4. Revaluation surplus

Revaluation surplus comprises of revaluation of items, according to the Company's regulations, including particularly:
- change of the fair value of the available-for-sale financial assets,
- differences between the net book value and the fair value of the investment property at the date of reclassification from the property occupied by the Company to the investment property.

3.3.15.5. Retained earnings

Retained earnings include:
- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/loss,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity,
- the actuarial gains and losses from post-employment benefits.

Non repayable additional payments to equity with non-confirmed repayment date are presented in equity of receiving entity with a corresponding entry as investment in shares of entity making the additional payments.
Repayable additional payments to equity are presented in entity receiving payment as current and non-current liabilities based on the repayment date. Repayable additional payments to equity are presented as current or noncurrent receivables in entity transferring payment based on the repayment date, i.e. up to 12 months as current and above 12 months as non-current, initially recognized at fair value.

3.3.16. Liabilities

Liabilities, including trade liabilities, are initially valued at fair value plus transaction costs and subsequently at amortized cost using the effective interest method.

3.3.16.1. 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.

3.3.17. Provisions

A provision is a liability of uncertain timing or amount.
The Company 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.

3.3.17.1. Environmental provisions

The Company 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 Company conducts regular reclamation of contaminated land that decreases the provision by its utilization.

3.3.17.2. 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 recognized provisions 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 and losses:
- from post-employment benefits are recognized in components of other comprehensive income,
- from other employment benefits, including jubilee awards, are recognized in the statement of profit or loss.

3.3.17.3. Business risk

Business risk provision is created after consideration of all available information, including opinions of independent experts. 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 Company recognises a provision (if the recognition criteria are met).
If it is more likely that no present obligation exists at the end of the reporting period, the Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.3.17.4. Shield programs

Shield programs provision (restructuring provision) is created when the Company 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 restructuring will be carried out. 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.

3.3.17.5. CO_2 emissions costs

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

3.3.18. Government grants

Government grants are transfers of resources to the Company by government, government agencies or similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the 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.

3.3.19. Revenues from sale

Revenues from sale (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Company was founded, revenues are recurring and are not of incidental character.

3.3.19.1. 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 Company 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 Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company 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 from sale of finished goods, merchandise, materials and services are adjusted for profit or loss from settlement of cash flows hedging instruments related to above mentioned revenues.
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 Company 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 Company.

3.3.19.2. Revenues from licences, royalties and trade mark

Revenues from licences, royalties and trade mark arise from the use of Company's assets by other business entities. 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 Company are recognised as deferred income and settled in the periods when economic benefits are realized according to the agreements.

3.3.19.3. Franchise revenues

Franchise revenues arise from delivery by the franchiser to the franchisee the substance of the concluded agreement.
The revenues are applied to:
- delivery of equipment and other non-current assets when provided or title passed,
- initial and continuing services, in the form of part of initial fee or a separate fee, as the services are rendered. When a separate fee does not cover the cost of continuing services and does not guarantee a reasonable profit, part of the initial fee, sufficient to cover the costs of maintaining the services and to provide a reasonable profit on those services, is deferred and recognized as revenue as the these services are rendered,
- fixed charges under the agreement or due to other than mentioned above services as these services are rendered in the agreement period.

3.3.20. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Company 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 Company's control.

3.3.20.1. Costs of sales

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

3.3.20.2. Distribution expenses

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

3.3.20.3. Administrative expenses

Administrative expenses include expenses relating to management and administration of the Company as a whole.

3.3.21. Other operating income and expenses

Other operating income 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 Company, 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 expenses, in particular relating to loss on liquidation and sale of non-financial noncurrent 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, cost of recovery of receivables and liabilities, revaluation losses and loss on sale of investment property.

3.3.22. Finance income and costs

Finance income 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.
Finance costs include, in particular, the loss on the sale of shares and securities and expenses 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.

3.3.23. 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.
Current tax liabilities for current and prior periods represent the amounts payable at the reporting date. If the amount of the current and prior periods income tax paid exceeds the amount due the excess is recognised as a receivable.
Deferred tax assets are recognised for deductible temporary differences, unrealized tax losses and unrealized tax relieves.
Deferred income 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 profit before tax 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 liabilities.
Deferred tax assets and liabilities are offset in the statement of financial position, if there is a legally enforceable right to set off the recognised amounts. It is assumed that a legally enforceable right exists if the amounts are levied by the same taxation authority and concern the same tax payer, 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.

3.3.24. 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 Company by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating diluted earnings per share, an entity shall adjust profit and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares. Profit or loss attributable to ordinary shareholders of the 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.

3.3.24. Earnings per share continued

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.

3.3.25. Statement of cash flows

The statement of cash flows is prepared using indirect method.
Cash and cash equivalents presented in the statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Company's cash management.
Dividends received are presented in cash flows from investing activities.
Dividends paid are presented in cash flows from financing activities.
Interest received from finance leases, loans granted, short-term securities and cash pooling system 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, cash pool facility, 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.

3.3.26. 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.

3.3.26.1. Recognition and derecognition in the statement of financial position

The Company recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.
A regular way purchase or sale of financial assets is recognised by the Company as at trade date.
The Company 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 Company derecognises a financial liability (or part of financial liability) from its statement of financial position when, and only when it expired - that is when the obligation specified in the contract:
- is discharged, or
- is cancelled, or
- expired.

3.3.26.2. Measurement of financial assets and liabilities

When a financial asset or liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 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, including tax on civil law transactions. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative, holding costs or marketing costs.
For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Company 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 Company 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 Company 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 Company 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 Company 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.

3.3.26.2.1. Fair value measurement of financial assets

The Company 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 compliance with fair value measurement principles.

3.3.26.2.1. Fair value measurement of financial assets continued

If the fair value of investments in equity instruments (shares) that do not have a quoted market price from an active market, is not reliably measurable, the Company measures them at cost, that is the acquisition price less accumulated impairment losses.
Financial assets designated as hedged items are measured in accordance with hedge accounting principles.
Gains or losses on a financial asset classified as at fair value through profit or loss are recognised in the statement of profit or loss.
Gains or losses on available-for-sale financial assets 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 is recognised in the statement of profit or loss.

3.3.26.2.2. Amortised cost measurement of financial assets

The Company measures loans and 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.

3.3.26.2.3. Fair value measurement of financial liabilities

As at the end of the reporting period or other dates after the initial recognition the Company 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 Company 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 incurred financial liability is measured in accordance with the principles of fair value measurement.

3.3.26.2.4. Amortised cost measurement of financial liabilities

The Company measures other financial liabilities at amortized cost using the effective interest rate method.
Financial guarantee contracts, that are contracts that require the Company (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 amortization.

3.3.26.3. Transfers

The Company:

- shall not reclassify a financial instrument, including derivative, into or out of fair value through profit or loss category while it is held or issued, if at initial recognition it has been designated by the Company as measured at fair value through profit and 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. In case of loans and receivables (if at initial recognition financial assets was not classified at held for trading) a financial asset can be reclassified out of fair value through profit or loss category, if an entity has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

3.3.26.4. Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.
If there is an objective indicator that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. effective interest rate determined at initial recognition).
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 assets 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 statement of comprehensive income is removed from equity and recognised in the statement of profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through 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 the statement of profit or loss.

3.3.26.5. Embedded derivatives

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.

3.3.26.5 Embedded derivatives continued

If the Company 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 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 Company 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.

3.3.26.6. 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 Company'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 Company does not apply hedge accounting in case when embedded derivative instrument is separated from the host contract.
The Company assess effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Company assess hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Company uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Company 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 Company discontinues 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 Company's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Company 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 Company 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 Company 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.
If a hedge of a forecast transaction results in recognition of revenues from sales of good, merchandise, materials or services, the Company excludes realised profit or loss, which were previously recognised in other comprehensive income and adjusts the above mentioned revenues.
The Company discontinues prospectively cash flow hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument 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;

3.3.26.6 Hedge accounting continued

- 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.
- the hedge designation was revoked – in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain recognised in separate position of other comprehensive income, until the forecasted transaction occures 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.

3.3.27. Fair value measurement

At initial recognition, the transaction price of the acquired asset or liability incurred in exchange transaction for that asset or liability is the price paid to acquire the asset or received for the liability (an entry price). The fair value of asset or liability is the price that would be received to sell an asset or paid to transfer the liability (exit price).
If the Company measures an asset or liability initially at fair value and transaction price differs from fair value, the difference is recognized in profit or loss, unless the IFRS specifies otherwise.
A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs either:

- on the principal market for the asset or liability or
- in the absence of the principal market, in the most advantageous market for the asset or liability.

In the absence of any directly observable input, i.e. the quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Company can access at the measurement date, the fair value is determined on the basis of the adjusted directly observable inputs.
The adjusted input include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in market that are not active;
- input data other than quoted prices that are observable for the given asset or liability;
- market-corroborated inputs, i.e. that derive mainly form data that is observable on the market or confirmed by either correlated to market or other sources.

In the case, when the observable (directly or indirectly) inputs are not available, fair value is measured on the basis of the unobservable inputs developed by the Company using appropriate valuation techniques, such as income-based or market approach.
A fair value measurement of non-financial asset takes into account the Company's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The fair value of liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, the Company's own credit risk. When measuring fair value of the liability, the Company should take into account effect of its own credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will not be fulfilled.
The Company maximises the use of relevant observable inputs and minimize the use of unobservable inputs to meet the the objective of fair value measurement into account, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.
Assets and liabilities that are measured at fair value in the statement of financial position or are not measured at fair value, but information about fair value is disclosed, the Company classifies according to a hierarchy of fair value at the three levels of inputs, depending on the assessment of their availability:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, that the entity can access as at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either indirectly or directly;
- level 3 inputs are unobservable inputs for the asset or liability.

In the cases, when inputs used to measure the fair value of the asset or liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of fair value hierarchy as its data input from the lowest level inputs that is significant to the entire measurement.

3.3.28. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Particularly leases are the agreements defined in the 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 an 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.

3.3.28. Lease continued

If the Company 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 liability with the division into short and long-term part. 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, 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 to be equal to the sum of the fair value of the leased asset and the initial direct costs if this is impossible to determine, the lessee's incremental borrowing rate, that is the rate, the lessee would have to pay on the similar lease agreement or – if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, with a similar security, the funds necessary to purchase the leased asset for the similar period of time and with similar guarantees.
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 Company'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 Company 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 and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease.
Assets used under the operating lease, that is under 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. Lease payments from the operating lease are recognised by lessor as revenues from sales of products, while by lessee as costs.

3.3.29. 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 Company.
Contingent assets are not recognised in the statement of financial position as it may lead to recognition of the income, which will never be gain. However, if the inflow of economic benefits is probable, the Company discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, as according to accounting principles for valuation of provisions.
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 financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Company discloses the contingent asset.
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 Company; 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 (liability) 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 economic benefits is remote.
Contingent liabilities assumed in a business combinations are recognized in the statement of financial position as provisions.

3.3.30. 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 (events after the reporting period requiring adjustments), and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments).

4. Significant values based on professional judgmement and estimates

The preparation of separate financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the applied methods and presented amounts of assets, liabilities and equity, 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 professional judgment 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 judgments, estimates or assumptions on opinions of independent experts.

The judgments, estimates and related assumptions are verified on a regular basis. Changes are recognised in the period when they are made 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.

4.1. Professional judgement

Financial instruments

The Management Board assesses the classification of financial instruments, nature and extent of risks related to financial instruments and application of the cash flow hedge accounting. The financial instruments are classified into different categories depending on the purpose of the purchase and nature of acquired asset. Additional information is presented in the note 30.

4.1. Professional judgement continued

Lease

The Management Board makes judgments of classifying lease agreements as finance or operating lease based on analysis of business nature. Additional information is presented in note 32.

4.2. Uncertainty of estimates

Estimated useful lives of property, plant and equipment and intangible assets

As described in note 3.3.5 and 3.3.6 the Company verifies useful lives of property, plant and equipment and intangible assets at least once a year at year end. Additional information is presented in note 6.3 and 7.3.

Impairment of non-current assets

The Management Board assesses whether there is any indicator for impairment of assets or cash generating units. If there is an impairment, the estimation of recoverable amount of an asset or cash generating units is determined as a higher of fair value less costs of disposal or value in use by applying the proper discount rate. Additional information is presented in note 12.

Impairment of inventories

The Management Board assesses whether there is any indicator for impairment of inventories according to the note 3.3.11. If there is an impairment, estimation of the net realizable value of inventories, which are damaged or obsolete, is required. Additional information is presented in note 13.

Impairment of trade and other receivables

The Management Board assesses whether there is any indicator for impairment of trade and other receivables taking into account the adopted internal procedures. Trade receivables are regularly monitored, and each customer is individually assessed with regard to credit risk. Additional information is presented in note 14 i 30.5.2.

Provisions

As described in note 3.3.17, recognition of provisions requires estimates of the probability of outflow of economic benefits and defining the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The most significant values apply to:
- environmental provision regarding remediation of contaminated land-water environment in the area of production plants, fuel stations, fuel terminals and fuel warehouses;
- jubilee and post-employment benefits provision;
- CO_2 emissions provision.

Additional information, including a description of the assumptions applied and sensitivity analysis to changes in actuarial assumptions for jubilee and post-employment benefits provision, is presented in note 19.

Revenue recognition - loyalty program VITAY

For the unrealized and recorded on clients' accounts VITAY points deferred income is recognized, which adjust retail sales revenues. Deferred income is estimated based on point share indicators, on which the fuel and non-fuel awards were granted, the number of points to be realized in the future period and present cost of the VITAY program point. Additional information regarding VITAY program is presented in note 22.

Defered tax assets and liabilities

Deferred tax assets and liabilities are recognized as explained in note 3.3.23. Additional information is presented in note 28.

Methods of fair value measurement of financial instruments

Financial instruments valuation models commonly used by market experts is applied to estimate fair value of financial instruments. Additional information is presented in note 30 and 31.

ORLEN PKN ORLEN S.A. (in PLN million)

5. Operating segments

Accounting principles applied in operating segments are in line with the Company's accounting principles, described in note 3.3.4 The results of operating segments and corporate functions are the results generated without the allocation of finance income and costs as well as tax expenses. The Management Board of PKN ORLEN assesses the segment financial results based on segment profit from operations plus depreciation and amortisation (EBITDA) and decides on the allocation of resources.

Revenues from transactions with external customers and transactions with other segments are arm's length transactions. Sales revenues from transactions with other segments presented to the Management Board are measured in line with the methods used in the statement of profit or loss and other comprehensive income.

5.1. Revenues, financial results, increase in investment expenditures by operating segments

2013

	NOTE	Refining Segment	Retail Segment	Petrochemical Segment	Upstream Segment	Corporate Functions	Adjustments	Total
Sales revenues from external customers		57 845	18 631	7 495	-	69	-	84 040
Sales revenues from transactions with other segments		22 907	-	3 231	-	74	(26 212)	-
Sales revenues	*24*	80 752	18 631	10 726	-	143	(26 212)	84 040
Operating expenses		(81 347)	(17 898)	(9 826)	(37)	(744)	26 212	(83 640)
Other operating income	*26.1*	72	64	6	-	182	-	324
Other operating expenses	*26.2*	(73)	(81)	(7)	-	(106)	-	(267)
Segment profit/(loss) from operations		**(596)**	**716**	**899**	**(37)**	**(525)**	**-**	**457**
Net finance income and costs	*27*							175
Profit before tax								**632**
Tax expense	*28*							(14)
Net profit								**618**
Depreciation and amortisation	*25.2*	**408**	**210**	**320**	**-**	**84**	**-**	**1 022**
EBITDA		**(188)**	**926**	**1 219**	**(37)**	**(441)**	**-**	**1 479**
Increases in investment expenditures (including borrowing costs)	*6.1, 7.1, 8*	**496**	**338**	**109**	**-**	**230**	**-**	**1 173**

2012

	NOTE	Refining Segment	Retail Segment	Petrochemical Segment	Upstream Segment restated data	Corporate Functions restated data	Adjustments restated data	Total
Sales revenues from external customers		61 379	19 748	7 140	-	82	-	88 349
Sales revenues from transactions with other segments		23 818	-	3 308	-	72	(27 198)	-
Sales revenues	*24*	85 197	19 748	10 448	-	154	(27 198)	88 349
Operating expenses		(84 202)	(19 209)	(9 605)	(28)	(729)	27 198	(86 575)
Other operating income	*26.1*	192	93	18	-	70	-	373
Other operating expenses	*26.2*	(95)	(166)	(2)	-	(74)	-	(337)
Segment profit/(loss) from operations		**1 092**	**466**	**859**	**(28)**	**(579)**	**-**	**1 810**
Net finance income and costs	*27*							854
Profit before tax								**2 664**
Tax expense	*28*							(536)
Net profit								**2 128**
Depreciation and amortisation	*25.2*	**423**	**213**	**343**	**-**	**77**	**-**	**1 056**
EBITDA		**1 515**	**679**	**1 202**	**(28)**	**(502)**	**-**	**2 866**
Increases in investment expenditures (including borrowing costs)	*6.1, 8*	**336**	**367**	**187**	**-**	**86**	**-**	**976**

ORLEN PKN ORLEN S.A. (in PLN million)

5.1. Revenues, financial results, increase in investment expenditures by operating segments continued

Restatement of the previously presented segment data in relation to separation of the new operating upstream segment

	published data 2012	restatements	restated data	
	Corporate Functions	Corporate Functions	Upstream Segment	Corporate Functions
Sales revenues from external customers	82	-	-	82
Sales revenues from transactions with other segments	72	-	-	72
Sales revenues	154	-	-	154
Operating expenses	(757)	28	(28)	(729)
Other operating income	70	-	-	70
Other operating expenses	(74)	-	-	(74)
Segment profit/(loss) from operations	**(607)**	**28**	**(28)**	**(579)**

5.2. Other segment data

5.2.1. Assets by operating segments

	31/12/2013	31/12/2012
Refining Segment	17 918	19 247
Retail Segment	3 493	3 379
Petrochemical Segment	5 955	6 349
Segment assets	**27 366**	**28 975**
Corporate Functions	14 697	12 432
	42 063	**41 407**

As at 31 December 2013 the Company does not have any assets held for sale.
As at 31 December 2012 in the refining segment the Company classified yellow energy rights granted free of charge which were not used for own purposes as assets held for sale of PLN 45 million.

Operating segments include all assets except for financial assets (disclosed in notes 10, 11, 15, 16), shares in related entities (note 9) and tax assets (note 28.2). Assets used jointly by different operating segments are allocated based on revenues generated by particular operating segments.

5.2.2. Recognition and reversal of impairment allowances

	NOTE	Recognition 2013	Recognition 2012	Reversal 2013	Reversal 2012
Refining Segment		(46)	(33)	3	4
Retail Segment		(36)	(44)	39	24
Petrochemical Segment		(5)	(1)	1	5
Impairment allowances by segments		**(87)**	**(78)**	**43**	**33**
Corporate Functions		(43)	(45)	23	46
Impairment allowances in operating activities	*13.1, 26.1,26.2*	**(130)**	**(123)**	**66**	**79**
Impairment allowances in financing activities	*27.1,27.2*	**(109)**	**(422)**	**8**	**4**
		(239)	**(545)**	**74**	**83**

Impairment allowances by segments recognised in the statement of profit or loss and other comprehensive income include receivables allowances, the value of inventories valued at net realizable value and non-current assets impairment allowances.

Recognition and reversal of allowances were performed in relation to inventory revaluation, occurrence or extinction of indicators in respect of overdue receivables, uncollectible receivables or receivables in court proceedings as well as impairment of property, plant and equipment and intangible assets.

In 2013 allowances recognised in the refining segment concerned mainly decrease in the value of receivables and impairment of rights to energy. Allowances recognised in the retail segment mainly resulted from changes in the efficiency of the various fuel stations including changes in the transportation system and the construction of competing fuel stations in the nearby surroundings. Allowances for receivables, idle assets and obsolete raw materials were recognised in corporate functions.

In 2013 impairment recognised in financing activities related mainly to repayable payments to subsidiaries' equity of ORLEN International Exploration & Production Company, whereas in 2012 impairment allowances recognised in the financing activities related mainly to impairment of shares in AB ORLEN Lietuva.

ORLEN PKN ORLEN S.A. (in PLN million)

5.2.3. Geographical information

Revenues from sale are disclosed in geographical information by customer's premises country

	NOTE	2013	2012
Poland		46 083	49 772
Germany		609	904
Czech Republic		9 358	10 251
Lithuania, Latvia, Estonia		22 679	22 936
Other countries		5 311	4 486
	24	**84 040**	**88 349**

Other countries include mainly sales to customers from Denmark, Ukraine and Cyprus.

As at 31 December 2013 and as at 31 December 2012 non-current assets of the Company included in notes 6, 7, 8 were located in Poland.

5.3. Sales revenues

	NOTE	2013	2012
Refining Segment			
Light distillates		5 375	5 220
Medium distillates		14 898	15 062
Heavy fractions		2 927	2 933
Crude oil		32 080	34 700
Other		2 565	3 464
		57 845	**61 379**
Retail Segment			
Light distillates		5 780	6 322
Medium distillates		10 815	11 406
Other		2 036	2 020
		18 631	**19 748**
Petrochemical Segment			
Monomers		3 510	3 363
Aromas		776	694
PTA		2 048	1 875
Other		1 161	1 208
		7 495	**7 140**
Corporate Functions		69	82
	24	**84 040**	**88 349**

5.4. Information about major customers

In 2013 and 2012, the Company generated revenues from sale of products and finished goods in the refining segment from three customers of PLN 43,846 million and PLN 41,904 million, respectively, which individually exceeded 10% of total revenues from sales. These customers were entities related to PKN ORLEN.

6. Property, plant and equipment

	31/12/2013	31/12/2012
Land	284	275
Buildings and constructions	6 637	6 723
Machinery and equipment	4 216	4 332
Vehicles and other	334	346
Construction in progress	626	412
	12 097	**12 088**

PKN ORLEN S.A. (in PLN million)

6.1. Changes in property, plant and equipment by class

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross carrying amount						
1 January 2013	276	10 733	9 756	707	444	21 916
Investment expenditures	-	16	77	2	1 051	1 146
Other increases	-	3	1	-	-	4
Borrowing costs	-	4	1	-	8	13
Reclassifications	12	335	294	88	(843)	(114)
Sale	-	(24)	(4)	(10)	-	(38)
Liquidation	-	(55)	(114)	(72)	(21)	(262)
Other decreases	-	(5)	(15)	(5)	(2)	(27)
31 December 2013	**288**	**11 007**	**9 996**	**710**	**637**	**22 638**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2013	1	4 009	5 424	361	32	9 827
Depreciation	-	418	485	74	-	977
Other increases	-	2	1	-	-	3
Impairment allowances	3	(10)	-	-	(21)	(28)
Sale	-	(6)	(4)	(10)	-	(20)
Liquidation	-	(42)	(110)	(45)	-	(197)
Other decreases	-	(2)	(16)	(4)	-	(22)
31 December 2013	**4**	**4 369**	**5 780**	**376**	**11**	**10 540**
Gross carrying amount						
1 January 2012	272	10 398	9 365	715	579	21 329
Investment expenditures	-	9	83	9	860	961
Other increases	-	3	2	-	-	5
Borrowing costs	-	8	10	-	(6)	12
Reclassifications	4	382	532	44	(986)	(24)
Sale	-	(1)	(2)	(1)	-	(4)
Liquidation	-	(62)	(230)	(57)	-	(349)
Other decreases	-	(4)	(4)	(3)	(3)	(14)
31 December 2012	**276**	**10 733**	**9 756**	**707**	**444**	**21 916**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2012	2	3 601	5 159	347	29	9 138
Depreciation	-	449	493	72	-	1 014
Other increases	-	1	1	-	-	2
Impairment allowances	(1)	8	-	(6)	3	4
Sale	-	(1)	(2)	(1)	-	(4)
Liquidation	-	(47)	(223)	(49)	-	(319)
Other decreases	-	(2)	(4)	(2)	-	(8)
31 December 2012	**1**	**4 009**	**5 424**	**361**	**32**	**9 827**
Government grants						
1 January 2013	**-**	**1**	**-**	**-**	-	**1**
31 December 2013	**-**	**1**	**-**	**-**	-	**1**
1 January 2012	**-**	**1**	**-**	**-**	-	**1**
31 December 2012	**-**	**1**	**-**	**-**	-	**1**
Net carrying amount						
1 January 2013	**275**	**6 723**	**4 332**	**346**	**412**	**12 088**
31 December 2013	**284**	**6 637**	**4 216**	**334**	**626**	**12 097**
1 January 2012	**270**	**6 796**	**4 206**	**368**	**550**	**12 190**
31 December 2012	**275**	**6 723**	**4 332**	**346**	**412**	**12 088**

ORLEN PKN ORLEN S.A. (in PLN million)

6.2. Impairment allowances of property, plant and equipment

	NOTE	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2013		1	193	15	1	32	242
Recognition	*26.2*	3	29	4	2	1	39
Reversal	*26.1*	-	(38)	(4)	-	(1)	(43)
Usage		-	(1)	-	(2)	(21)	(24)
		4	**183**	**15**	**1**	**11**	**214**
increases/(decreases) net		3	(10)	-	-	(21)	(28)
1 January 2012		2	185	15	7	29	238
Recognition	*26.2*	-	35	2	1	3	41
Reversal	*26.1*	(1)	(26)	(2)	(5)	-	(34)
Usage		-	(1)	-	(2)	-	(3)
		1	**193**	**15**	**1**	**32**	**242**
increases/(decreases) net		(1)	8	-	(6)	3	4

6.3. Other information regarding property, plant and equipment

	NOTE	31/12/2013	31/12/2012
The gross carrying amount of all fully depreciated property, plant and equipment still in use		1 505	1 607
The net carrying amount of idle property, plant and equipment and not classified as held for sale		11	8
Impairment of property, plant and equipment withdrawn		(44)	(35)
The net carrying amount of property, plant and equipment in finance lease	*32.1*	81	70

The Company reviews economic useful lives of property, plant and equipment periodically and adjustment to depreciation expense is made prospectively.
Should the rates from 2012 be applied in 2013, depreciation expense would be higher by PLN 59 million.

7. Intangible assets

	NOTE	31/12/2013	31/12/2012
Other intangible assets		439	603
Patents, trade marks and licenses		*212*	*223*
Rights	*7.4*	*149*	*380*
Other		*78*	*-*
		439	**603**

As at 31 December 2013 and as at 31 December 2012 the Company has no internally generated intangible assets.

ORLEN PKN ORLEN S.A. (in PLN million)

7.1. The changes in other intangible assets other than internally generated

	Patents, trade marks and licenses	Rights	Other	Total
Gross carrying amount				
1 January 2013	535	395	1	931
Increases	-	40	-	40
Borrowing costs	2	-	-	2
Reclassifications	36	-	78	114
Sale	-	(40)	-	(40)
Liquidation	(8)	-	-	(8)
Other decreases	(3)	(189)	-	(192)
31 December 2013	**562**	**206**	**79**	**847**
Accumulated amortisation and impairment allowances				
1 January 2013	312	15	1	328
Amortisation	44	-	-	44
Impairment allowances	4	42	-	46
Liquidation	(8)	-	-	(8)
Other decreases	(2)	-	-	(2)
31 December 2013	**350**	**57**	**1**	**408**
Gross carrying amount				
1 January 2012	510	138	1	649
Increases	1	570	-	571
Reclassifications	24	-	-	24
Sale	-	(18)	-	(18)
Liquidation	-	(15)	-	(15)
Other decreases	-	(280)	-	(280)
31 December 2012	**535**	**395**	**1**	**931**
Accumulated amortisation and impairment allowances				
1 January 2012	271	14	1	286
Amortisation	41	-	-	41
Impairment allowances	-	15	-	15
Liquidation	-	(14)	-	(14)
31 December 2012	**312**	**15**	**1**	**328**
Net carrying amount				
1 January 2013	**223**	**380**	**-**	**603**
31 December 2013	**212**	**149**	**78**	**439**
1 January 2012	**239**	**124**	**-**	**363**
31 December 2012	**223**	**380**	**-**	**603**

As at 31 December 2013 net carrying amount of rights is the effect of CO_2 emission and energy rights for 2012 settlement as well as lack of recognition of rights granted free of charge.
Other decreases in net carrying amount of rights relate mainly to settlement of rights for 2012 and 2011. Additional information is presented in note 7.4.

7.2. Changes in impairment allowances of intangible assets other than internally generated

	NOTE	Patents, trade marks and licenses	Rights	Total
1 January 2013		3	15	18
Recognition	*26.2*	5	42	47
Reversal	*26.1*	(1)	-	(1)
		7	**57**	**64**
increases net		4	42	46
1 January 2012		3	-	3
Recognition	*26.2*	1	15	16
Reversal	*26.1*	(1)	-	(1)
		3	**15**	**18**
increases net		-	15	15

In year 2013 and in 2012 impairment allowances related mainly to the impairment of energy rights granted free of charge. Additional information has been presented in note 7.4.2.

ORLEN PKN ORLEN S.A. (in PLN million)

7.3. Other information on intangible assets

	31/12/2013	31/12/2012
The gross carrying amount of all fully amortised intangible assets still in use	151	143
The net carrying amount of intangible assets with indefinite useful life	5	5
The net carrying amount of intangible assets retired from active use and not classified as held for sale	1	-

The Company reviews economic useful lives of intangible assets and adjustment of amortisation expense is made prospectively. Should the economic useful lives of intangible assets from 2012 be applied in 2013, amortisation expense would be higher by PLN 3 million.
Net book value of intangible assets with an indefinite useful life includes 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, Authorization and Restriction of Chemicals) - so called REACH. Due to the fact that registration is indefinite and period of production or import of particular chemicals is unknown, indefinite useful life was assumed.

7.4. Rights

7.4.1. CO_2 emission rights

The CO_2 emission rights for 2013 will be granted for particular plant based on the Council of Ministers Regulation regarding the list of installations other than manufacturing electricity installations, covered by the trading system of greenhouse gas emissions rights in the accounting period beginning on 1 January 2013, resulting from the adopted by the European Union Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention on climate change.

Based on Directive 2003/87/WE and the Decision of the Commitee 2013/448/UE of the number of CO_2 emission rights granted free of charge revised with cross-sectoral correction factor, the Company set the preliminary allocation of emission rights granted free of charge based on emission indices obligatory for the settlement period starting in 2013.
As at 31 December 2013, the Company recognised trade receivables on CO_2 emission rights for the year 2013.
After the emission rights allocation, the Company will reclassify the above rights to intangible assets.

Change in CO_2 emission rights in 2013

	NOTE	Quantity (in ths. tonnes)	Value
At the beginning of the period		10 158	314
Settled for 2012		(5 862)	(175)
Purchase/(Sale), net		681	-
	7	**4 977**	**139**
Rights due at the end of reporting period	*14*	3 436	69
		8 413	**208**
CO_2 emission in 2013		6 268	165

In connection with the forecasted shortage of allowances for the years 2013-2020, the Company entered into transactions to hedge future purchase price of allowances. The concluded transactions cover a substantial part of the expected shortage for the period, as well as hedge against the risks associated with not receiving on time allowances granted free of charge required for settlement of 2013.
As at 31 December 2013 the market value of one EUA amounted to PLN 20.07 (representing EUR 4.84 at exchange rate as at 31 December 2013) (source*:* www.theice.com).

7.4.2. Energy rights

Change in energy rights in 2013

	NOTE	Yellow	Red	Violet	Green	Total Value
		Quantity (in ths. MWh)				
At the beginning of the period		383	3 309	3	47	66
Granted free of charge		276	355	-	-	30
Settlement of 2012		(16)	(103)	(3)	(46)	(14)
Purchase/(Sale), net		(317)	(117)	4	54	(30)
Impairment allowances		-	-	-	-	(42)
	7	**326**	**3 444**	**4**	**55**	**10**

ORLEN PKN ORLEN S.A. (in PLN million)

7.4.2. Energy rights continued

Additionally, as at 31 December 2013 the Company received free of charge energy rights, so called yellow and red certificates for the I and II quarter of 2013 of MWh 386,114 and MWh 635,268, respectively, based on the Decision of the President of the Energy Regulatory Office.
Due to the ongoing works on the amendments to the Energy Law and the parallel process of obtaining the consent of the European Commission to extend support for the cogeneration, on the Polish Power Exchange there is no trading of yellow and red certificates making it impossible to determine the value of these rights. As a result, in the period ended 31 December 2013 the Company did not recognise intangible assets from granted free of charge rights in the statement of financial position and did not recognize the grant in other operating income.
In 2013 the Company recognised impairment allowance of energy certificates due to changes in the energy law and lack of possibilities to use them in the future of PLN (42) million.

Additional information is disclosed in note 3.3.6.1.

8. Perpetual usufruct of land

	2013	2012
At the beginning of the period	91	89
Investment expenditures	12	3
Amortisation	(1)	(1)
Sale	(4)	-
	98	**91**

According to the amended Act of 29 July 2005 on the transformation of perpetual usufruct into real estate ownership (consolidated text Official Journal 2012, item. 83) any natural or legal person (with certain exceptions) may request conversion of perpetual usufruct into real estate ownership right, as long as on 13 October 2005 was the user of perpetual usufruct or is the legal successor of such user. The amendment of the Act has been effective since 9 October 2011. The amendment of the Act should be considered by the lessee as a change to the contract that requires re-evaluation of the classification of the lease, due to the introduction of the option allowing the transformation of perpetual usufruct right of ownership by legal persons. The Company carried out the appropriate analysis. Re-evaluation confirms current classification of the perpetual usufruct agreements as operating leases.
These lands for the most part are located on the premises related to the operating business of the Company. In particular, they are located at manufacturing plants, fuel terminals, fuel stations and other premises related to the Company's operations.

As at 31 December 2013 and as at 31 December 2012 the Company recognized perpetual usufruct of land received under an administrative decision as off-balance sheet items of PLN 893 million and PLN 888 million, respectively. The total amount of perpetual usufruct charges, recognised as expenses in 2013 and 2012 amounted to PLN (42) million and PLN (43) million, respectively.

ORLEN PKN ORLEN S.A. (in PLN million)

9. Shares in related entities

	Seat	31/12/2013	31/12/2012	Company's share in share capital /of total number of votes on 31/12/2013	Company's share in share capital /of total number of votes on 31/12/2012	Principal activity
Subsidiaries and jointly- controlled entities						
AB ORLEN Lietuva	Lithuania – Juodeikiai	4 542	4 542	100.00%	100.00%	crude oil processing, production of refining products and whole and retail sale
UNIPETROL a.s.	Czech Republic - Praha	1 813	1 813	62.99%	62.99%	asset management of the Unipetrol Group
ORLEN Deutschland GmbH	Germany - Elmshorn	504	504	100.00%	100.00%	asset management and retail fuel sale
Basell ORLEN Polyolefins Sp. z o.o.	Poland – Plock	454	454	50.00%	50.00%	production, distribution and sale of polyolefins
Anwil S.A.	Poland – Wloclawek	399	399	100.00%	100.00%	production of nitrogen fertilizers, plastic and chemicals
Rafineria Trzebinia S.A.	Poland – Trzebinia	109	109	86.35%	86.35%	crude oil processing, production and sale of biofuels, oils
Rafineria Nafty Jedlicze S.A.	Poland – Jedlicze	88	88	100.00%	100.00%	crude oil processing, waste oils regeneration, production and sale of oil bases, heating oils
ORLEN Paliwa Sp. z o.o.	Poland – Plock	84	84	100.00%	100.00%	liquid fuels trade
Petrolot Sp. z o. o.	Poland - Warsaw	68	67	100.00%	100.00%	aviation refueling services
ORLEN Oil Sp. z o.o.	Poland – Cracow	58	57	51.69%	51.69%	production, distribution and sale of grease oils, maintenance liquids
ORLEN Asfalt Sp. z o.o.	Poland – Plock	50	50	82.46%	82.46%	manufacture and sale of road bitumens and specific bitumen products
Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Poland – Inowroclaw	48	48	100.00%	100.00%	storage of crude oil, fuels and gases, extraction and supply of brine
ORLEN KolTrans Sp. z o.o.	Poland – Plock	41	41	99.85%	99.85%	rail services
ORLEN PetroTank Sp. z o.o.	Poland – Widelka	36	36	100.00%	100.00%	distribution and sale of liquid fuels
Płocki Park Przemysłowo-Technologiczny S.A.	Poland – Plock	32	32	50.00%	50.00%	renting real estate for its own account and reinvoicing costs of energy and water
ORLEN Projekt S.A.	Poland – Plock	28	28	99.77%	99.63%	design services in the refining, petrochemical, chemical, environmental protection, energy
ORLEN Upstream Sp. z o.o.	Poland - Warsaw	25	25	100.00%	100.00%	exploration and prospecting of hydrocarbon deposits, extraction of crude oil and natural gas
ORLEN Gaz Sp. z o.o.	Poland – Plock	25	25	100.00%	100.00%	wholesale of liquid gas, distribution of gas in cylinders
ORLEN Eko Sp. z o.o.	Poland – Plock	23	23	100.00%	100.00%	waste management, processing of nonmetallic waste
ORLEN Transport S.A.	Poland – Plock	22	39	100.00%	100.00%	transport services
Other subsidiaries		74	74			
Repayable additional payments to equity of subsidiaries		1 123	465			
ORLEN Upstream Sp. z o.o.		*1 053*	*283*			
ORLEN Eko Sp. z o.o.		*35*	*35*			
Other		*35*	*147*			
		9 646	**9 003**			

As at 31 December 2013 and as at 31 December 2012 impairment allowances of shares in related entities amounted to PLN 3,815 million and PLN 3,715 million, respectively and related mainly to impairment of shares in AB ORLEN Lietuva.

ORLEN PKN ORLEN S.A. (in PLN million)

10. Financial assets available for sale

	31/12/2013	31/12/2012
Quoted shares	-	1
Wodkan S.A.	*-*	*1*
Unquoted shares	40	40
Naftoport Sp. z o.o.	*40*	*40*
	40	**41**

As at 31 December 2013 and as at 31 December 2012 impairment allowances of financial assets available for sale amounted to PLN 72 million and PLN 71 million, respectively.

11. Other non-current assets

	NOTE	31/12/2013	31/12/2012
Cash flow hedge instruments		122	28
commodity swaps		*94*	*26*
currency interest rates swaps		*16*	*2*
interest rates swaps		*12*	-
Receivables due to sale of non-current non-financial assets	*30.5.1.1*	8	-
Loans granted		905	620
Financial assets		**1 035**	**648**

12. Impairment of non-current assets

As at 31 December 2013 the Company did not identify any indicators of impairment within the individual cash generating units that constitute particular operating segments.
Analysis of the financial situation of the particular operating segments does not indicate the possibility of deviations regarding assumptions made in the current strategy.
In 2013 the Company recognised an impairment loss of property, plant and equipment of PLN (39) million and impairment of intangible assets of PLN (47) million mainly due to impairment of energy rights.
Detailed information regarding recognition and reversal of impairment of non-financial assets are presented in notes 5, 6, 7.
For the purpose of impairment analysis of investment in shares each related entity is treated as a separate cash generating unit (CGU).
In 2013 the Company recognised impairment allowance of shares in Orlen International Exploration & Production Company BV. Impairment allowance of PLN (103) million was based on a technical analysis of the KAMBR project stating the lack of hydrocarbon saturation.
There were no indications of impairment of the remaining shares.
Information on the current value of share in related parties is described in note 9.

13. Inventories

	NOTE	31/12/2013	31/12/2012
Raw materials		4 249	5 285
Work in progress		538	706
Finished goods		4 176	3 814
Merchandise		195	341
Spare parts		225	229
Inventories, net		**9 383**	**10 375**
Impairment allowances of inventories to net realisable value	*13.1*	15	12
Inventories, gross		**9 398**	**10 387**

13.1. Change in impairment allowances of inventories revalued at net realizable value

	2013	2012
At the beginning of the period	12	12
Recognition	8	1
Reversal	(3)	(1)
Usage	(2)	-
	15	**12**

Recognition and reversal of impairment allowances of inventories are recognised in cost of sales.

ORLEN PKN ORLEN S.A. (in PLN million)

13.2. Mandatory reserves

In the period from January 2013 till the publication of this annual report the following contracts of sale/repurchase of mandatory reserves were concluded:

No.	transaction date	parties of the transaction		value of transaction	
		seller	buyer	million USD	million PLN*
1	28 March 2013	Ashby	PKN	**404**	**1 318**
				including the hedging transaction settlement	
				38	*124*
2	27 June 2013	PKN	Neon	**314**	**1 045**
3	28 January 2014	Whirlwind	PKN	**385**	**1 189**
				including the hedging transaction settlement	
				(11)	*(34)*

* data translated with average exchange rate of the National Bank of Poland as at transaction date

14. Trade and other receivables

	NOTE	31/12/2013	31/12/2012
Trade receivables		5 438	5 855
Receivables due to sale of non-current non-financial assets		1	-
Receivables due to sale of non-current financial assets		25	-
Other		61	9
Financial assets	*30.5.1.1*	**5 525**	**5 864**
Excise tax and fuel charge receivables		115	128
Other taxation, duty and social security receivables		120	155
Advances for non-current non-financial assets		286	114
CO_2 emission rights	*7.4.1*	69	-
Prepayments for deliveries		12	7
Prepayments		121	128
Non-financial assets		**723**	**532**
Receivables, net		**6 248**	**6 396**
Receivables impairment allowance	*14.1*	284	279
Receivables, gross		**6 532**	**6 675**

As at 31 December 2013 and as at 31 December 2012 trade and other receivables denominated in foreign currencies amounted to PLN 2,419 million and PLN 2,702 million, respectively.

Information about receivables from related parties is presented in note 36.4.

Information about currency structure of financial assets is presented in note 30.5.1.2.1.

14.1. Change in impairment allowances of trade and other receivables

	NOTE	2013	2012
At the beginning of the period		279	266
Recognition	*26.2, 27.2*	42	71
Reversal	*26.1, 27.1*	(27)	(47)
Usage		(10)	(11)
		284	**279**

Recognition and reversal of impairment allowances of receivables are presented in other operating activities for the principal and in financial activities for interest for delay in payment.

15. Other financial assets

	31/12/2013	31/12/2012
Cash flow hedge instruments	143	43
currency forwards	*65*	*42*
commodity swaps	*78*	*1*
Embedded derivatives	3	1
currency swaps	*3*	*1*
Loans granted	570	913
Cash pool	258	125
	974	**1 082**

ORLEN PKN ORLEN S.A. (in PLN million)

16. Cash

	31/12/2013	31/12/2012
Cash on hand and in bank	2 015	941
Cash in transit	57	31
	2 072	**972**
incl. restricted cash	2	-

Components of cash in statement of cash flows and statement of financial position are the same.

17. Shareholders' equity

17.1. Share capital

In accordance with the Polish Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2013 and as at 31 December 2012 amounted to PLN 535 million. It is divided into 427,709,061 ordinary shares with nominal value of PLN 1.25 each.

As at 31 December 2013 and 31 December 2012, the number of shares issued and the number of shares approved for issuance was identical. As at 31 December 2013 and as at 31 December 2012 the share capital consisted of the following series of shares:

Number of shares issued				
A Series	B Series	C Series	D Series	Total
336 000 000	6 971 496	77 205 641	7 531 924	**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.

	31/12/2013	31/12/2012
Share capital	535	535
Share capital revaluation adjustment	523	523
	1 058	**1 058**

As at 31 December 1996, in accordance with IAS 29.24 and 29.25 the share capital was revalued on a basis of monthly consumer price indices.

17.2. Share premium

Share premium is the surplus of the issuance value over the nominal value of shares belonging to series B, C and D.

	31/12/2013	31/12/2012
Nominal share premium	1 058	1 058
Share premium revaluation adjustment	169	169
	1 227	**1 227**

As at 31 December 1996, in accordance with IAS 29.24 and 29.25 the share premium was revalued on a basis of monthly consumer price indices.

17.3. Hedging reserve

The amount of the hedging reserve results from valuation of derivatives meeting the requirements of cash flows hedge accounting. The Company uses cash flow hedge accounting to hedge the commodity risk, currency risk and interest rate risk. Changes in the fair value of the hedging instrument, which are an effective part of the hedging relationship is recognized directly in equity as hedging reserve, while the ineffective part of the profit or loss on the hedging instrument is recognized in the separate statement of profit or loss.
In respect to cash flow hedges that meet the conditions of hedge accounting, the ineffective part is recognised in profit or loss for 2013 and 2012 of PLN 2 million and PLN 1 million, respectively.

ORLEN PKN ORLEN S.A. (in PLN million)

17.3. Hedging reserve continued

Change in equity due to hedge accounting

	2013	2012
At the beginning of the period	**(69)**	**(14)**
gross value	*(85)*	*(17)*
deferred tax	*16*	*3*
Settlement of hedge instruments	**70**	**(283)**
sales revenues	*(58)*	*(75)*
foreign exchange differences	*(38)*	*(9)*
interest	*43*	*54*
construction in progress	*(1)*	*-*
inventories	*124*	*(253)*
Valuation of hedge instruments	**223**	**215**
Deferred tax from settlement and valuation of hedge instruments	**(56)**	**13**
	168	**(69)**
gross value	*208*	*(85)*
deferred tax	*(40)*	*16*

Additional information has been presented in note 3.3.26.6 and 30.4.

17.4. Retained earnings

	31/12/2013	31/12/2012
Reserve capital	19 178	17 692
Other capital	884	884
Actuarial gains and losses	2	-
Net profit for the period	618	2 128
	20 682	**20 704**

17.5. Suggested distribution of the Company's profit for 2013

In line with the strategy of PKN ORLEN for the years 2013 - 2017 the level of dividends will depend on the average share price of PKN ORLEN for the previous year and includes the strategic objectives and maintaining secure financial ratios (such as net financial leverage, net debt/operating profit before depreciation and amortization (EBITDA), and forecasts of the macroeconomic environment).
The target level of dividends is expected to be up to 5% of the average annual capitalization of PKN ORLEN in the previous year. Linking dividend to an annualized share price decoupling the amount of momentary fluctuations in the share price.
This method does not require to link the level of dividends with the net profit, which in the refining and petrochemical industry is highly variable and often contains non-monetary elements, such as the revaluation of inventories and loans, which are not fully reflecting the cash flows earned by the Company.
In 2013 PKN ORLEN successfully realised debt, financial leverage and net debt/EBITDA ratio reduction program, which allows to continue the initiated process of regular dividend payments to its shareholders, despite the unfavorable macroeconomic conditions.
Considering the average capitalization of PKN ORLEN S.A. in 2013 of PLN 20,512,927 thousand, levels of financial leverage of 20.4% and net debt/EBITDA of 1.85, the Management Board proposes to distribute the net profit for the year 2013 of PLN 617,684,481.47 as follows: PLN 615,901,047.84, e.g. 3% of average capitalization of the Parent Company will be allocated as dividend payment (PLN 1.44 per 1 share) and remaining amount of net profit of PLN 1,783,433.63 as reserve capital of the Parent Company.
The Management Board of PKN ORLEN proposes 16 June 2014 as dividend record date and 8 July 2014 as dividend payment date.
The Recommendation of the Management Board of PKN ORLEN will be presented on the General Shareholders Meeting of PKN ORLEN, which will make the final decision in this matter.

17.6. Distribution of the Company's profit for 2012

Pursuant to article 395 § 2 point 2 of the Commercial Companies Act and § 7 article 7 point 3 of the Company's Articles of Association, on 27 June 2013 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A., having analyzed the motion of the Management Board, decided to distribute the total net profit for 2012 of PLN 2,127,797,966.06 as follows: PLN 641,563,591.50 as dividend payment (PLN 1.50 per 1 share), and PLN 1,486,234,374.56 as reserve capital.

17.7. 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 the following ratios:

- net financial leverage (net debt to equity ratio) of the Capital Group. As at 31 December 2013 and as at 31 December 2012 net financial leverage amounted to 20.4% and 26%, respectively;
- net debt to operating profit increased by depreciation and amortisation. As at 31 December 2013 and as at 31 December 2012 this ratio for the Capital Group amounted to 1.85 and 1.58, respectively;
- dividend per ordinary shares – dividend amount depends on current financial position of the Group. In 2013 dividend of PLN 641,563,591.50 was paid i.e. PLN 1.50 per share, whereas in 2012 no dividends were paid. Description of the dividends policy is disclosed in note 17.5.

Net financial leverage = net debt/equity (recalculated according to average balance sheet value in the period)x 100%
Net debt = non-current loans and borrowings + current loans and borrowings – cash and cash equivalents

ORLEN PKN ORLEN S.A. (in PLN million)

18. Loans, borrowings and debt securities

	Non-current		Current		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Loans	4 378	5 946	139	219	4 517	6 165
Borrowings	-	-	177	186	177	186
Debt securities	1 718	1 023	998	898	2 716	1 921
	6 096	**6 969**	**1 314**	**1 303**	**7 410**	**8 272**

The Company bases its financing on floating interest rate. Depending on the currency of financing these are WIBOR, LIBOR, EURIBOR, PRIBOR or EONIA increased by margin. The margin reflects risk connected to financing of the Company and depends, in case of long-term agreements, on net debt to EBITDA (result from operations increased by depreciation and amortisation).

18.1. Bank loans

– **by currency (translated into PLN)**

	31/12/2013	31/12/2012
PLN	-	880
EUR	2 227	2 000
USD	1 988	3 285
CZK	302	-
	4 517	**6 165**

– **by interest rate**

	31/12/2013	31/12/2012
WIBOR	-	880
EURIBOR	2 227	2 000
LIBOR	1 988	3 285
PRIBOR	302	-
	4 517	**6 165**

As at 31 December 2013 unused credit lines increased by trade and other receivables (note 14) and cash (note 16) exceeded trade and other liabilities (note 21) by PLN 8,861 million.
The Company hedges cash flows from interest payments regarding external financing in EUR and USD, using interest rate swaps (IRS).

In the period covered by the foregoing separate financial statements as well as after reporting date there were no cases of violations of loans repayment nor breaches of covenants.

18.2. Borrowings

– **by currency (translated into PLN)**

	31/12/2013	31/12/2012
EUR	147	186
USD	30	-
	177	**186**

– **by interes rate**

	31/12/2013	31/12/2012
EONIA	147	186
LIBOR	30	-
	177	**186**

As at 31 December 2013 and as at 31 December 2012 the Company presented liability relating to borrowings from ORLEN Finance AB within international cash pool agreement of PLN 147 million and PLN 186 million, respectively.
In December 2013 the Company received from a subsidiary ORLEN Insurance Ltd. a borrowing of USD 10 million. As at 31 December 2013 the Company's liabilities of PLN 30 million related to the above.
In the period covered by the foregoing separate financial statements as well as after reporting date there were no cases of violations of borrowings repayment nor breaches of covenants.

ORLEN PKN ORLEN S.A. (in PLN million)

18.3. Debt securities

– **by currency**

	31/12/2013	31/12/2012
PLN	2 716	1 921
	2 716	**1 921**

– **by interest rate**

	Floating rate bonds		Fixed rate bonds		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Nominal value	1 700	1 000	1 000	908	2 700	1 908
Carrying amount	1 718	1 023	998	898	2 716	1 921

On 28 March 2013 the Supervisory Board of PKN ORLEN approved the issue of bonds through a public bond issuance program (the Program).
In 2013 PKN ORLEN issued 4 series of medium-term bonds (4-year) of total nominal value of PLN 700 million, aimed at retail investors, on the basis of an agreement with UniCredit CAIB Poland S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Pekao S.A.
Bonds issued under the Program are ordinary bonds, registered in the National Depository for Securities listed on the regulated market within the Catalyst platform operated by the Warsaw Stock Exchange.

	Nominal value	Subscription date	Expiration date	Base rate	Margin	Rating
A Series	200	28.05.2013	28.05.2017	6M WIBOR	1.50%	A - (pol)
B Series	200	03.06.2013	03.06.2017	6M WIBOR	1.50%	A - (pol)
C Series	200	06.11.2013	06.11.2017	6M WIBOR	1.40%	A - (pol)
D Series	100	14.11.2013	14.11.2017	6M WIBOR	1.30%	A - (pol)
	700					

19. Provisions

	Non-current		Current		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Environmental	211	229	23	33	234	262
Jubilee bonuses and post-employment benefits	113	131	25	21	138	152
Business risk	-	-	16	8	16	8
Shield programs	-	-	27	28	27	28
CO_2 emission	-	-	165	193	165	193
Other	-	-	92	118	92	118
	324	**360**	**348**	**401**	**672**	**761**

Change in provisions in 2013

	Environmental provision	Jubilee bonuses and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emissions	Other provisions	Total
1 January 2013	262	152	8	28	193	118	761
Recognition	3	24	14	-	147	53	241
Usage	(31)	(22)	(4)	(1)	(175)	(53)	(286)
Reversal	-	(16)	(2)	-	-	(26)	(44)
	234	**138**	**16**	**27**	**165**	**92**	**672**

ORLEN PKN ORLEN S.A. (in PLN million)

19. Provisions continued

Change in provisions in 2012

	Environmental provision	Jubilee bonuses and post-employment benefits provision	Business risk provision	Shield programs provision	Provision for CO_2 emissions	Other provisions	Total
1 January 2012	234	148	19	29	226	113	769
Recognition	50	18	4	-	199	45	316
Usage	(22)	(14)	(10)	(1)	(232)	(4)	(283)
Reversal	-	-	(5)	-	-	(36)	(41)
	262	**152**	**8**	**28**	**193**	**118**	**761**

19.1. Environmental provision

The Company has legal obligation to clean contaminated land-water environment in the area of production plant in Plock, fuel stations, fuel terminals and warehouses.

The Management Board estimated the provision for environmental risks regarding the removal of contaminants based on analyzes provided by independent experts. The amount of the provision is the best estimate of future expenses based on the average level of costs incurred for the reclamation in relation to individual objects.
In 2013 the assumptions used to calculate the value of the environmental provision did not change in comparison to prior year.
Additional information regarding estimates for environmental risk is presented in note 3.3.17.1.

19.2. Provision for jubilee bonuses and post-employment benefits

19.2.1. Change in employee benefits obligations

	NOTE	Provision for jubilee bonuses	Post-employment benefits	Total
1 January 2013		94	58	152
Current service cost		4	1	5
Interest expense		4	2	6
Actuarial gains and losses arising from changes in		(5)	(2)	(7)
demographic assumptions		*(2)*	-	*(2)*
financial assumptions		*(3)*	*(3)*	*(6)*
other		-	*1*	*1*
Payments under program		(13)	(5)	(18)
	19	**84**	**54**	**138**

	NOTE	Provision for jubilee bonuses	Post-employment benefits	Total
1 January 2012		89	59	148
Current service cost		5	2	7
Interest expense		4	2	6
Actuarial gains and losses arising from changes in		6	(3)	3
demographic assumptions		*11*	*7*	*18*
financial assumptions		-	*3*	*3*
other		*(5)*	*(13)*	*(18)*
Payments under program		(10)	(2)	(12)
	19	**94**	**58**	**152**

The carrying amount of employee benefits liabilities is identical to their present value as at 31 December 2013 and as at 31 December 2012.

19.2.2. Employee benefits liabilities divided into active and retired employees

	Active employees		Pensioners		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Poland	122	134	16	18	138	152

ORLEN PKN ORLEN S.A. (in PLN million)

19.2.3. Sensitivity analysis of changes in the actuarial assumptions

The discount rate, employee rotation and planned increase of remuneration are the key assumptions used in the actuarial model. Selection of discount rate results mainly from the current situation on the Treasury bonds market, while the selection of planned increase of remuneration reflects the Company's strategy regarding the remuneration policy in subsequent years. Additionally, the impact of change to the employee rotation ratio, which also significantly affect employee benefits provision, but depends on historical rotation ratio of the Company's employees.
In the case of change in the financial discount rate and employee rotation ratio, variations of +/- 0.5 pp were used due to the lower volatility of these assumptions, and in case of increase of remuneration variations of +/- 1.0 pp were analyzed, due to greater volatility of this ratio over the past years.

Actuarial assumptions	Assumed variations as at 31/12/2013	Influence on provision for jubilee bonuses 2013	Influence on post-employment benefits 2013
Demographic assumptions (+)			
staff rotation rate	*+ 0.5 p.p.*	*(3)*	*(1)*
Financial assumptions (+)			
discount rate	*+ 0.5 p.p.*	*(3)*	*(2)*
level of future remuneration	*+ 1 p.p.*	*3*	*5*
		(3)	**2**
Demographic assumptions (-)			
staff rotation rate	*- 0.5 p.p.*	*3*	*1*
Financial assumptions (-)			
discount rate	*- 0.5 p.p.*	*3*	*3*
level of future remuneration	*- 1 p.p.*	*(3)*	*(8)*
		3	**(4)**

As at 31 December 2013 the Company used following actuarial assumptions: discount rate of 4.5%, expected inflation: 2.5%, remuneration increase ratio: 0% in 2014-2017 and 2.5% in following years.

The Company carries the employee benefit payments from current resources. As at 31 December 2013 there were no funded plans and the Company paid no contributions to fund liabilities.

19.2.4. Employee benefits and payments of liabilities analysis

19.2.4.1. Maturity of employee benefits

	Provision for jubilee bonuses		Post-employment benefits		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
up to 1 year	12	11	13	10	25	21
from 1 to 5 years	25	30	7	8	32	38
above 5 years	47	53	34	40	81	93
	84	**94**	**54**	**58**	**138**	**152**

19.2.4.2. The weighted average duration of liabilities for post-employment benefits (in years)

	31/12/2013	31/12/2012
Poland	14	15

19.2.4.3. Ageing of employee benefits payments analysis

	Provision for jubilee bonuses		Post-employment benefits		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
up to 1 year	12	11	13	10	25	21
from 1 to 5 years	35	40	8	9	43	49
above 5 years	178	194	350	363	528	557
	225	**245**	**371**	**382**	**596**	**627**

ORLEN PKN ORLEN S.A. (in PLN million)

19.2.5. Total employee benefits expenses recognized in the statement of profit or loss and other comprehensive income

	2013	2012
In profit or loss		
Current service cost	(5)	(7)
Interest expense	(6)	(6)
Actuarial gains and losses arising from changes in	5	(3)
demographic assumptions	*2*	*(18)*
financial assumptions	*3*	*(3)*
other	*-*	*18*
	(6)	**(16)**
In components of other comprehensive income		
Actuarial gains and losses arising from changes in	2	-
demographic assumptions	*-*	*-*
financial assumptions	*3*	*-*
other	*(1)*	*-*
	2	**-**
	(4)	**(16)**

As at 31 December 2013 the Company applied the amendments to IAS 19 - Employee benefits and as a result of these changes, the Company recognized actuarial gains or losses on post-employment benefits in other comprehensive income in the amount of PLN 2 million without any change to presentation of comparative data as the adjustment was not significant.

Provisions for employee benefits recognized in profit or loss are accrued in administrative expenses.

In 2013 the amount of provision for employee benefits changed as a result of update of assumptions, mainly in relation to discount rate and projected inflation. Should the 2012 assumptions be used, the provision for employee benefits would be lower by PLN (8) million.
Based on the existing regulations the Company is obliged to make contributions to the national retirement and pension plans. These expenses are recognised as employee benefits costs. There are no other obligations as far as employee benefits are concerned
Additional information concerning jubilee bonuses and post-employment benefits are disclosed in note 3.3.17.2.

19.3. Business risk provision

The increase of business risk provison in 2013 is mainly due to a dispute concerning land use and lease of railway tanks.

19.4. Shield programs provision

Employee shield programs were launched to support the restructuring processes conducted in the Company.
Depending on particular situation the programs provide i.e. additional severances, training packages for employees with whom the employment agreement was or would be dissolved and relocation packages for the employees, who agreed to change the workplace.
In 2013 the assumptions used in calculation of shield programs provision did not change in comparison to those used prior year.

19.5. Provision for CO_2 emissions

The Company recognises provision for estimated CO_2 emissions in the reporting period. The cost of recognised provision is compensated with settlement of deferred income on CO_2 emission rights granted free of charge. The description of the accounting principles applied is presented in note 3.3.6.1.

19.6. Other provisions

As at 31 December 2013 and as at 31 December 2012 other provisions comprised mainly of provisions for tax liabilities and provisions for negative outcome of legal proceedings.

20. Other non-current liabilities

	31/12/2013	31/12/2012
Cash flow hedge instruments	29	71
interest rate swaps	*-*	*59*
currency interest rates swaps	*29*	*12*
Finance lease	70	62
Financial liabilities	**99**	**133**

PKN ORLEN S.A. (in PLN million)

21. Trade and other liabilities

	31/12/2013	31/12/2012
Trade liabilities	7 185	6 288
Investment liabilities	707	528
Finance lease	17	13
Other	80	87
Financial liabilities	**7 989**	**6 916**
Payroll liabilities	102	101
Environmental liabilities	18	9
Special funds	6	6
Excise tax and fuel charge	1 066	986
Value added tax	616	518
Other taxation, duties, social security and other benefits	18	19
Holiday pay accrual	21	20
Other	-	11
Non-financial liabilities	**1 847**	**1 670**
	9 836	**8 586**

Information about currency structure of financial liabilities is presented in note 30.5.1.2.1.
Non-financial liabilities relate to balances of settlements in PLN.

22. Deferred income

	31/12/2013	31/12/2012
VITAY Program	84	75
Government grants	-	60
Other	10	2
	94	**137**

VITAY is a loyalty program created for individual customers operating on the Polish market since 2001. Purchases made by customers under the program are granted with VITAY points that can be subsequently exchanged for gifts or selected products discounts, including fuels (source: http://www.vitay.pl).
Additional information concerning VITAY loyalty program are presented in note 4.2.

23. Other financial liabilities

	31/12/2013	31/12/2012
Cash flow hedge instruments	27	86
currency forwards	*21*	*-*
interest rate swaps	*6*	*-*
commodity swaps	*-*	*86*
Cash pool	386	272
	413	**358**

24. Sales revenues

	2013	2012
Sales of finished goods	46 953	48 940
Sales of services	442	380
Revenues from sales of finished goods and services, net	**47 395**	**49 320**
Sales of merchandise	35 583	36 557
Sales of raw materials	1 062	2 472
Revenues from sales of merchandise and raw materials, net	**36 645**	**39 029**
	84 040	**88 349**

25. Operating expenses

25.1. Cost of sales

	2013	2012
Cost of finished goods and services sold	(44 599)	(45 093)
Cost of merchandise and raw materials sold	(36 214)	(38 661)
	(80 813)	**(83 754)**

ORLEN PKN ORLEN S.A. (in PLN million)

25.2. Cost by nature

	2013	2012
Materials and energy	(43 301)	(44 477)
Cost of merchandise and raw materials sold	(36 214)	(38 661)
External services	(2 226)	(2 197)
Employee benefits	(650)	(644)
Depreciation and amortisation	(1 022)	(1 056)
Taxes and charges	(390)	(348)
Other	(473)	(530)
	(84 276)	**(87 913)**
Change in inventories	194	709
Cost of products and services for own use	175	292
Operating expenses	**(83 907)**	**(86 912)**
Distribution expenses	2 090	2 066
Administrative expenses	737	755
Other operating expenses	267	337
Cost of sales	**(80 813)**	**(83 754)**

In 2013 and 2012 external services included research and development expenditures of PLN (8) million and PLN (24) million, respectively.

25.3. Employee benefits costs

	2013	2012
Payroll expenses	(543)	(525)
Future benefits expenses	12	(4)
Social security expenses	(89)	(85)
Other employee benefits expenses	(30)	(30)
	(650)	**(644)**

Future employee benefits include change in provision for jubilee bonuses and post-employment benefits recognised in profit or loss statement.

26. Other operating income and expenses

26.1. Other operating income

	NOTE	2013	2012
Profit on sale of non-current non-financial assets		68	14
Reversal of provisions		6	41
Reversal of receivables impairment allowances	*5.2.2, 14.1*	19	43
Reversal of impairment allowances of property, plant and equipment and intangible assets	*5.2.2, 6.2, 7.2*	44	35
Penalties and compensations earned		63	23
Other		124	217
		324	**373**

In 2013 the line “penalties and compensation earned” includes mainly compensation of PLN 52 million for loss of profits of PKN ORLEN due to a breakdown in Anwil, which resulted in lower ethylene collection.

In 2013 the line “other” includes mainly income resulting from the decision of tax authorities on the refund of excise tax paid by PKN ORLEN and the received in II quarter of 2013 adjustment of fuel charge liability regarding RME bioester of PLN 65 million.
In 2012 the Company the line “other” mainly includes the effect of the energy rights recognition in relation to fulfillment of requirements related to high efficiency cogeneration electricity production by PKN ORLEN of PLN 130 million.

ORLEN PKN ORLEN S.A. (in PLN million)

26.2. Other operating expenses

	NOTE	2013	2012
Loss on sale of non-current non-financial assets		(26)	(46)
Recognition of provisions		(58)	(83)
Recognition of receivables impairment allowances	5.2.2, 14.1	(36)	(65)
Recognition of impairment allowances of property, plant and equipment and intangible assets	5.2.2, 6.2, 7.2	(86)	(57)
Costs of losses and compensation		(12)	(14)
Other		(49)	(72)
		(267)	**(337)**

In 2013 the line "other" comprises mainly the settlement of inventory count differences and costs of disposal of current assets of PLN (16) million, while in 2012 it includes mainly the effects of provision for CO_2 emissions update and settlement of inventory count differences and costs of disposal of current assets of PLN (38) million.

27. Net finance income and costs

27.1. Finance income

	NOTE	2013	2012
Interest		112	154
Foreign exchange gain surplus		214	1 249
Dividends		220	173
Profit on disposal of shares		8	-
Settlement and valuation of financial instruments		13	43
Reversal of receivables impairment allowances	5.2.2,14.1	8	4
Other		14	17
		589	**1 640**

27.2. Finance costs

	NOTE	2013	2012
Interest		(293)	(345)
Settlement and valuation of financial instruments		(9)	(15)
Recognition of receivables impairment allowances	5.2.2,14.1	(6)	(6)
Recognition of impairment allowances of shares in related entities	5.2.2,12	(103)	(416)
Other		(3)	(4)
		(414)	**(786)**

In 2013 recognition of impairment allowances of shares in related entities concerns ORLEN International Exploration & Production Company BV, while in 2012 it concerns AB ORLEN Lietuva.

According to IAS 23 Borrowing cost, the Company 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 2013 and 2012 amounted to PLN (15) million and PLN (12) million, respectively. In 2013 and in 2012 capitalization rate that was used to calculate borrowing costs capitalization amounted to 3.1% per annum and 3.0% per annum, respectively.

28. Tax expense

	2013	2012
Tax expense in the statement of profit or loss		
Current tax expense	94	(272)
Deferred tax	(108)	(264)
	(14)	**(536)**
Deferred tax recognized in other comprehensive income		
Hedging instruments	(56)	13
	(56)	**13**
	(70)	**(523)**

ORLEN PKN ORLEN S.A. (in PLN million)

28.1. The differences between tax expense recognized in profit or loss and the amount calculated based on profit before tax

	2013	2012
Profit before tax	**632**	**2 664**
Corporate tax expense for 2013 and 2012 by the valid tax rate	(120)	(506)
Impairment allowance of AB ORLEN Lietuva shares	-	(79)
Current tax adjustment relating to previous years	97	(6)
Dividends received	42	33
Other	(33)	22
Tax expense	**(14)**	**(536)**
Effective tax rate	**2%**	**20%**

28.2. Deferred tax

	31/12/2012	Deferred tax recognized in statement of profit or loss	Deferred tax recognized in other comprehensive income	31/12/2013
Deferred tax assets				
Impairment allowances	67	13	-	80
Provisions and accruals	204	(23)	-	181
Unrealized foreign exchange differences	64	(35)	-	29
Valuation of financial instruments	16	-	(16)	-
Other	38	(1)	-	37
	389	**(46)**	**(16)**	**327**
Deferred tax liabilities				
Investment relief	43	(4)	-	39
Difference between carrying amount and tax base of non-current assets	529	66	-	595
Surplus of contribution in kind over the value of shares	43	-	-	43
Valuation of financial instruments	-	1	40	41
Other	14	(1)	-	13
	629	**62**	**40**	**731**
	(240)	**(108)**	**(56)**	**(404)**

ORLEN PKN ORLEN S.A. (in PLN million)

29. Explanatory notes to the statement of cash flows

29.1. Explanation of differences between changes in the statement of financial position captions and changes presented in the statement of cash flows

	2013	2012
Change in other non-current assets and trade and other receivables presented in the statement of financial position	**(239)**	**911**
Change in investment receivables from:	525	(2)
advances for non-current non-financial assets	*172*	*106*
sale of non-current non-financial assets	*9*	*(1)*
sale of non-current financial assets	*25*	*-*
repayable additional payments to equity	*-*	*(75)*
granted non-current loans	*285*	*(63)*
rights granted free of charge	*34*	*31*
Purchase of receivables	44	-
Change in non-current cash flows hedge instruments	94	28
Charge in prepayments regarding bank commissions	(9)	(13)
Other	(4)	(4)
Change in receivables in the statement of cash flows	**411**	**920**
Change in inventories presented in the statement of financial position	**992**	**1 174**
Reclassification of inventories from / to property, plant and equipment	27	10
Change in inventories in the statement of cash flows	**1 019**	**1 184**
Change in other non-current liabilities, trade and other liabilities presented in the statement of financial position	**1 216**	**(2 449)**
Change in investment liabilities arising from:	(179)	(13)
investment expenditures	*(179)*	*(79)*
declared repayable additional payments to equity	*-*	*66*
Purchase of receivables	(44)	-
Change in non-current cash flows hedge instruments	42	42
Change in financial liabilities from finance lease	(12)	(9)
Other	9	6
Change in liabilities in the statement of cash flows	**1 032**	**(2 423)**
Change in provisions presented in the statement on finacial position	**(89)**	**(9)**
Usage of prior year for CO_2 emission provision	175	232
Usage of prior year energy rights provision	14	3
Actuarial gains and losses	2	-
Change in provisions in the statement of cash flows	**102**	**226**

29.2. Other adjustments in cash flows from operating activities

	2013	2012
CO_2 emission rights granted free of charge	(69)	(261)
Energy rights granted free of charge	6	(130)
Change in deferred income	(43)	19
Other	(4)	(9)
	(110)	**(381)**

ORLEN PKN ORLEN S.A. (in PLN million)

29.3. Foreign exchange (gain)/loss

	NOTE	2013	2012
Foreign exchange gains surplus presented in statement of profit or loss and other comprehensive income	*27.1*	**214**	**1 249**
Adjustments to net profit of foreign exchange differences presented in statement of cash flows:		**9**	**(821)**
realized foreign exchange differences concerning investing activities		*(11)*	*13*
realized foreign exchange differences concerning financing activities		*166*	*104*
unrealized foreign exchange differences concerning investing and financing activities		*(147)*	*(935)*
foreign exchange differences on cash		*1*	*(3)*
Foreign exchange differences concerning operating activities not correcting net profit		**223**	**428**

29.4. Interest, net

	NOTE	2013	2012
Finance income and costs of net interest presented in statement of profit or loss and other comprehensive income	*27*	**(181)**	**(191)**
Adjustments to net profit of net interest presented in statement of cash flows:		**255**	**302**
interest received concerning investing activities		*(34)*	*(36)*
interest paid concerning financing activities		*300*	*330*
accrued interest concerning investing and financing activities		*(11)*	*8*
Net interest concerning operating activities not correcting net profit		**74**	**111**

29.5. Loss on investing activities

	NOTE	2013	2012
Adjustments to net profit of loss on investing activities			
(Profit)/Loss on sale of non-current non-financial assets	*26*	(42)	32
Recognition/reversal of impairment allowances of property, plant and equipment and intangible assets	*26*	42	22
Recognition of impairment allowances of shares in related entities	*27.2*	103	416
Other		(4)	(18)
		99	**452**

29.6. Income tax received/(paid)

	NOTE	2013	2012
Tax expense on profit before tax	*28*	**(14)**	**(536)**
Change in deferred tax asset		-	11
Change in deferred tax liabilities		164	240
Change in current tax assets		25	(56)
Change in current tax liabilities		-	(613)
Deferred tax recognized in other comprehensive income		(56)	13
		119	**(941)**

ORLEN PKN ORLEN S.A. (in PLN million)

30. Financial instruments

30.1. Financial instruments by category and class

Financial assets

31 December 2013

Financial instruments by class	NOTE	Financial instruments by category: Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Unquoted shares	10	-	-	40	-	40
Trade receivables	14	-	5 438	-	-	5 438
Sale of non-financial non-current assets	11,14	-	9	-	-	9
Sale of financial non-current assets	14	-	25	-	-	25
Loans granted	11,15	-	1 475	-	-	1 475
Embedded derivatives and hedging instruments	11,15	3	-	-	265	268
Cash	16	-	2 072	-	-	2 072
Cash pool	15	-	258	-	-	258
Other	14	-	61	-	-	61
		3	**9 338**	**40**	**265**	**9 646**

31 December 2012

Financial instruments by class	NOTE	Financial instruments by category: Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Hedging financial instruments	Total
Quoted shares	10	-	-	1	-	1
Unquoted shares	10	-	-	40	-	40
Trade receivables	14	-	5 855	-	-	5 855
Loans granted	11,15	-	1 533	-	-	1 533
Embedded derivatives and hedging instruments	11,15	1	-	-	71	72
Cash	16	-	972	-	-	972
Cash pool	15	-	125	-	-	125
Other	14	-	9	-	-	9
		1	**8 494**	**41**	**71**	**8 607**

Financial liabilities

31 December 2013

Financial instruments by class	NOTE	Financial instruments by category: Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Debt securities	18.3	2 716	-	-	2 716
Loans	18.1	4 517	-	-	4 517
Borrowings	18.2	177	-	-	177
Finance lease	20,21	-	-	87	87
Trade liabilities	21	7 185	-	-	7 185
Investment liabilities	21	707	-	-	707
Hedging instruments	20,23	-	56	-	56
Cash pool	23	386	-	-	386
Other	21	80	-	-	80
		15 768	**56**	**87**	**15 911**

PKN ORLEN S.A. (in PLN million)

30.1. Financial instruments by category and class continued

31 December 2012

Financial instruments by class	NOTE	Financial instruments by category: Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Debt securities	*18.3*	1 921	-	-	1 921
Loans	*18.1*	6 165	-	-	6 165
Borrowings	*18.2*	186	-	-	186
Finance lease	*20,21*	-	-	75	75
Trade liabilities	*21*	6 288	-	-	6 288
Investment liabilities	*21*	528	-	-	528
Embedded derivatives and hedging instruments	*20,23*	-	157	-	157
Cash pool	*23*	272	-	-	272
Other	*21*	87	-	-	87
		15 447	**157**	**75**	**15 679**

30.2. Income and expense, gains and losses in the separate statement of profit or loss and other comprehensive income

2013

	NOTE	Financial instruments by category: Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
Interest income	*27.1*	-	112	-	-	-	-	112
Interest costs	*27.2*	-	(1)	-	(288)	-	(4)	(293)
Foreign exchange gains/(losses)	*27*	-	(120)	-	334	-	-	214
Recognition/reversal of receivables impairment allowances recognized in:								
- other operating income/expenses	*26*	-	(8)	-	-	-	-	(8)
- finance income/costs	*27*	-	2	-	-	-	-	2
Settlement and valuation of financial instruments, net	*27*	2	-	-	-	2	-	4
Dividends	*27*	-	-	2	-	-	-	2
Income/costs on fees and commissions	*27*	-	14	-	(3)	-	-	11
		2	**(1)**	**2**	**43**	**2**	**(4)**	**44**
other, excluded from the scope of IFRS 7								
Dividends from related entities	*27*							218
Profit/(loss) on sale of shares	*27*							8
Impairment allowances of shares in related entities	*27*							(103)
Recognition/reversal of allowance for impairment of receivables recognised in other operating income/expenses	*26*							(9)
								114

ORLEN PKN ORLEN S.A. (in PLN million)

30.2. Income and expense, gains and losses in the separate statement of profit or loss and other comprehensive income continued

2012

	NOTE	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Hedging financial instruments	Liabilities excluded from the scope of IAS 39	Total
		Financial instruments by category						
Interest income	*27.1*	-	154	-	-	-	-	154
Interest costs	*27.2*	-	(2)	-	(285)	(54)	(4)	(345)
Foreign exchange gains/(losses)	*27*	-	(386)	-	1 626	10	-	1 250
Recognition/reversal of receivables impairment allowances recognized in:								
- other operating income/expenses	*26*	-	(10)	-	-	-	-	(10)
- finance income/costs	*27*	-	(2)	-	-	-	-	(2)
Settlement and valuation of financial instruments, net	*27*	28	-	-	-	-	-	28
Dividends	*27*	-	-	1	-	-	-	1
Income/costs on fees and commissions	*27*	-	17	-	(4)	-	-	13
		28	**(229)**	**1**	**1 337**	**(44)**	**(4)**	**1 089**
other, excluded from the scope of IFRS 7								
Dividends from related entities, icluded:	*27*							171
realized exchange rate differences	*27*							*(1)*
Impairment allowances of shares in related entities	*27*							(416)
Recognition/reversal of allowance for impairment of receivables recognised in other operating income/expenses	*26*							(12)
								(257)

30.3. Finance costs due to impairment of financial assets by class of financial instruments

	NOTE	2013	2012
Trade receivables	*27.2*	(6)	(6)
		(6)	**(6)**

30.4. Hedge accounting

The Company hedges its cash flows:
– from inflows from operating activities over next 12 months, reduced by indexed or denominated in other than functional currency expenses, using non-deliverable sales/purchase forwards,
– from sales of refining products and purchase of crude oil using commodity swaps,
– from interest payments concerning external financing using interest rate swaps (IRS),
– from investment projects using foreign exchange forwards.

Hedging transactions, settlement and fair value measurement of which influence the foregoing separate financial statements were concluded in the years 2009 - 2013.
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 profit or loss at the realization date**

	31/12/2013	31/12/2012
Planned realization date of hedged cash flows		
Currency operating exposure		
2013	-	42
2014	56	-
Finance currency exposure		
2014	(11)	-
Interest rate exposure		
2014	(6)	(59)
2017	16	-
2019	(29)	(10)
2020	12	-
Commodity risk exposure		
2013	-	(85)
2014	78	26
2015	94	-
	210	**(86)**

ORLEN PKN ORLEN S.A. (in PLN million)

30.4. Hedge accounting continued

– **net fair value which will be included in the cost of property, plant and equipment and recognised in profit or loss through depreciation charges in the following periods**

	31/12/2013	31/12/2012
Planned realization date of hedged cash flows		
2014 (currency investment exposure)	(1)	-
	(1)	**-**

Additional information regarding capital changes due to hedge accounting are presented in note 17.3.

30.5. Financial risk management

The Company's operations are exposed to the following risks:
- market risks, including:
  commodity risk
  foreign currency risk
  interest rate risk
- credit and liquidity risk and

other, disclosed in details in the Management Board Report on the operations of PKN ORLEN in point 3.6.

The Company applies a consistent financial risk hedging policy based on market risk management policy supported and supervised by the Financial Risk Committee, Management Board and Supervisory Board.
PKN ORLEN supervises liquidity management and external financing in the Group.

30.5.1. Market risk

Market risk is a possible negative impact on the Company's results due to changes of commodities prices, currency exchange rates and interest rates.
The objective of market risk management is to reduce the unfavorable effects of changes in market risk factors on the cash flows and financial results in the short and medium term.

PKN ORLEN applies a consistent hedging policy to commodity risk, foreign exchange risk and interest rate risk. The above mentioned risks are managed on the basis of market risk management policy and hedging strategies, which define the principles of measurement of individual exposure parameters and the time horizon of risk hedging and hedging instruments.
Market risk management is conducted using derivative instruments, which are used to reduce the risk of changes in fair value and risk of changes in cash flows. PKN ORLEN applies only those instruments which can be measured internally, using standard valuation models for given instrument.
As far as market valuation of the instruments is concerned, the Company 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.

30.5.1.1. Commodity risk

As part of its operating activity the Company is exposed to the following commodity risks:
- risk of changes in refining and petrochemical margins realized on the sale of refining products and changes in petrochemical margins realized on sales of petrochemical products;
- risk of Ural/Brent differential fluctuations;
- risk of changes in crude oil prices and product prices related to time mismatch that occurs when part of crude oil used for processing purposes is purchased by sea or when there is a periodic oversized operating stock of crude oil, semi-finished products or products as well as concluded future transaction of product sale;
- risk of changes in CO_2 emission rights prices;
- risk of changes in crude oil prices and refining products prices associated with the obligation to maintain mandatory reserves of crude oil and fuels.

Based on developed hedging strategies, the Company hedges irregularly both refining margin risk and changes in Ural/Brent differential risk.

Risk of changes in oil prices and/or products related to the time mismatch is identified and hedged in a systematic and regular way.

The Company regularly manages the risk of changes in prices of CO_2 emission rights. At least once a year, the number of CO_2 emission rights is verified and the method of balancing of the future expected shortages or surpluses are determined.
In 2013 the Company concluded forward transactions for purchase of rights which in the future will be amortised as a settlement of CO_2 emissions. Valuations of these transactions are not subject to recognition in the financial statement, as purchased emission rights will be used for own purposes.

Risk of change in crude oil and product prices related to the obligation to maintain mandatory reserves of crude oil and fuels, is not hedged on purpose due to the volume, permanent exposure and non-cash impact on the Company's results.

ORLEN PKN ORLEN S.A. (in PLN million)

30.5.1.1.1. The impact of commodity hedging instruments on the Company's financial statements

Type of hedged raw material/product	Unit of measure	31/12/2013	31/12/2012
Crude oil	BBL	8 754 586	7 842 164
Diesel oil	MT	-	10 000
Heating oil	MT	22 222	-
Gasoline	MT	2 222	-

Sensitivity analysis of commodity risk

Analysis of the influence of potential changes in the carrying amount of financial instruments (as at 31 December 2013) and hedging reserve to a hypothetical change in prices of products and raw materials is presented below:

	Influence on hedging reserve			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+17%	344	-17%	(344)
Heating oil USD/MT	+14%	5	-14%	(5)
Gasoline USD/MT	+17%	(1)	-17%	1
		348		**(348)**

As at 31 December 2013 the instruments that hedge change of crude oil, heating oil and gasoline prices meet the conditions for cash flow hedge accounting and changes in fair value were fully recognized in hedging reserve.

The analysis of the influence of potential changes in the carrying amount of financial instruments (as at 31 December 2012) and hedging reserve due to hypothetical change in prices of petroleum products and raw materials is presented below:

	Influence on hedging reserve			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	+22%	547	-22%	(547)
Diesel oil USD/MT	+19%	(6)	-19%	6
		541		**(541)**

Applied for the sensitivity analysis of commodity risk hedging instruments variation of oil and products prices were calculated based on historical volatility for 2013 and 2012 and available analysts' forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2013 and as at 31 December 2012. The influence of price changes was presented on annual basis. The fair value of commodity swaps is calculated based on discounted future cash flows of executed transactions calculated as a difference between term and transaction price.

In case of derivatives, the influence of crude oil and products prices variations on fair value was examined at constant level of currency rates.

The carrying amount of hedging instruments for commodities as at 31 December 2013 and as at 31 December 2012 amounted to PLN 172 million and PLN (58) million, respectively.

30.5.1.2. Currency risk

As part of its business activities the Company is exposed to the following risks from foreign currency:
- economic currency exposure that results from inflows generated during operating activities over the next 12 reduced by indexed or denominated in other that function currency expense;
- balance sheet currency exposure resulting from recognized in the statement of financial position and denominated in foreign currency assets (trade and other receivables, cash and cash equivalents, other) and liabilities (trade and other liabilities, loans, debt securities, other);
- currency risk related to investments expenditures.

Foreign currency risk related to the investments expenditures is regularly hedged by forward currency purchase transactions.

The risk related to economic currency exposure is regularly and actively hedged using purchase or sales currency forwards.

ORLEN PKN ORLEN S.A. (in PLN million)

30.5.1.2.1. The impact of currency changes on the Company's financial statements

Currency structure of financial instruments

Financial instruments by class	EUR		USD		CZK		JPY		Total after translation to PLN	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Financial assets										
Trade receivables	78	90	694	753	-	-	-	-	2 414	2 702
Loans granted	-	-	389	407	2 002	-	-	-	1 473	1 261
Embedded derivatives and hedging instruments	18	8	59	12	-	-	-	1	252	70
Cash	18	10	18	268	-	-	-	-	130	870
Other	-	-	1	-	-	-	-	-	3	-
	114	**108**	**1 161**	**1 440**	**2 002**	**-**	**-**	**1**	**4 272**	**4 903**
Financial liabilities										
Loans	537	489	660	1 060	2 002	-	-	-	4 517	5 285
Borrowings	35	45	10	-	-	-	-	-	177	186
Trade liabilities	35	42	1 994	1 645	-	-	-	51	6 151	5 274
Investment liabilities	23	8	2	2	-	-	123	102	105	41
Embedded derivatives and hedging instruments	1	9	8	34	-	-	-	-	28	145
Other	1	1	-	-	-	-	-	-	4	4
	632	**594**	**2 674**	**2 741**	**2 002**	**-**	**123**	**153**	**10 982**	**10 935**

Sensitivity analysis for currency risk

The influence of potential changes in carrying amount of financial instruments arising from hypothetical changes in exchange rates of relevant currencies in relation to presentation currency (PLN) on profit before tax and hedging reserve is presented below:

	Assumed variation		Influence on profit before tax		Influence on hedging reserve		Total	
	31/12/2013	31/12/2012	2013	2012	2013	2012	2013	2012
EUR/PLN	+15%	+15%	(356)	(306)	(552)	(264)	(908)	(570)
USD/PLN	+15%	+15%	(707)	(595)	255	(6)	(452)	(601)
JPY/PLN	+15%	+15%	(1)	(1)	-	-	(1)	(1)
			(1 064)	**(902)**	**(297)**	**(270)**	**(1 361)**	**(1 172)**
EUR/PLN	-15%	-15%	356	306	552	264	908	570
USD/PLN	-15%	-15%	707	595	(255)	6	452	601
JPY/PLN	-15%	-15%	1	1	-	-	1	1
			1 064	**902**	**297**	**270**	**1 361**	**1 172**

Variations of currency rates described above were calculated based on average volatility of particular currency rates.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/decreases in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates. Fair value of forwards is calculated based on discounted future cash flows calculated based on difference between forward price and transaction price.

30.5.1.3. Interest rate risk

The Company is exposed to the risk of volatility of cash flows due to changes in interest rates resulting from owned assets and liabilities for which interest gains or losses are dependent on the floating interest rates.

The Company hedges exposure to the variability of cash flows due to changes in interest rates. The key indicator of the Company's exposure to interest rate risk is the net liabilities for which interest costs are dependent on floating interest rates to total debt ratio. The objective of interest rate risk management is to maintain the ratio at a certain level in a defined period of time. For this purpose interest rate swaps and currency interest rate swaps are being used.

ORLEN PKN ORLEN S.A. (in PLN million)

30.5.1.3.1. The impact of interest rate on the Company's financial statements

Structure of financial instruments subject to interest rate risk

Financial instruments by class	NOTE	WIBOR 31/12/2013	WIBOR 31/12/2012	LIBOR 31/12/2013	LIBOR 31/12/2012	EURIBOR 31/12/2013	EURIBOR 31/12/2012	PRIBOR 31/12/2013	PRIBOR 31/12/2012	Total 31/12/2013	Total 31/12/2012
Financial assets											
Loans granted	11,15	2	272	1 170	1 261	-	-	303	-	1 475	1 533
Embedded derivatives and hedging instruments	11	16	2	5	-	7	-	-	-	28	2
Cash pool	15	258	125	-	-	-	-	-	-	258	125
		276	**399**	**1 175**	**1 261**	**7**	**-**	**303**	**-**	**1 761**	**1 660**
Financial liabilities											
Debt securities	18.3	1 718	1 023	-	-	-	-	-	-	1 718	1 023
Loans	18.1	-	880	1 989	3 285	2 225	2 000	303	-	4 517	6 165
Borrowings	18.2	-	-	30	-	-	-	-	-	30	-
Embedded derivatives and hedging instruments	20,23	28	12	2	21	4	38	-	-	34	71
Cash pool	23	386	272	-	-	-	-	-	-	386	272
		2 132	**2 187**	**2 021**	**3 306**	**2 229**	**2 038**	**303**	**-**	**6 685**	**7 531**

As at 31 December 2013 and as at 31 December 2012 the Company holds a borrowing denominated in EUR received from ORLEN Finance AB within cash pool agreement of PLN 147 million and PLN 186 million respectively, for which EONIA rate is applied. Due to low EONIA interest rate as at the end of 2013 and 2012, the borrowing from ORLEN Finance AB is not subject to sensitivity analysis.

Sensitivity analysis for interest rate risk

The potential change in the carrying amount of financial instruments on profit before tax and hedging reserve due to hypothetical changes in significant interest rates:

Interest rate	Assumed variation 31/12/2013	Assumed variation 31/12/2012	Influence on profit before tax 2013	Influence on profit before tax 2012	Influence on hedging reserve 2013	Influence on hedging reserve 2012	Total 2013	Total 2012
WIBOR	+0.5p.p	+0.5p.p	(9)	(9)	(3)	(2)	(12)	(11)
LIBOR	+0.5p.p	+0.5p.p	(4)	(10)	14	7	10	(3)
EURIBOR	+0.5p.p	+0.5p.p	(11)	(10)	76	34	65	24
			(24)	**(29)**	**87**	**39**	**63**	**10**
WIBOR	-0.5p.p	-0.5p.p	9	9	4	2	13	11
			9	**9**	**4**	**2**	**13**	**11**

The above interest rates variations were calculated based on observations of interest rates average fluctuations in the current and prior year reporting period.
Low interest rates of LIBOR, EURIBOR at the end of 2013 and 2012 as well as market forecasts, caused that the Company did not take in the potential decrease in the sensitivity analysis of LIBOR and EURIBOR into consideration.
The sensitivity analysis was performed on the basis of instruments held as at 31 December 2013 and as at 31 December 2012, the impact of interest rate changes is presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the statement of financial position items, sensitive to interest rates (excluding derivatives) multiplied by adequate variation of interest rate.
In sensitivity analysis for interest rate risk regarding derivatives, the Company uses interest rate curve displacement due to potential reference rate change, provided that other risk factors remain constant.

30.5.2. Credit and liquidity risk

Liquidity risk is the risk that the company may be unable to settle its current liabilities on time.

The Company is exposed to liquidity risk arising from the ratio of current assets to current liabilities. As at 31 December 2013 and 31 December 2012, the ratio of current assets to current liabilities (current ratio) was 1.6 and 1.8, respectively.

The objective of liquidity risk management is to ensure the financial security and stability of the company and the basic tool used to reduce this risk is the ongoing review of assets and liabilities maturity. Additionally, the Company carries out a policy of its funding sources diversification and uses a range of tools for effective liquidity management.

Banking sector has the largest share in the Company's financing and provides financing in the form of syndicated loans (representing the core funding source) and bilateral loans (overdrafts, multi-purpose credit lines, investment loans) of diversed maturity structure. Given the increasingly restrictive regulations on obtaining long-term bank financing, the Company additionaly takes advantage of two bond programs, enabling it to use the resources outside the banking sector.

ORLEN PKN ORLEN S.A. (in PLN million)

30.5.2. Credit and liquidity risk continued

Bonds issued under the Program realised since 2007 can be purchased by financial institutions and companies. The above mentioned program is also used in the Company's working capital management.

In 2013 a public bond issue program was launched, aimed at retail investors.

As at 31 December 2013 and as at 31 December 2012 the maximum possible indebtedness due to loans amounted to PLN 15,039 million and PLN 14,776 million, respectively, of which as at 31 December 2013 and as at 31 December 2012 PLN 10,377 million and PLN 8,496 million, respectively, remained unused.

Information regarding loans, borrowings and debt securities is presented in note 18.

The Company evaluates credit risk associated with cash and bank deposits is assessed as low, because all entities in which free cash is deposited, are operating in financial sector. They include domestic banks and branches of foreign banks which have the highest short-term credit rating (96% of deposited cash) or good rating (4% 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 and F3 in Fitch and Prime-2 and Prime-3 in Moodys are considered to be good credibility. The source of information about ratings are banks' web sites.

The Company evaluates credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed 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 short-term and long-term investment rating on the level not lower than A.
Credit risk associated with granted intercompany borrowings is assessed by the Company as low, due to the fact that agreements are concluded with companies having secure both financial and operating position. The Company does not identify any threat in settling the obligation resulting from borrowings agreements.

The measure of credit risk is the maximum credit risk for each class of financial instruments, which is equal to their carrying amount. In order to minimize the risk, the Company as at 31 December 2013 and as at 31 December 2012 received bank and insurance guarantees of PLN 1,021 million and PLN 849 million, respectively. Additionally, the Company receives from its customers securities such as blockade of cash on bank accounts, mortgage and bills of exchange.

The Company is exposed to credit risk related to guarantees issued for the business partners. The maximum level of exposure due to guarantees issued is the maximum amount, which the Company would be obliged to pay in case of guarantee payment demand by the business partner. The value of the guarantees and sureties related to third party liabilities issued in its day-to-day operations as at 31 December 2013 and as at 31 December 2012 amounted to PLN 177 million and PLN 108 million, respectively. Guarantees and sureties concerned mainly performance guarantees.
Based on the forecasts as at the end of the reporting period, the Company recognized the probability of payment of the above amounts as low.

Credit risk is related to the credit credibility of customers with whom sales transactions are concluded. Within its trading activity with its customers, the Company applies deferred payment term. However, granting credit limit by the Company is subject to risk associated with unsettled receivables for the delivered products and services by the customers.
In order to minimize the above risk, detailed procedures are used regarding granting credit limits to the customers. Each time assessments of customers' financial situation are conducted to verify their credibility and solvency. The inherent element of credit risk management process realised in the Company is an ongoing monitoring of debtors turnover.
The Company implements various legal forms of legal pledges (mortgages, guarantees, warranties, blockade of cash on bank accounts, security deposits, bills of exchange). For the customers to whom credit limits are granted, prepayment or cash is the valid form of payment in the initial period of cooperation.
The Company prepares the aging analysis of receivables, what reduces the problems with the on- time receivables settlement by its customers.
In order to reduce the risk of customers' insolvency, the Company also insures portion of its receivables within the organized trade credit insurance programs.

Based on the analysis of receivables the customers were divided into two groups:
- I group – customers with good or very goods history of cooperation in the current year;
- II group – other customers.

The division of not past due receivables based on the criterion described above

	NOTE	31/12/2013	31/12/2012
Group I		4 773	5 090
Group II		625	589
	11, 14	**5 398**	**5 679**

The ageing analysis of current receivables past due, but not impaired as at the end of the reporting period

	NOTE	31/12/2013	31/12/2012
Up to 1 month		125	164
From 1 to 3 months		5	10
From 3 to 6 months		3	6
From 6 to 12 months		2	5
	11, 14	**135**	**185**

ORLEN PKN ORLEN S.A. (in PLN million)

30.5.2. Credit and liquidity risk continued

Maturity analysis for financial liabilities

31 December 2013

	NOTE	up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Debt securities	18.3	1 072	145	807	1 022	3 046	2 716
floating-rate bonds - undiscounted value		*74*	*145*	*807*	*1 022*	*2 048*	*1 718*
fixed rate bonds - undiscounted value		*998*	*-*	*-*	*-*	*998*	*998*
Loans - undiscounted value	18.1	205	4 475	-	-	4 680	4 517
Borrowings - undiscounted value	18.2	177	-	-	-	177	177
Finance lease	20,21	17	23	14	33	87	87
Trade liabilities	21	7 185	-	-	-	7 185	7 185
Investment liabilities	21	707	-	-	-	707	707
Hedging instruments - undiscounted value	20,23	23	(15)	(37)	(26)	(55)	56
gross settled amounts		*(4)*	*(17)*	*(36)*	*(24)*	*(81)*	
currency interest rate swaps	20	*(4)*	*(17)*	*(36)*	*(24)*	*(81)*	*29*
net settled amounts		*27*	*2*	*(1)*	*(2)*	*26*	*27*
interest rate swaps	23	*6*	*2*	*(1)*	*(2)*	*5*	*6*
currency forwards	23	*21*	*-*	*-*	*-*	*21*	*21*
Cash pool	23	386	-	-	-	386	386
Other	21	80	-	-	-	80	80
		9 852	**4 628**	**784**	**1 029**	**16 293**	**15 911**

31 December 2012

	NOTE	up to 1 year	from 1 to 3 years	from 3 to 5 years	above 5 years	Total	Carrying amount
Debt securities	18.3	975	134	135	1 101	2 345	1 921
floating-rate bonds - undiscounted value		*77*	*134*	*135*	*1 101*	*1 447*	*1 023*
fixed rate bonds - undiscounted value		*898*	*-*	*-*	*-*	*898*	*898*
Loans - undiscounted value	18.1	348	531	5 733	-	6 612	6 165
Borrowings - undiscounted value	18.2	186	-	-	-	186	186
Finance lease	20,21	13	22	11	29	75	75
Trade liabilities	21	6 288	-	-	-	6 288	6 288
Investment liabilities	21	528	-	-	-	528	528
Embedded derivatives and hedging instruments - undiscounted value	20,23	118	(16)	(27)	(48)	27	157
gross settled amounts		*(27)*	*(22)*	*(27)*	*(48)*	*(124)*	*12*
currency interest rate swaps	20	*(27)*	*(22)*	*(27)*	*(48)*	*(124)*	*12*
net settled amounts		*145*	*6*	*-*	*-*	*151*	*145*
interest rate swaps	20	*59*	*6*	*-*	*-*	*65*	*59*
commodity swaps	23	*86*	*-*	*-*	*-*	*86*	*86*
Cash pool	23	272	-	-	-	272	272
Other	21	87	-	-	-	87	87
		8 815	**671**	**5 852**	**1 082**	**16 420**	**15 679**

For currency interest rate swaps the level of discount rates cause that undiscounted value is a financial asset and discounted value is a financial liability.

31. Fair value measurement

31 December 2013

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Loans granted	11,15	1 475	1 476	-	1 476
Embedded derivatives and hedging instruments	11,15	268	268		268
		1 743	**1 744**	**-**	**1 744**
Financial liabilities					
Debt securities	18.3	2 716	2 716	-	2 716
Loans	18.1	4 517	4 518	-	4 518
Borrowings	18.2	177	177	-	177
Finance lease	20,21	87	88	-	88
Hedging instruments	20,23	56	56	-	56
		7 553	**7 555**	**-**	**7 555**

ORLEN PKN ORLEN S.A. (in PLN million)

31. Fair value measurement continued

31 December 2012

	NOTE	Carrying amount	Fair value	Fair value hierarchy Level 1	Level 2
Financial assets					
Quoted shares	*10*	1	1	1	-
Loans granted	*11,15*	1 533	1 533	-	1 533
Embedded derivatives and hedging instruments	*11,15*	72	72	-	72
		1 606	**1 606**	**1**	**1 605**
Financial liabilities					
Debt securities	*18.3*	1 921	1 923	-	1 923
Loans	*18.1*	6 165	6 167	-	6 167
Borrowings	*18.2*	186	186	-	186
Finance lease	*20,21*	75	66	-	66
Embedded derivatives and hedging instruments	*20,23*	157	157	-	157
		8 504	**8 499**	**-**	**8 499**

For other classes of financial assets and liabilities presented in note 30.1 fair value represents their carrying amount.

31.1. Methods applied in determining fair value (fair value hierarchy)

The fair value of financial assets and liabilities quoted on active markets is measured based on market quotations (so called Level 1). In other cases, the fair value is measured based on other either directly or indirectly observable inputs (so called Level 2), or unobservable inputs (so called Level 3).
The Company 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 in active markets.
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 a result of spot rate and applicable 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.
As compared to the previous reporting period the Company has not changed valuation methods concerning derivative instruments.

Financial liabilities due to debt securities issued, loans borrowings and loans granted, as well as finance lease liabilities are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates as at 31 December 2013 and as at 31 December 2012 according to quotations of 1-month, 3-months and 6-months interest rates, respectively, increased by margins proper for particular financial instruments. For the majority of financial instruments recognized as at 31 December 2013 and as at 31 December 2012 1-month interest rate quotations were applied.

	31/12/2013	31/12/2012
WIBOR	2.6100%	4.2100%
EURIBOR	0.2160%	0.1090%
LIBOR	0.1677%	0.2087%

As at 31 December 2013 and as at 31 December 2012 the Company held unquoted shares in entities, for which fair value cannot be reliably measured. There are no active markets for these entities and no comparable transactions in the same type of instruments were noted. The value of shares was recognised in the Company's statement of financial position of PLN 40 million at acquisition cost less impairment allowances. As at the period end there are no binding decisions relating to ways and dates of disposal of those assets.
During the reporting period and the comparative period there were no reclassifications of financial instruments in the Company between Level 1 and 2 of fair value hierarchy.

32. Lease

32.1. The Company as a lessee

Operating lease

As at 31 December 2013 and as at 31 December 2012 the Company possessed non-cancellable operating lease agreements as a lessee, related mainly to leased caverns and building. Agreements include clauses concerning contingent rent payables and they can be prolonged.
The total lease payments related to non-cancellable operating lease agreements recognised as expenses of the period, in 2013 and 2012 amounted to PLN (26) million and PLN (27) million, respectively.

ORLEN PKN ORLEN S.A. (in PLN million)

32.1. The Company as a lessee continued

Future minimum lease payments under non-cancellable operating lease agreements:

	31/12/2013	31/12/2012
up to 1 year	32	30
from 1 to 5 years	189	183
above 5 years	44	42
	265	**255**

Additional information regarding perpetual usufruct of land under operating lease is presented in note 8.

Finance lease

As at 31 December 2013 and as at 31 December 2012 the Company possessed finance lease agreements as a lessee. The finance lease agreements relate mainly to the lease of fuel stations, cars and car wash.
In concluded lease agreements, the general conditions of finance lease are effective, they do not contain any clauses concerning contingent rent payables, and give the possibility to purchase the leased equipment and eventually be prolonged.

		Present value of future minimum lease payments		Value of future minimum lease payments	
	NOTE	31/12/2013	31/12/2012	31/12/2013	31/12/2012
up to 1 year		17	13	20	17
from 1 to 5 years		37	33	47	42
above 5 years		33	29	39	34
	20, 21	**87**	**75**	**106**	**93**

The difference between future minimum lease payments and their present value results from discounting of lease payments with discount rate proper for each agreement.

Net carrying amount for each class of property, plant and equipment under finance lease:

	31/12/2013	31/12/2012
Property, plant and equipment	**81**	**70**
Buildings and constructions	51	44
Machinery and equipment	18	9
Vehicles	12	17

Disclosures required by IFRS 7 regarding finance lease are disclosed in note 30.1

32.2. The Company as a lessor

Operating lease

As at 31 December 2013 and as at 31 December 2012 the Company did not possess material non-cancellable operating lease agreements as a lessor.

Finance lease

As at 31 December 2013 and as at 31 December 2012 the Company did not possess finance lease agreements as a lessor.

33. Investment expenditures incurred and commitments resulting from signed investment contracts

Total investment expenditures together with borrowing costs incurred in 2013 and 2012 amounted to PLN 1,173 million and PLN 976 million, respectively. This includes environmental protection related investments of PLN 225 million and PLN 55 million, respectively.
As at 31 December 2013 and as at 31 December 2012 future liabilities resulting from contracts signed until this date amounted to PLN 1,894 million and PLN 1,754 million, respectively.

34. Contingent liabilities

As at 31 December 2013 there were no material contingent liabilities.

35. Other disclosures

Excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure as at 31 December 2013 and as at 31 December 2012 amounted to PLN 1,241 million and PLN 1,216 million, respectively.

ORLEN PKN ORLEN S.A. (in PLN million)

36. Related party transactions

36.1. Information on material transactions concluded by the companies or subsidiaries with related parties on other than market terms

In 2013 and 2012 there were no material related party transactions in the Company concluded on other than market terms.

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

In 2013 and 2012 there were no significant transactions concluded with members of the Management Board and Supervisory Board of the Company, their spouses, siblings, descendants, ascendants or their other relatives.
In 2013 and 2012 the Company did not grant to managing and supervising persons and their relatives any advances, loans, guarantees and commitments, or concluded other agreements obliging to render services to the Company and its related parties.
As at 31 December 2013 and as at 31 December 2012 there were no loans granted by the Company to managing and supervising persons and their relatives.

36.3. Transactions with related parties concluded through the key management personnel

In 2013 and 2012 key management personnel of the Company did not conclude any transaction with related parties.

36.4. Transactions and balances of settlements of the Company with related parties

2013

	Subsidiaries	Jointly- controlled entities	Associates	Total
Sales	44 130	3 141	3	47 274
Purchases	3 405	1	29	3 435
Finance income, including:	263	20	-	283
dividends	*198*	*20*	-	*218*
Finance costs	50	-	-	50

31 December 2013

	Subsidiaries	Jointly- controlled entities	Associates	Total
Other non-current assets	905	-	-	905
Trade and other receivables	3 268	591	-	3 859
Other financial assets	826	-	-	826
Other non-current liabilities	15	-	-	15
Trade and other liabilities	501	3	1	505
Borrowings and debt securities	1 175	-	-	1 175
Other financial liabilities	386	-	-	386

2012

	Subsidiaries	Jointly- controlled entities	Associates	Total
Sales	43 972	2 982	5	46 959
Purchases	3 411	25	5	3 441
Finance income, including:	221	-	-	221
dividends	*172*	-	-	*172*
Finance costs	57	-	-	57

ORLEN PKN ORLEN S.A. (in PLN million)

36.4. Transactions and balances of settlements of the Company with related parties continued

31 December 2012

	Subsidiaries	Jointly- controlled entities	Associates	Total
Other non-current assets	620	-	-	620
Trade and other receivables	3 159	701	-	3 860
Other financial assets	765	-	-	765
Other non-current liabilities	16	-	-	16
Trade and other liabilities	403	3	-	406
Borrowings and debt securities	1 084	-	-	1 084
Other financial liabilities	272	-	-	272

The above transactions with related parties include sale and purchase of refining and petrochemical products, crude oil and purchase of repair, transportation and other services. Sales and purchases transactions with related parties were concluded on market terms.

The Company granted guarantees and sureties to related parties as at 31 December 2013 and as at 31 December 2012 of PLN 2,197 million and PLN 2,089 million, respectively. They concerned guarantee payments by subsidiaries. Revenues from guarantees granted for 2013 and 2012 amounted to PLN 11 million and PLN 12 million, respectively.

37. Remuneration together with profit-sharing paid and due or potentially due to Management Board, Supervisory Board and other members of key executive personnel of the Company 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.

	2013	2012
Remuneration of the Management Board Members of the Company	**12**	**11**
Remuneration and other benefits	6	6
Bonus paid for the previous year	6	4
Remuneration paid to the Management Board members performing the function in the previous years [1]	-	1
Bonus potentially due to the Management Board Members, to be paid in the next year [2]	**5**	**6**
Remuneration due to Management Board Member, to be paid in the next year [3]	**1**	**1**
Remuneration and other benefits of the key executive personnel	**34**	**31**
Remuneration of the Supervisory Board Members	**1**	**1**

1) paid remuneration due to non-competition clause and paid bonuses for prior year
2) bonus estimated assuming full realization of the Management Board Members goals for 2013
3) remuneration due to severance pay

37.1. Bonus system for key executive personnel

Since January 2013 there has been an amendment to the bonus system for the Company Councilor and Directors directly subordinated to the Management Board of PKN ORLEN. The changes were implemented in order to link the bonus system with a new system of Company's Values and further increase of bonus flexibility and incentive nature.
The regulations applicable to PKN ORLEN Management Board and directors reporting directly to the Board, and other key positions 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 consistent with Company's values to promote the cooperation between individual employees in view to achieve the best possible results for the PKN ORLEN.
The goals so-said are qualitative or quantitative and are accounted for the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to results generated by the Company.

37.2. Remuneration regarding non-competition clause and dissolution of the contract because of dismissal from the position held

According to agreements, Members of PKN ORLEN Management Board are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of termination or expiration of the contract. They 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 dismissal from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

ORLEN PKN ORLEN S.A. (in PLN million)

38. Remuneration arising from the agreement with the entity authorized to conduct audit of the financial statements

In the period covered by this separate financial statements the entity authorized to conduct audit of the Company's financial statements was KPMG Audyt Sp. z o.o. According to the agreement concluded on 30 May 2005 with subsequent amendments KPMG Audyt Sp. z o.o. executed and executes the interim reviews and audits of separate and consolidated financial statements for periods 2005 – 2014.

	2013	2012
Remuneration of KPMG Audyt Sp. z o.o.	**4**	**2**
Audit of the annual financial statements	1	1
Reviews of financial statements	1	1
Related services	2	-

39. Information concerning significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies

As at 31 December 2013 the Company was a party in the following significant proceedings in front of court, body appropriate for arbitration proceedings or in front of public administration bodies:

39.1. Proceedings in which the Company acts as a defendant

39.1.1. Proceedings with the total value exceeding 10% of the Issuer's equity

39.1.1.1. Risk connected with the disposal of assets and liabilities related to purchase of Unipetrol shares

The claim regarded the payment of a compensation for losses related among others to alleged unfair competition of PKN ORLEN included in Agrofert Holding a.s. claim and alleged illegal violation of reputation of Agrofert Holding a.s. in relation to purchase by PKN ORLEN of UNIPETROL a.s. 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 2,945 million translated using exchange rate as at 31 December 2013 (representing CZK 19,464 million) with interest and obliged Agrofert Holding a.s. to cover the cost of proceedings born by PKN ORLEN. The Court of Arbitration ruling dated 21 October 2010 ended the last of four arbitration proceedings initiated by Agrofert Holding a.s.

On 3 October 2011 PKN ORLEN received from the common court in Prague (Czech Republic) claim which overruled the sentence of the Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic in Prague issued on 21 October 2010. After the court proceedings the complaint was dismissed by the court in Prague with the ruling of 24 January 2014. In the opinion of PKN ORLEN the decision included in the judgment of the Arbitration Court dated 21 October 2010 and in the judgment of the court in Prague dated 24 January 2014 are correct and willl take all necessary means to remain the judgment in force. Agrofert may appeal against court's decision within 15 days since the reception of the reasons. The reasons for court's decision has not been delivered to PKN ORLEN yet.

39.1.2. Other significant proceedings with the total value not exceeding 10% of the Issuer's equity

39.1.2.1. 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 § 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 § 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.
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 million. 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 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 million 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 with 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 million. 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 46 million, as a partial return of the original amount paid by PKN ORLEN due to the sentence of Court of Appeals in Warsaw dated 10 September 2009.

39.1.2.1. Power transfer fee in settlements with ENERGA – OPERATOR S.A. (legal successor of Zakład Energetyczny Płock S.A.) continued

During the retrial, court hearings were held on 30 April 2012 and 19 November 2012. In addition, opinion has been prepared by an expert witness for the damages calculation. On 2 July and on 21 November 2013 the hearing in front of the Regional Court in Warsaw were held where evidence were analyzed. The court set the date of next hearing on 31 March 2014.

– **Court proceedings in which PKN ORLEN acts as an outside intervener**

In 2004 the court 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. On 4 February 2014 on the hearing in front of the Court of Appeals in Warsaw PSE Operator S.A. and ENERGA-OPERATOR S.A. entered into an court settlement on the claims covered by the court proceeding which finished the court proceeding. Due to the settlement the Court of Appeals discharged the proceedings. The settlement does not result in liabilities directly for PKN ORLEN, as it acted only as an outside intervener.

39.2. Court proceedings in which the Company acts as plaintiff

39.2.1. Arbitration proceedings against Yukos International UK B.V.

On 15 July 2009 PKN ORLEN submitted in the Court of Arbitration by the International Chamber of Commerce ("ICC") the request for arbitration proceedings against Yukos International UK B.V., seated in the Netherlands, in connection with purchase transaction of AB ORLEN Lietuva (previously AB Mazeikiu Nafta) shares.
Claims of PKN ORLEN concerned 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.
On 14 September 2009 Yukos International submitted a response 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 753 million at exchange rate as at 31 December 2013 (representing USD 250 million) with interest and costs of proceedings. The amount was 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 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 29 April 2013 PKN ORLEN received the decision of the Court of Arbitration by the International Chamber of Commerce ("ICC") dismissing entirely the claims of PKN ORLEN and obliged PKN ORLEN to cover the costs incurred by Yukos International. On 28 May 2013 PKN ORLEN appealed to High Court of Justice, Queen's Bench Division, Commercial Court in London to dismiss above-mentioned decision from 15 April 2013. On 18 July 2013 PKN ORLEN received the High Court of Justice, Queen's Bench Division, Commercial Court decision that overruled PKN ORLEN's claim. The case was closed.

39.2.2. Arbitration proceedings against Basell Europe Holding B.V.

On 20 December 2012 PKN ORLEN sent an arbitration call to Basell Europe Holding B.V. regarding ad hoc proceeding relating to Joint Venture Agreement signed in 2002 between PKN ORLEN and Basell Europe Holding B.V. PKN ORLEN seeks compensation in its own favour or, depending on the court's decision, in favor of Basell Orlen Polyolefins Sp. z o.o. The compensation regards the price of goods manufactured by Basell Orlen Polyolefins sp. z o.o. which are acquired by Basell Sales & Marketing Company B.V. (entity related to Basell Europe Holdings B.V. in the meaning of abovementioned Joint Venture Agreement) with the purpose of re-sell within own network. The arbitration proceeding will take place in London Court of ad hoc Arbitration Tribunal. On 10 June 2013 the Court of Arbitration issued the Procedural Order in which he confirmed the constitution of the Court of Arbitration, and also established the first, incomplete schedule of arbitration proceedings.
On 22 August 2013 PKN ORLEN filed a lawsuit against Basell Europe Holding B.V. On 1 November 2013 Basell Europe Holdings B.V. submitted a response to the claim, appealing to dismiss all PKN ORLEN's claims. On 27 February 2014 PKN ORLEN submitted its statement on this case (Statement of Reply), according to which claimed amounts were updated in the way that PKN ORLEN requests from Basell Europe Holdings B.V. to Basell Orlen Polyolefins Sp. z o.o. the amount of PLN 124 million translated using exchange rate as of 31 December 2013 (representing EUR 30 million) plus interest, or alternatively, from Basell Europe Holdings B.V. to PKN ORLEN the amount of PLN 57 million, provided that the amounts may be adjusted by arbitration proceedings. A hearing is scheduled on 2-6 June 2014.

40. Events after the end of the reporting period

After the reporting period there were no events that would require recognition in the financial statements.

41. Approval of the financial statements

The foregoing separate financial statements were authorized by the Management Board on 25 March 2014.

……………………..
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

Signature of a person responsible for
keeping accounting books

…………………………………………
Rafał Warpechowski

Executive Director
Planning and Reporting