ORLEN

Polski Koncern Naftowy ORLEN
Spółka Akcyjna

Consolidated financial statements of

Polski Koncern Naftowy ORLEN Spółka Akcyjna Capital Group

for the year ended 31 December 2008

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

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated Annual Report RS 2008
(year)

(in accordance with § 82 section 2 of the Minister of Finance Regulation of 19 February 2009, Official Journal No. 33, item 259)
(for issuers of securities whose business activity embraces manufacture, construction, trade and services)

for the reporting year 2008 that is for the period from 01.01.2008 to 31.12.2008 which includes consolidated financial statements prepared in accordance with International Financial Reporting Standards with amounts stated in the Polish functional currency (PLN).

on 30 April 2009
(submission date)

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
(full name of the issuer)

PKN ORLEN	**CHEMICAL (che)**
(abbreviated name of the issuer)	(industrial sector in line with classification of Warsaw Stock Exchange)
09-411	**PŁOCK**
(zip code)	(location)
CHEMIKÓW	**7**
(street)	(number)

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

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POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2008	2007	2008	2007
data in respect of consolidated financial statements				
I. Total sales revenues	79 535 205	63 792 983	22 517 824	18 060 922
II. Profit/(Loss) from operations	(1 603 322)	2 603 882	(453 929)	737 205
III. Profit/(Loss) before tax	(2 915 403)	3 011 065	(825 402)	852 486
IV. Net profit/(loss) attributable to equity holders of the parent	(2 505 242)	2 412 409	(709 278)	682 996
V. Net profit/(loss)	(2 526 626)	2 480 426	(715 333)	702 252
VI. Net cash provided by operating activities	3 616 760	1 965 066	1 023 969	556 345
VII. Net cash used in investing activities	(4 384 957)	(2 845 108)	(1 241 459)	(805 500)
VIII. Net cash provided by financing activities	612 573	27 039	173 430	7 655
IX. Net change in cash and cash equivalents	(155 624)	(853 003)	(44 060)	(241 500)
X.Net profit/(loss) attributable to equity holders of the parent per share (in PLN/EUR)	(5,86)	5,64	(1,66)	1,60
	as of 31 December 2008	as of 31 December 2007	as of 31 December 2008	as of 31 December 2007
XI. Non-current assets	29 280 856	26 736 337	7 017 749	6 407 904
XII. Current assets	17 694 894	19 366 488	4 240 939	4 641 570
XIII. Total assets	46 975 750	46 102 825	11 258 688	11 049 474
XIV. Long-term liabilities	4 634 178	11 091 402	1 110 674	2 658 279
XV. Short-term liabilities	21 809 925	12 438 663	5 227 189	2 981 177
XVI. Equity	20 531 647	22 572 760	4 920 824	5 410 018
XVII. Share capital	1 057 635	1 057 635	253 484	253 484
XVIII. Equity (attributable to equity holders of the parent)	17 813 091	19 935 335	4 269 267	4 777 906
XIX. Number of issued ordinary shares	427 709 061	427 709 061	427 709 061	427 709 061
XX. Book value and diluted book value attributable to equity holders of the parent per share (in PLN/EUR)	41,65	46,61	9,98	11,17

The above data for 2008 and 2007 were translated into EUR by the following exchange rates:

- specific positions of assets, equity and liabilities - by the average exchange rate published by the National Bank of Poland as of 31 December 2008 – 4.1724 PLN / EUR;
- specific items of income statement and statement of cash flows - by the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month during the period (1 January - 31 December 2008) – 3.5321 PLN / EUR.

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POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED BALANCE SHEET
(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7.1.	26 268 757	24 833 925
Intangible assets	7.3.	557 048	530 970
Goodwill	7.4.	87 633	85 858
Financial assets available for sale	7.5.	62 174	62 322
Investments in associates	7.6.	1 561 132	700 331
Deferred tax assets	14	485 362	233 219
Investment property	7.2.	71 757	69 076
Perpetual usufruct of land		99 247	91 430
Non current loans and receivables	7.9.	87 746	129 206
Total non-current assets		**29 280 856**	**26 736 337**
Current assets			
Inventory	7.10.	9 089 047	10 365 409
Trade and other receivables	7.11.	6 356 174	6 884 455
Income tax receivable		392 042	115 381
Short-term financial assets	7.12.	257 832	167 957
Short-term prepayments	7.13.	204 088	146 892
Cash and cash equivalents	7.14.	1 344 224	1 498 232
Non-current assets clasiffied as held for sale	7.15.	51 487	188 162
Total current assets		**17 694 894**	**19 366 488**
Total assets		**46 975 750**	**46 102 825**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Equity			
Share capital	7.22.	534 636	534 636
Share capital revaluation adjustment	7.22.	522 999	522 999
Share capital		**1 057 635**	**1 057 635**
Nominal share premium	7.22.	1 058 450	1 058 450
Share premium revaluation adjustment	7.22.	168 803	168 803
Share premium		**1 227 253**	**1 227 253**
Hedging reserve	7.22.	(99 793)	83 302
Foreign exchange differences on subsidiaries from consolidation	7.22.	(76 792)	(1 327 936)
Retained earnings	7.22.	15 704 788	18 895 081
Total equity attributable to equity holders of the parent		**17 813 091**	**19 935 335**
Minority interest	7.24.	2 718 556	2 637 425
Total equity		**20 531 647**	**22 572 760**
Long-term liabilities			
Interest-bearing loans and borrowings	7.16.	2 610 651	8 602 721
Provisions	7.17.	747 287	799 266
Deferred tax liabilities	14	1 134 686	1 548 835
Other long-term liabilities	7.18.	141 554	140 580
Total long-term liabilities		**4 634 178**	**11 091 402**
Short-term liabilities			
Trade and other liabilities	7.19.	8 414 147	9 181 243
Provisions	7.17.	788 925	723 152
Income tax liability		35 454	39 389
Interest-bearing loans and borrowings	7.16.	11 282 114	1 719 223
Deferred income	7.20.	76 676	60 683
Other financial liabilities	7.21.	1 212 609	714 973
Total short-term liabilities		**21 809 925**	**12 438 663**
Total liabilities and shareholder's equity		**46 975 750**	**46 102 825**

(all amounts in PLN thousand)

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Sales revenues			
Sales of finished goods		79 884 662	60 524 829
Excise tax and other charges		(17 965 121)	(15 044 496)
Revenues from sale of finished goods, net	10	61 919 541	45 480 333
Sales of merchandise and raw materials		19 730 227	21 041 337
Excise tax and other charges		(2 114 563)	(2 728 687)
Revenues from sale of merchandise and raw materials, net		17 615 664	18 312 650
Total sales revenues		**79 535 205**	**63 792 983**
Cost of finished goods sold		(56 685 848)	(39 258 891)
Cost of merchandise and raw materials sold		(17 313 474)	(16 867 030)
Cost of finished goods, merchandise and raw materials sold	11	(73 999 322)	(56 125 921)
Gross profit on sales		**5 535 883**	**7 667 062**
Distribution expenses		(3 325 701)	(3 175 974)
General and administrative expenses		(1 462 477)	(1 637 370)
Other operating revenues	12	747 930	470 003
Other operating expenses	12	(3 098 957)	(719 839)
Profit/(Loss) from operations		**(1 603 322)**	**2 603 882**
Financial revenues	13	702 800	1 190 048
Financial expenses	13	(2 281 414)	(1 050 246)
Net financial revenues and expenses		**(1 578 614)**	**139 802**
Share in profit from investments accounted for under equity method		266 533	267 381
Profit/(Loss) before tax		**(2 915 403)**	**3 011 065**
Income tax expense	14	388 777	(530 639)
Net profit/(loss)		**(2 526 626)**	**2 480 426**
incl.			
Net profit/(loss) attributable to minority interest		(21 384)	68 017
Net profit/(loss) attributable to equity holders of the parent		(2 505 242)	2 412 409
Net profit/(loss) attributable to equity holders of the parent per share		(5,86)	5,64

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
CONSOLIDATED STATEMENT OF CASH FLOWS
(all amounts in PLN thousand)

(Translation of a document originally issued in Polish)

ORLEN
Polski Koncern Naftowy ORLEN
Spółka Akcyjna

	Note	for the year ended 31 December 2008	for the year ended 31 December 2007
Cash flows - operating activities			
Net profit/(loss)		**(2 526 626)**	**2 480 426**
Adjustments for:			
Share in profit from investments accounted for under equity method		(266 533)	(267 381)
Depreciation		2 491 383	2 431 423
Loss/(Profit) from exchange rate differences, net		731 385	(691 363)
Interests and dividends, net		533 187	456 321
(Profit) / Loss on investing activities		2 310 714	502 899
Decrease/(Increase) in receivables	7.25.	986 782	(535 585)
Decrease/(Increase) in inventories	7.25.	1 778 832	(3 235 358)
(Decrease)/Increase in liabilities	7.25.	(1 407 417)	940 501
(Decrease) in provisions	7.25.	(26 338)	(39 427)
Income tax expense		(388 777)	530 639
Income tax paid		(594 971)	(601 040)
Other adjustments		(4 861)	(6 989)
Net cash provided by operating activities		**3 616 760**	**1 965 066**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(3 969 409)	(3 693 736)
Proceeds from the sale of property, plant and equipment and intangible assets		125 478	108 332
Proceeds from the sale of shares		199 654	783 750
Acquisition of shares		(736 860)	(57 526)
Squeeze out of minority shareholders of Mazeikiu Nafta		-	(482 003)
Proceeds from the sale of short-term securities		-	245 317
Interest and dividends received		199 269	302 808
Loans granted		(2 732)	(1 928)
Repayment of loans		5 072	7 536
Dividends paid to minority shareholders		(185 858)	(31 597)
Other		(19 571)	(26 061)
Net cash used in investing activities		**(4 384 957)**	**(2 845 108)**
Cash flow - financing activities			
Proceeds from long and short-term borrowings and loans		10 962 933	9 512 798
Debt securitities issued		479 172	1 096 325
Repayment of long and short-term loans and borrowings		(8 714 481)	(9 852 372)
Repurchase of debt securities		(825 498)	(88 843)
Interest paid		(563 576)	(609 184)
Dividends paid		(692 888)	-
Payments due to finance lease liabilities		(35 682)	(37 038)
Other		2 593	5 353
Net cash provided by financing activities		**612 573**	**27 039**
Net change in cash and cash equivalents		**(155 624)**	**(853 003)**
Effect of exchange rate changes		1 616	(85)
Cash and cash equivalents, beginning of the period		**1 498 232**	**2 351 320**
Cash and cash equivalents, end of the period		**1 344 224**	**1 498 232**
incl. cash and cash equivalents not available for use		115 136	105 000

(all amounts in PLN thousand)

	Equity attributable to equity holders of the parent						
	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Minority interest	Total equity
1 January 2008	**2 284 888**	**83 302**	**(1 327 936)**	**18 895 081**	**19 935 335**	**2 637 425**	**22 572 760**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	-	(95 514)	(565 770)	-	(661 284)	-	(661 284)
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	-	(87 581)	-	-	(87 581)	-	(87 581)
Foreign exchange differences on consolidation	-	-	1 816 914	17 445	1 834 359	303 964	2 138 323
Net revenues/(expenses) recognized directly in equity	**-**	**(183 095)**	**1 251 144**	**17 445**	**1 085 494**	**303 964**	**1 389 458**
Net (loss)	-	-	-	(2 505 242)	(2 505 242)	(21 384)	(2 526 626)
Total revenues/(expenses) for the period	**-**	**(183 095)**	**1 251 144**	**(2 487 797)**	**(1 419 748)**	**282 580**	**(1 137 168)**
Change in minority interest's structure in equity	-	-	-	(9 608)	(9 608)	(6 056)	(15 664)
Dividends	-	-	-	(692 888)	(692 888)	(195 393)	(888 281)
31 December 2008	**2 284 888**	**(99 793)**	**(76 792)**	**15 704 788**	**17 813 091**	**2 718 556**	**20 531 647**

	Share capital and share premium	Hedging reserve	Foreign exchange differences on subsidiaries from consolidation	Retained earnings	Total	Minority interest	Total equity
1 January 2007	**2 284 888**	**8 506**	**22 003**	**16 492 373**	**18 807 770**	**2 731 623**	**21 539 393**
Profit/(Loss) in cash flow hedge accounting due to valuation of instruments (incl. deferred tax)	-	91 653	-	-	91 653	-	91 653
Transfer of cash flow hedge accounting due to valuation of instruments from equity to current period profit/(loss) due to settlement (incl. deferred tax)	-	(16 857)	-	-	(16 857)	-	(16 857)
Foreign exchange differences on consolidation	-	-	(1 349 939)	(3 437)	(1 353 376)	(74 352)	(1 427 728)
Valuation of non-realized purchase option of Spolana a.s. shares held by minority	-	-	-	(12 062)	(12 062)	12 254	192
Net revenues/(expenses) recognized directly in equity	**-**	**74 796**	**(1 349 939)**	**(15 499)**	**(1 290 642)**	**(62 098)**	**(1 352 740)**
Net profit	-	-	-	2 412 409	2 412 409	68 017	2 480 426
Total revenues/(expenses) for the period	**-**	**74 796**	**(1 349 939)**	**2 396 910**	**1 121 767**	**5 919**	**1 127 686**
Change in minority interest's structure in equity	-	-	-	5 798	5 798	(48 414)	(42 616)
Dividends	-	-	-	-	-	(51 703)	(51 703)
31 December 2007	**2 284 888**	**83 302**	**(1 327 936)**	**18 895 081**	**19 935 335**	**2 637 425**	**22 572 760**

Contents of additional notes to consolidated financial statements for the year 2008

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

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

The Company was formed 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 Parent was registered as Mazowieckie Zakłady Rafineryjne i Petrochemiczne "Petrochemia Płock" S.A. in the District Court in Płock. Effective 20 May 1999, the Company changed its business name to Polski Koncern Naftowy Spółka Akcyjna.

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

According to the Articles of Association dated 22 November 2006, the Parent's activity includes among others:
- Processing of crude oil and manufacturing of oil-derivative products and semi finished products (refinery and petrochemical);
- Domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade of crude oil, oil-derivative and other fuel, sale of motor vehicles, parts and accessories for motor vehicles, sale of industrial and consumer goods;
- Research and development activity, project work, construction and production activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline;
- Storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations;
- Services connected to the principal activity, in particular: sea and land reloading, refining of gas and oil including ethylization, dyeing and blending of components;
- Purchase, trade and processing of used lubricant oils and other chemical waste;
- Manufacturing, transportation and trade in heating energy and electricity;
- Overhaul of appliances used in principle activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation;
- Operation of petrol stations, bars, restaurants and hotels;
- Capital investment activities, in particular: purchasing and trade of shares and stakes in domestic and foreign trade;
- Clearance of electronic fuel cards services;
- Crude oil exploration and extraction;
- Natural gas exploration and extraction.

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

Until the second public offering, completed in July 2000, the Group was primarily controlled, directly or indirectly, by the Polish State Treasury with minority shareholding of employees and others. The State Treasury supervised the Group through its control of the Group's majority shareholder, Nafta Polska S.A.

As at 10 April 2009 Nafta Polska S.A. owned directly 17.32% of the Company's shares, the Polish State Treasury owned 10.20%, ING OFE 5.17% and other shareholders owned 67.31% of the Company's shares.

Information on ING OFE shares comes from 20 February 2009.

The composition of the Management Board of PKN ORLEN

The following changes to the composition of the Management Board of PKN ORLEN took place in 2008:

On 28 February 2008 the Supervisory Board of PKN ORLEN adopted a resolution regarding suspension of Mr. Piotr Kownacki from the activities of the President and Member of the Management Board of PKN ORLEN for the indefinite period of time.

At the same meeting the Supervisory Board adopted a resolution, that for the period of suspension of the President Mr. Piotr Kownacki, the authority of the President of the Management Board of Company is taken over by the Vice President Mr. Wojciech Heydel.

On 29 April 2008 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Wojciech Heydel to the President of the Management Board of PKN ORLEN S.A., for 3 years joint term of office of the Management Board, effective from 7 June 2008.

On 15 May 2008 the Supervisory Board of PKN ORLEN S.A. appointed Mr. Dariusz Jacek Krawiec to the position of the Vice-President of the Management Board of PKN ORLEN S.A., for 3 years joint term of office of the Management Board effective from the day after ongoing term of office cadency of the Management Board is expired.

On 28 May 2008 the Supervisory Board of PKN ORLEN S.A. appointed the following persons to the position of Members of the Management Board of PKN ORLEN S.A.: Mr. Sławomir Robert Jędrzejczyk, Mr. Wojciech Robert Kotlarek, Mr. Krystian Pater and Mr. Marek Serafin, for 3 years joint term of office of the Management Board, effective from the day after ongoing term of office cadency of the Management Board is expired.

On 18 September 2008 on a meeting of the Supervisory Board of PKN ORLEN S.A. the President of the Management Board, Mr. Wojciech Heydel, handed in his resignation from his position, motivating the decision by superior interest of the Company in terms of depletion of current cooperation formula within the Management Board.

At the same meeting the Supervisory Board appointed Mr. Dariusz Jacek Krawiec to the position of the President of the Management Board, the General Director for 3 years joint term of office, ending when Ordinary Shareholders' Meeting, approving Financial Statements for the year 2010, is held.

The composition of the Management Board as at 31 December 2008 was as follows:

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

The composition of the Supervisory Board

The following changes in the composition of the Supervisory Board of PKN ORLEN S.A. took place in 2008:

On 7 February 2008 the Extraordinary General Shareholders' Meeting of PKN ORLEN dismissed Ms. Małgorzata Izabela Ślepowrońska from the position of Chairman of the Supervisory Board of PKN ORLEN and from the Supervisory Board of PKN ORLEN.

In addition, the Extraordinary General Shareholders' Meeting of PKN ORLEN dismissed from the Supervisory Board of PKN ORLEN the following Members: Mr. Robert Czapla, Mr. Marek Drac - Tatoń, Mr. Raimondo Eggink, Mr. Zbigniew Macioszek, Ms. Agata Janina Mikołajczyk and Mr. Krzysztof Rajczewski.

The Extraordinary General Shareholders' Meeting of PKN ORLEN appointed to the Supervisory Board of PKN ORLEN:

- Mr. Maciej Mataczyński to the position of the Chairman of the Supervisory Board of PKN ORLEN, and independent Member of Supervisory Board;
- Mr. Grzegorz Borowiec to the position of the Member of the Supervisory Board of PKN ORLEN;
- Mr. Raimondo Eggink to the position of independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Marek Karabuła to the position of Member of the Supervisory Board of PKN ORLEN;
- Mr. Krzysztof Kołach to the position of the independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Ryszard Stefański to the position of independent Member of the Supervisory Board of PKN ORLEN;
- Mr. Piotr Jan Wielowieyski to the position of independent Member of the Supervisory Board of PKN ORLEN.

On 15 February 2008 the Supervisory Board appointed Mr. Marek Karabuła to the position of the Deputy Chairman of the Supervisory Board and Mr. Ryszard Stefański to the position of the Secretary of the Supervisory Board.

On 6 June 2008 the Ordinary General Shareholders' Meeting of PKN ORLEN S.A. appointed Mr. Grzegorz Michniewicz to the position of the Supervisory Board Member.

On 13 June 2008 the Extraordinary General Shareholders' Meeting of PKN ORLEN S.A. dismissed from the Supervisory Board the following independent Members: Mr. Raimondo Eggink and Mr. Ryszard Stefański.

At the same time, the Extraordinary General Shareholders' Meeting of PKN ORLEN S.A. appointed Mr. Jarosław Rocławski and Ms. Angelina Sarota to the position of the Supervisory Board Members.

The composition of the Supervisory Board as at 31 December 2008 was as follows:

Maciej Mataczyński - Chairman of the Supervisory Board
Marek Karabuła - Deputy Chairman of the Supervisory Board
Angelina Sarota – Secretary of the Supervisory Board
Grzegorz Borowiec - Member of the Supervisory Board
Krzysztof Kołach - Member of the Supervisory Board
Grzegorz Michniewicz - Member of the Supervisory Board
Jarosław Rocławski – Member of the Supervisory Board
Piotr Wielowieyski- Member of the Supervisory Board
Janusz Zieliński - Member of the Supervisory Board

2. Statement of the Management Board

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

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

In compliance with principles of corporate governance adopted by the Management Board of PKN ORLEN the auditor was selected by the Supervisory Board by means of resolution No 485/2005 of 21 January 2005 on the selection of an auditor. The Supervisory Board made the selection in order to ensure complete independence and objectivity of the selection itself as well as fulfilment of tasks by the auditor. On 23 August 2007 the Supervisory Board has prolonged contract with KPMG Audyt Sp. z o.o., as a qualified auditor to audit and review of unconsolidated and consolidated financial statements of PKN ORLEN and key entities belonging to PKN ORLEN Group for years 2008 – 2009.

3. Principles of presentation

a) Information on principles adopted for preparation of consolidated financial statements for 2008

From 1 January 2005 the amendment of the Accounting Act obliged the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU").

As at 1 January 2005 the Group has prepared for the first time its consolidated financial statements in accordance with IFRS 1, fulfiling IFRS 1 requirements.

From 1 January 2005, PKN ORLEN, acting under Resolution No. 3 of the Extraordinary General Shareholders' Meeting of Polski Koncern Naftowy ORLEN S.A. of 30 December 2004 (adopted in compliance with Art. 45 1c of the Accounting Act, wording effective from 1 January 2005), has prepared its statutory unconsolidated financial statements in accordance with IFRSs adopted by the European Union.

In preparation of these consolidated financial statements the Group applied International Financial Reporting Standards ("IFRS") adopted by the European Union in force as at 31 December 2008.

The presented consolidated financial statements are compliant with requirements of all IFRSs adopted by the EU and present a true and fair view of the Group's financial position as at 31 December 2008 and 31 December 2007, results of its operations and cash flows for the year ended 31 December 2008 and 31 December 2007.

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

(all amounts in PLN thousand)

b) Entities consolidated using full and proportionate method

These consolidated financial statements for the periods ended 31 December 2008 and 31 December 2007 include the following Group entities located mainly in Poland, Germany, Lithuania and the Czech Republic:

Name of the Capital Group	Share in total voting rights [1)]	
	31 December 2008	31 December 2007
	(in full %)	
PKN ORLEN	Parent company	
ORLEN Deutschland AG	100%	100%
ORLEN Gaz Sp. z o.o.	100%	100%
ORLEN PetroCentrum Sp. z o.o. [6)]	100%	100%
ORLEN Medica Sp. z o.o.	100%	100%
ORLEN Budonaft Sp .z o.o.	100%	100%
ORLEN Powiernik Sp. z o.o.	100%	100%
ORLEN Koltrans Sp. z o.o.	100%	100%
ORLEN Transport S.A. [2)]	100%	-
ORLEN Transport Szczecin Sp. z o.o. [2)]	-	100%
ORLEN Asfalt Sp. z o.o. (formerly Bitrex Sp. z o.o.)	96%	96%
ORLEN Petroprofit Sp. z o.o. Group [6)]	-	100%
ORLEN Morena Sp. z o.o. [6)]	-	100%
ORLEN Transport Kraków Sp. z o.o. [3)]	-	98%
ORLEN Transport Płock Sp. z o.o. [2)]	-	98%
ORLEN Transport Nowa Sól Sp. z o.o. [2)]	-	99%
ORLEN Transport Słupsk Sp. z o.o. [2)]	-	97%
ORLEN Laboratorium Sp. z o.o.	95%	95%
ORLEN Transport Olsztyn Sp. z o.o. [2)]	-	95%
ORLEN Oil Sp. z o.o. Group	89%	89%
including:		
Orlen Oil Cesko s.r.o.	100%	100%
Petro-Oil Pomorskie Centrum Sprzedaży Sp. z o.o.	100%	100%
Platinum Oil Sp. z o.o. (formerly Petro-Oil Lubelskie Centrum Sprzedaży Sp. z o.o.)	100%	100%
ORLEN Petrotank Sp. z o.o.	100%	90%
ORLEN Transport Kędzierzyn-Koźle Sp. z o.o. [2)]	-	94%
Petrotel Sp. z o.o.[8)]	-	75%
Anwil S.A. Group	85%	85%
including:		
Przedsiebiorstwo Inwestycyjno-Remontowe Remwil Sp. z o.o.	100%	100%
Przedsiebiorstwo Produkcyjno-Handlowo-Usługowe Pro-Lab Sp. z o.o.	99%	99%
Przedsiębiorstwo Usług Specjalistycznych i Projektowych Chemeko Sp. z o.o.	56%	56%
Spolana a.s.	100%	83%
Rafineria Trzebinia S.A. Group	77%	77%
including:		
Energomedia Sp. z o.o.	100%	100%
Euronaft Trzebinia Sp. z o.o.	100%	100%
Fabryka Parafin Naftowax Sp. z o.o.	100%	100%
EkoNaft Sp. z o.o.	99%	99%
Rafineria Nafty Jedlicze S.A. Group	75%	75%
including:		
RAF-ENERGIA Sp. z o.o.[9)]	-	100%
RAF-KOLTRANS Sp. z o.o.	100%	100%
RAF-EKOLOGIA Sp. z o.o.[8)]	-	93%
Konsorcjum Olejów Przepracowanych - Organizacja Odzysku S.A.	81%	81%
Inowrocławskie Kopalnie Soli "Solino" S.A.	71%	71%
Unipetrol a.s. Group	63%	63%
including:		
UNIPETROL TRADE a.s.	100%	100%
including:		
CHEMAPOL (SCHWEIZ) AG	100%	100%

(all amounts in PLN thousand)

UNIPETROL AUSTRIA HmbH in liquidation	100%	100%
ALIACHEM VERWALTUNGS GmbH [11)]	-	100%
UNIPETROL DEUTSCHLAND GmbH	100%	100%
ALIAPHARM GmbH FRANKFURT [11)]	-	100%
UNIPETROL CHEMICALS IBERICA a.s. [10)]	-	100%
UNIPETROL RPA s.r.o. (formerly Steen Estates s.r.o.)	100%	100%
including:		
UNIRAF SLOVENSKO s.r.o.	100%	100%
UNIPETROL DOPRAVA s.r.o.	100%	100%
BENZINA s.r.o.	100%	100%
including:		
BENZINA Trade a.s. in liquidationi [10)]	-	100%
PETROTRANS s.r.o.	100%	100%
PARAMO a.s.	92%	59%
CESKA RAFINERSKA a.s. [4)]	51%	51%
Ship-Service S.A. [1)]	56%	56%
ORLEN Automatyka Sp. z o.o.	52%	52%
ORLEN PetroZachód Sp. z o.o. [6)]	-	100%
ORLEN Petrogaz Wrocław Sp. z o.o. in liquidation [5)]	-	100%
Petrolot Sp. z o.o.	51%	51%
ORLEN Projekt S.A.	51%	51%
ORLEN Wir Sp. z o.o.	51%	51%
Basell ORLEN Polyolefins Sp. z o.o. Group [4)]	50%	50%
including:		
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.	100%	100%
ORLEN Administracja Sp. z o.o.	100%	100%
ORLEN Eko Sp. z o.o.	100%	100%
Płocki Park Przemysłowo-Technologiczny S.A. [4)]	50%	50%
ORLEN Księgowość Sp. z o.o.	100%	100%
ORLEN Prewencja Sp. z o.o.	100%	100%
ORLEN Upstream Sp. z o.o.	100%	100%
Etylobenzen Płock Sp. z o.o. in liquidation [5)]	-	100%
ORLEN Holding Malta Ltd. Group	100%	100%
including:		
Orlen Insurance Ltd.	100%	100%
Mazeikiu Group	90% / (100%) [7)]	90% / (100%) [7)]
including:		
UAB Mažeikių naftos sveikatos priežiūros centras	100%	100%
UAB Uotas in liquidation	100%	100%
UAB PASLAUGOS TAU	100%	-
AB Ventus-Nafta	99%	99%
UAB Mezeikiu naftos prekybos namai Group	100%	100%
including:		
SIA Mazeikiu Nafta Tirdzniecibas nams	100%	100%
OU Mazeikiu Nafta Trading House	100%	100%
Mazeikiu Nafta Trading House Sp. z o.o.	100%	100%
ORLEN Finance AB (formerly Aktiebolaget Grundstenen 108770)	100%	100%
ORLEN International Exploration & Production Company BV	100%	-

[1)] Share in total voting rights is equal to share in equity except for share in equity of Ship Service S.A. Group, where it accounts for 61%

[2)] ORLEN Transport S.A. was created as a result of merger of six subsidiaries of PKN ORLEN S.A.: ORLEN Transport Płock Sp. z o.o., ORLEN Transport Kędzierzyn-Koźle Sp. z o.o., ORLEN Transport Nowa Sól Sp. z o.o., ORLEN Transport Szczecin Sp. z o.o., ORLEN Transport Słupsk Sp. z o.o., ORLEN Transport Olsztyn Sp. z o.o.

[3)] Entity unconsolidated starting from I quarter 2008 due to cease of control

[4)] Entity consolidated using the proportionate method

[5)] Entity liquidated in III quarter 2008

[6)] In III quarter 2008 the merger of ORLEN PetroCentrum Sp. z o.o., ORLEN Petroprofit Sp. z o.o., ORLEN Morena Sp. z o.o., ORLEN PetroZachód Sp. z o.o. took place.

[7)] (%) share used for the purpose of preparation of the consolidated financial statements of PKN ORLEN Group taking into account purchase option of Mazeikiu shares in the amount of PLN 842,485 thousand increasing the Parent’s share in equity
[8)] Entity sold in IV quarter 2008
[9)] In IV quarter 2008 the entity was incorporated to Rafineria Jedlicze S.A.

[10)] Entity liquidated in IV quarter 2008

[11)] In IV quarter 2008 the entites were incorporated to Unipetrol Deutschland GmbH

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

a) Functional currency and presentation currency

Functional currency of the Parent and presentation currency of the foregoing consolidated financial statements is Polish zloty.

Financial statements of foreign entities, for consolidation purposes, are translated into Polish zloty using the following procedures:
- assets and liabilities of each presented balance sheet are translated at the closing rate at the given balance sheet date;
- respective items of the income statement are translated at the arithmetic average of average exchange rates published by the National Bank of Poland as of every last day of month in the reporting period. All resulting exchange differences are recognized as a separate component of equity.

b) Methods applied to translation of data denominated in foreign currencies

The financial data denominated in CZK was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 0.1566 PLN / CZK and for 31 December 2007 – 0.1348 PLN / CZK;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 0.1411 PLN / CZK. For the period from 1 January 2007 to 31 December 2007 the rate was 0.1361 PLN / CZK.

The financial data denominated in EUR was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 4.1724 PLN / EUR and for 31 December 2007 – 3.5820 PLN / EUR;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 3.5321 PLN / EUR. For the period from 1 January 2007 to 31 December 2007 the rate was 3.7768 PLN / EUR.

The financial data denominated in USD was translated in line with the following methods:
- particular assets and liabilities – at the closing rate for 31 December 2008 – 2.9618 PLN / USD and for 31 December 2007 – 2.4350 PLN / USD;
- particular income statement items and positions of the statement of cash flows – at the arithmetic average of exchange rates of the period from 1 January 2008 to 31 December 2008 – 2.4115 PLN / USD. For the period from 1 January 2007 to 31 December 2007 the rate was 2.7484 PLN / USD.

Foreign exchange differences resulting from valuation of financial statements of foreign entities are recognized directly in equity as a separate position.

5. Applied accounting principles

Property, plant and equipment

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

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

Property, plant and equipment are stated in the financial statements prepared at the balance sheet date at the carrying amount. The carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. The Group uses straight-line method and in justified cases units of production method:

The following standard economic useful lives are used for property, plant and equipment:

Buildings and constructions	10-70 years
Machinery and equipment	3-25 years
Vehicles and other	4-17 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately over the period reflecting its economic useful life.

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

The cost of significant repairs and regular maintenance programs is recognized as property, plant and equipment and depreciated in accordance with their economic useful lives. The cost of current maintenance of property, plant and equipment is recorded in the financial result during the period when incurred.

Intangible assets

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

Except for intangible assets arising from development other internally generated intangible assets are not recognized as assets but are recorded in the income statement in the period when the related cost has been incurred.

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

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

Intangible assets are stated in the financial statements prepared at balance sheet date at the carrying amount. The carrying amount is the amount at which the asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Intangible assets with finite useful life are amortized using straight-line method when an asset is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated economic useful life. Appropriateness of the applied amortization periods and rates is verified periodically, at least at the end of the reporting year, and potential adjustments to amortization allowances are made in the subsequent periods.

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

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

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

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

Perpetual usufruct of land

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

The titles to perpetual usufruct of land obtained under an administrative decision are recognized as off balance sheet items.

Impairment of assets

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

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

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

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

Assets that do not generate cash flows individually are grouped in the smallest identifiable group of assets generating cash flows that are largely independent of the cash flows from other assets (so called cash-generating units). The Group allocates to each of the cash generating units:
- goodwill acquired in a business combination, if it may be assumed that the cash-generating unit benefited from the synergies of the combination;
- corporate assets, if there is reasonable and consistent basis of such an allocation.

The impairment loss is allocated to reduce the carrying amount of the assets of the cash generating unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash generating unit;
- then, to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

An impairment loss recognized for goodwill is not reversed.

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

Lease

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

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

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

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

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

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

If the Group uses an asset based on the operating lease, the asset is not recognized in the balance sheet and lease payments are recognized as an expense in the income statement.

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

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

Non-current assets classified as held for sale

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

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

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

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

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

Investment property

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

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

An investment property is presented in the financial statements prepared at the balance sheet date at fair value. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction.

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

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

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.

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

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

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

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

Measurement of financial assets

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

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

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

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

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

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

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

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

Fair value measurement of financial assets

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

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

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

Financial assets designated as hedging transaction are measured in accordance with the principles of hedge accounting.

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

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

Amortized cost measurement of financial assets

The Group measures loans and receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. The Group uses simplified methods in respect of measurement of financial assets at amortized cost if it does not distort information included in the financial statements. Financial assets measured at amortized cost, in relation to which the Group uses simplifications, are measured initially and after initial recognition (including the balance sheet date) at the amounts due.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is an objective indicator that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.
The Group uses simplified methods in respect of determining the impairment of trade receivables – particularly the impairment loss equal to the asset's carrying amount is recognized if the payment term expired at least 6 months before the balance sheet date. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in the income statement as revenues.

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

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognized directly in equity, according to principles of financial assets measurement, is removed from equity and recognized in the income statement. Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

Non-current financial assets held for sale

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

Measurement of financial liabilities

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

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

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

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

Financial guarantee contracts, that are contracts that require the Group (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:
- the amount determined in accordance with principles relating to valuation of provisions,
- the amount initially recognized less, when appropriate, cumulative amortization.

Embedded derivatives

If the Group is a party of a hybrid (combined) instrument that includes an embedded derivative, the embedded derivative is separated from the host contract and accounted for as a derivative in accordance with principles defined for investments at fair value through profit or loss if all of the following conditions are met:
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same realization terms as the embedded derivative would meet the definition of a derivative, and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss (that is when a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

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

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

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 of cash flow hedge accounting, if all of the following conditions are met:
- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement,
- 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.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement. 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 revaluation the hedging instrument at fair value is recognized in the income statement, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognized directly in equity).

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

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

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

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

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

The Group discontinues prospectively cash flow hedge accounting if:
- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs;
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognized directly in equity remain separately recognized in equity until the forecast transaction occurs;
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognized directly in equity are recognized in the income statement.

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

Inventory

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

Raw materials and merchandise are measured initially at acquisition cost.

As at the balance sheet date raw materials and merchandise are measured at the lower of cost and net realizable value, considering any inventory allowances. A net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

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

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

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

As at the balance sheet date finished goods and work in progress are measured at the lower of cost and net realizable value.

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

Receivables

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

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

Cash and cash equivalents

Cash comprises cash on hand and in a bank account. Cash equivalents are short-term highly liquid investments (of initial maturity up to three months), that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
The cash flows balance of cash and cash equivalents consists of the above defined monetary assets and their equivalents less bank overdrafts, if they form an integral part of the Group's cash management.

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

Equity

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

The share capital is stated at nominal value in accordance with the Company's Articles of Association and the entry in the Commercial Register, except for shares issued before 1996. Those shares were adjusted using a general price index in line with IAS 29.

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

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

Issuance costs incurred by setting up a joint stock company or increasing the share capital decrease the share premium to the amount of the surplus of the issuance value in excess of the nominal value of shares, and the remaining portion is presented as retained earnings.

Changes in the fair value of cash flow hedges related to the portion regarded as an effective hedge are included in equity as hedging reserve.

Equity resulting from the conversion of convertible bonds, liabilities and loans into shares is stated at the nominal value of those financial instruments, liabilities and loans, considering non-amortized discounts or premiums, interest accrued and unsettled before the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalized issuance costs.

Retained earnings include:
- the amounts arising from profit distribution,
- transfers from revaluation reserve (the difference between the fair value and the acquisition cost, net of deferred tax, of assets available for sale is transferred to the revaluation reserve, if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods),
- the undistributed result for prior periods,
- the current period net result,
- advance dividends paid,
- the effects of prior period errors.

Interest-bearing loans and borrowings

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

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

Borrowing costs

Cost of loans and borrowings, including foreign exchange differences related to loans and borrowings drawn in foreign currencies, are expensed in the income statement in the period to which they refer in accordance with the benchmark treatment of IAS 23.

Provisions

A provision is a liability of uncertain timing or amount.

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

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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

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

The provisions are created, among others, for (if recognition criteria mentioned above are met):
- environmental risk,
- restructuring,
- legal proceedings.

Provisions are not recognized for future operating losses.

Environmental provision

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

Restructuring provision

The Company creates provision for costs of restructuring defined as a program that is planned and controlled by management and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted. Provision for restructuring is created when the Company has a detailed formal plan for the restructuring and the restructuring process has been started or has been announced in public. A restructuring provision includes only the direct expenditures arising from the restructuring, such as costs of redundancy of employees (redundancy payments and compensations paid), termination of tenancy and lease agreements, dismantling of assets. Future costs associated with the ongoing activities of the Company after the restructuring, such as retraining of staff, marketing and gains on the expected liquidation of assets are not taken into account.

Provision for jubilee bonuses, retirement and pension benefits

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

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

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

The retirement and pension benefits and jubilee bonuses provisions are created in order to allocate costs to relevant periods.

The present value of these liabilities is estimated at the end of each reporting year by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities.
The accumulated liabilities equal discounted future payments, considering employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year.

Actuarial gains and losses are recognized in the income statement.

Liabilities

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

Contingent liabilities and contingent assets

Contingent liabilities are not recognized in the balance sheet 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 acquired as the result of a business combination are recognized as provisions in the balance sheet.

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

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

Revenues

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

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

Revenues from licenses, royalties and trade mark are recognized on an accrual basis in accordance with the substance of the relevant agreement. Prepayments are recognized as deferred income.

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

Revenues from dividends are recognized when the shareholders' right to receive payment is established.

Costs

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

Costs of finished goods sold comprise costs of finished goods sold and costs of services sold, including services of support functions.

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

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

Operating segments

The Group adopted business segments as the primary reporting format i.e. as the dominant source of risks and benefits related to sale of different merchandise and finished goods.

The Group adopted geographical segments according to sales markets as a secondary reporting format.

The operations of the Group are divided into three main business segments:
- the Refining Segment that comprises crude oil processing as well as wholesale and retail trade in refinery products,
- the Petrochemical Segment that encompasses production and sales of petrochemicals,
- the Chemical Segment that comprises production and sales of artificial fertilizers and PVC.

The other operations of the Group include mainly support functions as well as transportation, maintenance and building activities.

Segment revenue is revenue reported in the Group's income statement that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the Group.

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

Segment income/expense does not include:

- income tax expense,
- interest, including interest incurred on advances or loans from other segments,
- gains/losses on sales of investments or gains/losses on extinguishment of debt unless the segment's operations are primarily of a financial nature,
- general and administrative expenses and other revenues/expenses arising at the level of the Group as a whole.

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

The segment result is determined at the level of result from operations.

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

Sales prices used in transactions between segments are close to market prices. Segment operating expenses are allocated to a proper segment.

Other expenses which cannot be reliably allocated are included as unallocated expenses, reconciling total segment result to result from operations.

Government grants

The government grants are recognized at fair value if there is reasonable assurance that the grant will be obtained and the entity will comply with the conditions attached to it.

If the grant relates to a given income, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate.

If the grant concerns particular asset, its fair value is recognized as deferred income and on a systematic basis recorded in the income statement over the estimated useful life of the underlying asset.

Income tax expense

Income tax expense comprises current tax expense and deferred tax expense.

Current tax is determined in accordance with the relevant tax law regulations in respect of the taxable profit.

Current tax liabilities represent the amounts payable at the balance sheet date. If the amount paid due to current income tax is greater than the amount due the excess is recognized in the balance sheet as a receivable.

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

Deferred tax liabilities are recognized for all taxable temporary differences.

Deductible temporary differences are temporary differences that will result in reducing taxable amounts when determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base. Deductible temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

Taxable temporary differences are temporary differences that will result in increasing taxable amounts when determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled. Taxable temporary differences arise when the carrying amount of an asset is higher than its tax base or when the carrying amount of a liability is lower than its tax base. Taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.

The Group does not recognize deferred tax assets and deferred tax liabilities for temporary differences resulting from the initial recognition of an asset or liability in a transaction which is not a business combination, and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability is not recognized for goodwill, whose amortization is not a tax deductible cost.

The deferred tax assets and liabilities are measured at each balance sheet date using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (impairment analysis of deferred tax assets at each balance sheet date).

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to equity transactions are charged to equity.

Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities in the balance sheet.

Deferred tax assets and liabilities are offset in the balance sheet, if the Group has a legally enforceable right to set off the recognized amounts. It is assumed that a legally enforceable right exists if the amounts concern the same tax payer (including capital tax group), except for amounts taxed based on lump sum method or in a similar way, if tax law does not allow to offset them with tax determined according to general rules.

Earnings per share

Basic earnings per share are calculated by dividing the net profit for a given period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share for each period are calculated by dividing the net profit for a given period adjusted by changes of the net profit resulting from conversion of the dilutive potential ordinary shares by the weighted average number of ordinary shares.

Foreign currency transactions

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

The functional currency of the Parent Company is Polish zloty.

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in the income statement in the period in which they arise, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting. Foreign exchange differences are recognized in the income statement in the net amount.

The Management Board estimates and assumptions

The preparation of financial statements in accordance with IFRSs requires that the Management Board makes expert estimates and assumptions that affect the adopted methods and presented amounts of assets, liabilities, revenues and expenses. The estimates and related assumptions are based on historical expertise and other factors regarded as reliable in given circumstances and their effects provide grounds for expert assessment of the carrying amount of assets and liabilities which is not based directly on any other factors.

In the matters of considerable weight, the Management Board bases its estimates on opinions of independent experts. Actual results may differ from the estimated values.

The estimates and related assumptions are verified on a regular basis. Changes in accounting estimates are recognized in the period when they are made only if they refer to that period or in the present and future periods if they concern both the present and future periods.

Changes in accounting policies and prior period errors

The Group changes an accounting policy only if the change:
- is required by change in the accounting law,
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

Changes in accounting policies are applied retrospectively. The related adjustments are presented in equity – in retained earnings. To ensure that data are comparable the Group adjusts the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The prior period errors are corrected by the equity – retained earnings. When preparing financial statements, the assumption is made that the error was corrected in the period, in which it was made. It means that the amount of the correction relating to the prior period should be included in the income statement of that period.

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 Group's cash management.
Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

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

Interest received from finance leases, cash pooling, loans granted and short-term securities are presented in cash flows from investing activities. Other interest received are presented in cash flows from operating activities.

Cash flows from corporate income tax are presented in cash flows from operating activities.

Business combinations

Business combinations are accounted for using the purchase method. Application of this method requires:
- identification of acquirer;
- measurement of cost of the business combination;
- allocation, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

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

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

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

Goodwill

Goodwill is allocated to cash-generating units at the acquisition date.

Goodwill resulting from a business combination is stated at the acquisition date (all relevant days of acquisition if the business combination results from a series of transactions) at the excess of the cost of the business combination over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities.

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

Goodwill is tested for impairment before the end of the reporting period in which the business combination occurred and in the following annual reporting periods. If events or circumstances indicate that goodwill might be impaired, the goodwill is tested for impairment before the end of each reporting period, in which such circumstances occurred.

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

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

Principles of consolidation

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

Subsidiaries

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

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

Investments in jointly controlled entities

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

Investments in associates

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

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

Consolidation procedures

Consolidated financial statements are prepared using the line by line method and the proportionate method.

In preparing consolidated financial statements the following consolidation procedures are followed:
- the carrying amount of the Parent's investment in each subsidiary and the Parent's portion of equity of each subsidiary are eliminated,
- minority interest in the profit or loss of consolidated subsidiaries for the reporting period are identified,
- minority interest in the net assets of consolidated subsidiaries are identified and presented separately from the Parent's,
- intra group balances are eliminated,
- unrealized gains or losses on intra group transactions are eliminated,
- the income and expenses relating to intra group transactions are eliminated.

Consolidated financial statements are financial statements of the Capital Group prepared as if they were financial statements of a single economic entity.

Impact of new Standards and Interpretations on the Group's financial statements

As at the date of preparation of these financial statements the following new standards, amendments and interpretations to International Financial Reporting Standards were published:

- Improvements to International Financial Reporting Standards (Part I contains 24 changes to 15 standards, which result in changes in presentation, recognition and valuation, Part II contains 11 nomenclatural and editorial changes) – effective from 1 January 2009 or in case of changes in IFRS 5 „Non-current assets held for sale and discontinued operations" – 1 July 2009;
- IFRIC 12 – "Service Concession Arrangements" – effective from 1 January 2008;
- IFRIC 13 – "Customer Loyalty Programs" – effective from 1 July 2008;
- IFRIC 15 – „Agreements for the Construction of Real Estate" – effective from 1 January 2009;
- IFRIC 16 – "Hedges of a Net investment in a Foreign Operation" – effective from 1 October 2008;
- IFRIC 17 – „Distributions of Non-Cash Assets to Owners" – effective from 1 July 2009;
- IFRIC 18 – „Transfer of Assets from Customers" – effective from 1 July 2009;
- IFRS 1 – „First-time adoption of International Financial Reporting Standards" – effective from 1 January 2009 and 1 July 2009;
- IFRS 2 – „ Share-based Payment" – effective from 1 January 2009;
- IFRS 3 – „ Business Combinations" – effective from 1 July 2009;
- IFRS 7 – „ Financial Instruments: Disclosures" – effective from 1 January 2009;
- IFRS 8 – „ Operating Segments" – effective from 1 January 2009;
- IAS 1 – „ Presentation of Financial Statements" – effective from 1 January 2009;
- IAS 23 – „ Borrowing Costs" – effective from 1 January 2009;
- IAS 27 – "Consolidated and Separate Financial Statements" – effective from 1 January 2009 and 1 July 2009;
- IAS 32 – "Financial Instruments: Presentation" – effective from 1 January 2009;
- IAS 39 – „Financial Instruments: Recognition and Measurement" – effective from 1 July 2008 and 1 July 2009.

As at the date of preparation of consolidated financial statements all the above-mentioned standards and interpretations, except for IFRIC 12, IFRIC 13, IFRS 2, IFRS 8, IAS 1, IAS 23 and IAS 32 are pending for the European Union approval.

The Group assessed the effects of implementation of these interpretations and amendments to standards. As a result of implementation of amendments to IAS 23 starting from 1 January 2009 borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset will be capitalized as part of the cost of that asset and depreciated during the economic useful life of an asset. It will cause the decrease of financial expenses whereas depreciation expenses will rise.

During the first quarter of 2009 the estimated borrowing costs capitalized on property, plant and equipment amounted to PLN 23 million.

According to the preliminary assessment other changes in standards mentioned above will not significantly influence the Group's financial statements.

(all amounts in PLN thousand)

6. Differences between data disclosed in the financial statements and previously prepared and issued financial statements

a) Change of comparable data regarding goodwill

	Data disclosed in the consolidated financial statements for 2007	Goodwill adjustment	Data disclosed in the consolidated financial statements for 2008
Goodwill	132 465	(46 607)	**85 858**
Retained earnings	18 941 688	(46 607)	**18 895 081**

Adjustment concerning write off of goodwill was recognized in assets of Unipetrol Group and Mazeikiu Group on the acquisition date.

b) Significant changes implemented in comparison to data published as at 26 February 2009 in the condensed financial statements for IV quarters 2008, with the effect on total assets and a net result:

	Data disclosed in the interim condensed consolidated financial statements for the period of 3 and 12 months ended 31 December 2008	Adjustment	Data disclosed in the consolidated financial statements for 2008
Assets, including:	**49 286 111**	**(2 310 361)**	**46 975 750**
Property, plant and equipment	28 610 480	(2 341 723)	**26 268 757**
Deferred tax assets	433 050	52 312	**485 362**
Non-current loans and receivables	75 689	12 057	**87 746**
Inventory	9 105 039	(15 992)	**9 089 047**
Trade and other receivables	6 380 646	(24 472)	**6 356 174**
Income tax receivable	391 056	986	**392 042**
Short-term financial assets	246 530	11 302	**257 832**
Liabilities and shareholder's equity, including:	**49 286 111**	**(2 310 361)**	**46 975 750**
Retained earnings	17 553 560	(1 848 772)	**15 704 788**
Deferred tax liability	1 566 156	(431 470)	**1 134 686**
Trade and other liabilities	8 417 782	(3 635)	**8 414 147**
Short-term provisions	787 154	1 771	**788 925**
Other financial liabilities	1 208 190	4 419	**1 212 609**
Income statement, including:			
Gross profit on sales	5 545 106	(9 223)	**5 535 883**
Profit/(loss) from operations	758 480	(2 361 802)	**(1 603 322)**
Financial revenues and expenses, net	(1 558 213)	(20 401)	**(1 578 614)**
Loss before tax	(533 200)	(2 382 203)	**(2 915 403)**
Income tax	(99 026)	487 803	**388 777**
Net loss:	**(632 226)**	**(1 894 400)**	**(2 526 626)**

The most significant changes implemented to the financial statements of the Group are creation and reversal of impairment allowances for property, plant and equipment and intangible assets in the amount of PLN 2,365,756 thousand (Note 7.8).

Other implemented changes are a result of an update of estimated costs concerning 2008. Estimates were verified on the basis of information available as at the date of preparation of the foregoing financial statements.

Additionally, reclassification of valuation of swap transactions concerning CO_2 emission rights from trade and other receivables to financial assets was made with respective division into short and long term part.

c) Presentation change

In the period covered by the foregoing financial statements the following presentation changes were made:

- incorporation to the statement of changes in equity note "The statement of profits and losses recognized directly in equity" that was previously presented separately,
- aggregation of lines „loans granted" and „other non-current assets" into line „non-current loans and receivables",
- reclassification of creation and reversal of inventory allowances from other operating activities to costs of finished goods, merchandise and raw materials sold,
- reclassification of foreign exchange differences resulting from elimination of intragroup transactions, presented previously in costs of finished goods sold to sales of finished goods,
- discontinuation of presentation of accruals connected with employee benefits (holiday pay accrual and remuneration accrual) as well as environmental liabilities, special funds and accruals for customers' discounts as short-term liabilities classified as financial instruments.

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

d) Changes in classification of contingent liabilities

In the foregoing financial statements the following positions are not classified any more as contingent liabilities:

- excise tax guarantees and excise tax on goods and merchandise under the excise tax suspension procedure of PLN 1,442,632 thousand as at 31 December 2007.

In the current assessment of the Management Board, the presentation of the above items as contingent liabilities is not justifiable because PKN ORLEN settles excise tax payments on time and the probability of customs authorities making use of such guarantees is remote.

- letters of credit and guarantees in the value of PLN 360,847 thousand as at 31 December 2007.

In the current assessment of the Management Board the presentation of guarantees and letters of credit as contingent liabilities is not justifiable because there is remote probability of outflow of economic benefits.

(all amounts in PLN thousand)

7. Selected explanatory notes

7.1. Property, plant and equipment

	31 December 2008	31 December 2007
Land	891 185	758 324
Buildings and constructions	9 200 217	8 905 383
Machinery and equipment	11 934 523	11 829 724
Vehicles and other	875 729	857 673
Construction in progress	3 367 103	2 482 821
Total	**26 268 757**	**24 833 925**

Changes of property, plant and equipment by categories:

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2008	821 923	12 924 187	21 108 183	1 665 764	2 525 125	39 045 182
Acquisition	1 062	26 202	69 286	163 641	3 714 927	3 975 118
Reclassification	21 787	799 325	2 020 748	89 078	(3 008 168)	(77 230)
Decrease	(6 326)	(163 231)	(309 156)	(113 329)	(29 890)	(621 932)
Foreign exchange differences	88 705	599 770	2 420 987	130 507	209 199	3 449 168
31 December 2008	**927 151**	**14 186 253**	**25 310 048**	**1 935 661**	**3 411 193**	**45 770 306**
Accumulated depreciation and impairment allowances						
1 January 2008	63 599	4 018 804	9 278 459	808 091	42 304	14 211 257
Depreciation	-	584 060	1 603 836	207 313	-	2 395 209
Other increases	2 179	3 459	17 101	5 648	-	28 387
Impairment allowances	(33 511)	309 212	2 002 361	67 995	1 221	2 347 278
creation of allowance	6 396	380 267	2 019 213	69 190	9 428	2 484 494
reversal of allowance	(39 907)	(71 055)	(16 852)	(1 195)	(8 207)	(137 216)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	(372)	(97 336)	(263 873)	(83 481)	-	(445 062)
Foreign exchange differences	4 071	167 837	737 641	54 366	565	964 480
31 December 2008	**35 966**	**4 986 036**	**13 375 525**	**1 059 932**	**44 090**	**19 501 549**
Gross book value						
1 January 2007	837 976	12 408 079	21 625 445	1 585 247	1 131 323	37 588 070
Acquisition	13 244	80 611	128 240	188 490	3 423 019	3 833 604
Reclassification	32 305	809 957	817 987	110 080	(1 841 411)	(71 082)
Decrease	(35 079)	(154 449)	(214 454)	(168 595)	(16 029)	(588 606)
Foreign exchange differences	(26 523)	(220 011)	(1 249 035)	(49 458)	(171 777)	(1 716 804)
31 December 2007	**821 923**	**12 924 187**	**21 108 183**	**1 665 764**	**2 525 125**	**39 045 182**
Accumulated depreciation and impairment allowances						
1 January 2007	64 526	3 568 464	7 996 188	710 182	49 029	12 388 389
Depreciation	618	565 108	1 595 653	184 317	-	2 345 696
Other increases	1	9 356	4 501	37 941	-	51 799
Impairment allowances	(636)	3 090	4 445	8 880	(6 228)	9 551
creation of allowance	558	34 124	45 612	9 255	4 496	94 045
reversal of allowance	(1 194)	(31 034)	(41 167)	(375)	(10 724)	(84 494)
Depreciation decrease due to liquidation and sale of property, plant and equipment and other decreases	(55)	(91 177)	(168 786)	(121 536)	-	(381 554)
Foreign exchange differences	(855)	(36 037)	(153 542)	(11 693)	(497)	(202 624)
31 December 2007	**63 599**	**4 018 804**	**9 278 459**	**808 091**	**42 304**	**14 211 257**
Net book value						
1 January 2008	**758 324**	**8 905 383**	**11 829 724**	**857 673**	**2 482 821**	**24 833 925**
31 December 2008	**891 185**	**9 200 217**	**11 934 523**	**875 729**	**3 367 103**	**26 268 757**
1 January 2007	**773 450**	**8 839 615**	**13 629 257**	**875 065**	**1 082 294**	**25 199 681**
31 December 2007	**758 324**	**8 905 383**	**11 829 724**	**857 673**	**2 482 821**	**24 833 925**

Impairment allowances for property, plant and equipment as at 31 December 2008 and 31 December 2007 amounted to PLN 2,972,643 thousand and PLN 568,366 thousand, respectively, taking into account foreign exchange differences.

As at 31 December 2008 the Group reviewed economic lives of property, plant and equipment applied afore. Should the rates from the previous year be applied, depreciation expense would be higher by PLN 8,294 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2008 amounted to PLN 1,967,344 thousand and as at 31 December 2007 amounted to PLN 1,927,622 thousand.

Impairment allowances disclosed in property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded its recoverable amount. The impairment allowances are charged to other operating expenses.

(all amounts in PLN thousand)

Property, plant and equipment of PLN 1,120,737 thousand and PLN 1,124,988 thousand were used as a pledge for the Group's liabilities as at 31 December 2008 and 31 December 2007, respectively.

7.2. Investment property

The following changes were recognized in investment property in 2008 and 2007:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Investment property, beginning of the period	69 076	34 925
Reclassification from property, plant and equipment	2 037	33 153
Purchase	57	1 244
Sale	(215)	-
Fair value adjustment	(6 937)	189
Foreign exchange differences	8 157	(677)
Other	(418)	242
Investment property, end of the period	**71 757**	**69 076**

Investment property of the Group comprise: social-office buildings, partially designated for rent, and land.

In 2008 and 2007 the Group gained rental income from investment property in the amount of PLN 12,397 thousand and PLN 7,114 thousand, respectively.

Direct operating expenses arising from investment property, that in a given period generated rental income, accounted for PLN 3,199 thousand in 2008 and PLN 2,831 thousand in 2007.
Direct operating expenses from investment property, that in a given period did not generate rental income, accounted for PLN 371 thousand in 2008 and PLN 4,082 thousand in 2007.

Depending on the characteristics of the investment property, its fair value was assessed by an independent valuer based on comparison or revenue approach. Comparison approach was applied assuming that the value of assessed property was equal to the market price of a similar property. In revenue approach the calculation was based on discounted cash flows method, due to variability of revenues in foreseeable future. 5-year period forecasts were applied in the analysis. The discount rate reflected the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the valued objects consider provisions included in all rent agreements as well as external data, e.g. current market rent charges for similar objects, same located and in the same technical condition and standard and designated for similar purposes.

7.3. Intangible assets

	31 December 2008	31 December 2007
Acquired computer software	42 808	31 423
Acquired patents, trade marks and licenses	484 102	471 617
Other	30 138	27 930
Total	**557 048**	**530 970**

(all amounts in PLN thousand)

The changes of intangible assets were as follows:

	Acquired computer software	Acquired patents, trade marks and licenses	Other	Total
Gross book value				
1 January 2008	156 108	838 262	61 101	1 055 471
Acquisition	10 413	4 421	20 915	35 749
Other increases	4 267	247	11 560	16 074
Reclassification	6 270	57 027	4 767	68 064
Decrease	(3 731)	(26 151)	(13 738)	(43 620)
Foreign exchange differences	24 663	45 491	8 817	78 971
31 December 2008	**197 990**	**919 297**	**93 422**	**1 210 709**
Accumulated depreciation and impairment allowances				
1 January 2008	124 685	366 645	33 171	524 501
Depreciation	12 227	65 619	11 180	89 026
Other increases	755	105	9 338	10 198
Impairment allowances	1 072	38	11 816	12 926
creation of allowance	1 337	1 032	11 826	14 195
reversal of allowance	(265)	(994)	(10)	(1 269)
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(2 681)	(11 510)	(6 808)	(20 999)
Foreign exchange differences	19 124	14 298	4 587	38 009
31 December 2008	**155 182**	**435 195**	**63 284**	**653 661**
Gross book value				
1 January 2007	151 709	780 230	155 006	1 086 945
Acquisition	10 352	12 802	9 006	32 160
Other increases	3 177	11 236	3 505	17 918
Reclassification	7 496	51 052	9 204	67 752
Decrease	(9 801)	(6 096)	(108 647)	(124 544)
Foreign exchange differences	(6 825)	(10 962)	(6 973)	(24 760)
31 December 2007	**156 108**	**838 262**	**61 101**	**1 055 471**
Accumulated depreciation and impairment allowances				
1 January 2007	121 422	320 082	25 658	467 162
Depreciation	13 904	50 787	19 779	84 470
Other increases	275	66	7 703	8 044
Impairment allowances	77	(29)	(22)	26
creation of allowance	77	-	63 019	63 096
reversal of allowance	-	(29)	(63 041)	(63 070)
Depreciation decrease due to liquidation and sale of intangible assets and other decreases	(6 687)	(1 781)	(19 343)	(27 811)
Foreign exchange differences	(4 306)	(2 480)	(604)	(7 390)
31 December 2007	**124 685**	**366 645**	**33 171**	**524 501**
Net book value				
1 January 2008	**31 423**	**471 617**	**27 930**	**530 970**
31 December 2008	**42 808**	**484 102**	**30 138**	**557 048**
1 January 2007	**30 287**	**460 148**	**129 348**	**619 783**
31 December 2007	**31 423**	**471 617**	**27 930**	**530 970**

Impairment allowances for intangible assets as at 31 December 2008 and 31 December 2007 amounted to PLN 15,005 thousand and PLN 1,793 thousand, respectively, taking into account foreign exchange differences.

As at 31 December 2008 the Group reviewed economic useful lives of intangible assets applied afore. Should the rates from the previous year be applied, adjustment to depreciation expense would not be material.

The gross book value of all fully depreciated intangible assets still in use as at 31 December 2008 amounted to PLN 220,221 thousand and as at 31 December 2007 amounted to PLN 217,856 thousand.
As at 31 December 2008 and 31 December 2007 no intangible assets were used as a pledge for the Group's liabilities.

(all amounts in PLN thousand)

CO_2 emission rights

As at 31 December 2008 the Group possessed CO_2 emission rights granted free of charge, that were presented in the balance sheet in the net amount equal to zero.
CO_2 emission rights were granted on the basis of the binding legal regulations resulting from the Kyoto Protocol dated 11 December 1997 to the United Nations Framework Convention on Climate Change, adopted by the European Union.

In accordance with applicable law in Poland, distribution of the rights granted to the country among particular installations, took place based on the Council of Ministers Regulation in the form of National Allocation Plan.

Information on emission rights granted to PKN ORLEN Capital Group	Quantity (Mg)
Emission rights as at the balance sheet date	**52 310 047**
Emission rights acquired by the Group for the 5-year accounting period	64 799 525
Verified quantity of emission rights used in 2008	(12 228 931)
Emission rights acquired on a free market in the current period in order to cover shortages	12 537
Sale of CO_2 emission rights	(280 527)
Shortage of emission rights used in 2008, covered by emission rights granted for 2009	7 442

On 14 November 2008 when the emission rights were granted market value of 1 CO_2 emission right amounted to EUR 17.50, and on 31 December 2008 market value of 1 CO_2 emission right amounted to EUR 15.90.

Perpetual usufruct of land

The titles to perpetual usufruct of land obtained under an administrative decision were recognized as off balance sheet items in the amount of PLN 993,711 thousand as at 31 December 2008 and of PLN 1,011,178 thousand as at 31 December 2007. These rights were revalued to fair value as at 1 January 2004.

Concessions

As at 31 December 2008 and 31 December 2007 the Company possessed concessions for public services due to which annual concession fees recognized in the income statement in a given period are paid.

The Group companies as the owners of particular concessions granted by proper bodies of the public administration possess concessions for the following activities:
- manufacturing of liquid fuels;
- trade in liquid fuels;
- storage of liquid fuels;
- trade in gas fuels;
- distribution of gas fuels;
- domestic transport of fuels;
- international profit-making road transportation services;
- manufacturing of electrical energy;
- trade in electrical energy;
- transportation and distribution of electrical energy;
- manufacturing of heating energy;
- trade in heating energy;
- transportation and distribution of heating energy;
- storage of liquid hydrocarbons;
- exploitation of rock salt;
- recognition of rock salt;
- exploration and recognition of crude oil and natural gas.

Concessions for trade of liquid and gas fuels, manufacturing and storage of liquid fuels, distribution of gas fuels, manufacturing, trade, transportation and distribution of heating energy, manufacturing, trade, transportation and distribution of electrical energy are granted in most cases for the period of 10 years. Concessions for domestic fuel transportation and international profit-making road transportation services are granted for the period of 5 to 45 years. Concessions for storage of liquid hydrocarbons (until 1 September 2029) and exploitation of rock salt (until 29 April 2033) are granted for the period of 30 years and concession for recognition of rock salt (until 3 February 2012) was granted for the period of 6 years. Concessions for exploration and recognition of crude oil and natural gas are granted for the period of 5 years (until 30 October 2012).

(all amounts in PLN thousand)

7.4. Goodwill

	31 December 2008	31 December 2007
Goodwill on consolidation		
ORLEN PetroTank	11 298	11 298
ORLEN PetroCentrum	5 897	-
ShipService	3 145	3 145
ORLEN PetroProfit	-	1 175
ORLEN Petrozachód	-	4 597
ORLEN Morena	-	125
Ceska Rafinerska	7 753	6 674
Other	492	-
Total goodwill on consolidation	**28 585**	**27 014**
Goodwill on business combination:		
Basell ORLEN Polyolefins	51 902	51 902
ORLEN Deutschland	7 052	6 942
Other	94	-
Total goodwill on business combination	**59 048**	**58 844**
Total goodwill	**87 633**	**85 858**

The following changes in goodwill took place in 2008 and 2007:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Goodwill on consolidation, begining of the period	**27 014**	**26 163**
Increase	**6 368**	**6 849**
ORLEN Petrocentrum	5 897	**-**
Mazeikiu Group	471	-
Etylobenzen	-	175
Ceska Rafinerska	-	6 674
Decrease	**(5 897)**	**(5 293)**
ORLEN Petrozachód	(4 597)	(5 293)
ORLEN Petroprofit	(1 175)	-
ORLEN Morena	(125)	-
Foreign exchange differences	1 100	(705)
Goodwill on consolidation, end of the period	**28 585**	**27 014**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Goodwill on business combination, begining of the period	**58 844**	**74 372**
Increase	**-**	**756**
Basell ORLEN Polyolefins	**-**	756
Decrease	**(1 569)**	**(9 017)**
ORLEN Deutschland	(1 569)	(1 064)
Impairment of goodwill in Spolana	-	(7 953)
Foreign exchange differences	1 773	(7 267)
Goodwill on consolidation, end of the period	**59 048**	**58 844**

7.5. Non-current financial assets

Available-for-sale assets

	Seat	31 December 2008	31 December 2007	Group's share in capital/voting rights as at 31 December 2008	Group's share in capital/voting rights as at 31 December 2007	Principal activity
SK Eurochem Sp. z o.o.	Poland - Włocławek	21 490	25 203	17,37%	17,37%	production of chemicals
Naftoport Sp. z o.o.	Poland - Gdańsk	31 026	31 026	14,10%	14,10%	construction, operation and maintenance of loading station for liquid fuels
Wodkan S.A.	Poland - Ostrów Wielkopolski	1 142	2 011	2,84%	2,84%	water supply and savage services
Other		8 516	4 082			
Net value of available-for-sale assets		**62 174**	**62 322**			

Impairment allowances of available-for-sale assets as at 31 December 2008 and 31 December 2007 amounted to PLN 81,059 thousand and PLN 39,236 thousand, respectively.

(all amounts in PLN thousand)

7.6. Investments in associates

As at 31 December 2008 and 31 December 2007 the Group's investments in associates accounted for using equity method were as follows:

Investments in associates	Carrying amount as at		Group's share in capital/ voting rights as at		Principal activity
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	
Polkomtel SA	961 151	689 550	24,39%	19,61%	rendering mobile telecommunication services
Goodwill on acquisition of Polkomtel SA	537 920	-	-	-	
Other	62 061	10 781	-	-	
Total	**1 561 132**	**700 331**	**24,39%**	**19,61%**	

In accordance with IAS 28 "Investments in associates", condensed financial data comprising total assets and liabilities as at 31 December 2008 and 31 December 2007, revenues, financial expenses and profit for 2008 and 2007 in Polkomtel S.A. are described below:

Polkomtel S.A. (Selected financial data)

	31 December 2008	31 December 2007
Current assets	1 565 579	1 393 444
Non-current assets	7 348 301	7 059 929
Short-term liabilities	3 684 792	3 776 386
Long-term liabilities	1 293 456	1 170 048
	for the year ended 31 December 2008	**for the year ended 31 December 2008**
Total sales revenues	8 482 085	7 799 020
Profit from operations	1 889 180	1 771 713
Profit before tax	1 678 319	1 703 868
Income tax expense	(317 080)	(345 192)
Net profit	1 361 239	1 358 676

7.7. Jointly controlled entities consolidated using proportionate method

PKN ORLEN holds 50% share in a joint-venture entity – Basell ORLEN Polyolefins Sp. z o.o., involved in production, distribution and sale of polyolefines and in Płocki Park Przemysłowo-Technologiczny S.A., involved in advisory, business management services, holding management services and planning, purchasing and sales of real estates on its own account.

As at 31 December 2008 and for the year ended 31 December 2008, the Group's share in assets and liabilities, revenues and expenses of BOP was as follows:

	31 December 2008
Current assets	489 856
Non-current assets	780 708
Short-term liabilities	799 154
Long-term liabilities	1 526
	for the year ended 31 December 2008
Total sales revenues	1 384 139
Cost of finished goods, merchandise and raw materials sold	(1 337 059)
Gross profit on sales	**47 080**
Distribution expenses	(67 473)
General and administrative expenses	(12 254)
Operating revenues and expenses, net	(556)
Loss from operations	**(33 204)**
Financial revenues/expenses, net	(90 088)
Loss before tax	(123 291)
Income tax expense	(12 928)
Net loss	(110 363)

(all amounts in PLN thousand)

As at 31 December 2008 and for the year ended 31 December 2008 roku, the Group's share in assets and liabilities, revenues and expenses of Płocki Park Przemysłowo-Technologicznego S.A. was as follows:

	31 December 2008
Current assets	22 198
Non-current assets	27 441
Short-term liabilities	17 424
Long-term liabilities	6
	for the year ended 31 December 2008
Total sales revenues	1 018
Cost of finished goods, merchandise and raw materials sold	(698)
Gross profit on sales	320
General and administrative expenses	(2 126)
Operating revenues and expenses, net	1 083
Financial revenues/expenses, net	1 330
Profit before tax	607
Income tax expense	114
Net profit	493

7.8. Impairment of non-current assets

Macroeconomic slow down in 2008 caused by global economic and financial crisis and low market capitalization, which maintained below carrying amount of the Parent's net assets for several months, were main indicators for conducting an impairment test according to the requirements of IAS 36. For this purpose, non-current assets of the Group were divided into CGU (Cash Generating Units). CGU are defined as smallest identifiable groups of assets generating cash inflows, that are largely independent from cash inflows from other assets. Because of specific activities of particular groups of assets, their fair values could not be reliably estimated. Carrying amounts of assets belonging to particular CGUs were compared with their respective values in use, which were determined as present values of the future cash flows, discounted using pre-tax weighted average cost of capital, which comprise especially risk specific to the country, in which each CGU is located as well as risk of its functional currency.

The Group's future financial performance is based on number of variables and assumptions, that are in respect of macroeconomic factors such as foreign exchange rates, commodity prices, interest rates, partially out of the Group's control. The change of these variables and assumptions might influence the Group's financial position, including the results of impairment tests of non-current assets, and consequently might lead to changes in the financial position and performance of the Group.

Information about creations and reversals of allowances by categories is included in property, plant and equipment movement table (note 7.1) and intangible assets movement table (note 7.3).

Information about creations and reversals of allowances by business segments is included in note 8.

CGU Mazeikiu Refinery

The most significant impairment allowance of PLN (2,177,549) thousand net, was created in reference to CGU Mazeikiu Refinery presented in the refining segment (note 8). The creation and reversal of impairment allowances concerns technical equipment and machinery in the amount of PLN (1,921,240) thousand, buildings and constructions in the amount of PLN (189,556) thousand and other in the amount of PLN (66,753) thousand.
The pre-tax rate of Mazeikiu Refinery is 10.80%. While USD is the functional currency of Mazeikiu Refinery, the risk free rate was calculated on the basis of interest rates of US treasury bonds.

Other CGU

Total value of creations and reversals of impairment allowances concerning assets belonging to other CGUs amounts to PLN (182,655) thousand, including PLN 35,905 thousand concerning land, PLN (119,656) thousand concerning buildings and constructions, PLN (81,121) thousand concerning machinery and equipment, PLN (17,783) thousand concerning vehicles and other, and PLN 14,195 thousand concerning intangible assets. This impairment allowances concerned mainly Rafineria Trzebinia, Spolana and Rafineria Jedlicze.

(all amounts in PLN thousand)

7.9. Non-current loans and receivables

	31 December 2008	31 December 2007
Prepayments for property, plant and equipment	39 937	98 239
Sale of property, plant and equipment	919	1 762
Additional payments to subsidiaries' equity	-	45
Loans granted	18 009	22 934
Financial assets at fair value through profit or loss	12 057	-
Other receivables	16 824	6 226
Total	**87 746**	**129 206**

7.10. Inventory

	31 December 2008	31 December 2007
Raw materials	4 920 803	5 695 785
Work in progress	753 667	932 056
Finished goods	3 033 643	3 389 941
Merchandise	380 934	347 627
Total	**9 089 047**	**10 365 409**

Entrepreneurs operating on the Polish fuel market were obliged to create by the end of 2008 mandatory reserves at the level enabling to meet the demand for crude oil and petroleum products equal to minimum 76-days of average import of crude oil or fuels, or production of fuels, excluding LPG.

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in Poland are contained in the Minister of Economy Regulation of 24 April 2007 (Official Journal no. 81 item 546, 547).

The detailed methods of calculation and formation of the mandatory reserves of liquid fuels in the Republic of Lithuania are contained in Regulation no. 1901 of 5 December 2002 regarding approval of construction procedure, collection and maintenance of crude oil-derivatives and oil products and minimal amounts of crude-oil derivative products.
The above-mentioned regulation was changed on 28 December 2008 with an amendment to the Act no X-115, effective from 1 January 2009. According to this amendment, 90-day mandatory reserves should be accumulated by the end of 2009. The amendment changed also the proportion of mandatory reserves. Instead of previous 50%/50% relation between entrepreneurs and State Agency, the former should maintain mandatory reserves at the level of 60-days and the latter at the level of 30-days of the daily sale of fuels.

In the Czech Republic methods of calculation and formation of the mandatory reserves of liquid fuels are contained in Act no 189/1999 “Mandatory reserves of crude oil” published by the Parliament of Czech Republic at 29 July 1999 and amended by Regulation no. 560/2004 of 24 September 2004. Mandatory reserves are maintained by State Agency for 90 days of net crude oil import and are financed from the budget.

As at 31 December 2008 and 31 December 2007 the gross value of mandatory reserves in the Group amounted to PLN 5,261,019 thousand and PLN 4,802,805 thousand, respectively.

The inventory allowances amounted to PLN 511,930 thousand as at 31 December 2008 and PLN 54,152 thousand as at 31 December 2007.

As at 31 December 2008 and 31 December 2007 inventories of PLN 180,558 thousand and PLN 223,550 thousand, respectively, were used as a pledge for the Group’s bank loan liabilities.

7.11. Trade and other receivables

	31 December 2008	31 December 2007
Trade receivables	4 706 398	5 227 759
Excise tax and fuel charge receivables	189 690	185 353
Taxation, duty and social security receivables	617 365	546 961
Receivables due to sale of property, plant and equipment	14 353	828
Prepayments for property, plant and equipment	487 637	434 073
Receivables due to insurance compensations of Mazeiku Group	207 326	284 895
Prepayments for deliveries	2 848	-
Other receivables	130 557	204 586
Total trade and other receivables, net	6 356 174	6 884 455
Receivables allowances	564 262	562 558
Total trade and other receivables, gross	**6 920 436**	**7 447 013**

As at 31 December 2008 and at 31 December 2007 trade and other receivables denominated in foreign currencies amounted to PLN 3,368,401 thousand and PLN 1,079,961 thousand, respectively.

(all amounts in PLN thousand)

Trade receivables result primarily from the sales of finished goods and sales of merchandise.

7.12. Short-term financial assets

	31 December 2008	31 December 2007
Financial instruments at fair value through profit and loss	123 698	85 208
Derivatives recognized in financial assetsdesignated as hegding instruments - hedge accounting	132 550	82 335
Available for sale	178	368
Loans and receivables	1 406	46
Total	**257 832**	**167 957**

7.13. Short-term prepayments

	31 December 2008	31 December 2007
Operating lease payments	22 237	18 663
Property insurance	123 205	75 154
Research work	6 330	6 723
Payments due to perpetual usufruct of land	3 135	649
Accrued income	4 036	2 976
Settlement of long-term contracts	1 676	1 946
Commissions and financial fees	5 591	7 826
Other	37 878	32 955
Total	**204 088**	**146 892**

7.14. Cash and cash equivalents

	31 December 2008	31 December 2007
Cash on hand and in bank	1 228 664	1 444 788
Other cash (incl. cash in transit)	31 288	39 142
Other monetary assets	84 272	14 302
Total	**1 344 224**	**1 498 232**
incl. cash and cash equivalents not available for use	115 136	105 000

7.15. Non-current assets classified as held for sale

In PKN Orlen Capital Group the following assets were classified as held for sale:

	31 December 2008	31 December 2007
Shares in Agrobohemie a.s. and Synthesia a.s.	-	159 469
Shares in Celio	12 267	10 559
Shares in Konsorcjum Olejów Przepracowanych	84	-
Other non-current assets	39 136	18 134
Total	**51 487**	**188 162**

Shares in AGROBOHEMIE a.s. and Synthesia a.s. held by UNIPETROL Group (respectively 50% and 38.79% in their share capital) were classified as held for sale as at 31 December 2007. As at 31 December 2007 their carrying amount was PLN 159,469 thousand (CZK 1,183,000 thousand) after impairment allowance, which amounted to PLN 333,084 thousand (CZK 2,470,951 thousand), and was equal to selling price. The shares in Agrobohemie a.s. and Synthesia a.s. were sold on 18 January 2008.

The share of UNIPETROL Group in CELIO a.s., constituting 51.06 % stake in the company's share capital, has been classified as assets held for sale due to the fact that its carrying amount would be recovered primarily by means of sale transaction, and not by its future use. The Management Board of UNIPETROL has approved the sale plan for the asset. The offer received from a potential buyer indicates that the fair value of shares would exceed its carrying amount increased by transaction costs. The sale transaction is expected to be finalized in 2009. The change in the value of shares results from change in exchange rates.

Other non-current assets comprise warehouse bases, buildings and constructions, land, machinery and equipment and vehicles.

7.16. Interest-bearing loans and borrowings

		31 December 2008	31 December 2007
Bank loans	(a)	11 241 698	1 336 565
Borrowings	(b)	627	1 224
Debt securitities	(c)	39 789	381 434
Total short term		**11 282 114**	**1 719 223**

		31 December 2008	31 December 2007
Bank loans	(a)	1 411 029	7 472 701
Borrowings	(b)	34 023	3 061
Debt securitities	(c)	1 165 599	1 126 959
Total long term		**2 610 651**	**8 602 721**

The value of interest-bearing loans, borrowings and debt securities increased as compared to the end of the prior year by PLN 3,570,821 thousand net.

The change in indebtedness level results from:

– Increase of currency bank loans translated into PLN in the amount of PLN 8,989,611 thousand.
– Increase of bank loans and borrowings denominated in PLN in the amount of PLN 1,761,553 thousand.
– Increase in the indebtedness of PKN ORLEN Group concerning debt securities issued in the amount of PLN 479,172 thousand;
– Increase in indebtedness due to foreign exchange differences and interest in the amount of PLN 1,720,866 thousand.
– Decrease of currency bank loans translated into PLN in the amount of PLN 7,105,516 thousand.
– Decrease of bank loans and borrowings denominated in PLN in the amount of PLN 1,430,629 thousand.
– Decrease of indebtedness of PKN ORLEN Group concerning debt securities redemption in the amount of PLN 825,498 thousand;
– Decrease of indebtedness of PKN ORLEN Group concerning debt securities valuation in the amount of PLN 18,738 thousand;

a) Bank loans

- bank loans by currency (translated into PLN thousand)

	31 December 2008	31 December 2007
PLN	780 277	536 896
USD	5 166 249	1 598 638
EUR	6 331 979	6 303 069
CZK	350 249	370 663
LTL	23 973	-
Total	**12 652 727**	**8 809 266**

- bank loans by interest rate

	31 December 2008	31 December 2007
WIBOR	**780 277**	**536 896**
LIBOR	5 166 249	1 598 638
fixed interest rate	885 501	728 923
floating interest rate	4 280 748	869 715
EURIBOR	6 331 979	6 303 069
fixed interest rate	-	160 527
floating interest rate	6 331 979	6 142 542
PRIBOR	**350 249**	**370 663**
VLIBOR	23 973	-
floating interest rate	23 973	-
Total	**12 652 727**	**8 809 266**

ORLEN S.A. Group bases its financing on floating interest rate. Depending on the currency of financing these are O/N, T/N, one to six-month WIBOR, LIBOR ,EURIBOR, PRIBOR and VILIBOR increased by margin. The margin reflects risk connected to financing of the Group and depends on Net Debt to EBIDTA ratio. As at 31 December 2008 the margin did not exceed 1 percentage point for majority of bank loans (92%). The margin for the remaining bank loans amounted to 1 to 2.8 percentage points.

b) Borrowings

As at 31 December 2008 and 31 December 2007 borrowings comprise loans from Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej and from Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej.

As at 31 December 2008 and 31 December 2007 bank loans and borrowings of PLN 776,495 thousand and PLN 916,500 thousand, respectively, were pledged on the Group's assets.

c) Debt securities

- debt securities by maturity date

	Long-term fixed rate bonds	Long term floating rate bonds
Nominal value	313 200	750 000
Book value	437 665	767 723
Expiration date	2013-12-28	2012-02-27
Type of security	Unsecured	Unsecured

- debt securities by currency (translated into PLN thousand)

	31 December 2008	31 December 2007
PLN	767 723	1 112 517
CZK	437 665	395 876
Total	**1 205 388**	**1 508 393**

As at 31 December 2008 the liabilities related to debt securities issued by the Group amounted to PLN 1,205,388 thousand.

The Group utilizes loans and borrowings both in PLN and foreign currencies, subject mainly to floating interest rates.

In the foregoing financial statements bank loans of PLN 9,475,449 thousand were reclassified from long-term liabilities to short-term liabilities. The amount relates to liabilities resulting from bank loan agreements containing provisions specifying the required ratio of net debt to EBITDA, which was exceeded as at 31 December 2008.

The ratio of net debt to EBITDA was exceeded mainly as a consequence of accounting effects of valuation of inventory resulting from decrease of crude oil and refinery products prices as well as translation of foreign currency bank loans resulting from depreciation of PLN currency.

According to International Accounting Standards IAS 1 a breach of provisions of bank loan agreements that may result in an entity not having an unconditional right to defer their settlement for at least twelve months results in the necessity to classify liabilities connected with such bank loan agreements as short-term. At the same time none of bank loan agreements containing provisions specifying the required level of consolidated net debt became payable on demand.

As at the date of preparation of the foregoing consolidated financial statements for bank loan of PLN 9,066,166 thousand, negotiations between PKN ORLEN S.A. and lenders being the parties of the agreements mentioned above in respect of terms of continuation of financing had been finalized. The consent to a temporary extension of the maximum debt ratio and the continuation of cooperation within previously set bank loan limits and maturity dates had been received, which will result in classification of respective bank loans as long-terms in financial statements for the second quarter 2009. For bank loans of PLN 409,283 thousand the negotiations in respect of terms of continuation of financing are in progress.

Therefore, as at the date of preparation the foregoing financial statements, PKN ORLEN had access to unused resources from the above mentioned agreements.

In the period covered by the foregoing financial statements and after the balance sheet date, there were no cases of violations of loans and borrowings repayments in respect of both principle and interest.

(all amounts in PLN thousand)

7.17. Provisions

Long-term provisions

	31 December 2008	31 December 2007
Environmental provision	341 378	369 827
Jubilee and retirement benefits provision	246 229	229 124
Business risk provision	83 400	104 189
Shield programs provision	49 266	58 021
Other	27 014	38 105
Total	**747 287**	**799 266**

Short-term provisions

	31 December 2008	31 December 2007
Environmental provision	50 331	57 782
Jubilee and retirement benefits provision	37 759	31 147
Business risk provision	555 512	455 526
Shield programs provision	40 762	69 856
Other	104 561	108 841
Total	**788 925**	**723 152**

The Group has legal obligation to clean contaminated land in the area of production plants, petrol stations and warehouse bases. In 2007 and 2008 selected independent external experts conducted an assessment of the contaminated objects and estimated future expenditures on land reclamation. The amount of the land reclamation provision was reassessed by the Management Board on the basis of analysis of the independent experts. The amount of the provision is the Management Board’s best estimate in respect of future expenditures taking into account the average level of costs necessary to remove contamination, by facilities, constituting basis of creating the provision.
Potential future changes in regulations and common practice regarding environmental protection may influence the value of this provision in the future periods.

The Voluntary Leave Program (VLP) was launched in PKN ORLEN to support the restructuring process conducted in the Group. VLP provides additional money considerations and trainings for employees with whom the employment agreement was or would be dissolved by mutual consent due to reasons independent from employees by virtue of the restructuring process. Employees, who agreed to change the workplace, within the organization structure of PKN ORLEN, are entitled to receive the relocation package comprising: relocation bonus and refund of relocation costs.

In 2008 the Group changed the assumptions for calculation of provision for jubilee, retirement and pension benefits. Changes relate mainly to the planned remuneration increase ratio. Should the prior year’s assumptions be taken into account, the provision would have been lower by PLN 3,779 thousand.

The changes in provisions in particular periods were as follows:

Change in long-term provision

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	369 827	229 124	104 189	58 021	38 105	799 266
Provision made during the period	5 434	35 651	556	-	3 068	44 709
Provision used during the period	(488)	(11 394)	-	-	(791)	(12 673)
Provision reversed during the period	(43 928)	(12 376)	(32 221)	(8 755)	(19 297)	(116 577)
Foreign exchange differences	10 533	5 224	10 876	-	5 929	32 562
31 December 2008	**341 378**	**246 229**	**83 400**	**49 266**	**27 014**	**747 287**

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2007	345 957	190 264	120 385	99 428	58 158	814 192
Provision made during the period	33 213	72 389	10 660	-	8 104	124 366
Provision used during the period	(653)	(3 696)	-	-	(535)	(4 884)
Provision reversed during the period	(6 136)	(24 525)	(19 968)	(41 407)	(25 891)	(117 927)
Foreign exchange differences	(2 554)	(5 308)	(6 888)	-	(1 731)	(16 481)
31 December 2007	**369 827**	**229 124**	**104 189**	**58 021**	**38 105**	**799 266**

(all amounts in PLN thousand)

Change in short-term provision

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2008	57 782	31 147	455 526	69 856	108 841	723 152
Provision made during the period	23 061	29 020	163 754	14 537	62 593	292 965
Provision used during the period	(30 185)	(20 214)	(60 295)	(43 410)	(25 713)	(179 817)
Provision reversed during the period	(1 501)	(2 163)	(6 678)	(2 742)	(50 810)	(63 894)
Foreign exchange differences	1 174	(31)	3 205	2 521	9 650	16 519
31 December 2008	**50 331**	**37 759**	**555 512**	**40 762**	**104 561**	**788 925**

	Environmental provision	Jubilee and retirement benefits provision	Business risk provision	Shield programs provision	Other provisions	Total
1 January 2007	108 790	25 550	458 079	24 492	117 116	734 027
Provision made during the period	3 714	23 211	33 053	60 260	60 914	181 152
Provision used during the period	(29 668)	(14 845)	(1 288)	(8 696)	(33 069)	(87 566)
Provision reversed during the period	(24 183)	(1 145)	(32 123)	(6 200)	(34 270)	(97 921)
Foreign exchange differences	(871)	(1 624)	(2 195)	-	(1 850)	(6 540)
31 December 2007	**57 782**	**31 147**	**455 526**	**69 856**	**108 841**	**723 152**

7.18. Other long-term liabilities

	31 December 2008	31 December 2007
Finance lease liabilities	70 413	69 842
Unsettled donations received	40 820	44 164
Waranties granted	5 348	10 784
Hedge liabilities	-	983
Other	24 973	14 807
Total	**141 554**	**140 580**

7.19. Trade and other liabilities

	31 December 2008	31 December 2007
Trade liabilities	4 464 176	5 527 911
Excise tax and fuel charge liabilities	1 356 514	866 135
Value added tax liability	703 443	449 862
Other taxation, duty and social security liabilities	323 240	535 652
Liabilities due to reimbursement of excise tax cost to suppliers providing tax warehouse services	174 776	345 292
Liabilities due to acquisition of property, plant and equipment	741 447	803 498
Liabilities due to uninvoiced services	38 269	128 578
Accrual for customers' discounts	77 690	73 369
Dividend liabilities	1 085	1 449
Liabilities due to prepayments for delieveries	65 842	25 838
Payroll liabilities	180 814	156 565
Holiday pay accrual	53 179	43 908
Loyalty Program VITAY	36 980	35 309
Special funds	16 444	17 430
Environmental liabilities	9 249	9 507
Finance lease liabilities	63 827	33 914
Other liabilities	107 172	127 026
Total	**8 414 147**	**9 181 243**

The VITAY is a loyalty program created for individual customers. The VITAY program is in operation on the Polish market since 14 February 2001. Purchases made by customers are granted with VITAY points that can be subsequently exchanged for VITAY gifts.

From June 2006 fuel prize is available for customers in a form of a discount of fuel price which is not a current expense of VITAY program but decreases fuel sales.

The provision is created with regard to the unrealized amount of points. It is recognized in the period when the points were granted to customers. Because of changes regarding the substance of gifts, separate provisions are created for fuel and non-fuel gifts.

The provision is estimated based on proportion of fuel and non-fuel gifts granted, total unrealized amount of points and current cost per one VITAY point.

Trade and other liabilities denominated in foreign currencies amounted to PLN 5,062,909 thousand as at 31 December 2008 and PLN 7,439,386 thousand as at 31 December 2007.
The carrying amount of short-term trade liabilities is equal to their fair value by virtue of their short-term characteristics.

(all amounts in PLN thousand)

7.20. Deferred income

	31 December 2008	31 December 2007
Subventions from National Enviroment Protection Fund and European Regional Development Fund	59 200	46 339
Other	17 476	14 344
Total	**76 676**	**60 683**

7.21. Other financial liabilities

	31 December 2008	31 December 2007
Liabilities due to put option of minority share of Mazeikiu Group	842 485	692 636
Short-term financial liabilities due to derivatives designated as hedgning instruments	91 357	19 522
Financial liabilities at fair value through profit and loss	278 704	2 815
Other	63	-
Total	**1 212 609**	**714 973**

7.22. Selected data in respect of shareholder's equity (attributable to equity holders of the Parent)

In accordance with the Commercial Register, the share capital of Polski Koncern Naftowy ORLEN S.A. as at 31 December 2008 amounted to PLN 534,636 thousand. It is divided into 427,709,061 shares with nominal value of PLN 1.25 each.

The share capital as at 31 December 2008 and 31 December 2007 consisted of the following series of shares:

Share series	Number of shares issued as at 31 December 2008	Number of shares issued as at 31 December 2007	Number of shares authorized as 31 December 2008	Number of shares authorized as at 31 December 2007
A Series	336 000 000	336 000 000	336 000 000	336 000 000
B Series	6 971 496	6 971 496	6 971 496	6 971 496
C Series	77 205 641	77 205 641	77 205 641	77 205 641
D Series	7 531 924	7 531 924	7 531 924	7 531 924
	427 709 061	**427 709 061**	**427 709 061**	**427 709 061**

In Poland, each new issuance of shares is labeled as a new series of shares. All of the above series have the exact same rights.

The shareholder's structure as at 31 December 2008 was as follows:

	Number of shares	Number of voting rights	Nominal value of shares (in PLN)	% share in share capital
Nafta Polska S.A.	74 076 299	74 076 299	92 595 374	17,32%
State Tresury	43 633 897	43 633 897	54 542 371	10,20%
Other	309 998 865	309 998 865	387 498 581	72,48%
Total	**427 709 061**	**427 709 061**	**534 636 326**	**100,00%**

As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share capital in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 522,999 thousand and presented as share capital revaluation adjustment in the balance sheet.

Share premium is the surplus of the issuance value over the nominal value of shares belonging to series B, C and D. As at the date of change in the accounting principles, i.e. first-time adoption of the IFRSs, the share premium in accordance with IAS 29.24 and 29.25, was revalued on a basis of monthly general price indices by PLN 168,803 thousand and presented as share premium revaluation adjustment in the balance sheet.

The amount of the hedging reserve results from valuation of derivatives meeting the requirements of cash flows hedge accounting.

The amount of foreign exchange differences on subsidiaries from consolidation is adjusted by foreign exchange differences resulting from translation of the financial statements of ORLEN Deutschland from EUR into PLN, UNIPETROL Group from CZK into PLN and Mazeikiu Group from USD into PLN. Foreign exchange differences resulting from translation of bank loans liabilities denominated in USD, that are designated as net as net investment hedge in a foreign operation, are also recognized in this position.

(all amounts in PLN thousand)

7.23. Suggested cover of loss of the Parent Company for 2008 and distribution of profit for 2007 (amounts in PLN)

a) Suggested cover of loss for 2008

The Dividend Policy of PKN ORLEN S.A. assumes setting recommended dividend in relation to free cash flows for shareholders after realization of investment budget and optimization of capital structure („Free Cash Flow to Equity" – FCFE).

According to the applied methodology, the Management Board considers taking into account result from operations, capital expenditures and projected changes in the level of indebtedness in the following period, dividend payment starting from the level of 50% of FCFE(set as the minimum in the Dividend Policy).

Taking into consideration the Company's results for 2008 and high level of the Concern indebtedness, that as at 31 December 2008 exceeded financial covenants contained in the bank loan agreements, the result of FCFE calculation is negative, which means the lack of funds for dividend purposes. Therefore the Management Board proposes not to pay dividend in 2009, and to cover net loss for 2008 in the amount of PLN (1,570,947,088.55) with reserve capital.

b) According to the Resolution of the Ordinary General Shareholders' Meeting of PKN ORLEN, profit for 2007 was distributed as follows:

Dividend (PLN 1.62 for 1 share)	692,888,678,82 PLN
Reserve capital	2,062,969,988,28 PLN
Contribution to Social Fund	4,000,000,00 PLN
Total	**2,759,858,667,10** PLN

The distribution of the profit results from the paragraph § 1 of the Resolution no 6 of the Ordinary General Shareholders' Meeting of PKN ORLEN dated 6 June 2008.

Method of calculation of book value and diluted book value per share as at 31 December 2008 and 31 December 2007:

`		2008	2007
Book value (in PLN)	(A)	17 813 090 972	19 935 333 903
Number of issued ordinary shares	(B)	427 709 061	427 709 061
Book value attributable to equity holders of the parent per share (in PLN)	(A/B)	41,65	46,61
Expected number of shares	(C)	427 709 061	427 709 061
Diluted book value attributable to equity holders of the parent per share (in PLN)	(A/C)	41,65	46,61

The Company calculated book value and diluted book value per share in accordance with the IFRSs.

Retained earnings include the current period result and undistributed prior period result.

(all amounts in PLN thousand)

7.24. Minority interest

Minority interest represent part of the net assets of subsidiaries, that is not directly owned, or indirectly, by the shareholders of the Parent.

Minority interest by company:

	31 December 2008	31 December 2007
Unipetrol Group	2 138 492	2 030 020
Anwil Group	327 534	326 940
Rafineria Trzebinia Group	73 804	103 196
Rafineria Nafty Jedlicze Group	32 403	46 722
Inowrocławskie Kopalnie Soli "Solino" S.A.	35 176	30 802
Petrolot Sp. z o.o.	36 021	29 587
Orlen Oil Sp. z o.o.	17 876	15 064
Other	57 250	55 094
Total	**2 718 556**	**2 637 425**

7.25. Explanatory notes to the statement of cash flows

a) Explanation of differences between changes in the balance sheet captions and changes presented in the statement of cash flows

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in non-current loans and receivables and trade and other receivables	**564 816**	**(585 247)**
difference:		
Change in investment receivables resulting from:	7 944	318 536
- advances for property, plant and equipment	(4 738)	342 372
- receivables due to sale of property, plant and equipment	12 682	(23 836)
Change in the Group structure	(1 841)	(7 345)
Change in receivables transfered to non-current assets classified as held for sale	-	(32 038)
Foreign exchange differences	393 076	(218 567)
Other	22 787	(10 925)
Change in receivables in the statement cash flows	**986 782**	**(535 585)**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in inventories	**1 276 362**	**(2 966 553)**
Change in the Group structure	(6)	(2 390)
Foreign exchange differences	500 049	(262 030)
Change in inventories transfered to non-current assets classified as held for sale	-	(7 959)
Other	2 427	3 574
Change in inventories in the statement of cash flows	**1 778 832**	**(3 235 358)**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in other long-term liabilities and trade and other liabilities	**(766 122)**	**933 431**
difference:		
Change in investment liabilities resulting from:	**62 051**	**(376 076)**
- acquisition of property, plant and equipment and intangible assets	62 051	(376 076)
Change in financial liabilities resulting from:	(30 120)	-
- dividend	364	-
- financial lease	(30 484)	-
Change in the Group structure	(9 985)	37 010
Change in liabilities transfered to the liabilities directlyrelated to non-current assets classified as held for sale	-	(2 087)
Foreign exchange differences	(593 050)	309 162
Other	(70 191)	39 061
Change in liabilities in the statement of cash flows	**(1 407 417)**	**940 501**

	for the year ended 31 December 2008	for the year ended 31 December 2007
Balance sheet change in provisions	**13 794**	**(25 801)**
Change in the Group structure	492	281
Change in deferred tax liabilities relating to financial instruments	(6 354)	(18 528)
Foreign exchange differences	(34 270)	-
Other	-	4 620
Change in provisions in the statement of cash flows	**(26 338)**	**(39 427)**

(all amounts in PLN thousand)

b) Proceeds from the sale of shares in related entities

Realized price on sale of shares amounted to PLN 214,219 thousand in 2008 and respectively PLN 761,369 thousand in 2007.
Cash and cash equivalents removed from the balance sheet due to sale of shares in related entities, as at 31 December 2008 amounted to PLN 14,738 thousand and as at 31 December 2007 amounted to PLN 161,720 thousand.

The below mentioned table presents condensed financial information, including the total value (as at the date of sale) of assets and liabilities of subsidiaries sold in 2008 and 2007, according to IAS 7:

	31 December 2008	31 December 2007
Current assets excluding cash and cash equivalents	5 104	512 492
Non-current assets	43 041	660 357
Short-term liabilities	8 616	235 197
Long-term liabilities	9 635	67 136

(all amounts in PLN thousand)

8. Segment data

Revenues, expenses and financial result by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Sales to external customers	68 055 736	51 267 453	8 338 330	9 252 174	2 575 855	2 491 816	492 847	695 662			79 462 768	63 707 105
Transactions with other segments	8 815 180	13 262 188	3 904 535	4 399 931	195 042	310 659	1 377 813	1 365 873	(14 292 570)	(19 338 651)	-	-
Settlement of hedging transactions	17 225	37 587	55 212	48 291	-	-	-	-			72 437	85 878
Total sales revenues	76 888 141	64 567 228	12 298 077	13 700 396	2 770 897	2 802 475	1 870 660	2 061 535	(14 292 570)	(19 338 651)	79 535 205	63 792 983
Total operating expenses	(76 120 236)	(62 387 153)	(12 053 583)	(12 515 191)	(2 504 646)	(2 552 417)	(1 810 798)	(2 189 481)	14 288 665	19 336 556	(78 200 598)	(60 307 686)
Other operating revenues	380 911	278 759	68 278	97 341	28 145	14 830	150 162	39 458	(391)	(239)	627 105	430 149
Other operating expenses	(2 775 564)	(363 867)	(37 813)	(214 538)	(80 806)	(19 284)	(69 163)	(66 487)			(2 963 346)	(664 176)
Segment result	(1 626 748)	2 094 967	274 959	1 068 008	213 590	245 604	140 861	(154 975)	(4 296)	(2 334)	(1 001 634)	3 251 270
Unallocated revenues of the Group											120 825	39 854
Unallocated expenses of the Group											(722 513)	(687 242)
Profit/(Loss) from operations											(1 603 322)	2 603 882
Financial revenues											702 800	1 190 048
Financial expenses											(2 281 414)	(1 050 246)
Share in profit from investments accounted for under equity method	(1 025)	114	-	-	1 040	1 191	266 518	266 076			266 533	267 381
Profit/(Loss) before tax											(2 915 403)	3 011 065
Income tax expense											388 777	(530 639)
Net profit/(loss)											(2 526 626)	2 480 426

(all amounts in PLN thousand)

Assets and liabilities by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Segment assets	29 064 979	30 536 170	8 086 019	7 306 146	2 515 807	2 399 195	4 582 768	5 125 979	(1 027 653)	(1 594 822)	43 221 920	43 772 668
Investments in associates	4 525	10 902	6	-	11 036	9 996	1 545 565	712 351	-	(32 918)	1 561 132	700 331
Non-current assets clasiffied as held for sale *	27 290	12 780	12 096	-	-	3 662	1 008	1 185			40 394	17 627
Unallocated non-current assets clasiffied as held for sale *											11 093	170 535
Unallocated assets of the Group											2 141 211	1 441 664
Total consolidated assets											46 975 750	46 102 825
Segment liabilities	6 949 485	8 647 834	2 239 431	998 275	395 550	405 351	788 490	738 585	(1 095 505)	(1 585 024)	9 277 451	9 205 021
Liabilities directly related to non-current assets clasiffied as held for sale	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated liabilities of the Group											17 166 652	14 325 044
Total consolidated liabilities											26 444 103	23 530 065

* For more details refer to note 7.15

Cost incurred to acquire property plant and equipment and depreciation by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Adjustments		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Cost incurred to acquire property, plant and equipment and intangible assets	2 088 810	2 680 577	1 235 821	521 864	255 563	118 357	311 259	311 708	-	-	3 891 453	3 632 506
Unallocated cost incurred to acquire property, plant and equipment and intangible assets									-	-	56 301	87 999
Total cost incurred to acquire property, plant and equipment and intangible assets											3 947 754	3 720 505
Segment depreciation	1 411 221	1 346 356	629 643	624 217	147 657	166 867	255 128	255 898	-	-	2 443 649	2 393 338
Depreciation of unallocated assets											47 734	38 085
Total depreciation											2 491 383	2 431 423
Non-cash expenses other than depreciation	3 077 237	266 730	104 872	210 235	117 557	17 797	43 634	37 702	-	-	3 343 300	532 464

(all amounts in PLN thousand)

Creation and reversal of impairment allowances by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Creation of impairment allowances of non-current assets	(2 436 105)	(102 602)	(4 520)	(154 426)	(65 198)	(7 711)	(6 579)	(14 728)	(2 512 402)	(279 467)
Creation of impairment allowances of current assets	(537 393)	(98 948)	(82 153)	(31 226)	(47 438)	(5 224)	(17 273)	(7 866)	(684 257)	(143 264)
Unallocated value of impairment allowances created for non-current assets									(533)	(527)
Unallocated value of impairment allowances created for current assets									(33 625)	(2 624)
Total creation of impairment allowances of assets									(3 230 817)	(425 882)
Reversal of impairment allowances of non-current assets	87 538	61 251	7 669	19 014	6 495	597	34 694	7 995	136 396	88 857
Reversal of impairment allowances of current assets	240 587	109 469	20 110	46 115	4 081	2 781	10 942	4 970	275 720	163 335
Unallocated value of reversed impairment allowances of non-current assets									437	4
Unallocated value of reversed impairment allowances of current assets									33 093	10 610
Total reversal of impairment allowances of assets									445 646	262 806

Impairment allowances by business segments include items recognized in the profit and loss, i.e.:

- receivables allowances;
- inventories allowances;
- property, plant and equipment and intangible assets impairment allowances, in accordance with IAS 34 and IFRS 5
- goodwill impairment allowances

Creations and reversals of allowances were performed in conjunction with, occurrence or extinction of indications in respect of overdue receivables, uncollectible receivables or receivables in court as well as impairment of property, plant and equipment.

Allowances made in the refining segment concerned primarily impairment of Mazeikiu Refinery, petrol stations, warehouse bases and inventories. Allowances made in the chemical segment concerned mainly impairment of assets in Spolana. Allowances for idle assets and obsolete raw materials were recognized in other operations segment.

(all amounts in PLN thousand)

Statement of cash flows by business segments

	Refining Segment		Petrochemical Segment		Chemical Segment		Other operations		Unallocated		Total	
	for the year ended		for the year ended		for the year ended		for the year ended		for the year ended		for the year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Segment result	(1 627 775)	2 094 966	274 960	1 068 009	214 629	245 606	407 380	(154 974)	(1 795 820)	(773 179)	**(2 526 626)**	**2 480 428**
Adjustments	3 579 778	(1 721 539)	2 937 546	1 287 806	195 800	75 965	351 562	(658 507)	(921 300)	500 913	6 143 386	(515 362)
Net cash provided by operating activities	**1 952 003**	**373 427**	**3 212 506**	**2 355 815**	**410 429**	**321 571**	**758 942**	(813 481)	**(2 717 120)**	**(272 266)**	**3 616 760**	**1 965 066**
Cash flow - investing activities												
Cash inflows from investing activities	27 651	566 316	16 686	118 032	15 240	186 159	103 530	1 087 674	376 655	(512 884)	539 762	1 445 297
Cash outflows from investing activities	(2 050 803)	(3 076 067)	(1 466 433)	(386 217)	(237 933)	(115 365)	(219 132)	(662 213)	(950 418)	(50 569)	(4 924 719)	(4 290 405)
Net cash provided by - (used in) investing activities	**(2 023 152)**	**(2 509 751)**	**(1 449 747)**	**(268 185)**	**(222 693)**	**70 794**	**(115 602)**	**425 461**	**(573 763)**	**(563 453)**	**(4 384 957)**	**(2 845 108)**
Net cash provided by financing activities									612 573	27 039	612 573	27 039
Net change in cash and cash equivalents	(71 149)	**(2 136 324)**	**1 762 759**	**2 087 630**	**187 736**	**392 365**	**643 340**	(387 993)	**(2 678 310)**	**(808 681)**	**(155 624)**	**(853 003)**
Effect of exchange rate changes											1 616	(85)
Cash and cash equivalents, beginning of the period											**1 498 232**	**2 351 320**
Cash and cash equivalents, end of the period											**1 344 224**	**1 498 232**

(all amounts in PLN thousand)

Geographical segments

The below table presents the Group's sales revenues by geographical segments for 2008 and 2007.

	Operating revenues by geographical area for the year ended 31 December 2008	Operating revenues by geographical area for the year ended 31 December 2007
Poland, including:	35 537 431	29 893 959
- revenues from operating actvities	35 206 126	29 654 884
- other operating revenues	331 305	239 075
Germany, including:	12 744 774	11 076 532
- revenues from operating actvities	12 630 390	11 048 040
- other operating revenues	114 384	28 492
Czech Republic, including:	9 954 083	8 330 684
- revenues from operating actvities	9 817 894	8 210 301
- other operating revenues	136 189	120 383
Baltic states (Lithuania, Latvia, Estonia), including:	7 965 590	6 238 805
- revenues from operating actvities	7 920 363	6 196 606
- other operating revenues	45 227	42 199
Other countries	13 960 432	8 683 152
- Finland	1 812 680	243 226
- Switzerland	3 013 288	60 231
- Denmark	772 371	97 614
Unallocated revenues of the Group	120 825	39 854
Total operating revenues by geographical area	**80 283 135**	**64 262 986**

(all amounts in PLN thousand)

Geographical segments (continued)

The below table presents the Group's assets by geographical segments

	Segment's assets by geographical area		Cost incurred to acquire property, plant and equipment and intangible assets by geographical area	
	for the year ended		for the year ended	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
Poland	24 053 598	23 391 805	2 459 400	1 722 480
Germany	1 257 458	1 212 619	95 510	105 515
Czech Republic	9 529 245	9 567 492	678 775	726 425
Baltic states (Lithuania, Latvia, Estonia)	8 038 525	9 421 865	657 266	1 078 086
Other countries (not exceeding 5% of total book value)	343 094	178 887	502	-
Investments in associates	1 561 132	700 331	-	-
Non-currrent assets classified as held for sale	51 487	188 162	-	-
Unallocated assets of the Group	2 141 211	1 441 664	56 301	87 999
Total	46 975 750	46 102 825	3 947 754	3 720 505

(all amounts in PLN thousand)

9. Financial instruments

a) Financial instruments by categories and classes

Financial instruments by categories

	31 December 2008	31 December 2007
Financial assets at fair value through profit or loss (held for trading)	135 755	85 208
Derivatives recognized in financial assets designated as hedging instruments - hedge accounting	132 550	82 335
Financial assets available for sale	62 352	62 690
Loans and receivables, incl.:	5 095 792	5 749 081
Non-current receivables	17 743	12 773
Loans granted	19 415	18 240
Current receivables classified as financial instruments	5 058 634	5 718 068
Cash and cash equivalents	1 344 224	1 498 232
Total assets by categories in accordance with IAS 39	**6 770 673**	**7 477 546**
Financial liabilities at fair value through profit or loss (held for trading)	91 357	19 522
Liabilities due to derivatives designated as hedging instruments - hedge accounting	278 704	3 798
Other liabilities, incl.:	20 117 783	17 625 765
Short-term liabilities classified as financial instruments	5 352 149	6 585 594
Liabilities due to loans, borrowings and debt securities issued	13 892 765	10 321 944
Other	872 869	718 227
Total liabilities by categories in accordance with IAS 39	**20 487 844**	**17 649 085**
Finance lease liabilities	134 240	103 756
Total financial liabilities	**20 622 084**	**17 752 841**

Financial instruments by classes

	31 December 2008	31 December 2007
Stocks and shares in Companies	62 352	62 690
Current receivables classified as financial instruments	5 058 634	5 718 068
Loans granted	19 415	18 240
Assets from valuation of derivatives	268 305	167 543
Cash and cash equivalents	1 344 224	1 498 232
Non-current receivables	17 743	12 773
Total financial assets	**6 770 673**	**7 477 546**
Debt securities issued	1 205 388	1 508 393
Loans and borrowings	12 687 377	8 813 551
Short-term liabilities classified as financial instruments	5 352 149	6 585 594
Liabilities from valuation of derivatives	370 061	23 320
Finance lease liabilities	134 240	103 756
Other	872 869	718 227
Total financial liabilities	**20 622 084**	**17 752 841**

b) Disclosures concerning balance sheet items

Reclassification of assets

In 2008 and 2007 the Group did not reclassify financial assets measured at cost or amortized cost to financial assets measured at fair value, as well as financial assets measured at fair value to financial assets measured at cost or amortized cost.

Derecognition of assets

In the period covered by the foregoing financial statements the Group did not transfer any financial assets resulting in the future in the risks or rewards causing liabilities or expenses.

(all amounts in PLN thousand)

c) Financial assets pledged as collateral for liabilities or contingent liabilities

Financial assets pledged as collateral for liabilities or contingent liabilities

	31 December 2008	31 December 2007
Cession of receivables	272 971	465 280
Cash in bank pledged as collateral	154 826	190 293

Moreover assets, eliminated in the consolidated financial statements of PKN Orlen Group and presented in unconsolidated financial statements of the companies, are pledged as collateral for liabilities of the Group.
It concerns shares in ORLEN Oil and ORLEN Asfalt pledged as a collateral for a loan of Rafineria Trzebinia in the amount of PLN 43,553 thousand as at 31 December 2008 and as at 31 December 2007.
Additionally, cession of receivables from PKN ORLEN S.A. regarding the rent of crude oil and fuels warehouse in the amount of PLN 3,460 thousand as at 31 December 2008 and PLN 121,824 thousand as at 31 December 2007, is used as a collateral of the investment loan of IKS Solino.

The above-mentioned collaterals concern mostly bank loans of the Group companies and may be taken over by banks in case of lack of payment of principal and interest on due dates. So far, such a situation has not occurred, and there is no risk that it will occur in the near future.

Collaterals of financial or non-financial assets held by the Group

The Group does not hold any collateral of financial or non-financial assets, for which it is permitted to sell or repledge the collateral in the absence of default by the owner of the asset subject to collateral.

d) Hedge accounting

Cash flow hedge accounting

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rate (EUR/PLN for sale and USD/PLN for purchases and sale). The Group hedges cash flows from investment projects against changes in exchange rates (EUR/PLN, USD/PLN, JPY/PLN).

The above-mentioned transactions are accounted for using cash flow hedge accounting. The hedging instruments used are derivatives (forwards and swaps).
Additionally, the Group hedges cash flows from interest payments connected with issuance of bonds denominated in PLN and cash flows from interest payments concerning external financing using interest rate swap (IRS).

The fair value of derivative instruments designated as hedging instruments according to cash flow hedge accounting, planned realization date and planned date of the influence on the result of the hedged cash flow:

– fair value which will be recognized in the income statement at the realization date:

Planned realization date of hedged cash flow	31 December 2008	31 December 2007
Currency operating exposure		
2008	-	74 943
2009	(242 545)	-
Interest rate exposure		
2008 – 2012	-	3 594
2009 – 2012	(29 919)	-
Total	**(272 464)**	**78 537**

– fair value which will be included in the cost of property, plant and equipment at the realization date and recognized in the income statement through depreciation charges in the following periods:

Planned realization date of hedged cash flow	31 December 2008	31 December 2007
2009 (currency investment exposure)	105 494	-
2010 and following years (currency investment exposure)	20 816	-
Total	**126 310**	**-**

(all amounts in PLN thousand)

In the period covered by the foregoing financial statements there was one case of a forecast transaction for which cash flow hedge accounting had previously been used, but which is no longer expected to occur. Transactions hedging sales of petrochemical products denominated in EUR, for which hedge accounting had previously been used, were not realized due to installation overhaul.

In 2008 the amount of PLN 62,645 thousand was derecognized from equity and recognized:
- in the income statement in the position such as sales of finished goods - PLN 72,438 thousand, negative foreign exchange differences surplus - PLN (6,557) thousand, interest expense - PLN 48 and financial expenses from the settlement of instruments - PLN (3,131) thousand,
- in the carrying amount of property, plant and equipment - PLN (156) thousand.

As the Group owns contracts concerning both purchase and sale of currency, market changes are significantly compensated in the valuation.

Transactions for which hedge accounting is not applied

For the transactions concluded and settled in the same quarter the Group does not apply hedge accounting. The settlement result is recognized in current period result.

The fair value of transactions hedging cash flows connected with realization of investment projects against changes in exchange rates (USD/PLN, EUR/PLN), for which hedge accounting is not applicable due to separation of embedded derivatives for these contracts, amounts to PLN 111,553 thousand as at 31 December 2008. As at 31 December 2007 there was no case of unapplied hedge accounting for transactions hedging cash flows connected with realization of investment projects against changes in exchange rates.

Net investment hedge in a foreign operation

Starting from the second quarter of 2008 the Group uses net investment hedges in a foreign operation (net investment hedge). Net investment hedge hedges currency risk of the portion of net investment in a foreign operation that uses USD as its functional currency.

Financial liabilities denominated in USD were designated as an instrument hedging share in net assets of Mazeikiu Group. Negative foreign exchange differences resulting from translation of these liabilities into PLN in the amount of PLN 565,770 thousand (net of deferred tax) were recognized in the balance sheet in line "Foreign exchange differences on subsidiaries from consolidation".

e) Fair value of financial instruments

Comparison of the fair value and the carrying amount of financial instruments measured at amortized cost:

`	31 December 2008		31 December 2007	
Financial assets	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	19 220	19 415	14 532	18 240
Other	17 794	17 743	11 893	12 773
Total	**37 014**	**37 158**	**26 425**	**31 013**
Financial liabilities				
Liabilities due to debt securities issued	1 197 112	1 205 388	1 502 129	1 508 393
Liabilities due to loans and borrowings	12 814 463	12 687 377	8 780 287	8 813 551
Finance lease liabilities	126 823	134 240	114 862	103 756
Other	853 404	872 806	657 663	718 227
Total	**14 991 802**	**14 899 811**	**11 054 941**	**11 143 927**

The above comparison of the carrying amount and the fair value of financial instruments does not include current receivables and short-term liabilities as well as other classes of financial instruments for which the carrying amount is similar to the fair value.

Methods and assumptions applied in determining fair values of financial instruments recognized in the balance sheet at amortized cost

Purchased bonds, loans granted, financial liabilities due to debt securities issued as well as liabilities due to loans and borrowings are measured at fair value using discounted cash flows method. Future cash flows are discounted using discount factors calculated based on market interest rates (according to quotations of 3-month interest rates available in Reuters as at the balance sheet dates) increased by margins proper for particular financial instruments.

(all amounts in PLN thousand)

	31 December 2008	31 December 2007
WIBOR 3M	5,880%	5,575%
EURIBOR 3M	2,892%	4,540%
LIBOR 3M	1,425%	4,755%
PRIBOR 3M	3,630%	4,160%
VILIBOR 3M	9,890%	6,650%

Methods applied in determining fair values of financial instruments recognized in the balance sheet at fair value

According to International Financial Reporting Standards the Group presents in the financial statements valuation of all derivate instruments at fair value.

The Group measures derivative instruments at fair value using valuation models for financial instruments based on generally available exchange rates, interest rates, forward and volatility curves, for currencies and commodities quoted on liquid markets. In comparison to the previous reporting period the Group has not changed valuation methods concerning derivative instruments.

Derivative instruments are presented as assets, when it's value is positive and as liabilities, when it's value is negative. Gains and losses resulting from changes in fair value of derivative instruments, for which hedge accounting is not applicable, are recognized in the current year result.

Fair value of shares quoted on active markets is determined based on market quotations.

First day profit/ loss

As at 31 December 2008 and 31 December 2007 the Group held no financial instruments, whose initial value calculated using valuation techniques would differ from the initial value recognized in books. The only financial instruments with fair values determined using valuation techniques are derivative instruments, for which the difference described above (so called first day profit/ loss) not occur.

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2008 and 31 December 2007 the Group held shares in entities, whose fair value cannot be measured reliably. There are no active markets for these entities and no comparable transactions in the same instruments. Shares were recognized in the balance sheet at purchase price less impairment allowances of PLN 61,032 thousand. As at the balance sheet date there are no binding decisions regarding method and date of the disposal of these assets.

f) Nature and extent of risks arising from financial instruments

The Group is exposed to the following financial risks:
- credit risk;
- liquidity risk;
- market risks (including currency risk, interest rate risk).

Credit risk

The Group is significantly exposed to credit risk connected above all with trade receivables. Within its trading activity the Group sells products and services with deferred payment term, which may result in the risk that customers will not pay for the Group's receivables for sales of products and services. In order to minimize credit risk and working capital the Group manages the risk by credit limit policies governing granting of credit limits to customers and establishment of pledges of appropriate types.

The established payment term of receivables connected with the ordinary course of sales amounts to 14-30 days.

Each non-cash customer is individually assessed with regard to credit risk. A portion of trade receivables is insured within an organized trade credit insurance program. In addition, trade receivables are monitored by finance departments on a regular basis. In the event of occurrence of overdue receivables, sale is withheld and debt recovery procedures implemented as described by the obliging procedures.

(all amounts in PLN thousand)

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

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

	31 December 2008	31 December 2007
Group I	3 144 952	4 475 692
Group II	966 915	786 166
Total	**4 111 867**	**5 261 858**

The ageing analysis of financial assets past due, but not impaired as at the balance sheet date:

	Current receivables as financial instruments as at 31 December 2008	Loans granted as at 31 December 2008	Current receivables as financial instruments as at 31 December 2007	Loans granted as at 31 December 2007
Up to 1 month	762 429	-	404 638	-
1-3 months	52 866	-	23 246	-
3-6 months	22 241	-	4 684	-
6-12 months	7 290	78	9 341	-
Above 1 year	101 941	78	14 301	45
Total	**946 767**	**156**	**456 210**	**45**

The concentration of risk connected with trade receivables is limited due to large number of customers with trade credit dispersed in various sectors of the Polish, German, Czech and Lithuanian economy.

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

The measure of credit risk is the maximum exposure to credit risk for each class of financial instruments.

Maximum credit risk exposure:

	31 December 2008	31 December 2007
Stocks and shares in Companies	62 352	62 690
Current receivables as financial instruments	5 058 634	5 718 068
Loans granted	19 415	18 240
Assets from valuation of classified derivatives	268 305	167 543
Cash and cash equivalents	1 344 224	1 498 232
Other	17 743	12 773
Total	**6 770 673**	**7 477 546**

Due to cooperation of the Group mainly with Polish and international banks having high credit rating, the risk connected with depositing of cash and cash equivalents is significantly limited.

The Management Board believes that the risk of impaired financial assets is reflected by recognition of an impairment allowance. Information about impairment allowances of particular classes of assets is included in notes describing those assets.

As at 31 December 2008 and 31 December 2007 the Group did not recognize assets obtained as collateral.

Due to changes in payment terms the Group did not recognize impairment loss of receivables as financial instruments in the amount of PLN 32,523 thousand as at 31 December 2008 and PLN 14,376 thousand as at 31 December 2007.

(all amounts in PLN thousand)

Liquidity risk

The Group is exposed to liquidity risk associated with the relation between short-term liabilities and current assets.

As at 31 December 2008, current assets to short-term liabilities ratio (current ratio) amounted to 0.81 in comparison to 1.56 as at 31 December 2007. The decrease in ratio as compared to the prior year is connected with reclassification of bank loans of PLN 9,475,449 thousand from long-term liabilities to short-term liabilities due to violation of financial covenants contained in bank loan agreements as at 31 December 2008.

Current ratio before the reclassification from long-term liabilities to short-term liabilities amounted to 1.43.

Detailed information regarding loans is included in note 7.16.

As at 31 December 2008 the maximum possible indebtedness due to loans amounted to PLN 16,931,082 thousand, out of which PLN 5,770,166 thousand remained unused. As at 31 December 2007 it was PLN 11,415,274 thousand and PLN 4,309,255 thousand, respectively.

As at the balance sheet date unused credit lines exceed short-term liabilities decreased by current receivables.

In 2006 the Parent Company entered into Bond Issuance Program in order to ensure additional sources of cash required to secure financial liquidity. Bond issues enable the Company to go out beyond traditional bank market and to gain cash from other financial institutions, companies or natural persons. For the Parent Company the cost of gaining cash is competitive as compared to bank loans. Bond Issuance Program is also used to manage liquidity within domestic and foreign Capital Group.

In order to manage liquidity the Group uses cash pooling system. As at 31 December 2008 the system comprised 25 entities belonging to the Capital Group. As a result of the cash pooling system the Group optimizes its financial expenses.

Maturity analysis for financial liabilities:

31 December 2008	up to 1 year	1-3 years	3-5 years	above 5 years	Total
Bonds issued - undiscounted value	52 262	-	750 000	397 875	1 200 137
Loans and borrowings received - undiscounted value	11 698 643	1 197 797	244 901	14 219	13 155 560
Short-term liabilities classified as financial instruments	5 352 149	-	-	-	5 352 149
Net payments due to derivative instruments - gross settled amounts	279 459	69 364	-	-	348 823
Net payments due to derivative instruments - net settled amounts	7 376	-	13 862	-	21 238
Other financial liabilities	842 783	24 722	2 650	2 714	872 869
Total	**18 232 672**	**1 291 883**	**1 011 413**	**414 808**	**20 950 776**

The amount of PLN 9,475,449 thousand presented in the line "loans and borrowings received – undiscounted value" refers to long-term liabilities reclassified to short-term liabilities due to violation of financial covenants contained in bank loan agreements as at 31 December 2008.

31 December 2007	up to 1 year	between 1 and 3 years	between 3 and 5 years	above 5 years	Total
Bonds issued - undiscounted value	389 083	62 432	807 930	242 486	**1 501 931**
Loans and borrowings received - undiscounted value	1 819 564	916 948	5 608 885	694 084	**9 039 481**
Short-term liabilities classified as financial instruments	6 585 594	-	-	-	**6 585 594**
Net payments due to derivative instruments - gross settled amounts	22 337	983	-	-	**23 320**
Other financial liabilities	692 636	-	-	-	**692 636**
Total	**9 509 214**	**980 363**	**6 416 815**	**936 570**	**17 842 962**

Market risks

The Group is exposed to currency risks, interest rate risks and risks of changes in commodity prices and CO_2 emission rights prices.

(all amounts in PLN thousand)

Market risks management in PKN ORLEN Group is performed by entities exposed to such risks to the highest extent such as: PKN ORLEN, Basell ORLEN Polyolefins, ORLEN Asfalt, Anwil as well as UNIPETRTOL and Mazeikiu Refinery.

PKN ORLEN manages market risks resulting from the above mentioned factors using market risk management policy. The applied policy describes methods of management of each of the exposures by defining process of exposure measurement, hedge parameters, hedging instruments, as well as time horizon of hedging. Market risk management is realized by designated organization units under supervision of the Financial Risk Comitee, the Management Board and Supervisory Board of the Company.

- Currency risk

The Group is exposed to currency risk resulting from current receivables and short-term liabilities, cash and cash equivalents, investment expenditures and liabilities from loans, borrowings and debt securities issued denominated in foreign currencies. Currency risk exposure is hedged by forward and swap instruments.

For USD/PLN exchange rate there is partly a natural hedge, as revenues from sale of products denominated in USD are offset by costs of crude oil purchases denominated in the same currency. In case of EUR/PLN exchange rate, revenues from sales of petrochemical products are denominated in this currency. For this group natural hedge exists to the limited extent (for example interest on loans denominated in EUR, part of investment purchases).

Sensitivity analysis for currency risk

The influence of potential changes in carrying amount of assets and liabilities (as at 31 December 2008) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

2008

Influence of financial intruments on financial result

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(575 829)	-15%	575 829
EUR/PLN	+10%	(582 187)	-10%	582 187
CZK/PLN	+10%	152 575	-10%	(152 575)
JPY/PLN	+20%	(3 771)	-20%	3 771
LTL/PLN	+10%	65 056	-10%	(65 056)
Total		**(944 156)**		**944 156**

Influence of financial intruments on hedging reserve

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(29 669)	-15%	29 669
EUR/PLN	+10%	(114 619)	-10%	114 619
JPY/PLN	+20%	75 405	-20%	(75 405)
Total		**(68 883)**		**68 883**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	66 337	-15%	(66 337)
EUR/PLN	+10%	108 527	-10%	(108 527)
CZK/PLN	+10%	308 781	-10%	(308 781)
JPY/PLN	+20%	1	-20%	(1)
LTL/PLN	+10%	4 136	-10%	(4 136)
Total		**487 782**		**(487 782)**

Total influence of financial intruments on equity

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	(539 161)	-15%	539 161
EUR/PLN	+10%	(588 279)	-10%	588 279
CZK/PLN	+10%	461 356	-10%	(461 356)
JPY/PLN	+20%	71 635	-20%	(71 635)
LTL/PLN	+10%	69 192	-10%	(69 192)
Total		**(525 257)**		**525 257**

The influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2008:

(all amounts in PLN thousand)

2008

Sensitivity of a net investment in a foreign operations

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	987 322	-15%	(987 322)
EUR/PLN	+10%	44 703	-10%	(44 703)
CZK/PLN	+10%	604 430	-10%	(604 430)
Total		**1 636 455**		**(1 636 455)**

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign entities on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2008.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in foreign operation as at 31 December 2008:

2008

Total influence on equity

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+15%	381 824	-15%	(381 824)
EUR/PLN	+10%	(652 103)	-10%	652 103
CZK/PLN	+10%	757 005	-10%	(757 005)
JPY/PLN	+20%	71 634	-20%	(71 634)
LTL/PLN	+10%	65 056	-10%	(65 056)
Total		**623 416**		**(623 416)**

The influence of potential changes in carrying amount of assets and liabilities (as at 31 December 2007) arising from hypothetical changes in exchange rates of relevant currencies in relation to PLN on profit before tax, hedging reserve and foreign exchange differences on subsidiaries from consolidation:

2007

Influence of financial instruments on financial result

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	(108 365)	-4,2 %	108 365
EUR/PLN	+3,6 %	(210 617)	-3,6 %	210 617
CZK/PLN	+3,6 %	(10 216)	-3,6 %	10 216
Total		**(329 198)**		**329 198**

Influence of financial intruments on hedging reserve

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	13 079	-4,2 %	(13 079)
EUR/PLN	+3,6 %	44 576	-3,6 %	(44 576)
Total		**57 655**		**(57 655)**

Influence of financial instruments of foreign operations on foreign exchange differences on subsidiaries from consolidation

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	(87 747)	-4,2 %	87 747
EUR/PLN	+3,6 %	(7 841)	-3,6 %	7 841
CZK/PLN	+3,6 %	18 051	-3,6 %	(18 051)
LTL/PLN	+3,6 %	(1 511)	-3,6 %	1 511
Total		**(79 048)**		**79 048**

Total influence of financial intruments on equity

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	(183 033)	-4,2 %	183 033
EUR/PLN	+3,6 %	(173 882)	-3,6 %	173 882
CZK/PLN	+3,6 %	7 835	-3,6 %	(7 835)
LTL/PLN	+3,6 %	(1 511)	-3,6 %	1 511
Total		**(350 591)**		**350 591**

Influence of changes in relevant currencies in relation to PLN on equity due to foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2007:

2007

Sensitivity of a net investment in a foreign operation

	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	253 629	-4,2 %	(253 629)
EUR/PLN	+3,6 %	12 797	-3,6 %	(12 797)
CZK/PLN	+3,6 %	207 323	-3,6 %	(207 323)
Total		**473 749**		**(473 749)**

(all amounts in PLN thousand)

The above analysis concerns sensitivity of total net assets of foreign entities (including sensitivity of financial instruments of foreign subsidiaries on foreign exchange differences on subsidiaries from consolidation) as at 31 December 2007.

Total influence of changes in exchange rates of relevant currencies in relation to PLN on equity including foreign exchange differences on translation of a net investment in a foreign operation as at 31 December 2007:

2007				
	Total influence on equity			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
USD/PLN	+4,2 %	158 343	-4,2 %	(158 343)
EUR/PLN	+3,6 %	(153 244)	-3,6 %	153 244
CZK/PLN	+3,6 %	197 107	-3,6 %	(197 107)
Total		**202 206**		**(202 206)**

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increase or decrease in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates.

For other currencies the sensitivity of financial instruments is not material from the Group's point of view.

– **Interest rate risk**

The Group is exposed to risk of volatility of cash flows due to interest rates resulting from granted borrowings, owned bank deposits as well as liabilities from loans and borrowings based on floating interest rates. The Group owns derivative transactions hedging part of risk of cash flows due to interest rates (such as interest rate swaps IRS), for which cash flows hedge accounting is applied.

(all amounts in PLN thousand)

Sensitivity analysis for interest rate risk

The influence of financial instruments on profit before tax and hedging reserve due to significant interest rate changes:

Interest rate	Assumed variation 2008	Assumed variation 2007	Influence on financial result		Influence on hedging reserve		Influence on equity	
			31 December 2008	31 December 2007	31 December 2008	31 December 2007	31 December 2008	31 December 2007
WIBOR	+100	+50	(16 723)	(12 353)	10 271	356	(6 452)	(17 063)
LIBOR	+25	+50	(10 700)	(68)	-	-	(10 700)	(68)
EURIBOR	+150	+25	(94 999)	(37 024)	(9 473)	(842)	(104 472)	(37 866)
PRIBOR	+100	+25	10 870	(277)	-	-	10 870	(277)
VILIBOR	+100	+75	(237)	-	-	-	(237)	-
			(111 789)	**(49 722)**	**798**	**(486)**	**(110 991)**	**(55 274)**
WIBOR	-100	-50	16 723	12 353	(10 589)	(356)	6 134	17 063
LIBOR	-25	-50	10 700	68	-	-	10 700	68
EURIBOR	-150	-25	94 999	37 024	9 990	849	104 989	37 873
PRIBOR	-100	-25	(10 870)	277	-	-	(10 870)	277
VILIBOR	-100	-75	237	-	-	-	237	-
Total			**111 789**	**49 722**	**(599)**	**493**	**111 190**	**55 281**

Variations of interest rates described above were calculated based on volatility of interest rates as at 31 December 2008 in comparison to 31 December 2007.

The above interest rates variations were calculated on the basis of interest rates variations in the period

The Group does not own financial instruments with fixed interest rates, measured at fair value in the balance sheet. The Group measures derivative instruments at fair value.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2008 and 31 December 2007. The influence of interest rates changes was presented on annual basis.

The sensitivity of financial instruments for interest rate risk was calculated as arithmetic product of the balance of the balance sheet items sensitive to interest rates (excluding derivative instruments) multiplied by adequate variation of interest rate. In case of derivative instruments, the influence of interest rate variations on fair value was examined at constant level of currency rates.

(all amounts in PLN thousand)

– **Risk of changes in commodity prices**

The Group is exposed to changes in commodity prices due to:

– expenditures concerning purchases of crude oil for processing, which depend on the volume of processing, the level of inventory as well as the level of crude oil price on the global market and differential;
– revenues from sales of refinery and petrochemical products, which depend on the volume of sales, the level of prices on the global market.

As at 31 December 2008 and 31 December 2007 there were no financial instruments hedging the risk of changes in commodity prices.

– **Risk of CO_2 emission rights prices**

On the basis of the binding legal regulations resulting from the Kyoto Protocol to the United Nations Framework Convention on Climate Change, adopted by the European Union, followed by the decision of the Council of Ministers PKN ORLEN was granted CO_2 emission rights .

For the period of 2008-2012 the Group performed verification of the number rights granted to the Group companies as well as defined methods of their systematic balancing depending on declared shortages/surpluses in the way of intercompany transactions, or depending on the situation, on the market of term and spot transactions.

As at 31 December 2008 the Group possessed financial instruments in the amount of PLN 23,359 thousand, whose valuation depends on changes in prices for CO_2. emission rights. As at 31 December 2007 the Group did not possess instruments vulnerable to changes in prices for CO_2. emission rights.

10. Revenues from sale, net

Revenues from sales of finished goods, net in the amount of PLN 61,919,541 thousand in 2008 and PLN 45,480,333 thousand in 2007 included revenues from sale of services in the amount of PLN 1,350,275 thousand in 2008 and PLN 1,172,322 thousand in 2007.

11. Cost by kind

	for the year ended 31 December 2008	for the year ended 31 December 2007
Materials and energy	(52 235 467)	(36 604 832)
Cost of merchandise and materials sold	(17 313 474)	(16 867 030)
External services	(3 944 060)	(3 571 369)
Payroll, social security and other employee benefits	(1 945 989)	(1 880 771)
Depreciation	(2 491 383)	(2 431 423)
Taxes and charges	(439 153)	(348 871)
Other	(3 474 950)	(1 067 406)
Total	**(81 844 476)**	**(62 771 702)**
Change in inventory, prepayments and accruals	106 542	(1 041 221)
Cost of products and services for own use	(64 561)	(71 377)
Operating expenses	**(81 886 457)**	**(61 659 104)**
Distribution expenses	(3 325 701)	(3 175 974)
General and administrative expenses	(1 462 477)	(1 637 370)
Other operating expenses	(3 098 957)	(719 839)
Cost of finished goods, merchandise and raw materials sold	**(73 999 322)**	**(56 125 921)**

External services Include research expenditure of PLN 20,394 thousand in 2008 and PLN 17,340 thousand in 2007.

(all amounts in PLN thousand)

12. Other operating revenues and expenses

Other operating revenues

	for the year ended 31 December 2008	for the year ended 31 December 2007
Profit on sale of non-financial non-current assets	90 368	40 629
Reversal of provisions	125 562	118 516
Reversal of receivable impairment allowances	149 027	127 972
Reversal of impairment allowances of property, plant and equipment and intangible assets	136 833	88 861
Proceeds from perpetual usufruct of land	5 629	385
Penalties and compensations earned	142 174	6 804
Inventory count surpluses	12 458	7 303
Due to compensations conected with damage liquidation	8 026	8 476
Grants	7 004	-
Other	70 849	71 057
Total	**747 930**	**470 003**

Other operating expenses

	for the year ended 31 December 2008	for the year ended 31 December 2007
Loss on sale of non-financial non-current assets	(49 655)	(55 543)
Creation of provisions	(196 745)	(115 058)
Receivables impairment allowances	(137 455)	(107 662)
Impairment allowances of property, plant and equipment and intangible assets	(2 512 935)	(159 093)
Donations	(8 567)	(9 794)
Nonculpable shortages in current assets	(21 796)	(13 857)
Prescribed receivables	(68 500)	(43 574)
Fair value measurement of Kaucuk	-	(120 901)
Costs and losses on removal of damages	(20 369)	(17 332)
Value of the investments provided free of charge	(7 182)	(6 263)
Costs and losses on management of raw materials and merchandise	(5 379)	(4 660)
Other	(70 374)	(66 102)
Total	**(3 098 957)**	**(719 839)**

13. Net financial revenues and expenses

Financial revenues

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest received	127 630	120 531
Positive foreign exchange surplus	139 837	903 424
Dividends	6 174	9 629
Profit from sale of shares and other securities	934	3 179
Decrease in receivables impairment allowances	11 507	11 150
Settlement and valuation of financial instruments	359 083	110 534
Other	57 635	31 601
Total	**702 800**	**1 190 048**

Financial expenses

	for the year ended 31 December 2008	for the year ended 31 December 2007
Interest paid	(541 765)	(503 088)
Negative foreign exchange surplus	(1 240 529)	(63 106)
Loss on sale of shares and other securities	(1 104)	(9 416)
Investment impairment allowances	-	(333 084)
Increase in receivables impairment allowances	(14 837)	(23 042)
Settlement and valuation of financial instruments	(451 927)	(65 645)
Other	(31 252)	(52 865)
Total	**(2 281 414)**	**(1 050 246)**

(all amounts in PLN thousand)

Net gains/losses due to financial instruments recognized in financial revenues and expenses by categories

	for the year ended 31 December 2008	for the year ended 31 December 2007
Financial assets and liabilities at fair value through profit or loss (held for trading)	(65 708)	35 730
Financial assets available for sale (recognized in the income statement)	31 317	(337 951)
Financial assets held to maturity	22 467	15 351
Loans (granted)	18 501	3 935
Financial liabilities measured at amortized cost	(1 339 858)	(20 923)
Current receivables	358 957	(83 599)
Short-term liabilities	(631 892)	492 578
Cash and cash equivalents	56 043	9 792
Ineffective portion recognized in the income statement during the period	(25 395)	340
Other	(3 046)	24 549
Total	**(1 578 614)**	**139 802**

Financial expenses due to impairment of financial assets by classes of financial instruments

	for the year ended 31 December 2008	for the year ended 31 December 2007
Impairment of shares in Companies	-	(338 059)
Impairment of interest on receivables (as financial instruments)	(14 837)	(12 651)
Total	**(14 837)**	**(350 710)**

14. Income tax expense

	for the year ended 31 December 2008	for the year ended 31 December 2007
Current tax	(290 650)	(705 610)
Deferred tax	679 427	174 971
Total	**388 777**	**(530 639)**

Deferred tax as at 31 December 2008 include the amount of PLN (150,941) thousand concerning changes in a tax rate used in Lithuania from 15% to 20%. In comparable data, in the same position the amount of PLN 90,041 thousand concerning changes of tax rates in the Czech Republic is included.

The difference between income tax expense recognized in the income statement and the amount calculated based on profit before tax results from the following items:

	for the year ended 31 December 2008	for the year ended 31 December 2007
Profit before tax	**(2 915 403)**	**3 011 065**
Corporate income tax for 2008 and 2007 by the valid tax rate (19% in Poland)	553 927	(572 103)
Difference between Polish and German (24%) tax rates	(2 667)	(6 895)
Difference between Polish and Czech (20%) tax rates	1 139	(3 126)
Difference between Polish and Lithuanian (15%) tax rates	368	28 610
Revaluation of investments available for sale	-	(80 711)
Tax loss	(19 386)	-
Business risk provision	(23 081)	-
Impairment allowances concerning receivables indispute	(11 383)	-
Impairment of goodwill	-	(1 005)
Fair value measurement of KAUCUK a.s.	-	(23 442)
Valuation of entities accounted for under the equity method	50 638	50 802
Penalties and compensations received and paid	(27 646)	(1 593)
Revaluation of deferred tax due to change of tax rates	(150 941)	90 041
Other	17 809	(11 217)
Income tax expense	**388 777**	**(530 639)**
Effective tax rate	**13%**	**18%**

The PKN ORLEN Group does not form a tax group under Polish regulations. The Group contains Basell ORLEN Polyolefins Sp. z o.o Capital Group which is a tax Capital Group comprising Basell ORLEN Polyolefins Sp. z o.o. and Basell ORLEN Polyolefins Sprzedaż Sp. z o.o.

Regards the fact, that the Group's companies are separate taxpayers, deferred tax assets and deferred tax liabilities must be recalculated individually in particular companies. As a result, consolidated balance sheet presents deferred tax assets in the amount of PLN 485,362 thousand as at 31 December 2008 and PLN 233,219 thousand as at 31 December 2007 as well as deferred tax liabilities amounting to PLN 1,134,686 thousand as at 31 December 2008 and PLN 1,548,835 thousand as at 31 December 2007.

In 2008 there was an increase in equity as an effect of deferred tax recognized in hedging reserve in the amount of PLN 45,984 thousand. In 2007 there was a decrease in equity of PLN (17,590) thousand in this respect.

(all amounts in PLN thousand)

Net deferred tax liability as at 31 December 2008 and 31 December 2007 comprised the following items:

	31 December 2008	31 December 2007
Deferred tax assets:		
Land reclamation provision	68 399	75 293
Difference between carrying amount and tax base of property, plant and equipment	111 002	94 918
Receivables impairment allowances	25 780	16 285
Cost of jubilee bonuses, retirement benefits and unused holidays	64 423	54 199
Expenses for loyalty program prizes	13 726	14 299
Impairment of property, plant and equipment and intangible assets	514 211	28 644
Financial instruments	16 693	-
Valuation of impairment of non-current financial assets	5 208	1 519
Inventory impairment allowance	112 648	16 426
Cost of liquidation of property, plant, equipment and intangible assets	-	7 546
Other provisions	43 007	46 870
Unrealized negative foreign exchange differences	233 785	(7 577)
Bonds valuation	1 833	16 256
Subvension receivables	2 660	-
Other expenses concerning wages and salaries	27 902	17 182
Accrued expenses	6 656	50 771
Tax loss	220 708	-
Other	31 555	38 373
Total deferred tax assets	**1 500 196**	**471 004**
Deferred tax liabilities:		
Investment relief	82 064	167 367
Difference between carrying amount and tax base of property, plant and equipment	1 982 632	1 519 709
Difference in contribution in kind	48 197	44 639
Finance lease treated as operating for tax purposes	30 433	21 412
Valuation of financial instruments	-	29 587
Other	6 194	3 906
Total deferred tax liabilities	**2 149 520**	**1 786 620**
Deferred tax liability, net (Deferred tax liabilities - deferred tax assets)	**649 324**	**1 315 616**

As at 31 December 2008 the Group possessed unused losses in the amount of PLN 102,031 thousand, for which no deferred tax asset was recognized in the balance sheet.

15. Leases

a) The Capital Group as a lessee

Operating lease

As at 31 December 2008 and 31 December 2007 the Group did not posses non-cancellable operating lease agreements as a lessee. Operating lease agreements (tenancy, rent) regard mainly the lease of tanks, petrol stations, means of transportation and computer equipment. The lease contracts do not contain any clauses concerning conditional liabilities from lease fees. In concluded lease agreements, the general conditions of operating lease are effective, there are no particular restrictions nor additional terms of contract. In the most cases there is the possibility to prolong the agreement. The lease payments, resulting mainly from tenancy and rent agreements, recognized as cost amounted to PLN 203,531 thousand in 2008 and PLN 238,388 thousand in 2007.

Finance lease

As at 31 December 2008, The Group possess the finance lease agreements as a lessee. The finance lease agreements relate mainly to buildings, machinery and equipment as well as means of transportation.

In concluded lease agreements, the general conditions of finance lease are effective, there are no particular restrictions nor additional terms of contract. The finance lease contracts do not contain any clauses concerning conditional liabilities from lease fees. In most cases there is the possibility to prolong the agreement.

Future minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Up to 1 year	64 789	34 971
Between 1 and 5 years	55 515	59 888
Above 5 years	21 968	18 225
Total minimum lease payments	**142 272**	**113 084**

(all amounts in PLN thousand)

Present value of future minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 was as follows:

	31 December 2008	31 December 2007
Up to 1 year	52 636	29 087
Between 1 and 5 years	50 631	49 406
Above 5 years	15 418	12 874
Total present value of minimum lease payments	**118 685**	**91 367**

The difference between total amount of future minimum lease payments and their present value results from discounting of lease payments by the interest rate implicit in the agreement.

As at 31 December 2008 and 31 December 2007 the net carrying amount for each class of assets was as follows:

	31 December 2008	31 December 2007
Intangible assets	**1 267**	**4**
Computer software	1 267	4
	31 December 2008	**31 December 2007**
Property, plant and equipment	**185 244**	182 903
Buildings, premises as well as land and water engineering objects	16 763	15 551
Machinery and equipment	55 405	54 932
Vehicles	83 896	112 218
Other property, plant and equipment	29 180	202

b) The Group as a lessor

Operating lease

As at 31 December 2008 and 31 December 2007 the Group did not posses non-cancellable operating lease agreements as a lessor. Operating lease agreements possessed by the Group regard the lease of machinery, equipment, buildings and land. Most of the agreements were concluded for an indefinite period.

Finance lease

As at 31 December 2008 the Group as a lessor possessed the finance lease agreements regarding the lease of distributors. The agreements were concluded for a definite period.

Gross investments in the lease due as at 31 December 2008 and 31 December 2007 were as follows:

	31 December 2008	31 December 2007
Up to 1 year	17	29
Between 1 and 5 years	-	17
Total gross investments in the lease	**17**	**46**

Present value of minimum lease payments under finance lease agreements mentioned above as at 31 December 2008 and 31 December 2007 was as follows:

	31 December 2008	31 December 2007
Up to 1 year	17	26
Between 1 and 5 years	-	16
Total present value of minimum lease payments	**17**	**42**

As at 31 December 2008 unearned finance income amounted to nil. As at 31 December 2007 unearned finance income amounted to PLN 4 thousand.

As at 31 December 2008 the Group companies did not recognized in the income statement contingent rents nor allowances for bad debts concerning minimum lease payments. There were also no unguaranteed residual values accruing to the benefit of the Group.

Disclosures resulting from IFRS 7 regarding the finance lease are included in note 9 and are presented together with other financial instruments.

16. Investment expenditures incurred and planned and commitments resulting from signed investment contracts

Investment expenditures in 2008 accounted for PLN 3,962,928 thousand, including PLN 515,062 thousand of environmental protection related investments. As at 31 December 2008 future liabilities resulting from contracts signed until this date amounted to PLN 1,969,908 thousand.

(all amounts in PLN thousand)

17. Related party transactions

a) Information on material transactions concluded by the Group Companies with related parties on other than market terms

During 12 months of 2008 there were no material related transactions in the Group concluded on other than market terms.

b) Transactions with members of the Management Board, Supervisory Board, their spouses, siblings, descendants and ascendants and their other relatives

In 2008 the supervising persons of the Company and of the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	410 911	602 876	14 890	32 266
Natural persons	-	-	-	-

c) Transactions with related parties concluded through the managing persons of the Company and of the Capital Group companies

In 2008 Members of the Management Board of the Parent Company and the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	-	-	-	-
Natural persons	50	25	-	

d) Transactions with related parties concluded through the key management personnel of the Capital Group companies

In 2008 members of the key executive personnel of the Parent Company and the Capital Group companies submitted statements on transactions concluded with related parties in extended scope of IAS 24 "Related Party Disclosures".

	Sale	Purchase	Receivables	Liabilities
Legal persons	-	-	-	-
Natural persons	42	3	-	-

(all amounts in PLN thousand)

e) Transactions of the Parent Company with related parties in the period from 1 January to 31 December 2008 and the balance of settlements as at 31 December 2008

PKN ORLEN Capital Group

	Consolidated subsidiaries[1]	Consolidated associates[2]	Consolidated jointly controlled entities [3]	Non-consolidated subsidiaries [1]	Non-consolidated associates [2]	Total related parties
Sale	27 545 498	17 812	2 294 044	4 506	-	29 861 860
Purchases	3 223 907	124 357	21 008	85 560	-	3 454 832
Financial revenues from interest	5 027	6	23	108	-	5 164
Financial expenses from interest	10 612	-	-	-	-	10 612
Current receivables (net)	1 228 182	2 094	512 010	478	-	1 742 764
Short-term liabilities	305 394	14 421	3 001	18 429	-	341 245
Non-current receivables	14 721	-	-	-	-	14 721
Long-term liabilities	25 431	-	-	-	-	25 431

[1] The Parent Company, using its title to vote (above 50% voting rights), appoints supervisory personnel in those entities, and in some cases also management board members
[2] The Parent Company exercises significant influence on the entity's supervisory bodies via its representatives
[3] The Parent Company exercise a joint control over the entities under the deed of association

As at 31 December 2008 current receivables allowances for consolidated subsidiaries amounted to PLN 20,936 thousand and for non-consolidated subsidiaries to PLN 195 thousand.

The above transactions with related parties include sale and purchase of refinery and petrochemical products, crude oil and purchases of repair, transportation and other services.

(all amounts in PLN thousand)

18. Contingent liabilities and risks

Contingent liabilities of PKN ORLEN Group in 12- month period ended 31 December 2008

	31 December 2007	Increase/ Decrease	31 December 2008
Legal cases related to real estates with undefined legal status	34 903	(34 597)	306
Anti trust proceeding of the Office for Competition and Consumer's Protection	18 500	-	18 500
Legal cases	53 338	(35 942)	17 396
Total contingent liabilities	**106 741**	**(70 539)**	**36 202**

a) Risk of losing relieves

Investment relief

In accordance with tax regulations, in force in previous years, the Parent Company reduced the taxable income for the purposes of corporate income tax by 50% of the investment relief deducted in 2003 (investment premium) in the amount of PLN 6,923 thousand.

Despite the fact that the investment premiums are of contingent nature, the Parent Company does not identify a risk that its right to the deductions might be denied by the tax authorities. The Company does not also identify a risk of losing the right to premiums and premiums due to breach of conditions which in effect oblige to return the amounts deducted.

In Lithuania, investment relief is regulated by tax law and individual agreements signed between the Company and the government of Lithuania. In accordance with the law, part of profit designated for investment is taxed with 0% rate. The State Tax Inspection is authorized to collect tax related to unused tax relief, which was improperly calculated and not fully paid within the 5 years period.

As at the date of preparation of these financial statements, Mazeikiu Group companies have utilized PLN 26,087 thousand of investment relieves.

Other tax relieves

In the years 2001 - 2005 Mazeikiu Group used other tax relieves. As at the date of preparation of these financial statements the amount of tax relieves used by Mazeikiu Group amounted to PLN 109,399 thousand. The expiry date of potential returns of these relieves has not passed yet, however according to assessment of the Mazeikiu Group the risk of return is low.

b) Tax proceedings in Rafineria Trzebinia S.A.

As at the balance sheet date of 31 December 2008 the following proceedings and tax controls are pending in Rafineria Trzebinia S.A.:

- **Tax proceedings in respect of determination of excise tax liability for the period May – September 2004.**

As a result of the Customs Office proceedings, the excise tax liability for the period May-September 2004 was set at PLN 100 million. The Management Board of the Company filed an appeal against the discussed decisions. In December 2005 the Director of the Customs Chamber in Kraków ("Director of the CC") kept the first instance authority's decisions in force. In February 2006, as a result of the motion of Rafineria Trzebinia, the Director of the CC suspended execution of the complained decisions until the case is decided by the Woivodship Administrative Court in Kraków ("WAC").
In its sentence dated 12 November 2008 the WAC inclined to the appeal of Rafineria Trzebinia and dismissed the decisions of the Director of the CC. On 16 January 2009 the Director of the CC submitted an annulment to the Supreme Administrative Court in Warsaw.

- **Control proceedings in respect of reliability of calculation and settlement of excise tax and value added tax for 2002, 2003 and the period January - April 2004.**

In January 2005, the Director of the Tax Control Office in Kraków ("TCO") instituted control proceedings against Rafineria Trzebinia in respect of reliability of the stated tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2002 and 2003. Additionally, in May 2006, tax control proceedings relating to the period January - April 2004 were instituted.

On 5 December 2007 the Director of the Tax Control Office in Kraków issued a result of tax control proceedings in respect of excise tax for 2002, acknowledging settlements prepared by Rafineria Trzebinia as correct.

In July 2008 Rafineria Trzebinia received a protocol prepared by the TCO concerning audit of the Company's accounting books for the tax year 2003 determining potential additional excise tax liability in the amount of PLN 73,408 thousand and protocol from audit of the accounting books for the period January – April 2004 determining potential additional excise tax liability in the amount of PLN 126,150 thousand. The company raised reservations and additional explanations to these protocols.

On 27 November 2008 a result of the fiscal control proceedings was issued in respect of reliability of declaration of tax bases and accuracy of the calculation and settlement of excise tax and value added tax for 2003. On 5 December 2008 the adequate result was issued for the period January – April 2004.
In the issued results it was decided, that tax books are unreliable in the part concerning deductible excise tax of PLN 1,585 thousand.
Rafineria Trzebinia S.A. appealed against the decision and settled the amount of contentious liability together with interest. On 30 January 2009 the Director of the Tax Chamber in Kraków repealed the decision sued by Rafineria Trzebinia S.A. and decided to revoke it to reexamination by the first instance authority.

On 9 March 2009 Rafineria Trzebinia S.A. raised a complaint to the Woivodship Administrative Court in Krakow against the above mentioned decision of the Director of the Customs Chamber in Kraków in respect of faulty formulation of legal justification.

– **Tax proceedings in respect of determination of value added tax amount for the period January - August 2005.**

In October 2006 the Head of the Tax Office for Małopolska ("TOM") instituted tax control proceedings in respect of determination of value added tax liability for the period January, February and April – August 2005. Additionally, in February 2007 the Head of the TOM in Kraków instituted tax control proceedings relating to March 2005.

On 12 January 2009 the Head of the TOM in Kraków issued a decision in respect of cancellation of tax proceedings regarding value added tax liability for the above mentioned period.

The amounts included in this note relate to the principal tax liabilities. As at the date of preparation of these financial statements, the final outcome of the above control proceedings as well as potential impact of the proceedings extended to other periods are not known yet.

The Management Board, based on its opinions of recognized tax advisors, believes that there is a high probability that the outcome of the proceedings mentioned above will be favorable for Rafineria Trzebinia S.A. As a result, no provision for potential liabilities has been created in these consolidated financial statements for 2008.

Net consolidated assets of Rafineria Trzebinia amounted to PLN 431,659 thousand as at 31 December 2008. The share of PKN ORLEN in total voting rights at the General Shareholders' Meeting of Rafineria Trzebinia amounts to 77.15%.

c) The proceedings of the Energy Regulatory Office ("ERO") in Rafineria Trzebinia S.A.

In March 2006 the Chairman of the Energy Regulatory Office officially instituted proceedings in respect of imposing a fine in connection with violating of concession terms regarding production of liquid fuels. The essence of the proceedings regards potential direct application of the provisions of the European Union directives while on the one hand effective 1 May 2004 Poland became a member of the European Union whereas on the other hand no regulations of the Minister of Economy in respect of quality requirements for biofuels were available.

In September 2006 the Chairman of the ERO imposed a fine of PLN 1 million to Rafineria Trzebinia. The decision of the Chairman of the ERO was repealed in April 2007 by the sentence of the Court of Competition and Consumers Protection in Warsaw ("CCCP"). In November 2007 the Court of Appeals in Warsaw dismissed the appeal of the Chairman of the ERO and sentenced the reimbursement of court proceedings costs in favor of Rafineria Trzebinia. The sentence is legally binding.

In March 2008 the representative of the Chairman of the ERO submitted an annulment, which on 4 September 2008 was accepted for recognition by the Supreme Court. In its sentence dated 5 November 2008 the Supreme Court repealed the sentence of the Court of Appeals in Warsaw and revoked it to reexamination by this Court. In the assessment of the Supreme Court it is necessary to carry out evidence proceedings in respect of quality norms specific for biofuels produced in the contentious period. At the same time the Supreme Court stated that concession possessed by Rafineria Trzebinia S.A. entitled to production and trade in biofuels. As at 25 March 2009 the Court of Appeals, following the decision of the Supreme Court concerning necessity of evidence proceedings, repealed the sentence of District Court, CCCP and revoked the case to its reexamination.

d) 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 financial statements PKN ORLEN participates in two court proceedings concerning settlement of system fee with ENERGA Operator S.A. The subject of the court proceedings is regulated by the Regulation of the Minister of Economy dated 14 December 2000 relating to detailed methods of determination and computation of tariffs and electricity settlement regulations. According to the paragraph 36 of the above regulation, the method of settlement of system fee, constituting an element of a power transfer fee, was changed. According to the paragraph 37 of the above regulation, a different method of system fee calculation was introduced.

– **Court proceedings in which PKN ORLEN acts as a defendant**

The subject of the court proceedings concerns settlement of the contentious system fees 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 and PKN ORLEN which was signed without determining contentious issues concerning system fees. The case was regarded as a civil case so contentious system fees should be judged by an appropriate Court.

In 2003 ENERGA – OPERATOR S.A. called on PKN ORLEN to compromise agreement and then filed a lawsuit against PKN ORLEN. In 2004, the Court issued a decision obliging PKN ORLEN to pay a liability connected with the so-called system fee to ENERGA – OPERATOR in the amount of PLN 46,232 thousand. In its objection to the precept, PKN ORLEN filed for entire dismissal of the suit.

On 25 June 2008 the District Court pronounced its verdict and dismissed the suit of ENERGA – Operator S.A. entirely as well as sentenced the reimbursement of Court proceeding costs of PLN 31 thousand in favor of PKN ORLEN. In September 2008 ENERGA – Operator S.A. appealed against the above sentence. PKN ORLEN responded to the appeal. In April 2009 the Court of Appeals obliged the defendant to submit additional documents. The date of the next Court seating has not been set.

The foregoing financial statements include a provision to cover potential negative outcomes connected with these proceedings.

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

In 2004 the District Court in Warsaw summoned PKN ORLEN as a co-defendant in a court case PSE – Operator S.A. (legal successor of PGE Polska Grupa Energetyczna S.A., former Polskie Sieci Elektroenergetyczne) against ENERGA – OPERATOR S.A.

In March 2008 the District Court in Warsaw pronounced its verdict according to which ENERGA – Operator S.A. is to pay PSE the amount of PLN 62,514 thousand with interest and the amount of PLN 143 thousand as a refund of proceedings costs. ENERGA - Operator S.A. appealed against the above verdict. Based on the legal opinion of an independent expert PKN ORLEN did not appeal. In its sentence dated 19 March 2009, the Court of Appeals declined the appeal of Energa-Operator S.A. against the verdict of the first instance Court that sentenced the specified amount. The verdict in this case is already legally binding, but Energa – Operator S.A. still has the possibility to submit an annulment to the Supreme Court.

Eventual court ruling will not result in liabilities directly on the side of PKN ORLEN, as PKN ORLEN acts only as an outside intervener in the case.

e) Anti-trust proceedings

As at the date of preparation of these financial statements, the Group is a party in the following anti-trust proceedings:

– Proceedings instituted in March 2005 in connection with an allegation that PKN ORLEN concluded an agreement with Lotos S.A. Group, which limited competition on the domestic market of trading in universal petrol U95. In December 2007, the Chairman of OCCP penalized PKN ORLEN and LOTOS Group for the participation in the above-described agreement. The fine imposed on PKN ORLEN amounted to PLN 4,500 thousand. PKN ORLEN appealed to the Court of Competition and Consumer Protection against that decision. The date of a court seating has not been set yet.

– Proceedings instituted in March 2005 in connection with an allegation that in the years 2000-2004 PKN ORLEN was using practice-limiting competition on the domestic market of trading in glycol by setting prices for “Petrygo” liquid to radiators, which were inadequate compared to increase in price of glycol. In December 2006 the Chairman of OCCP imposed a fine on PKN ORLEN in the amount of PLN 14,000 thousand. PKN ORLEN appealed against this decision. According to independent legal opinions, there is low probability that the

Company is charged with a fine. However due to the status of proceedings these financial statements include the respective contingent liability. The proceedings in front of the OCCP in Warsaw are pending.

– Proceedings instituted in July 2008 in connection with an allegation that PKN ORLEN, Petrol Station Kogut Sp. j. and MAGPOL B. Kułakowski i Wspólnicy Sp. j. were using practice limiting competition on the domestic market of trading in engine liquid fuels. PKN ORLEN responded to allegations raised by the Chairman of the OCCP and filed a motion to issue a decision establishing a liability based on par. 12 of a competition and consumer protection act. Once the motion is adopted, the Chairman of the OCCP will not be able to impose a fine.

f) Risk connected with the disposal of a portion of assets and liabilities related to purchase of Unipetrol a.s. shares

In 2003-2004, the Management Board of PKN ORLEN appointed at that date concluded agreements with Agrofert Holding a.s. and ConocoPhillips Central and Eastern Europe Holdings B.V. concerning sale of part of assets and liabilities of the UNIPETROL Group companies.

In 2005, the Management Board appointed at that date, having analyzed all eventual consequences resulting from the above agreements and having consulted recognized independent experts, adopted and presented to the Supervisory Board a proceeding strategy related to execution of the agreements, taking into account the best interest of the Company and its shareholders.

Agrofert Holding a.s. agreed that PKN ORLEN disclosed only portion of the agreements. This portion was presented by Agrofert Holding a.s. itself at the press conference on 13 September 2005.

As at the date of preparation of these financial statements the following proceedings instituted by Agrofert Holding a.s. against PKN ORLEN are in progress in front of the Court of Arbitration by the Czech Chamber of Commerce and Czech Chamber of Agriculture in Prague:

– Arbitration proceedings initiated in January 2006 in which Agrofert Holding a.s. claims from PKN ORLEN the payment of a contractual penalty of EUR 77,266,500 with interest.

– Arbitration proceedings initiated in May 2006 in which Agrofert Holding a.s., similarly to the first proceedings, claims the payment of a contractual penalty of EUR 77,266,500 with interest.

– Arbitration proceedings initiated in July 2006 with a law suit in which Agrofert Holding a.s. claims the payment of a contractual penalty of CZK 409,102,494 (approximately EUR 14 million) with interest.

– Arbitration proceedings initiated in December 2006 with a law suit in which Agrofert Holding a.s. claims the payment of a compensation for losses related among others to unfair competition and illegal violation of reputation of Agrofert Holding a.s. The value of the dispute amounts to CZK 17,352,550,000 (approximately EUR 700 million) with interest.

On 2 September 2008 PKN ORLEN and ConocoPhilips Central and Eastern Europe Holdings B.V. concluded an agreement. Arbitration proceedings in London were finished.

The foregoing financial statements include the provision to cover the potential negative effects related to outcomes of the above mentioned arbitration proceedings.

g) Claims and court proceedings – Tankpol Sp. z o.o.

The court proceedings were instituted by Tankpol Sp. z o.o. (presently Tankpol – R. Mosio i Wspólnicy sp. j.) against PKN ORLEN. The claim concerns the return of 253 out of 470 shares in ORLEN PetroTank Sp. z o.o. that were transferred by Tankpol to PKN ORLEN as a security, based on the agreement dated 20 December 2002. The Court of Appeals in Warsaw pronounced that PKN ORLEN is obliged to transfer ownership of 26 shares in ORLEN PetroTank Sp. z o.o. to Tankpol R. Mosio i Wspólnicy sp.j. As a result of an annulment submitted by Tankpol R. Mosio i Wspólnicy sp. j. the case was revoked to reexamination in front of the District Court in Warsaw. Equity attributable to one share amounts to PLN 53 thousand.

h) Claims related to the penalty imposed by the European Commission on UNIPETROL a.s.

In November 2006, the European Commission imposed fines on Shell, Dow, Eni, Unipetrol and Kaucuk for an alleged cartel in the area of production of ESBR (Emulsion of Polymerized Styrene Butadiene Rubber). Unipetrol a.s. and Kaucuk a.s., its subsidiary at that time, were jointly imposed a fine of EUR 17.5 million. Unipetrol a.s. and Kaucuk a.s. paid the fine to the European Commission. At the same time, both entities appealed to the First Instance Court in Luxembourg. The court proceedings are currently in progress.

(all amounts in PLN thousand)

Following the above decision of the European Commission, Unipetrol a.s. received a claim for damages, which tire producers brought against all members of the ESBR cartel to the Supreme Court of England and Wales. The claimants request a compensation for damages, together with interest, relating to losses suffered because of an alleged cartel. The amount claimed is still to be assessed. Unipetrol a.s. challenged the jurisdiction of the British Courts to deal with the claim. The challenge of Unipetrol a.s. is pending.

At the same time, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings in front of a Court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred to tire producers as a result thereof. Eni's action has been presented to Unipetrol a.s., which decided to be a party of the proceedings.

19. Remuneration, together with profit-sharing paid and due or potentially due to the Management Board, Supervisory Board and members of key executive personnel in accordance with IAS 24

The Management Board, the Supervisory Board and the key executive personnel remuneration includes short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

a) Remuneration of the Management Board, the Supervisory Board and the key executive personnel of the Company in 2008

	2008
Remuneration of the Management Board Members of the Company	**22 777**
including: remuneration paid and due to the Management Board Members performing the function in 2008	21 661
remuneration paid to the Management Board Members performing the function in the previous years	1 116
Remuneration of the Supervisory Board Members of the Company	**1 094**
Remuneration of the key executive personnel of the Company	**41 697**
Remuneration of the key executive personnel of the subsidiaries belonging to the Capital Group	**114 193**

Remuneration paid in 2008 and due or potentially due to the Management Board Members of the Company performing the function in 2008 and in the previous years

	salaries and other benefits including paid and due bonuses	redundancy payments and compensations for non-competition clause	Total
Performing the function in 2008			
Cezary Filipowicz	1 016	420	1 436
Dariusz Formela	730	420	1 150
Wojciech Heydel	2 843	2 880	5 723
Sławomir Jędrzejczyk	1 288	-	1 288
Wojciech Kotlarek	863	-	863
Piotr Kownacki	1 842	1 440	3 282
Dariusz Krawiec	1 437	-	1 437
Waldemar Maj	964	1 080	2 044
Krystian Pater	1 775	-	1 775
Marek Serafin	1 151	-	1 151
Krzysztof Szwedowski	1 092	420	1 512
Total	**15 001**	**6 660**	**21 661**
Performing the function in the previous years			
Igor Chalupec	37	140	177
Jan Maciejewicz	127	-	127
Cezary Smorszczewski	155	220	375
Paweł Szymański	347	90	437
Total	**666**	**450**	**1 116**

Salaries and other benefits paid and due in 2008 include remuneration paid, other benefits such as insurance policies, medical care services, bonuses for 2007 paid in 2008 and estimated potentially due bonuses for 2008, which will be paid out in 2009.

Redundancy payments and compensations for non-competition clause concerning the previous Members of the Management Board were included in the costs and paid out in 2008, except for compensations for non-competition clause concerning Wojciech Heydel of PLN 960 thousand and Piotr Kownacki of PLN 600 thousand which will be included in the costs and paid out in 2009.

(all amounts in PLN thousand)

Principles of incentives for key executive personnel (including Members of the Management Board)

In 2005 new incentive system for key executive personnel of PKN ORLEN and the Capital Group was introduced – Management by Objectives (MBO). New incentive system concerns the Management Board and the key executive personnel. Individuals participating in MBO are rewarded for individual goals realization and solidarity goal, set at the beginning of the period. The Supervisory Board sets goals for each Management Board Member. Set goals are of qualitative and quantitative nature and are assessed on the basis of incentive system regulation, after the end of a year to which they relate.

The value of bonus granted depends also on the solidarity objective. When planned level of solidarity objective is realized, everybody receives bonus in full calculated amount. When the solidarity objective is not realized, all employees are granted half of worked out bonus. Introduced system encourages employees to cooperation in order to achieve the best results at the level of the Concern.

Remuneration regarding non-competition clause and dissolution of the contract because of dismission from the position held

Agreements concluded between the issuer and managing persons constitute that the persons are obliged to obey a non-competition clause for 6 or 12 months, starting from the date of a termination or expiration of the contract. In the period, Members of the Management Board are entitled to receive remuneration in amount of six or twelve monthly basic remuneration, paid in equal monthly installments.

Furthermore, contracts include remuneration payments in case ration of dissolution of the contract because of dismission from the position held. Remuneration amounts to six or twelve basic monthly remuneration.

Remuneration of the Management Board and Supervisory Board Members of the Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled entities or associates for the year 2008

Management Board Members of PKN ORLEN, acting in 2008 as Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where remuneration paid was transferred to ORLEN Dar Serca foundation. The Management Board Members of PKN ORLEN acted in 2008 in the Management Board of Mazeikiu.

Remuneration of the Supervisory Board Members of the Company	2008
Grzegorz Borowiec	110
Robert Czapla	13
Marek Drac-Tatoń	13
Raimondo Eggink	56
Marek Karabuła	110
Krzysztof Kołach	110
Zbigniew Macioszek	13
Maciej Mataczyński	142
Grzegorz Michniewicz	70
Agata Mikołajczyk	13
Krzysztof Rajczewski	13
Jarosław Rocławski	67
Angelina Sarota	68
Ryszard Stefański	43
Małgorzata Ślepowrońska	16
Piotr Wielowieyski	110
Janusz Zieliński	123
	1 090
Remuneration of the Supervisory Board Members in subsidiaries	
Małgorzata Ślepowrońska	4
Total remuneration of the Supervisory Board Members	**1 094**

The Chairman of the Supervisory Board of PKN ORLEN performing this function since 7 February 2008, acted simultaneously as Supervisory Board Member of Petrolot Sp. z o.o. as the representative of PLL LOT S.A. (second shareholder of that company) and for the period from 1 January to 7 February 2008 received the remuneration in the amount of PLN 4 thousand. Other Supervisory Board Members of PKN ORLEN did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group in 2008.

(all amounts in PLN thousand)

b) Remuneration of the Management Board, the Supervisory Board Members and the key executive personnel of the Company in 2007

	year 2007
Remuneration of the Management Board Members of the Company	**27 207**
including: remuneration paid and due to the Management Board Members performing the function in 2007	24 985
remuneration paid and potentially due to the Management Board Members performing the function in the previous years	2 222
Remuneration of the Supervisory Board Members of the Company	**1 031**
Remuneration of the key executive personnel of the Company	**41 136**
Remuneration of the key executive personnel of the subsidiaries belonging to the Capital Group	**116 073**

Remuneration paid in 2007 and due or potentially due to the Management Board Members performing the function in 2007 and the previous years

	salaries and other benefits including paid and due bonuses	redundancy payments and compensations for non-competition clause	Total
Performing the function in 2007			
Igor Chalupec	1 426	3 360	4 786
Cezary Filipowicz	1 701	-	1 701
Dariusz Formela	527	-	527
Wojciech Heydel	3 427	-	3 427
Piotr Kownacki	2 236	-	2 236
Jan Maciejewicz	1 045	1 620	2 665
Waldemar Maj	590	-	590
Krystian Pater	1 030	-	1 030
Cezary Smorszczewski	1 080	2 640	3 720
Krzysztof Szwedowski	1 698	-	1 698
Paweł Szymański	1 525	1 080	2 605
Total	**16 285**	**8 700**	**24 985**
Performing the function in the previous years			
Zbigniew Wróbel	-	1 956	1 956
Janusz Wiśniewski	266	-	266
Total	**266**	**1 956**	**2 222**

Salaries and other benefits paid and due in 2007 include remuneration paid, other benefits such as insurance policies, medical care services, bonuses for 2006, paid in 2007 and estimated potentially due bonuses for 2007 which were paid out in 2008.

Redundancy payments and compensations for non-competition clause concerning the previous Members of the Management Board were included in costs and paid out in 2007, except for due compensations for non-competition clause concerning Igor Chalupec of PLN 140 thousand, Cezary Smorszczewski of PLN 220 thousand and Paweł Szymański of PLN 90 thousand which were included in the costs and paid out in 2008.

Remuneration of the Management Board and Supervisory Board Members of the Company acting as Supervisory Board or Management Board Members of subsidiaries, jointly-controlled entities or associates for the year 2007

Management Board Members of PKN ORLEN, acting in 2007 as Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group did not receive compensations in that virtue, excluding UNIPETROL, where remuneration paid was transferred to ORLEN Dar Serca foundation. The Management Board Members of PKN ORLEN acted in 2007 in the Management Board of Mazeikiu, what results from differences in a role of a Management Board in the Corporate Governance of the Lithuanian Company as compared to the Polish legislation. The role of the Management Board of Mazeikiu is similar to the role of the Supervisory Board in the Polish legislation.

(all amounts in PLN thousand)

Remuneration of the Supervisory Board Members of the Company	2007
Konstanty Brochwicz-Donimirski	47
Robert Czapla	112
Marek Drac-Tatoń	112
Raimondo Eggink	112
Zbigniew Macioszek	124
Agata Mikołajczyk	65
Wojciech Pawlak	47
Krzysztof Rajczewski	112
Wiesław Rozłucki	47
Ryszard Sowiński	47
Małgorzata Ślepowrońska	83
Jerzy Woźnicki	55
Janusz Zieliński	54
	1 017
Remuneration of the Supervisory Board Members in subsidiaries	
Małgorzata Ślepowrońska	14
Total remuneration of the Supervisory Board Members	**1 031**

The Chairman of the Supervisory Board of PKN ORLEN performing this function since 31 May 2007, acted simultaneously as Supervisory Board Member of Petrolot Sp. z o.o. since 31 August 2007 as the representative of PLL LOT S.A. (second shareholder of that Company) and received the remuneration in the amount of PLN 14 thousand. Other Supervisory Board Members of PKN ORLEN did not act as Management Board or Supervisory Board Members of subsidiaries, jointly controlled entities or associates of PKN ORLEN Group in 2007.

20. Remuneration arising from the agreement with the entity authorized to audit the financial statements, due or paid for the audit and review of the financial statement

In the period covered by these financial statements the Parent's auditor is KPMG Audyt Sp. z o.o., according to the agreement concluded on 30 May 2005 for the period of 2005-2009 KPMG Audyt Sp. z o.o. executes the reviews of interim and audits of unconsolidated and consolidated financial statements starting from the second quarter of 2005.

	for the year ended 31 December 2008	for the year ended 31 December 2007
Fees payable for the audit by KPMG Audyt Sp. z.o.o.* in respect of the Parent Company, incl:	**1 904**	**1 414**
- fees payable for the audit of the annual financial statements	849	707
- fees payable for other attestation services, incl. the reviews of the financial statements	1 055	707
Fees payable for related services provided by KPMG Audyt Sp. z.o.o..** in respect of Parent Company, incl.:	**1 130**	**1 118**
- fees payable for tax advisory services	-	94
Fees payable for the KPMG Companies in respect of subsidiaries, incl:	**8 071**	**7 800**
- fees payable for the audit of the annual financial statements	3 816	5 450
- fees payable for other attestation services, incl. the reviews of the financial statements	4 255	2 350
Fees payable for related services provided by KPMG Companies in respect of subsidiaries, incl:	**656**	**789**
- fees payable for tax advisory services	152	-
	11 761	**11 121**

* Fees payable for the audit include gross amounts payable to the entity authorized to audit financial statements for professional services connected with audit of unconsolidated and consolidated financial statements of the Parent as well as reviews of interim quarterly and half-yearly unconsolidated and consolidated financial statements.
** Fees for remuneration for the related services comprise other gross amounts payable to the entity authorized to audit financial statements. They include services connected with audit and review of the unconsolidated and consolidated financial statements, other than those covered by the line "Fees payable for the audit ".

In 2005 a procedure on soliciting additional services with the auditor and entities related with auditor was introduced in the Parent. The Audit Committee of the Supervisory Board makes decision on awarding contracts to the auditor for additional services.

(all amounts in PLN thousand)

21. Employment structure

Average employment by groups was as follows

	for the year ended 31 December 2008	for the year ended 31 December 2008
Blue collar workers	12 578	12 871
White collar workers	10 742	10 352
Total	**23 321**	**23 223**

Employment level as at 31 December 2008 amounted to 22,955 persons and as at 31 December 2007 to 22,927 persons.

Employment structure in entities consolidated under proportionate method was presented in 100 %.

22. Additional information

Polkomtel S.A.

As at 31 December 2008 PKN ORLEN S.A. held 24.39% of shares in Polkomtel S.A. ("Polkomtel"). Other shareholders held respectively: KGHM Polska Miedź ("KGHM") 24.39%, Polska Grupa Energetyczna ("PGE") 21.85%, Węglokoks 4.98%, Vodafone Americas Inc. ("Vodafone") 24.39% (including 4.78% held by its subsidiary Vodafone International Holdings B.V.). Polish shareholders currently hold over 75% of total shares in Polkomtel.

In March 2006 an agreement was concluded between Polish shareholders of Polkomtel and TDC Mobile International A/S (TDC) concerning sales of shares in Polkomtel held by TDC. The agreement with TDC concluded under a suspending clause regarding termination or abatement of the court pledge forbidding TDC to sell the shares. The pledge was established by the District Court in Warsaw because of the motion raised by Vodafone. Pursuant to the agreement with TDC, PKN ORLEN could acquire 980,486 shares in Polkomtel, representing approximately 4.78% of the share capital of Polkomtel, for a purchase price not exceeding EUR 214.04 per share. Execution of the agreement was blocked by Vodafone, which filed a complaint against TDC's offer to the International Court of Arbitration by the Federal Chamber of Commerce in Vienna. According to Vodafone, TDC's offer did not comply with procedure set in the shareholders' agreement, in particular in respect of method of calculation of the price offered by TDC. In March 2008, the Arbitration Court issued the partial verdict. In November 2008 final verdict dismissing all Vodafone's demands and confirming above all the validity of the agreement with TDC, was issued.

On 21 November 2008, the District Court in Warsaw issued a decision reversing its decision dated 24 February 2006, which prohibited sale of Polkomtel shares belonging to TDC. After validation of the decision on 3 December 2008, the suspending clause of the agreement with TDC was fulfilled.

On 18 December 2008, a share premium transaction of Polkomtel shares from TDC was settled. PKN ORLEN purchased 980,486 shares of Polkomtel S.A., at a price of EUR 180.50 per share, i.e. for the total amount of EUR 176,977,723. According to agreement with TDC, price of EUR 214.04 per share was decreased by the difference between the sum of gross value of all dividends that were paid to shareholders in the period from signing the agreement with TDC to transaction settlement date and the interest calculated from the amount of EUR 214.04. Based on that calculation, goodwill amounting to PLN 537,920 thousand was recognized in position 'Investments in associates' in the consolidated financial statements.

According to agreement signed in March 2006 between KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. (currently PGE Polska Grupa Energetyczna S.A) and WĘGLOKOKS S.A. all sides obliged themselves to undertake actions to work out procedure to sell Polkomtel S.A. shares. PKN ORLEN S.A. plans to sell all Polkomtel S.A. shares.
PKN ORLEN S.A. informed about the above mentioned agreements in its regulatory announcements: no.17/2006 dated 10 March 2006, no.102/2008 dated 21 November 2008 and no.114/2008 dated 18 December 2008.

Claims of PKN ORLEN S.A. against Yukos International UK B.V.

On 3 December 2008 the Management Board of PKN ORLEN S.A. delivered to Yukos International UK B.V. notice regarding PKN ORLEN's S.A. claims against Yukos International due to inconsistency of Yukos International's statements with the actual state of AB Mazeikiu Nafta as at 14 December 2006.
PKN ORLEN S.A. claims result from investigations of the actual state of Mazeikiu Nafta made by the Company after the conclusion of the transaction, in the context of the statements made by Yukos International. According to the Escrow Account Agreement Yukos International, may within 30 days, question the claims raised by PKN ORLEN S.A.

23. Significant events after balance sheet date

After the balance sheet date the following significant events that may have an impact on future financial results took place:

On 26 March 2009 the Management Board of Polski Koncern Naftowy ORLEN S.A. and the Government of the Republic of Lithuania signed the letter defining the conditions of execution of the put option agreement dated 9 June 2006 concerning the sale of Mazeikiu shares.
According to the Letter, PKN ORLEN S.A. will transfer immediately 20% of the total price for the put option shares of AB Mazeikiu Nafta i.e. approximately USD 56,890,075 on the escrow account. The remaining part of the outstanding amount for the put option shares of AB Mazeikiu Nafta will be paid by 30 April 2009 and will be increased by interest provided in the sale option agreement calculated using USD 6M LIBOR, starting from 20 March 2009. As a result, by 30 April 2009, the transaction will be concluded and the ownership of the put option shares of AB Mazeikiu Nafta will be transferred to PKN ORLEN SA., which will cause expiration of the agreement concerning sale of these shares.
The above mentioned purchase option was presented in Other financial liabilities, note 7.21.

24. Signatures of the Management Board Members

These consolidated financial statements were authorized by the Management Board of the Parent in Warsaw on 27 April 2009.

……………………
Dariusz Krawiec
President of the Board

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Sławomir Jędrzejczyk
Vice-President of the Board

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Wojciech Kotlarek
Member of the Board

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Krystian Pater
Member of the Board

……………………
Marek Serafin
Member of the Board

Warsaw, 27 April 2009